SUBJECT HANDLED BY

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SUBJECT CODE : 18K1CO01 **PRINCIPLES OF ACCOUNTANCY**

UNIT I : INTRODUCTION

Definition - Accounting concepts - Convention - Double Entry –Journal – Ledger – Trial balance- Subsidiary Books - Final accounts of Sole Traders.

UNIT II : **BANK RECONCILIATION STATEMENT & ERRORS**

Bank Reconciliation Statement – Rectification of Errors

UNIT III : ACCOUNT OF NON-PROFIT ORGANISATION

Accounts of Non profit organization – Income and Expenditure A/c – Receipts and Payments A/c

UNIT IV ; CONSIGNMENT & JOINT VENTURE

Consignment – Meaning – Entries in the books of Consignor and Consignee – Cost price method – Invoice price method – Joint venture – Average due date - Account current.

UNIT V ; BILLS OF EXCHANGE & DEPRECIATION

Bill of Exchange – Depreciation – Straight line method , Written down value method – Provisions and Reserves

(Theory - 20% , Problems - 80%)

QUESTION PAPER PATTERN : (Maximum marks = 75)

PART A : 10 X 2 = 20 (Two questions from each unit)

PART B : 5 X 5 = 25 (One question from each unit - Either or type)

PART C : 3 X10 = 30 (One question from each unit)

TEXT BOOK;

T.S. Reddy & Dr. A.Murthy : Financial Accounting, Margham Publications, Chennai.

BOOKS REFERENCE

1 : Dr. Radha : Financial Accounting, Prasanna Publishers & Distributors, Chennai.

2 : K. L.. Nagarajan , N.Vinayakam, P.L..Mani : Principles of Accountancy, S.Chand, New Delhi.

3 : Jain & Narang : Advanced Accountancy, Kalyani Publishers, New Delhi

INTRODUCTION TO ACCOUNTING

DEFINITION OF ACCOUNTING:

According to the American Institute of Certified Public Accountants (AICPA),"Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money transactions and events which are of a financial character and interpreting the results thereof "

STEPS IN ACCOUNTING:

1. Recording
2. Classification
3. Summarising
4. Significant manner
5. In term of money
6. Transaction and event of financial character
7. Interpreting the result

BOOK KEEPING:

Book keeping is concerned with the recording of business transactions in a systematic manner. This work is mechanical in nature and repetitive in nature. It does not need specialized skill and knowledge. It usually entrusted to the junior level employees of the accounts department who are known as ***Book - keeper****.*

Book keeping also responsible for posting every transactions to the ledger. The debit and credit aspects are posted separately to the respective account with the correct amount.

BRANCHES OF ACCOUNTING :

- **Financial accounting**
- **Cost accounting**
- **Management accounting**

Financial accounting :

The accounting for revenues, expenses, assets and liabilities that is commonly carried in the general office of business Is known as ***Financial accounting***

Cost accounting :

It is the branch of accounting which deals with classification, recording, summarisation of current and prospective cost. Cost accounting is essential for pricing of products and services and for cost reduction and cost control. Cost accounting Data is useful to the management of the business; outsiders are not usually provided with costing data.

Management accounting :

It is that branch of accounting which is meant exclusively for managerial decision making . It provide necessary information to the management for discharging its function of planning, organizing, co- organizing Directing and controlling.

Methods of Accounting :

1 . Single entry system

2 . Double entry system

Single entry system:

Under the system , only the personal accounts of the debtors and creditors and cash book of the trader are maintained . Impersonal accounts such as sales accounts, purchases account etc. ., as well as the assets are ignored.

Double entry system

According to this system , every transaction has two aspects. One is benefit receiving aspect or incoming aspect and the other one is benefit giving aspect or outgoing aspect.

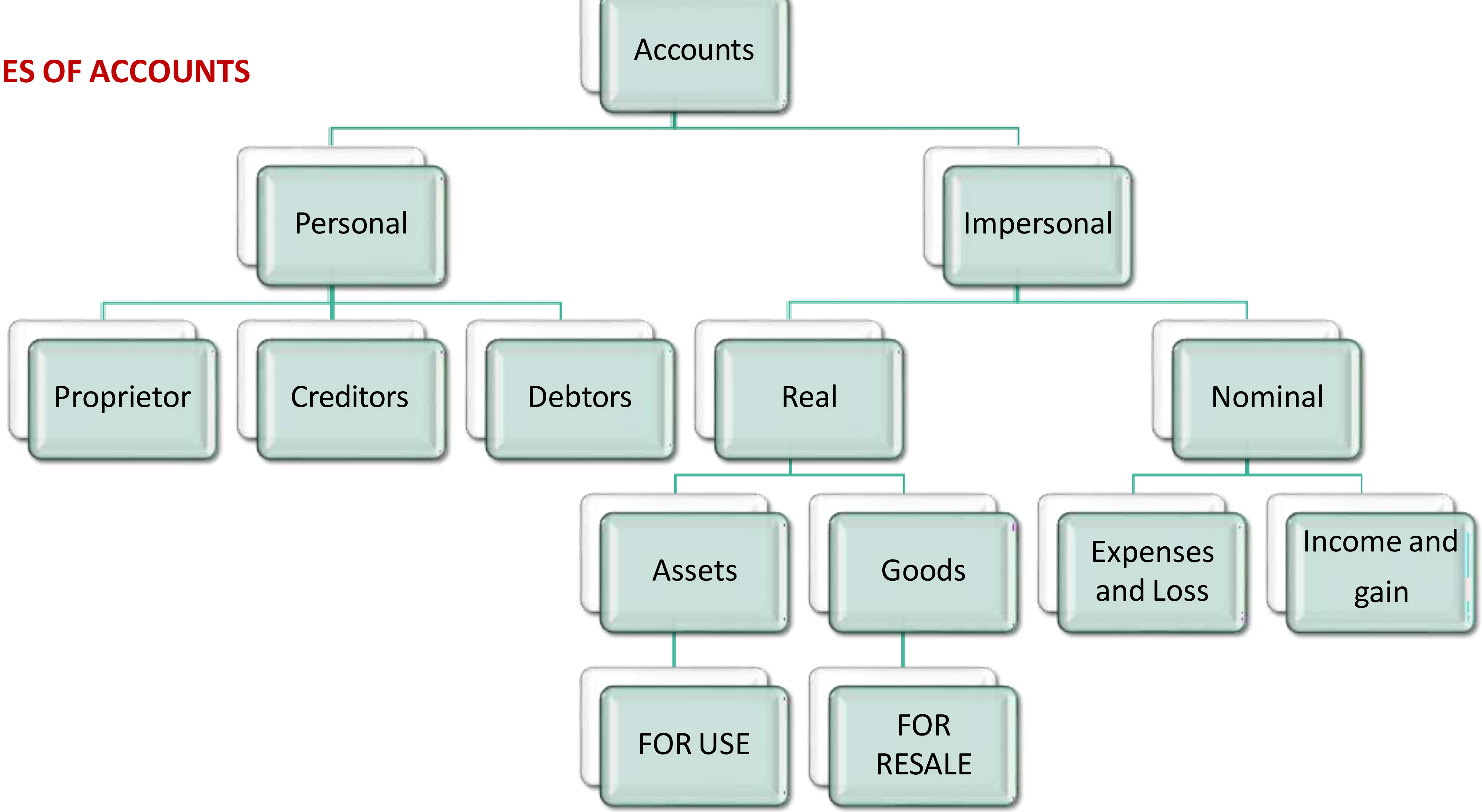
The rules for making entries under Double entry system ;

1 .	**Personal Accounts**	:	Debit the Receiver Credit the Giver
2.	**Real Accounts**	:	Debit What comes in Credit What Goes out
3 .	**Nominal Account**	:	Debit all Expenses and losses Credit all Incomes and Gains

TYPES OF ACCOUNTS

- PERSONAL ACCOUNTS
- REAL ACCOUNTS
- NOMINAL ACCOUNTS

TYPES OF ACCOUNTS



ACCOUNTING CONCEPTS AND CONVENTIONS

MONEY MEASUREMENT CONCEPT

This concept assumes that all business transactions must be in terms of money, that is in the currency of a country. In our country such transactions are in terms of rupees.

Significance

- This concept guides accountants what to record and what not to record.
- This helps in recording business transactions uniformly.
- If all the business transactions are expressed in monetary terms, it will be easy to understand the accounts prepared by the business enterprise.
- This facilitates comparison of business performance of two different periods of the same firm or of the two different firms for the same period.

GOING CONCERN CONCEPT

This concept states that a business firm will continue to carry on its activities for an indefinite period of time. Simply stated, it means that every business entity has continuity of life. Thus, it will not be dissolved in the near future. This is an important assumption of accounting, as it provides a basis for showing the value of assets in the balance sheet.

Significance

- This concept facilitates preparation of financial statements.
- On the basis of this concept, depreciation is charged on the fixed asset.
- It is of great help to the investors, because, it assures them that they will continue to get income on their investments.
- In the absence of this concept, the cost of a fixed asset will be treated as an expense in the year of its purchase.
- Business is judged for its capacity to earn profits in future.

ACCOUNTING PERIOD CONCEPT

All the transactions are recorded in the books of accounts on the assumption that profits on these transactions are to be ascertained for a specified period. This is known as accounting period concept. Thus, this concept requires that a balance sheet and profit and loss account should be prepared at regular intervals. This is necessary for different purposes like, calculation of profit, ascertaining financial position, tax computation etc.

significance

- This helps in predicting the future prospects of the business.
- It helps in calculating tax on business income calculated for a particular time period
- This also helps banks, financial institutions, creditors, etc. to assess and analyse the performance of business for a particular period.
- It also helps the business firms to distribute their income at regular intervals as dividends.

ACCOUNTING COST CONCEPT

Accounting cost concept states that all assets are recorded in the books of accounts at their purchase price, which includes cost of acquisition, transportation and installation and not at its market price. It means that fixed assets like building, plant and machinery, furniture, etc. are recorded in the books of accounts at a price paid for them

Significance

- This concept requires asset to be shown at the price it has been acquired, which can be verified from the supporting documents.
- It helps in calculating depreciation on fixed assets.
- The effect of cost concept is that if the business entity does not pay anything for an asset, this item will not be shown in the books of accounts.

DUAL ASPECT CONCEPT

This is the foundation or basic principle of accounting. It provides the very basis of recording business transactions in the books of accounts. This concept assumes that every transaction has a dual effect, i.e. it affects two accounts in their respective opposite sides. Therefore, the transaction should be recorded at two places. It means, both the aspects of the transaction must be recorded..

Duality concept is commonly expressed in terms of fundamental accounting equation :

Assets = Liabilities + Capital

Significance

- This concept helps accountant in detecting error.
- It encourages the accountant to post each entry in opposite sides of two affected accounts.

REALISATION CONCEPT

This concept states that revenue from any business transaction should be included in the accounting records only when it is realised. The term realisation means creation of legal right to receive money. Selling goods is realisation, receiving order is not

Significance

- It helps in making the accounting information more objective.
- It provides that the transactions should be recorded only when goods are delivered to the buyer.

ACCRUAL CONCEPT

The meaning of accrual is something that becomes due especially an amount of money that is yet to be paid or received at the end of the accounting period. It means that revenues are recognised when they become receivable. Though cash is received or not received and the expenses are recognised when they become payable though cash is paid or not paid. Both transactions will be recorded in the accounting period to which they relate.

Significance

- It helps in knowing actual expenses and actual income during a particular time period.
- It helps in calculating the net profit of the business.

MATCHING CONCEPT

The matching concept states that the revenue and the expenses incurred to earn the revenues must belong to the same accounting period. So once the revenue is realised, the next step is to allocate it to the relevant accounting period. This can be done with the help of accrual concept.

Significance

- It guides how the expenses should be matched with revenue for determining exact profit or loss for a particular period.
- It is very helpful for the investors/shareholders to know the exact amount of profit or loss of the business.

ACCOUNTING CONVENTIONS :

- **Convention of Disclosure**

According to this convention accounting reports should disclose fully and fairly the information they purpose to represent.

- **Convention of Materiality**

The accountant should attach importance to material details and ignore insignificant.

- **Convention of Consistency**

This convention describes that accounting principles and methods should remain consistent in order to enable the management to compare the results of the two These principles should not be changed year after year

- **Convention of Conservatism**

According to this convention, in the books of accounts all anticipated losses should be recorded and all anticipated gains should be recorded.

JOURNAL

The French word **" JOUR"** means **"day".** Journal, means a daily record of business transaction.

Journal is a book of "**Primary entry**" or "**Original entry**" . All transactions' are initially recorded in the Journal. The Ruling of the Journal is such that any business transaction can be analysed under the head of debit and credit.

SUM : Journalise the following transaction of M/s. Radha & Sons.

DATE	**PARTICULARS**	**AMOUNT (Rs)**
2000 JAN - 1	Business started with Rs.2,50,000 and cash deposited with Bank	1,50,000
3	Purchased Machinery on credit from Rangan	50,000
6	Bought Furniture from Ramesh for Cash	25,000
12	Goods sold by Yesodha	22,500
13	Goods returned by Yesodha	2,500
15	Goods sold for Cash	50,000
17	Bought goods for Cash	25,000
20	Cash received from Yesodha	10,000
21	Cash paid to Ramola	20,000
25	Cash withdrawn from Bank	50,000

DATE	PARTICULARS	AMOUNT
29	Paid Advertisement expenses	12,500
30	Bought Office Stationery for Cash	5,000
31	Cash withdrawn from Bank for personal use of the proprietor	6,250
31	Paid Salaries	15,000
31	Paid Rent	2,500

JOURNAL ENTRIES IN THE BOOKS OF RADHA & SONS

Date	Particulars		Debit (Rs.)	Credit (Rs.)
2000 Jan-1	Cash A/c To Capital A/c (Being Capital brought into business)	Dr	2,50,000	2,50,000
1	Bank A/c To Cash A/c (Being cash deposited into bank)	Dr	1,50,000	1,50,000
3	Machinery A/c To Rangan A/c (Being Machinery purchased)	Dr	50,000	50,000

JOURNAL ENTRIES IN THE BOOKS OF RADHA & SONS

Date	Particulars		Debit (Rs.)	Credit (Rs.)
2000 Jan - 6	Furniture A/c To Cash A/c (Being Furniture purchased)	Dr	25,000	25,000
12	Yesodha A/c To Sales A/c (Being goods sold on credit)	Dr	22,500	22,500
13	Sales return A/c To Yesodha A/c (Being sales return from Yesodha)	Dr	2,500	2,500
15	Cash A/c To Sales A/c (Being goods sold on cash)	Dr	50,000	50,000
17	Purchase A/c To Cash A/c (Being goods purchased for cash)	Dr	25,000	25,000
20	Cash A/c To Yesodha A/ (Being cash received from Yesodha)	Dr	10,000	10,000

JOURNAL ENTRIES IN THE BOOKS OF RADHA & SONS

Date	Particulars		Debit (Rs.)	Credit (Rs.)
2000	Ramola A/c	Dr	20,000	
Jan - 21	To Cash A/c			20,000
	(Being cash paid to Ramola)			
25	Cash A/c	Dr	50,000	
	To Bank A/c			50,000
	(Being Cash withdraw from bank)			
29	Advertisement A/c	Dr	12,500	
	To Cash A/c			12,500
	(Being Advertisement expenses paid)			
30	Office Stationery A/c	Dr	5,000	
	To Cash A/c			5,000
	(Being cash paid for office stationery)			
31	Drawing A/c	Dr	6,250	
	To Bank A/c			6,250
	(Being cash withdraw from bank for personal use)			
31	Salaries A/c	Dr	15,000	
	Rent A/c	Dr	2,500	
	To Cash A/c			17,500
	(Being cash paid for salaries and wages)			

LEGDER ACCOUNT

- "**Ledger**" is the second important stage in the accounting cycle or process. In this stage of accounting cycle , all transactions are grouped on a predermined basis.

- Ledger contains various accounts – accounts relating to persons, properties and assets ,expenses and incomes.

- Ledger is a summary of statement and main book of accounts of a business.

SUM : Record the following transaction in the personal account of Kapil

DATE	PARTICULARS	AMOUNT
2000 ARIL -1	Sold goods to Kapil	6,000
5	Cash received from Kapil and allowed him discount	5,800
18	Kapil purchased goods	8,000
30	Received cash from Kapil account	4,500
MAY-1	Balance from last month b/d	3,500
12	Sold goods to Kapil	12,000
22	Received cash from Kapil and Allowed him discount	4,850 150
31	Received cash in full settlement of Kapil A/c	10,250

LEDGER ACCOUNT IN THE BOOKS KAPIL ACCOUNT

DATE	PARTICULARS	AMOUNT(Rs)	DATE	PARTICULARS	AMOUNT(Rs)
2000 ARIL-1	To Sales	6,000	2000 APRIL -5	By Cash A/c	5,800
18	To Sales	8,000		By Discount allowed	200
			30	By Cash	4,500
			30	By Balance C/d	**3,500**
		14,000			**14,000**
MAY-1	To Balance B/d	3,500	MAY-22	By Cash	4,850
12	To Sales	12,000		By Discount allowed	150
			31	By Cash	10,250
				By Discount allowed (Balance)	**250**
		15,500			**15,500**

SUBSIDIARY BOOKS

- In bigger business, transactions are so numerous and varied that a single journal book is absolutely inadequate and cumbersome .
- Several accounts assistance may have to do accounts work as a team and share the burden .
- It may be necessary to group similar transactions even at journal stage in the shape of " special journals"
- This to minimise and facilitate ledger work.

SUBSIDARY BOOKS COMPRISE:

- PURCHASE BOOK (To record credit purchase of books)
- SALES BOOK (To record credit sales of goods)
- PURCHASE RETURN BOOK (To record returns to suppliers)
- SALES RETURN BOOK (To record returns from customers)
- CASH BOOK (To record all cash receipts and payment)
- BILLS RECEIVABLE BOOK (To record bills receivable)
- BILLS PAYABLE BOOK (To record bills payable accepted)
- GENERAL JOURNAL OR JOURNAL PROPER (To record any other transaction which can not be entered)

Prepare Purchase return book and Sales return book from the following particulars

DATE	PARTICULARS	AMOUNT(Rs)
1987 AUGUST-1	Purchased goods returned to Senthil	205
3	Received goods returned by Natarajan	300
5	Goods returned to Kannan	500
7	Sales returns of Rs.1,260 by Mathavan	
15	Returned defective goods to Rajan	1,280
18	Damaged goods returned by Murali	1,120
23	Outward returns to Kanagasabai	275
29	Inward returns by Swaminathan	750

PURCHASE RETURN BOOK

DATE	NAME O THE SUPPLIER	DEBIT NOTE NUMBER	L.F	AMOUNT (Rs)
1.8.87	Senthil			205
5.8.87	Kannan			500
15.8.87	Rajan			1,280
23.8.87	Kanaga Sabai			275
30.8.87	Sankar			890
	TOTAL			**3,150**

SALES RETURN BOOK

DATE	NAME O THE CUSTOMER	CREDIT NOTE NUMBER	L.F	AMOUNT (Rs)
1.8.87	Natarajan			300
7.8.87	Mathavan			1,260
18.8.87	Murali			1,120
19.8.87	Swaminathan			750
31.8.87	Selvan			1,330
	TOTAL			**4,760**

CASH BOOK

MEANING :

Business firms of every size have a large number of payments and receipts either in the form of cash or through bank.

The entire work relating to cash and bank transaction is minimised and simplified through cash book.

FOUR TYPES OF CASH BOOK:

1. **SIMPLE CASH BOOK OR SINGLE COLUMN CASH BOOK**
2. **TWO COLUMN CASH BOOK WITH CASH AND DISCOUNT COLUMN**
3. **TWO COLUMN CASH BOOK WITH BANK AND DISCOUNT COLUMN**
4. **THREE COLUMN CASH BOOK WITH CASH ,BANK AND DISCOUNT ACCOUNT**

PETTY CASH BOOK:

'Petty' derivation of the French word which means small ,So ,it means to be small cash book, not in physical size recording small payment .

IMPREST SYSTEM :

The amount which may be needed during a specific period (say, a month) for small payment is estimated and fixed as imprest amount. It can be revised periodically with growth and expansion in payment.

SIMPLE CASH BOOK OR SINGLE COLUMN CASH BOOK

From the following transactions in a simple cash book of Shri.Subramanian :

1999	Rs
Aril 1 . Commenced business with cash	24,000
5 . Bought goods for	6,000
10 . Goods sold for cash	11,200
13 . Paid into bank	2,500
14. Sold goods to Ganesan	9,000
20 .Bought goods from Mohan on credit	13,600
21. Purchased Furniture	9,600
23. Receive cheque from Ganesan	9,000
26. Received commission	13,600
27. Paid Telephone charges	740
30. Drawn from Bank	3,800

Cash book of Shri.Subramanian (SINGLE COLUMN CASH)

DATE	PARTICULARS	R.N	L.F	AMOUNT	DATE	PARICULARS	V.N	L.F	AMOUNT
1999 Aril 1	To Capital			24,000	1999 April 5	By Purchase			6,000
11	To Sales			11,200	13	By Bank			2,500
23	To Ganesan			9,000	20	By Furniture			9,600
26	To Commission			740	21	By Stationery			160
30	To Bank			3,800		By Mohan			13,600
						By Telephone charge			300
						By Balance C/d			**16,580**
				48,740					**48,740**
May 1	To Balance B/d			**16,580**					

Enter the following transactions in Rehan Cash book withdicount and cash column:

DATE	PARTICULARS	AMOUNT
1999-Jan 1	Cash balance	18,500
3	Cash Sales	33,000
7	Paid Dravid	15,850
7	Discount allowed by him	150
13	Sold goods to Manohar on credit	19,200
15	Cash withdrawn for personal expenses	2,400
16	Purchased goods from Charles on credit	14,300
22	Paid into bank	22,750
25	Cash received from Manohar Allowed him discount	19,000 200
26	Drew a Cheque for office use	17,500
27	Paid Cash to Saravanan Discount received from him	2,950 50
28	Paid Cash to Charles less discount	14,200
29	Cash purchase	13,500
30	Paid for advertising	600
31	Paid Salaries	12,000

Cash book of Mr. Rehan (Double column)

DATE	PARICULARS	R. N	L. N	DISCOUNT ALLOWED	CASH Rs	DATE	PARTICULARS	V N	L N	DICOUNT RECEIVED	CASH Rs
1999 Jan-1	To balance B/d				18,500	1999 Jan-7	By Dravid			250	15,850
3	To Sales				33,000	15	By Drawing				2,400
25	To Manohar			200	19,000	22	By Bank				22,750
28	To Bank				17,500	27	By Saravanan			50	2,950
						28	By Charles			100	14,200
						29	By Purchase				13,500
						30	BY Advertising				600
						31	By Salaries				12,000
						51	By Balance C/d				**3,750**
				200	**88,000**					**3000**	**88,000**
Feb -1	To Balance B/d				**3,750**						

TRIPLE COLUMN CASH BOOK

From the following transactions , prepare Three – Column cash book of Anand for the month of August 1999

DATE	PARTICULARS	Rs19
1999 Aug -1	Cash balance Bank balance	20,000 23,000
3	Paid by Cheque	5,000
4	Cash received on account of cash sales	6,000
6	Payment for cash purchases	2,000
8	Deposited into bank	8,000
9	Bought goods by cheque	3,000
10	Sold goods to Nathan on credit	7,120
12	Received cheque from Madan Discount allowed to him	2,900 100
13	Withdrew from bank for office use	4,350
14	Purchased furniture by cheque	1,260
15	Received a cheque for Rs.7,000 from Nathaan in full settlement of his account which is deposited into bank	
17	Withdrew cash for personal use from the bank	1,2000

DATE	PARTICULARS	Rs
1999 Aug -18	Swamy,our customer has paid directly into our bank A/c	4,000
19	Parthi settled his account for Rs.1,250 by giving a cheque for it	1,230
20	Parrhi cheque sent to bank for collection	
21	Received from Ravi a currency note for Rs.1,000 and gave him changes for it	
22	Received Cheque from Kamal for Rs.6,000 in full settlement of his account of Rs.6,200. Deposited Kamal Cheque into Bank	
25	Paid into Bank	9,000
29	Parthi Cheque returned dishouourned	
31	Paid Salaries	10,000

Cash book of Mr. Anand (Three Column)

DATE	PARICULARS	R N	L N	DISCOUNT ALLOWED	CASH Rs	Bank Rs	DATE	PARTICULARS	V N	L N	DICOUNT RECEIVED	CASH Rs	BANK Rs
1999 AUG 1	Tobalanceb/d				20000	23000	1999 AUG 3	By Rent					5000
4	To Sales				60000		6	By Purchases				2000	
8	To Cash(c)					8000	8	By Bank (c)				8000	
12	To Madan			100	2900		9	By Purchases					3000
13	To Bank(c)				4350		13	By Cash (c)					4350
15	To Nathan			120		7000	14	By Furniture					1260
18	To Swamy					4000	17	BY Drawing					1200
19	To Parthi			20	1230		20	By Bank (c)				1,230	
20	To Cash(c)					1230	25	By Bank (c)				9000	
22	To Kamal			**200**		**6000**	29	By Parthi					**1,230**
25	To Cash					**9000**	31	By Salaries				10000	
							31	By balance C/d				4250	42190
				440	34480	58230						**34480**	**58230**
SEP1	By balance/D				425 0	42190							

PETTY CASH CASH BOOK

Petty cashier receive Rs.600 on April 1, 1999 from the head cashier. Prepare A petty cash book on the imprest system or the month of April 1999 from the following items:

DATE	PARTICULARS	Rs.
3	Stamps	50
5	Taxi fare	100
6	Pencils & Pads	75
7	Registry	25
10	Speed post	45
12	Telegram	35
15	Refreshment	55
16	Auto fare	20
19	Typing paper	60
20	Bus fare	15
22	Trunk calls	43
25	Office cleaning	18
30	Courier services	17
	ASSUME IMPREST AMOUNT OF Rs.600	

PETTY CAH BOOK

Amount Received	CBF.N	DATE	PARTICULARS	V N	TOTAL(Rs) PAYMENT	Postage & Telegram	Telephone & Telegram (Rs)	Conveyance (Rs)	Stationery (Rs)	Sundries (Rs)
600		1999 Aril -1	To Cash							
		3	By Stamp		50	50				
		5	By Taxi fare		100			100		
		6	By Pencils&Pads		75				75	
		7	By Registry		25	25				
		10	By Speed post		45	45				
		12	By Telegram		35		35			
		15	By Refreshment		55					55
		16	By Auto Fare		20			20		
		19	By Typing paper		60				60	
		20	By Bus fare		15			15		
		22	By Trunk call							

Amount Received	CBF.N	DATE	PARTICULARS	V N	TOTAL(Rs) PAYMENT	Postage & Telegram	Telephone & Telegram (Rs)	Conveyance (Rs)	Stationery (Rs)	Sundries (Rs)
		30	By Carrier service		17	17				
					558	137	78	135	135	73
		30	By Balance C/d		42					
					600					
42		May 1	To balance B/d		42					

TRIAL BALANCE

DEFINITION:

According to M.S.Gosav (The Substance of Accountancy), ‘ Trail balance is a statement containing the balances of all ledger accounts, as at any given date arranged in the form of debit and credit columns placed side by side and prepared with the object of checking the arithmetical accuracy of leger postings.’

PURPOSE OF PREPARING TRIAL BALANCE:

- To find out the arithmetical correctness of book-keeping.
- To prepare a summary of balances a the appear in the ledger.
- To find the accuracy of records

The following balances were extracted rom the leger of Ramakrishna Engineering works on 31.3.1997.You are required to prepare Trial Balance as on the date on proper form.

Particulars	Rs	Particulars	Rs
Drawings	6,000	Cash at bank	12,500
Capital	24,000	Tax	3,500
Sundry creditors	43,000	Sales	1,28,000
Bills payable	4,000	Salaries	9,500
Sundry debtors	50,000	Sales returns	1,000
Bills receivable	5,200	Purchase returns	1,100
Loan from Karthik	10,000	Travelling expenses	4,600
Furniture and fixtures	4,500	Commission paid	100
Opening stock	47,000	Trading expenses	2,500
Cash in hand	900	Discount earned	4,000
Rent	2,000	Bank overdraft	6,000
Purchases	70,800		

TRIAL BALANCE OF RAMAKRISHNA ENGINEERING WORK ON 31.3.1997

NAME OF ACCOUNT	DEBIT(Rs)	CREDIT(Rs)
Drawings	6,000	
Capital		24,000
Sundry creditors		43,000
Bills payable		4,000
Sundry debtors	50,000	
Bills receivable	5,200	
Loan from Karthik		10,000
Furniture ad Fittings	4,500	
Opening stock	47,000	
Cash in hand	900	
Cash at bank	12,500	
Tax	3,500	
Sales		1,28,000
Salaries	9,500	
Sales reruns	1,000	
Purchase returns		1,100
Travelling expenses	4,600	

NAME OF ACCOUNT	DEBIT(Rs)	CREDIT(Rs)
Commission Paid	100	
Trading expenses	2,500	
Discount earned		4,000
Rent	2,000	
Bank overdraft		6,000
Purchases	70,800	
	2,20,100	**2,20,100**

FINAL ACCOUNTS

INTRODUCTION TO FINAL ACCOUNTS

While the Trial Balance checks the accuracy of ledger balances, the final account reveals two facts:

1. Whether the business is in profit or loss during the period covered by the Trial Balance. A Trading and Profit & Loss account also known as income statement is prepared for this purpose.

2 . What is the financial position (financial position means picture of assets and liabilities) of the business? .This is judged by preparing a balance sheet for the business.

Thus, income statement represents the summary of all the expenses and incomes occurred during the financial year. whereas balance sheet represents the financial position of the concerned organization at a particular point of time, usually at the end of financial year i.e., 31st March (in India, financial year starts from 1st April to 31st March)

Preparation of Final Accounts when Transactions/Events are given: Trading activity:

Steps involved in preparation of Final Accounts when the organization concerned is engaged in trading activity are as follows:

Step 1 Journal entry

Step 2 Ledger entry Book-keeping

Step 3 Trial balance

Step 4 Trading Account (GP) Income statement

Step 5 P & L Account (NP)

Step 6 Balance Sheet

Prepare a Trading and Profit & Loss account or the year ending 31 March 2001 and a Balancesheet as on the date from the Following balances:

Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
Capital	52,000	Sales return	5,200
Sales	1,01,000	Printing and Stationery	240
Purchase return	1,900	Sundry Debtors	31,000
Opening Stock	22,000	Purchases	72,000
Furniture and Fittings	5,500	Rent	560
Sundry Creditors	6,000	Carriage inwards	390
Investment	16,700	Bad debts	160
Salaries	1,800	Postage and Telegrams	210
Travelling expenses	550	Wages	1,300
Cash at Bank	3,270	Insurance	220

Adjustment:

1. Salaries outstanding Rs.150
2. The Closing stock was Rs.18,500
3. Insurance prepaid Rs.30
4 .Charge 10% deprecation on furniture

Trial Balance as on 3103.2001

Particulars	Debit(Rs.)	Credit(Rs.)
Capital	-	52,000
Sales	-	1,01,000
Purchases Return	-	1,900
Opening Stock	22,000	-
Furniture and Fittings	5,500	-
Sundry creditors	-	6,000
Investments	16,700	-
Salaries	1,800	-
Sales return	5,200	-
Painting and Stationary	240	-

Sundry debtors	**31,000**	**-**
Purchases	72,000	-
Rent	560	-
Carriage inwards	390	-
Bad debts	160	-
Postage and Telegrams	210	
Travelling expenses	**550**	**-**
Cash at Bank	3,270	-
Wages	1,300	-
Insurance	220	-
Shortage in Trial balance	-	200
TOTAL	**1,61,100**	**1,61,100**

Trading and Profit & Loss Account for the ending 31.03.2001

Particulars	Amount(Rs)	Amount(Rs)	Particulars	Amount(Rs)	Amount(Rs)
To O . Stock		22,000	By Sales	1,01,000	-
To Purchases	72,000		- return inwards	5,200	95,800
- Purchases return	1,900	70,100	By Closing Stock		18,500
To Wages		1,300			
To Carriage inwards		390			
To **Gross profit (Transferred to P & L A/c)**		**20,510**			
		1,14,300			**1,14,300**

To Salaries	1,800				
Add: Outstanding Salaries	150	1,950	By Gross Profit (Transferred from Trading A/c)		20,510
To Printing and Stationary		240			
To Rent		560			
To bad debts		160			
To Postage and Telegrams		210			
To Travelling Expenses		550			
To Insurance	220				
Less: Prepaid Insurance	30	190			
To Deprecation on Furniture (5,500*10%)		550			
To **Net Profit transferred to Capital A\c)**		**16,100**			
		20,510			**20,510**

Balance sheet as on31.03.2001

Liabilities	Amount(Rs)	Amount (Rs)	Assets	Amount (Rs)	Amount)(Rs)
Capital	52,000		Cash at Bank		3,270
Add: Net profit	16,100	68,100	Sundry debtors		31,000
Sundry Creditors		6,000	Investment		16,700
Outstanding Salaries		150	Furniture and Fittings	5,500	
Shortage of Trial balance (Suspense A/c)		200	Less ; Depreciation	550	4,950
			Prepaid Insurance		30
			Closing tock		18,500
		74,450			74,450

From the following balances extracted from the books of Anandhan .Prepare Trading , Profit & Loss account for the year ending 31322009 and also Balancesheet as on the date.

Particulars	Amount	Particulars	Amount
Capital	50,000	Land	13,500
Cash at bank	2,000	Sales	1,25,000
Cash in hand	500	Carriage inwards	800
Building	30,000	Fuel	2,200
Wages	15,000	Sundry creditors	12,200
Salaries	10,000	Sundry debtors	15,000
Rent & Rates	1,800	Purchases return	2,000
Printing and Stationery	1,200	Sales return	1,500
Stock as on 1.4.2008	8,000	Bills receivable	4,000
Purchases	70,000	Discount received	400
Insurance	800	Discount allowed	1,500
Machinery	12,000	Furniture	3,000
Drawings	5,000	Travelling expenses	1,800
		Loan	10,000

Adjustments :

1 Insurance prepaid Rs.200

2. Depreciation :

Machinery at 10 %

Furniture at 5 %

3. Interest on Capital at 3%

4.Outstanding wages Rs.800

5.Outstanding salaries Rs.600

6. Write off bad debts Rs.1,000

7. Create 3% reserve on Debtors for doubtful debts

8. Closing stock was Rs.10,000

Trading and Profit & Loss Account for the year ending 31.03.2009

Particulars	Amount(Rs)	Amount(Rs)	Particulars	Amount(Rs)	Amount(Rs)
To opening stock		8,000	By Sales	1,25,000	
To Purchases	70,000		- Sales return	1,500	1,23,500
- Purchases return	2,000	68,000	By Closing Stock		10,000
To Wages	15,000				
+ Outstanding wages	800	15,800			
To carriage inwards		800			
To Fuel		2,200			
To Gross Profit (Transferred to P & L A/c)		38,700			
		1,33,500			**1,33,500**

To Salary	**10,000**		**By Gross profit**	**38,700**
+ Outstanding Salary	600	10,600	By Discount received	400
To Rent and Rates		1,800		
To Painting and Stationery		1,200		
To Insurances	800			
- Insurance Prepaid	200	600		
To Discount allowed		1,500		
To Travelling Expenses		1,800		
To Depreciation				
On Machinery (12,000*10 %)	1,200			
On Furniture (3,000*5%)	150	1,350		
To Interest on Capital (50000*3%)		1,500		
To Bad debts	1,000			
Add : Reserve for doubtful debts(14000 *3%)	420	1,420		
To Net Profit		**17,330**		
		39,100		**39,100**

Balance sheet as on 31.03.2009

Liabilitiess	Amount	Amount(Rs)	Assets(Rs)	Amount(Rs)	Amount(Rs)
Capital	50,0000		Cash in hand		500
+ Interest on Capital	1,500		Cash at bank		2,000
+ Net Profit	17,330		Bills receivables		4,000
	68,830		Sundry debtors	15,000	
- Interest on Drawing	5,000	63,830	- Reserve for doubtful debts(3%*14000)	420	
Sundry Creditors		12,200	**-** Bad debts	1,000	**13,580**
Outstanding Liabilities		1,400	Closing stock		10,000
Loans		10,000	Machinery	12,000	
			- Depreciation	1,200	10,800
			Furniture	3,000	
			- Depreciation	150	2,850
			Building		30,000
			Insurance prepaid		S,200
			Land		13,500
		87,370			**87,370**

BOOKS REFERENCE :

1 : Dr. Radha : Financial Accounting, Prasanna Publishers & Distributors, Chennai.
2 : K. L.. Nagarajan , N.Vinayakam, P.L..Mani : Principles of Accountancy, S.Chand, New Delhi.
3 : Jain & Narang : Advanced Accountancy, Kalyani Publishers, New Delhi

UNIT II

Bank Reconciliation Statement:

Bank reconciliation statement is a statement prepared on a particular data to reconcile the balance as per Cash Book with the balance as per Pass Book and to know the exact balance with the bank.

Need for Bank Reconciliation Statement:

- The businessman can relieve himself from this receiving and making payment by opening a current account in the bank.
- The every businessman who opens a current account in the bank is usually given a pass book record the businessman's transactions with the bank.
- The pass book is written by the bank.
- The businessman who open a current account with the bank also writes transaction with the bank either in a bank account open in the ledger or in bank colum of his columnar cash book.

Importance:

- The difference between bank balance as per cash book and balances as per pass book.
- The necessary correction can be made at on early date and cash book and pass book can be amended by preparing a bank reconciliation statement.
- The clearance of cheques deposited would be by preparing bank reconciliation statement.
- A regular preparation of a bank reconciliation statement would reduce the chance of fraud by the staff of the firm dealing in cash.

Format

Particulars	**Debit balance as per cash book**	Credit balance as per cash book
1. Those items which affect the debit side of cash book: (I) Cheques deposited but not collected by bank. (II) Cheque though entered in cash book but omitted to be sent to the bank.	−	+
2. Those items which affect the credit side of cash book: Cheques issued but not presented for payment	+	−
3. Those items which affect the credit side of pass book: (I) Interest\dividend credited by the bank (II) Amount deposited direct by a customer into bank account (III) Cheques sent to the bank but omitted to be entered into the cash book	+	−
4. Those items which affect the debit side of pass book: (I) Bank changes charged by bank (II) Interest on overdraft (III) Payment made by the bank on standing instructions of the customer	−	+

Debit balance as per cash book

1 .On 31st dec 2014 the cash book of a firm showed a bank balance of Rs.3000 . From the following information prepare a bank reconciliation statement showing the balance as per pass Book.

(I) Cheques have been issued for Rs.2500 out of which cheques worth Rs.2000 only were presented for payment.

(II)Cheques worth Rs700 were paid on 28th dec but had not been credited by the bank. One cheque for Rs.250 was entered in the cash book on 30th dec but was banked on 3rd jan 2015.

(III) A cheque from Mohan for Rs.200 was paid in on 26th dec but was dishonoured and the advise was received on 2nd jan2015.

(IV) Pass book showed bank charges Rs.10 debited by the bank . It also showed Rs.400 collected by the bank as interest.

(V)One of the debtors deposited a sum of Rs.250 in the account of the firm on 20th dec . Intimation in this respect was received from the bank on 2nd jan2015.

Bank Reconciliation Statement as on 31st dec 2014

Particulars	Amount	Amount
Debit balance as per cash book		3,000
Add:		
Cheques issued but not yet presented for payment (2500 – 2000)	500	
Interest collected by the bank not recorded in the cash book	400	
Amount deposited by the customer direct into the bank not recorded in the cash book.	250	
		1,150
		4,150
Less:		
Cheques paid not into bank but not yet credited by the bank	700	
Cheque entered in the cash book but was omitted to be banked upto 31st dec.	250	
Cheque from Mohan paid into bank dishonoured but not yet recorded in the cash book	200	
Bank charges as per pass book	10	
		1,160
		2,990
Credit Balance as per pass book		

Debit balance as per Cash book

2.From the following particulars prepare a Bank Reconciliation statement as on 31st march 2004.

(I) Bank balance as per cash book Rs.9400

(ii) During the month ,total amount of cheques for Rs.12400 was deposited into bank ,out of which one cheque for Rs.1860 had been entered in the pass book on 2nd April 2004.

(iii) During the month ,cheques for Rs.14930were drawn in favour of creditors Of them ,one creditors for Rs.6430 encashed on 4th April ,where as another creditors for Rs.720 had not encashed his cheque.

(iv) Asper instruction ,the bank on 26th March had paid Rs.4400 to a creditor, but my mistake the same has not been recorded in the cash book.

(V) According to agreement on 24th March a debtor had deposited directly into the bank Rs.9000, but the same has not been recorded in the cash.

(vi) Inthe month of March ,the Bank without any intimation had debited the account of the business for a sum of Rs.180 at Bank charges and credited the same for Rs.300 as interest.

Bank Reconciliation Statement as on 31st March 2004

Particulars	Amount	Amount
Bank Balance as per cash book		9,400
Add: Cheques drawn but not presented for payment (Rs 6,430+ Rs 720)	7,150*	
Add: Direct deposit made by a debtor, not entered in cash book	9,000	
Add: Interest credited by bank, not entered in cash book	300	16,450
		25,850
Less: Cheques deposited but not credited	1,860	
Less: Bank paid to a credited, not recorded in cash book	4,400	
Less: Bank charges debited by Bank not entered in cash Book	180	
		6,440
Bank Balance as per pass Book		19,410

Bank Reconciliation Statement as on 31^{st} dec 2014

Particulars		Amount	Amount
Credit balance as per cash book			15,800
Add:			
Cheques paid into bank but not yet cleared and credited:			
Anu	700		
Anbu	800		
Abi	600	2,100	
Charges recorded in the pass book but not the cash book:			
Incidental charges	20		
Collection charges	15	35	
Payment made by the bank direct as per standing instructions not recorded in the cash book:			
Insurance premium	350		
Subscription for commerce	75	425	
Cheque entered in the cash book but omitted to be banked		500	3,060
Less:			18,860
Cheque issued but not yet presented for payment			
Bala	500		
Balu	450	950	
Rebate allowed for the bill retired but not entered in the cash book		20	970
Debit Balance as per cash book			17,890

Credit Balance as per pass book

Sum no:1

From the following particular prepare a bank reconciliation statement showing the balance as per cash book on 31st Dec 2014. Following cheques were paid into banking December,2014 but were credited by the bank in Jan 2015:
Anu Rs 700, Anbu Rs 800, Abi Rs.600.
Following cheques were issued by the firm in Dec 2014 but were presented for payment in Jan 2015.
Bala Rs.500, Balu Rs.450.
Following charges were made by the bank which were not recorded in the cash book:
Incidental charges for the half year ended 31st Dec 2014 Rs.20,
Collection charges for outstation cheques Rs.15
Following payments made by the bank direct as per standing instruction were not entered in the cash book:
Insurance premium Rs.350, Subscription for commerce Rs.75,
A cheque for Rs.500 which was received from a customer was entered in the bank column of cash book in Dec 2014, but was omitted to be banked in Dec 2014. A bill for Rs.1000 was retired by the bank under rebate of Rs20 but the full amount of the bill was credited in bank column of the cash book.
The bank balance as per pass book was Rs.15800, on 31st December 2014.

Bank Reconciliation Statement as on 31st dec 2014

Particulars		Amount	Amount
Credit balance as per cash book			15,800
Add:			
Cheques paid into bank but not yet cleared and credited:			
Anu	700		
Anbu	800		
Abi	600		
Charges recorded in the pass book but not the cash book:		2,100	
Incidental charges	20		
Collection charges	15		
Payment made by the bank direct as per standing instructions not recorded in the cash book:		35	
Insurance premium	350		
Subscription for commerce	75		
Cheque entered in the cash book but omitted to be banked		425	3,060
Less:		500	18,860
Cheque issued but not yet presented for payment			
Bala	500		
Balu	450		
Rebate allowed for the bill retired but not entered in the cash book		950	
		20	970
Debit Balance as per cash book			17,890

2. From the following particulars , prepare a bank reconcilication statement as on 28th Feb 2005 .The Bank pass book showed a credit balance of Rs.9436 on that date.

1. Out of the total cheque amounting to Rs.1,536 issued during the month , cheques of Rs.496 were presented for payment in March 2005.One cheque of Rs.50 issued to an upcountry party was lost in transit.
2. The bank had in accordance with the standing instructions of the account holder paid life insurance permium of Rs.427 for which no entry is recorded in his books.
3. One of his customers directly deposited in the bank Rs.1000 for which no entry is recorded in his books.
4. Acheque for Rs.579 was deposited in the bank on 15th Feb and the same was not recorded in the cash book.
5. The cash book (bank column) did not show the bank charges debited by the bank amounting to Rs.12.

Bank Reconciliations Statement as on 28th Feb 2005

Particulars	Rs	Rs
Bank Balance as per pass book		9,436
Add: Life Insurance premium paid by the Bank but not entered in Cash Book	427	
Bank charges debited in the Pass Book, but not entered in Cash Book	12	439
		9,875
Less: Cheques issued but not presented	496	
Cheques lost in transit	50	
Amount directly deposited by a customer but not entered in Cash Book	1,000	
Cheques deposited and credited by the bank but not entered in cash book	579	2,125
Bank Balance as per Cash Book		7,750

Finding out Overdraft on basis of Cash Book balance

ILLUSTRATION

From the following particulars, ascertain the balance by means of a statement, that would appear in the Pass Book of Ramlal and Son, as on 31st December.

1. Overdraft as per Cash Book on 31st dec Rs 10,540.
2. interest on overdraft for six months ending Dec. Rs 240
3. Interest on investments collected by bank Rs 300.
4. Bank charges for the above period Rs 60.

5.Cheques drawn but not cashed by the customers, prior to dec Rs 2,500.

6.Cheques paid into the banlk, but not cleared before 31st dec Rs 4,200.

7.A Bill Receivable for Rs 1,000 (discount with the bank in Nov.) was dishounoured on dec 31st .

Ramalal & sons Bank Reconciliation Statement as on 31st December

	Rs	Rs
Overdraft as per Cash Book		10,540
Add: Interest on overdraft	240	
Bank charges	60	
Cheques paid in but not cleared	4,200	
Bill Receivable dishonoured	1,000	5,500
		16,040
Less: Cheques drawn but not cashed	2,500	
Interest on investments	300	2,800
Overdraft as per Pas book		13,240

Finding out Cash Book Overdraft on the basis of Pass Book Overdraft

ILLUSTRATION

Prepare a bank Reconciliation statement on 31st dec 2004.

(a) A's overdraft as per Pass Book was Rs 12,000 on that date.

(b)On 30th dec cheques had been issued fro Rs 7,000 of which cheques worth Rs 3,000 only had been encashed upto 31st dec.

(c)Cheques amounting to Rs 3,500 had been paid into the bank for collection but of these only Rs 500 had been credited in the Pas Book.

(d)The bank charges Rs 500 as interest on overdraft, the intimation of which has been received on 2 jan 2005.

(e)The bank pass book show a credit for Rs 1,00 respresenting Rs 400 paid by a debtor of A direct into the bank and Rs.600 collected direct by the bank in respect of interest on A's investments. A had no knowledge of these items.

(f)A cheque for Rs 200 had been debited in bank column of Cash Book by A, but it had not been sent to Bank.

Bank Reconciliation Statement as on 31st dec 2004

	Rs	Rs
Debit balance as per Pass Book (overdraft)		12,000
Add: Cheques issued but not presented for payment	4,000	
Direct payment received by bank from A's debtor	400	
Interest on investment directly received by the bank	600	5,000
		17,000
Less: Cheques sent for collection but not collected	3,000	
Interest on overdraft	500	
Cheques entered in Cash Book but not sent to bank	200	3,700
credit Balance as per Cash Book (overdraft)		13,300

RECTIFICATION OF ERRORS - Unit II

What Is The Rectification Of Errors?

In accounting, errors are the ‘mistakes’ committed by the book-keeper or accountant. These mistakes may occur while classifying the accounts, writing the subsidiary books, posting the entries to ledger accounts, casting totals, balancing the accounts, carrying the balances forward and so on. The process of finding and correcting these mistakes is called rectification of errors.

Rectification of errors can be addressed by answering the questions what, why and how.

Errors in accounting occur when in the accounting period the basic principle every debit should have an equal credit gets violated.

CLASSIFICATION OF ERROR

Intentional errors	*Unintentional errors*
Errors are committed at the management level and not at the clerical level. For example, stock (inventory) is recorded at the market price which is higher than the cost price. knowing fully well that the stock should be recorded in the books at cost or market price whichever is less..	Unintentional errors which occur at the clerical level during the normal course of recording, classifying, posting, casting and so on

Classification of Unintentional Errors

Unintentional errors are classified on the basis of disclosed errors, undisclosed errors, how they affect the accounts, and their nature.

Trial balance is able to disclose the following errors:

1. Wrong totaling of subsidiary books
2. Posting of the wrong amount
3. Posting of the amount on the wrong side of the account
4. Posting twice to a ledger
5. Omission of an account from the trial balance
6. Wrong additions or balancing of ledger accounts
7. Balance of account written to the wrong side of the trial balance
8. Errors made in preparing the list of debtors and creditors
9. Errors made in carrying forward the total from one page to another page
10. Where double entry is incomplete
11. Omission of an account in the opening entry
12. Wrong amount of capital in the opening entry
13. Wrong casting of trial balance totals

A trial balance is not able to disclose the following

- Errors of omission
- Posting to wrong account
- Wrong entry of the amount in the original books
- Compensating error

(1) Errors of Omission

- When a transaction is totally omitted to be recorded in the journal or the subsidiary books or the ledger, such an error is known as an error of omission.
- E.g. Rs.4,000 received from Bhavana is left unrecorded. By writing correct journal entry for this transaction the above error will be rectified.

Date	Particulars	L. F.	Debit Rs.	Credit Rs.
	Cash A/c..........................Dr.		4,000	
	To Bhavana's A/c			4,000
	(Being the entry of Rs.4,000 received from Bhavana left unrecorded.)			

Errors of Commission

Recording wrong amount in subsidiary book, Wrong totaling of subsidiary booksPosting incorrect amount in ledger accounts, Incorrect totalling of ledger balances, Posting at the wrong side of ledger accounts.

Classification of errors can be on the basis of how they affect the accounts

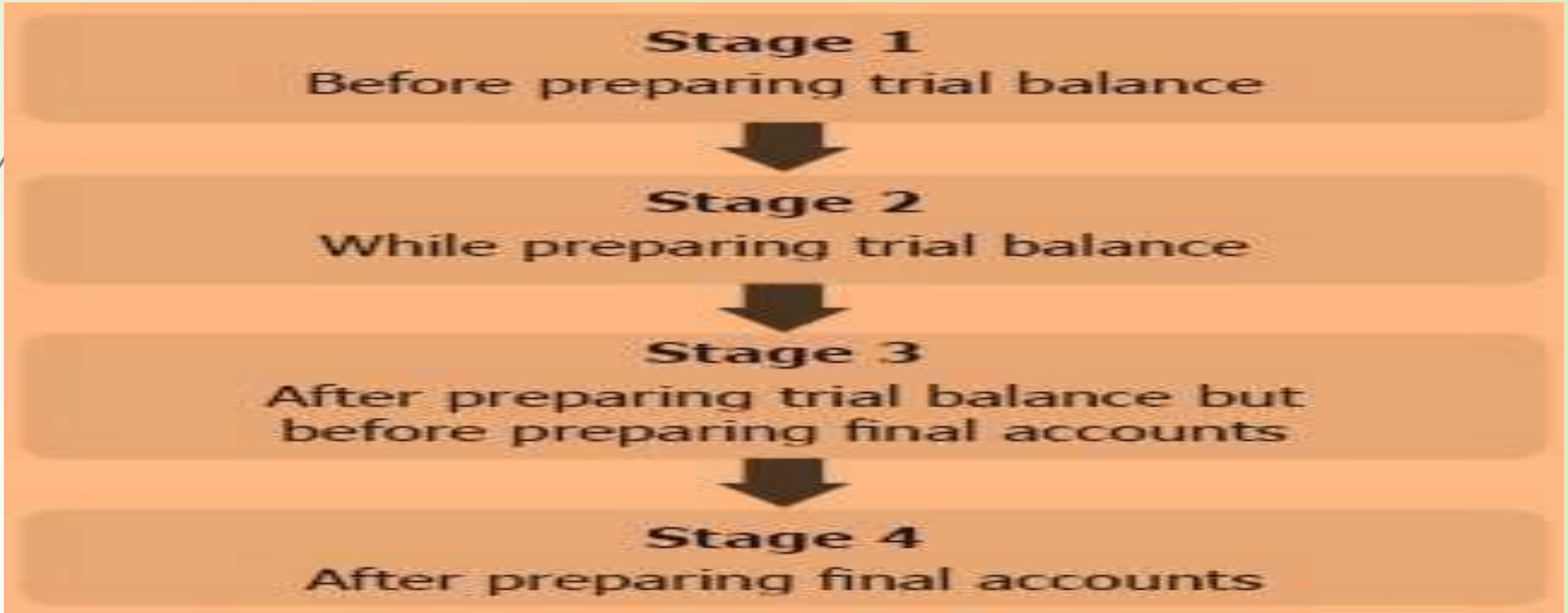
1. Errors **affecting one account only** can be errors of **posting**, **casting**, or **carry forward** and omission of the balance of any one account in the trial balance.
2. Errors **affecting two or more accounts** can be errors of **posting to the wrong account**, **errors of omission**, **errors of principle** and **compensating errors**.

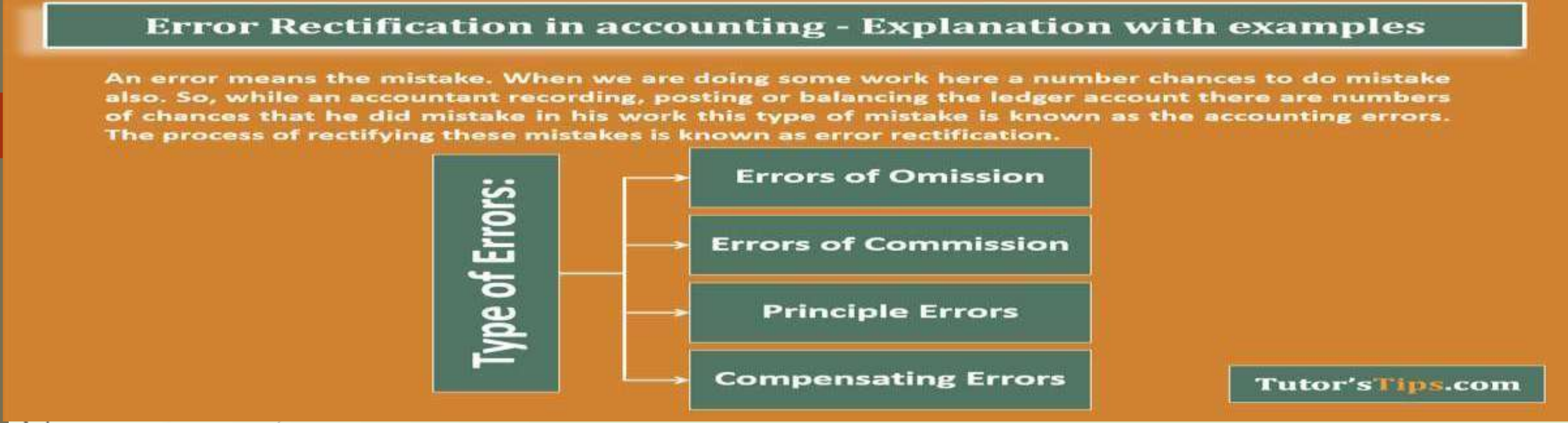
Case 1 : Rectification of one sided errors before preparing Trial Balance

Short Debit → Concerned A/c is Debited. Excess Credit→ Concerned A/c is Debited Short Credit →Concerned A/c is Credited Excess Debit →Concerned A/c is Credited

Case II : Rectification of one Sided Error after Preparing Trial Balance When the errors are detected by passing a Journal entry through Suspense Account.

Excess Credit in one Account → Debit that Account and Credit the **Suspense** A/c
Short Credit in one Account → Credit that A/c and Debit the **Suspense** A/c
Excess Debit in one Account → Credit that A/c and Debit the **Suspense** A/c





Rectification of error Model

	Wrong Entry	Correct Entry	Rectifying Entry
a	---	Sales Returns A/c Dr. 100 To Bhuvana A/c 100	Sales Returns A/c Dr. 100 To Bhuvana A/c 100
b	Mani A/c Dr. 745 To Sales A/c 745	Mani A/c Dr. 475 To Sales A/c 475	Sales A/c Dr. 270 To Mani A/c 270
c	Allowances A/c Dr. 500 To Bank A/c 500	Sandhiya A/c Dr. 500 To Bank A/c 500	Sandhiya A/c Dr. 500 To Allowances A/c 500
d	Wages A/c Dr. 300 To Cash A/c 300	Drawings A/c Dr. 300 To Cash A/c 300	Drawings A/c Dr. 300 To Wages A/c 300

Rectify the following errors:

1. Purchases Book is over cast by Rs.700.
2. Sales book has been under cast by Rs.1000
3. Purchases returns Book has been over cast by Rs.200
4. Sales returns Book has been under cast by Rs.500

ERRORS AFFECT - ONE ACCOUT

S. No	Wrong entry	Correct entry	Rectifying entry
1	Purchase A/c **Dr** 700 (+)	Purchase A/c Dr	(-) **To** Purchase A/c 700
2	(-) **To** Sales A/c 1,000	To Sales A/c	(+) **To** Sales 1,000
3	(+) **To** Purchase return A/c 200	To Purchase return A/c	Purchase return A/C **Dr** 200 (-)
4	Sales return A/c **Dr** 500 (-)	Sales return A/c Dr	Sales return A/c **Dr** 500 (+)

Rectify the following:

1. Purchase book carried forward Rs.10 less
2. Sales book carried forward Rs32 instead of Rs.23
3. Purchase from Murali & Co for Rs.1,340 has been posted to his account Rs.1,430
4. *Sales to Prasanna* for Rs.1,840 has been posted to his account credit as Rs.1,480
5. Debit the Sales returns book has been under cast by Rs.500

S.No	Wrong entry	Correct entry	Rectifying entry
1	Purchase A/c Dr 10(-)	Purchase A/c Dr(+)	Purchase A/c Dr 10 (+)
2	To Sales A/c **(9+)** **32**	To Sales A/c **23**	Sales A/c **Dr** **9(+)**
3	To Murali &Co**(90+)** 1,430	To Murali & Co A/c 1,340	Murali & Co A/c **Dr** 90(+)
4	**To** Prasanna A/ Dr **1480**	Prasanna A/c **Dr** **1,840**	Prasanna A/c **Dr 3,320**(+)
5	Sale return A/c Dr 500(-)	Sales return A/c Dr 500(+)	Sales return Dr **500 (+)**

Rectify the following Errors:

1. Purchase of Furniture for cash Rs.3000 was not posted
2. Purchase of Furniture on credit from Rahul for Rs.5,400, debited as Rs.4,500.
3. Sales to Ravi for Rs. 2,000 posted to his account has as Rs.200
4. Sales to Murali for Rs.2,530 posted to his account as Rs.3,250
5. Sales to Arul for Rs.5,000, credited to his account as Rs.500
6. Purchased from Raghavan Rs.2,500, posted to his account as Rs.5,200
7. Purchased from Murugan for Rs.3,250 posted to his account as 2,350
8. Purchased from Suresh for Rs.2000 debited to his account as Rs.200.
9. Purchased goods from Venkatesh Rs.3,000, credited to his account as Rs.300.
10. Sales to Ramani for Rs.1,000 posted to his account as Rs.100
11. Cash sales to Karthik for Rs.5,000 posted as Rs.500

S.NO	WRONG ENTRY	CORRECT ENTRY	RECTIFYING ENTRY
1	-	Furniture A/c Dr 3,000	Furniture A/c Dr 3,000
2	Furniture A/c Dr 4,500	Furniture A/c Dr 5,400	Furniture A/c Dr 900
3	Ravi A/c Dr 200	Ravi A/c Dr 2,000	Ravi A/c Dr 1,800
4	Murali A/c Dr 3,250	Murali A/cDr 2,530	To Murali A/c 720
5	To Arul A/c 500	Arul A/c Dr 5,000	Arul A/c Dr 5,500
6.	To Raghavan A/c 5,200	To Raghavan A/c 2,500	Raghavan A/c Dr 2,700
7	To Murugan A/c 2,350	To Murugan A/c 3,250	To Murugan A/c 900
8	Suresh A/c Dr 200	To Suresh A/c 2,000	To Suresh A/c 2,200
9	To Venkatesh A/c 300	To Venkatesh A/c 3,000	To Venkatesh A/c 2,700
10	Ramani A/c Dr 100	Ramani A/c Dr 1,000	Ramani A/c Dr 900

Rectify the following:

1. A Purchase of Rs.4,000 from Rahul entered in the Day book as Rs.400
2. Sales to Ramu Rs.2,800 has not been recorded.
3. Sales to lakshman Rs.1,800 has been recorded as Rs.1,300
4. Sales to Saravanan Rs.1,000 has been posted to Murugan account
5. Sale of old furniture Rs.500 has been posted to sales book

ERRORS AFFECT – TWO OR MORE ACCOUNTS

S.NO	WRONG ENTRY	CORRECT ENTRY	RECTIFYING ENTRY
1	Purchase A/c Dr 400 To Rahul A/c 400	Purchase A/c Dr 4000 To Rahul A/c 4000	Purchase A/c Dr 3600 To Rahul A/c 3600
2	---	Ramu A/c Dr 2800 To Sales A/c 2800	Ramu A/c Dr 2,800 To Sales A/c 2800
3	Lakshman A/c Dr 1300 To Sale A/c 1300	Lakshman A/c Dr 1800 To Sales A/c 1800	Lakshman A/c Dr 500 To Sales A/c 500
4	Murugan A/c Dr 1000 To Sales 1000	Saravanan A/c Dr 1000 To Sales A/c 1000	Saravanan A/c Dr 1000 To Murugan A/c 1000
5	Furniture A/c Dr 500 To Sales A/c 500	Cash A/c Dr 500 To Furniture A/c 500	Sales A/c Dr 500 To Furniture 500

Give Journal entries to rectify the following errors:

1Purchase of goods from Devan amounting to Rs.250 has been wrongly passed through the sales book

2. Credit Sales of goods Rs.300 Rajan has been wrongly passed through the purchase book.

3.Sold old furniture for Rs.1500 passed through Sales book.

4.Paid wages for the construction of building debited to wages account Rs.10000

5. Drawing made by the proprietor Rs.2000 debited to trade expenses account

6.Paid Rs.1000 for the installation of machinery debited to wages account.

7. On 31.12.2008 goods for the value of Rs.500 were returned by Gurudev and were taken into stock on the same date, but no entry was passed in the books.

8.Coolie paid in connection with the purchase of furniture Rs.50 posted in coolie account

ERROR AFFECT - TWO OR MORE ACCOUNTS

S.NO	WRONG ENTRY	CORRECT ENTRY	RECTIYING ENTRY
1	14 To Sales A/c 250	Purchase A/c Dr 250 To Devan A/c 250	Purchase A/c 250 Sales A/c 250 To Devan A/c 500
2	Purchase A/c Dr 300	Rajan A/c Dr 300 To Sales A/c 300	Rajan A/c Dr 600 To Purchase A/c300 To Sales A/c 300
3	To Sales A/c 1500	Cash A/c Dr 1500 To Furniture A/c 1500	Cash A/c Dr 1500 Sales A/c Dr 1500 To Furniture A/c 3000
4	Wages A/c Dr 10000 To Cash A/c 10000	Building A/c Dr 10000 To Cash A/c Dr 10000	Building A/c 10000 To Wages A/c 10000
5	Trade expenses A/c 2000 To Cash A/c 20000	Drawing A/c Dr 2000 To Cash A/c 2000	Drawing A/c Dr 2000 To Trade expenses A/c
6	Wages A/c Dr 1000 To Cash A/c 1000	Machinery A/c Dr 1000 To Cash A/c 1000	Machinery A/c Dr 1000 To Wages A /c 1000
7	---	Sales return A/c 500 To Gurudev A/c 500	Sales return A/c Dr 500 To Gurudev A/c 500
8	Coolie A/c Dr 50	Furniture A/c Dr 50	Furniture A/c Dr 50

Pass Journal entries to rectify the following errors. Assume that their existsas suspense amount.

1.The total of Sales book was under cast by Rs.2000

2. The purchase of machinery Rs.3000 was entered in the purchasesbook.

3.A sale of Rs.45 to Kumar was posted in his account as Rs.54.

4.The total of purchase returns book was over cast by Rs.200

5.The total of sales book Rs.1,122 wrongly posted in the ledger as Rs. 1,222

RECTICATION OF ERRORS - SUSPENSE ACCOUNT

S.NO	WRONG ENTRY	CORRECTENTRY	RECTIFYING ENTRY
1	Suspense A/c Dr 2000 To Sales A/c 2000 (-)	Suspense A/c Dr 2000(+) To Sales A/c 2000	Suspense A/c Dr 2000 To Sales A/c 2000
2	Purchase A/c Dr 3000 To Cash Ac 3000	Machinery A/c Dr 3000 To Cash A/c 3000	Machinery A/c Dr 3000 To Purchase A/c 30000
3	Kumar A/c Dr 54 To Suspense A/c 54	Kumar A/c Dr 45 To Sales A/c 45	Suspense A/c Dr 9 To Kumar A/c 9
4	Suspense A/c Dr 200 To Purchase return 200(+)	Suspense A/c Dr 200(-) To Purchase return A/c 200	Purchase return A/c 200 To Suspense A/c 200
5	Suspense A/c Dr 1222 To Sales A/c 1222	Suspense A/c Dr 1122 To Sales A/c 1122	Sales A/c Dr 100 To Suspense A/c 100

Balances in trial balance do not agree. To prepare final accounts, difference is placed in suspense account .Then the following errors were discovered:

1. Sales book was under cast by Rs.375
2. Office expenses Rs.95 was written in cash book but not posted in ledger.
3.There was an overcast of discount column in the credit side of cash book Rs.20
4.Sales to Arul Rs.139 written correctly in the sales book. But posted as Rs.193 in his accounts

ERRORS AFFECT - FINAL ACCOUNT

S.NO	WRONG ENTRY	CORRECT ENTRY	RECTIYING ENTRY
1	Suspense A/c Dr 375 To Sales A/c 375	Suspense A/c Dr To Sales a/c	Suspense A/c Dr 375 To Sales A/c 375
2	--------	Office expenses A/c 95 To Suspense A/c 95	Office expense A/c Dr 95 To Suspense A/c 95
3	Suspense A/c Dr 20 To Discount received 20	Suspense A/c Dr To Discount received A/c	Discount received A/c Dr 20 To Suspense A/c 20
4	Arul A/c Dr 193 To Suspense A/c 193	Arul A/c Dr 139 To Sales A/c 139	Suspense A/c Dr 54 To Arul A/c 54

SUSPENSE ACCOUNT

Particulars	Amount (Rs.)	Particulars	Amount (Rs)
To Sales	375	By office expenses	95
To Arul	54	By Discount received	20
		By Difference in tria lbalanc	314
	429		429

RECTIFY THE FOLLOWING:

1.Sales day book was over cast by Rs.100

2.Sale of Rs.50 to Ram debited to Krishna

3.General expenses Rs.18 was posted as Rs.80

Cash received from Gopal debited to his account 150

4.Machinery purchased Rs.10000 entered in the purchase book

5.Commission of Rs.25 paid was posted twice, once to discount account and again to Commission account

RECTIFYINGJOURNAL ENTRIES

S.NO	PARTICULARS	DEBIT(Rs.)	CREDIT(Rs.)
1	Sales A/c Dr To Suspense A/c (Being rectification of sales book over cast by Rs.100)	100	100
2	Ram A/c Dr To Krishna A/c (Being rectification of wrongly debit of Rs.50 in Krishna)	50	50
3	Suspense A/c Dr To General expenses (Being rectification of posted Rs.62 in General expense)	62	62
4	Machinery A/c Dr To Purchase A/c (Being rectification of wrong debit in the purchase book of Rs.10000)	10000	10000
5	Suspense A/c Dr To Profit and Loss Adjustment A/c (Being rectification of wrong posting in discount of Rs.25)	25	25

III Unit Accounts of non-profit organization

Introduction of Not-for-Profit Organizations:

The financial accounting and reporting of clubs and societies differ majorly from the financial accounting and reporting of for-profit organizations. The main objective of for-profit organizations, as the name suggests is, to make a profit, whereas, clubs and societies are non-profit organizations whose main goal is to provide their own members with services and facilities.

Non-profit organizations earn their income through subscriptions paid by the members of the club, usually annually, to avail the services provided by these clubs. Examples of such organizations are sports clubs or youth clubs, amateur dramatic groups, scout groups, welfare societies, etc.

Income and Expenditure

- The income and expenditure account is an account prepared by non-trading concerns to ascertain surplus or deficit of income over expenditures for a particular period. It is prepared as a part of final accounts of non-trading concerns and is equivalent to profit and loss account prepared by for-profit business enterprises. The accrual concept of accounting is strictly followed while preparing income and expenditure account of non-trading entities.

Characteristics of income and expenditure account

- It is always prepared at the end of the period which usually (but not always) consists of one year.
- It is prepared by strictly following the principles of double entry system of accounting or bookkeeping.
- The incomes and expenditures of only revenue nature are included in this account. Any income and expenditure of capital nature is not included.
- It determines the surplus or deficit of income over expenditures of the non-trading concerns for the year.
- The surplus or deficit from the income and expenditure account is transferred to the capital fund account.
- It does not start with an opening balance; it reflects incomes received and expenditures incurred by non-trading concerns during the year.
- The accrual concept of accounting is strictly followed while its preparation.
- It is prepared by accountants appointed by the entity’s management and is audited by an independent auditor.

Steps for preparing an income and expenditure account from a receipt and payment account

- Obtain the receipt and payment account of non-trading concern for which you want to prepare an income and expenditure account.
- Ignore the beginning and ending balances of receipt and payment account.
- Remove all the payments relating to previous years’ expenditures, future years’ expenditures and capital payments for the current year.
- Remove all the receipts relating to previous years’ income, future years’ income and capital revenue for the current year.
- Include current year’s incomes and revenue expenditures including depreciation on all fixed assets of the entity.
- Find the balance of the account which may be a surplus or a deficit balance.

INCOME AND EXPENDITURE FORMAT

Amount of Income/Expenditure as per Receipts & Payment Account		XXX
Add:		
1. Creditors for Expenses or Subscription in arrear or due at the end of the period	XXX	
2. Stock/Prepaid Expenses or Subscription paid in Advance at the beginning of the period	XXX	XXX
		XXX
Less:		
1. Creditor for Expenses or Subscription in arrear or due at the beginning of the period	XXX	
2. Stock/Prepaid Expenses or Subscription paid in Advance at the end of the period.	XXX	XXX
Amount to be shown as Income or Expenditure in Income or Expenditure A/C		XXXXX

1. Calculate the amount to be posted to Income and Expenditure Account for the year ended 2004.

Receipts and Payment Account show that subscription received Rs. 9,000.This account of subscription includes Rs. 800 outstanding in the previous year and Rs.1,000 for the next year.Rs.2,000 is still outstanding for current year.

Income and Expenditure Account for the year ended Dec. 2004

particulars		Rs	Rs
By Subscription received		9,000	
Add: Outstanding for the current year.		2,000	
		11,000	
Less: Outstanding for previous year.	800		
Less: Received for next year:	1,000	1,800	9,200

2.In 2004, the subscriptions received were Rs. 17,500 which include Rs. 400 for 2003 and Rs.600 For 2005. At the end of 2004 subscription outstanding were Rs. 500. The subscription due but not received at the end of the previous year i.e., 2003 were Rs. 600. What amount should be credited to income and expenditure account as subscriptions.

Income and Expenditure Account for the year ended 31st Dec. 2004

particulars	Rs	Rs
By Subscription (2004)	17,500	
Less: Subscription received for 2003	400	
	17,100	
Less: Subscription received for 2005	600	
	16,500	
Less: Subscription outstanding for 2004	500	
		17,000

3.Calculate the amount of stationery to be debited to income and expenditure account during 2004.

1.Amount paid for stationery during the year 2004 as per Receipts and Payments account.RS.1750.

2.Stock of stationery on 1.1.2004 Rs.150

3. Paid advance for stationery on 31.12.2004 Rs.200

4.Paid advance for stationery during 31.12.2003 Rs.250 but received stationery during the year 2004.

5.Creditors for stationery on 1.1.2004 Rs.370

6.Stock of stationery on 31.12.2004 RS.415

7.Creditors for stationery on 31.12.2004 RS.300

Particulars	RS	RS
Amount paid for stationery as per Receipts and payment account		1,750
Add : Stock of stationery on 1.1.2004		150
Add : Paid advance during Dec 2003 and received during 2004		250
Add : Creditors for stationery on 31.12.2004 (stationery has been received but not the payment is outstanding)		300
		2,450
Less : Paid advance for stationery 31.12.2004 (payment has been made but stationery not received)	200	
Less : Creditors for stationery 1.1.2004 (stationery has been received during 2003 but the payment is made in 2004)	370	
Less: Stock of stationery on 31.12.2004(not consumed)	415	985
Amount of stationery to be debited to income and expenditure account		1,465

4.The following particulars related to sports club of Delhi Income and expenditure account for the year ended 31st Dec 2004.

Particulars	RS	Particulars	Rs
To Salaries	6,000	By Admission fees	15,000
To print and stationery	2,500	By Subscription	25,000
To Advertising	1,000	By Rent Receivable	4,800
To Insurance charges	900		
To Electric charges	500		
To Depreciation on sport equipments	12,000		
To Excess of income over Expenditure	21,900		
	44,800		44,800

Receipts and payment account for the year ended 31st Dec 2004

Particulars		RS	Particulars	Rs
To Balance b\d		5,000	By Salary (including advance)	7,500
To Admission fees:			By Printing and stationery	2,500
2003	2,500		By Advertising	1,000
2004	13,500	16,000	By Insurance charges (Partly for next year)	1,200
To Subscriptions:			By Electricity	500
2003	1,000		By Purchase of fixed assets	2,000
2004	23,000		By Balance c/d	17,900
2005	2,000	26,000		
To Rent		3,600		
		50,600		50,600

Adjustments:

On 1st Jan 2004 the club had the following assets:

land and buildings	Rs.60,000
sports Equipments	Rs.30,000
furniture	Rs. 4,500

Prepare opening and closing balance sheets.

Sports club of Delhi balance sheet as on 1st January 2004

Liabilities	Rs	Assets	RS
Capital fund (balancing figure)	1,03,000	Cash at bank	5,000
		Subscription outstanding	1,000
		Admission fees outstanding	2,500
		Sports Equipment	30,000
		Furniture	4,500
		Land and Building	60,000
	1,03,000		1,03,000

Sports club of Delhi balance sheet as on 31st Dec 2004

Liabilities	RS	RS	Assets	RS	RS
Subscription Received in advance		2,000	Cash at bank		17,900
capital fund	1,03,000		Subscription outstanding		2,000
Add: Excess of income	21,900		Admission fees		1,500
			Salary advance		1,500
		1,24,900	Rent outstanding		1,200
			Prepaid insurance		300
			Sports equipment	30,000	
			Less: Depreciation	12,000	18,000
			Furniture		4,500
			Fixed Assets		20,000
			Land and building		60,000
		1,26,900			1,26,900

Receipt and payment

- Receipt and payment account functions as a summary of cash payments and receipts of an organization during an accounting period. It provides a picture of the cash position of a Not-for-Profit organization. It does not differentiate between the receipts and payments, whether they are of capital or revenue in nature and records all cash and bank transactions of both capital and revenue nature.
- Receipt and payment account does not include any non-cash transactions such as depreciation.
  The Receipt and payment account is prepared at the end of an accounting period.

Features of Receipt and Payment Account

1. It does not include any transactions that are not cash or bank items.
2. It shows all cash payments and receipts without making any difference between capital and revenue
3. Receipt and Payment Account starts with the opening balance of cash and bank and ends with ending balance of cash and bank
4. It is prepared on the last day of the accounting period of the business organization.
5. All cash and cheque receipts are recorded in the debit side while all cash and cheque payments are recorded on the credit side.

1. Subscriptions received as per receipt and payment accounts Rs.15,960
2. Subscriptions received in advance for 2005 during 2004 Rs.1,500
3. Subscriptions outstanding on Dec 2003 Rs.750
4. Subscriptions received in advance for 2004 during 2003 Rs.710
5. Subscriptions outstanding on 31st Dec 2004 Rs.500

Receipts and payment account for the year ended 31st Dec 2004

Particulars	RS	RS
Subscription as per receipts and payment account		15,960
Add: Subscription received in 2003 for 2004		710
Add: Subscription outstanding on 31st Dec 2004		500
		17,170
Less: Subscription received during 2004 for the year 2005	1,500	
Less: Subscription outstanding for 2003	750	2,250
Subscription to be credited to income and expenditure account during 2004		14,920

2. Calicut Sport Association extracts following Receipts and payment Account for the year ended 31st Dec 2004. From the particular given, prepare income and expenditure account for the year ended 31st Dec 2004.

Receipts and Payment Account for year ended 31st Dec 2004

Particulars	RS	Particulars	Rs
To Balance b/d	1,125	By Newspapers	750
To subscriptions	2,900	By Rent	250
To Tournament Fund	750	By Salaries	1,800
To Life Membership	1,000	By Office Expenses	1,200
To Entrance Fees	100	By Sports Equipments	1,150
To Donations for Building	1,500	By Tournament Expenses	450
To Sales of Newspapers	50	By Balance c/d	1,825
	7,425		7,425

- Adjustments:
- Subscription outstanding on 31st December 2003 Rs.450 and on 31st December 2004 Rs.400 .Subscription received includes Rs.100 on account of the year 2005.
- Sports equipment was valued on 31st December 2003 at Rs.550 and on 31st December 2004 at Rs.1090.
- Office expenses include Rs.150 for 2003 whereas Rs.200 is still payable on this account for 2004.
- Tournament fund is treated as capital receipt.

Income and expenditure account for the year ended 31st Dec 2004

To Newspaper		750	By Subscriptions	2900	
To Rent		250	Less: for 2003	450	
To Salaries		1 ,800	Add:outstanding (2004)	2450	
To Office Expenses	1200			400	
Less: Paid for 2003	150		Less : Received for 2005	2850	
	1050			100	
	200				2,750
Add: Outstanding					
		1,250	By Entrance fees		100
		610	By Sale of Newspaper		50
To Depreciation on			By Excess Expenditure		
equipment			over Income		1,760
		4660			4,660

3. From the following Receipts and Payment account of a club and from the following information supplied, prepare an income and Expenditure Account for the year ended 31st Dec 2004.

Receipts and payments account for the year ended 31st Dec 2004

Particulars		Amount		Particulars	Amou
To Balance b/d		350		By Salaries	140
To Subscription				By General Expenses	300
2003	250			By Electric charges	20
2004	1,000			By Books	500
2005	200			By Newspaper	400
		1450		By Balance	200
To Rent Received from use of Hall		700			
To Profit from Entertainment		400			
To Sale of Newspaper		100			
		3,000			3,00

- **Additional information**
- The club has 50 members each paying an annual subscription of Rs.25. Subscription outstanding on 31^{st} December 2003 were Rs.300.
- On 31^{st} December 2004 salaries outstanding amounted to RS 100.Salaries paid in 2004 included Rs.300 for 2003.
- On 1.1.2004 the club owned building valued at Rs.10,000,furniture Rs.1,000 and books Rs.1000.
- Provide depreciation on furniture at 10%

Income and Expenditure for the year ended 31^{st} Dec 2004

Expenditure	RS	RS	Income	RS	rs
To Salaries	1, 400		By Subscription : 50		
Add : Outstanding for			members @ rs.25		1,250
2004	100		By Rent of hall		700
			By Profit from		
	1,500		Entertainment		400
Less: Paid for 2003	300		By Sale of Newspaper		100
		1,200			
To General Expenses		300			
To Electric charges		200			
To Depreciation		400			
(furniture)					
To Excess of income		100			
over Expenditure		250			
		2,450			2,450

4.Calculate the amount to be show in receipt and payment account for the year ended 31st Dec 2004

1. income and expenditure account shows a sum of Rs7,500 against subscription during 2004.
2. subscription outstanding at Dec 2003---Rs 600.
3. subscription received in advance in Dec 2003---Rs450
4. subscription received in advance in Dec 2004---Rs270
5. subscription outstanding at Dec 2004--- Rs 750

Receipts and payment account for the year ended 31st Dec 2004

Particulars	Amount	Amount
To Subscription as per Income and Expenditure Account	7,500	
Add: Subscription outstanding for 2003	600	
Add: Subscription received for 2005	270	
	8,370	
Less: Subscription received in 2003	450	
	7,920	
Less: Subscription outstanding in 2004	750	
		7,170
		7,170

CONSIGNMENT (UNIT – IV)

CONTENTS

1. MEANING
2. ENTRIES IN THE BOOK OF CONSIGNOR AND CONSIGNEE
3. COST PRICE METHOD
4. INVOICE PRICE METHOD

Mrs.P.VASANTHA , GUEST LECTURER IN COMMERCE ,KNGAC,THANJAVUR

MEANING OF CONSIGNMENT

- **Consignment refers** to handing over of goods belonging to one person to another person without transferring ownership. People indulge in this while undertaking shipping or transport of goods.

- **Consignor or Principal:** This is the party that sends the goods. He is the actual owner of the goods.

- **Consignee or Agent:** This is the party that receives the goods. He does not own the goods but just keeps control over them. As the names suggest, the consignor and consignee have a principal-agent relationship between them. The consignor is principal for the consignee, who becomes his agent.

CONSIGNMENT

CONSIGNMENT is a business arrangement between a consignor (owner) and a third party (consignee) who sells the goods for a commission. For example, clothes, toys, musical instruments, antiques, automobiles, music, tools, etc.

FEATURES

- Possession of the goods transfers from one party to another.
- Consignor is responsible for all risks, expenses & damages also Profit/Loss
- Consignor sends Pro-forma Invoice while consignee sends Account Sales.

OBJECTIVES

- Increase sales; growth, expansion & development
- Sustainment in the market, capture the market
- Utilizing consignee's skill & expertise

WORKING

1. Forming an agreement & deciding terms & conditions
2. Consignor sends the goods on consignment to the consignee
3. Consignee will separate the goods suitable for sales
4. Consignee will sell goods & unsold goods will be returned back
5. Consignee can buy goods if it's mentioned in agreement.
6. Final Payment has to be done from both the sides.

ADVANTAGES

- Increased sales & margin, opportunities for growth of business.
- Lesser inventory holding costs for consignor.
- Skilled consignee can increase sales, thereby expanding the business.

LIMITATIONS

- Risk of goods getting damaged, hence at times are sold at less profit margin
- Consignee's negligence or disinterest may create a problem.
- High shipping charges for consignor, high holding costs for consignee.

Concept And **Types Of Commission In Consignment**

Commission

Commission of the consignee is calculated on **gross sale made** by the consignee. It is a reward to the consignee by the consignor for selling the goods of former. The rate of commission is **fixed** considering the prevailing market practices and with due **agreement between the consignor and consignee**. Sometimes goods consigned with insurance coverage may be damaged and the compensation is realized from the insurance company. The **compensation received** from the **insurance company** could be treated as sales but **no commission is allowed** to the consignee on such a realized compensation amount.

Types Of Commission

1.OrdinaryCommission

The commission charged by the consignee on the **gross sale proceeds** is known as ordinary or simple commission. It is calculated at fixed percentage of total sales.

2. Delcredere

This type of commission is an **additional commission** for a endeavor of magnifying **sales in the form of credit**. It is calculated at a certain predetermined rate of gross sales.

3. Special/Extra/Over-riding Commission

In normal practice, if a consignee sell the goods at the price higher than the **normal selling price,** he will entitled a commission for excess amount realized over the normal selling price.

Account sales:

It is a statement specifying the **price at which the goods are sold**, the **commission earned** by the consignee, the expenses incurred by the consignee on behalf of the **consignment** and the **net balance** for which the consignee is liable. It is prepared by the consignee .

AMITABH TRADERS
ACCOUNT SALES
100 cases of radios sold on behalf of Rahul & Co.

Date	Particulars		Rate	INR	INR
January 01	80 cases of radio		600	48,000	
January 15	20 cases of radio		550	11,000	59,000
	Less: Expenses and charges				
	Carriage	350			
	Custom	1,000			
	Insurance	650			
	Selling & marketing	250		2,250	
	Less: Commission @ 10%			5,900	8,150
					50,850
	Less: Amount sent by wire transfer				25,000
	Balance due				25,850

Signature: *Amitabh* Date: 31-01-2020

INVOICE GOODS AT HIGHER THAN THE COST

Under this method, goods are charged at the **cost + profit** and the pro-forma invoice also shows this higher price of such goods. To know the actual profit, at the end of an accounting period, consignment account will be credited with excess price so charged. Value of the stock will also be adjusted to the extent of profit element.

1. To **hide actual profit** from consignee.
2. **Valuation of a stock** at the consignor's **warehouse** is comparatively **easy** in this case.
3. Consignor usually **directs consignee** to sale goods on **invoice price only**. It prevents different sale price to different customers.

LOSS OF GOODS

Two types of losses :

Normal : Normal loss may occur due to **inherent characteristics** of goods like evaporation, drying up of goods, etc.

Value of closing stock = Total value of goods sent / Net quantity received by consignee × Unsold quantity

Net quantity received = Goods consigned quantity − Normal loss quantity (In units)

Abnormal Loss : An abnormal loss may occur due to **any accidental reason**. It is credited to the consignment account to **calculate actual profitability**.

PROFORMA INVOICE

This is a statement prepared by the **consignor of goods** showing quantity, quality, and **price** of the goods. Such **pro-forma invoice** is **issued by the consignor to consignee** regarding the goods before the sale actually takes place.

PROFORMA INVOICE
ROBERTS TEA AND COFFEE LLC (CONSIGNOR)

ST/GST No: 27AASCS1234F2Z5 Date: 01/01/2020
Phone No: +1-541-754-3010
Website: www.robertconsignors.com
Vehicle No: PZ65BYV
Consigned to: David & co (Consignee)

Quantity	Details	Rate	Amount
750 bags	Argo tea	$10	7,500
500 bags	Mighty leaf tea	$12	6,000
250 cart	Ethica coffee	$25	6,250
600 bags	Exotica coffee	$20	12,000

Sales Manager: David Write
David Wright

Non-recurring expenses of the consignor	*Non-recurring expenses of the consignee*
1. Packing	1. Unloading charges
2. Transport or carriage	2. Railway dues
3. Forwarding	3. Dock Dues
4. Dock dues	4. Import Duty or Customs Duty
5. Landing charges	5. Octroi
6. Freight	6. Carriage to godown/shop
7. Insurance	

Recurring expenses incurred by the consignor	*Recurring expenses incurred by the consignee*
1. Bank Charges	1. Godown Rent and Storage Charges
2. Expenses on Damaged goods	2. Insurance Charges
	3. Brokerage
	4. Advertising
	5. Salary to Salesmen
	6. Expenses on goods returned
	7. Expenses on goods damaged
	8. Commission on sales
	9. Establishment expenses

Formula and format for **Valuation of Closing stock or Unsold stock** on consignment

FOR COST PRICE

Cost of goods sent		XXX
Add: Consignor's expenses		
Freight	XXX	
Carriage	XXX	
Loading and unloading charges	XXX	
Insurance expenses	XXX	
Export and import duties	XXX	
Dock duties	XXX	XXX
Add: Consignee's expenses		
Cartage	XXX	
Landing charges	XXX	
Unloading charges	XXX	XXX
Total cost		XXX

Value of Unsold stock on consignment:

Cost of stock on consignment = (Total cost/Total number of units) × Units in stock

Alternatively, **the** Value of Unsold stock can also be computed as follows:

Cost price of unsold units		XXX
Add: Proportionate non-recurring expenses by		
Consignor	XXX	
Consignee	XXX	XXX
Cost of unsold stock		XXX

Debit and credit entries in a consignment account

The entries in the consignment account are made on the basis **of consignor's own record** as well as **account sales** sent by the consignee. The debit and credit entries are made as follows:

Debit entries

The common entries that appear on the debit side of a consignment account are listed below:

- Total cost of goods sent on consignment
- **All the expenses** incurred by **consignor** such as **loading, freight, insurance** etc.
- **All the expenses** paid by **consignee** such as **unloading, freight, godown rent, warehousing and storage**, marketing expenses, packaging and selling expense etc.
- **Bad debts** regarding consignment sales.
- Consignee's **ordinary** and del credere commission at agreed rate on sale proceeds.
- **Opening stock** of goods (if any)

Credit entries

The usual items that appear on the credit side **of a consignment account are listed below:**

- Gross sale proceeds
- **Closing stock** of goods (if any)
- **Abnormal loss** of goods
- **Stock in transit** (if any)

JOURNAL ENTRIES FORMAT

CONSIGNOR BOOK

1.FOR GOODS DESPATCH:
Consignment A/c Dr
T o Goods sent on consignment A/c

2. FOR **LOADING** OF GOODS(Invoice price over Cost price)
Goods sent on consignment A/c Dr
To Consignment A/c

3. FOR **EXPENSES PAID** BY **CONSIGNOR**:
Consignment A/c Dr
To Cash/Bank A/c (Paid)
To Creditors for expenses A/c (Not paid)

4. FOR **RECEIPT OF ADVANCE** FROM CONSIGNEE

Cash/Bills receivable A/c Dr
To Consignee A/c

5. FOR **SALE OF GOODS** BY CONSIGNEE **REPORT** IN A/C SALE

Consignee A/c Dr
To Consignment A/c

6. FOR EXPENSES PAID BY **CONSIGNEE**
Consignment A/c Dr
To Consignee A/c

CONSIGNEE BOOK

FOR GOODS RECEIVED:

FOR **ADVANCE TO CONSIGNOR**
Consignor A/c Dr
To Cash/Bank/Bills payable

FOR **EXPENSES PAID** BY **CONSIGNEE**
Consignor A/c Dr
To Cash/Bank (paid)
To creditors for expenses A/c (Not paid)

FOR **SALE OF GOODS**
Cash/Bank /Debtors A/c Dr
To Consignor A/c

FOR **AMOUNT RECEIVED** FROM **DEBTORS**
Cash/ Bank A/c Dr
To Debtors A/c

FOR **CASH DISOUNT/ALLOWANCES ALLOWED** BY **CONSIGNEE**
Consignor A/c Dr
To Debtors A/c

JOURNAL ENTRIES

CONSIGNOR BOOK

7.FOR COMMISSION PAYABLE TO CONSIGNEE
Consignment A/c Dr
To Consignee

8. FOR STOCK IN THE HANDS OF CONSIGNEE
1.Stock on consignment A/c Dr
To Consignment (Goods sent at **cost price**)

2.1.Stock on consignment A/c Dr
To Consignment (Goods sent at **invoice price**)

2.2 Consignment A/c Dr
To Consignment stock Reserve A/c(difference)

9. FOR **ABNORMAL LOSS DUE TO FIRE,ACCIDENT,THEFT**
Abnormal loss A/c Dr
To Consignment

10. FOR **CLAIM RECEIVED FROM** INSURANCE BY **CONIGNOR**
Cash A/c Dr
To Abnormal loss A/c

CONSIGNEE BOOK

FOR **BAD DEBTS ON CREDTIT SALE**
Bad debt A/c Dr (Delcredere commission received)
Consignor A/c Dr (Delcredere commission not received)
To Debtors

FOR **COMMISSION ON SALE**
Consignor A/c Dr
To Commission A/c
To Delcredere Commission A/c

FOR **CLOSING DELCREDERE COMMISSION** AND **COMMISSION**
Commission A/c Dr
Delcredere commission A/c
To Profit & Loss A/c

FOR **REMITTANCE OF FULL SETTLEEMENT** TO CONSIGNOR
Consignor A/c Dr
To Cash/Bank/Bills payable

JOURNAL ENTRIES

CONSIGNOR	CONSIGNEE
11. FOR **INSURANCE CLAIM** RECEIVED BY **CONSIGNEE** Consignee A/c Dr To Abnormal loss A/c	FOR **UNSOLD STOCK** IN THE HANDS OF **CONSIGNEE** -------------- (No entry)
12. FOR **IRRECOVERABLE ABNORMAL LOSS** Profit & Loss A/c Dr To Abnormal loss A/c	
13. FOR LOSS **DUE TO BAD DEBTS** WHEN **NO DELCRDERE COMMISSION** Consignment A/c Dr To Consignee A/c	
14. FOR **PROFIT ON CONSIGNMENT** Consignment A/c Dr To Profit & Loss A/c	
15. FOR **RECEIVING REMITTENCE** FROM **CONSIGNEE** Cash/Bank/Bills receivable A/c To Consignee A/c	

Consignment account - Format

Particulars	₹	Particulars	₹
To Goods sent on consignment	xxx	By Goods sent on consignment (returns)	xxx
To Bank – (consignor expenses)	xxx	By Consignee (cash sales)	xxx
To Consignee –(consignee expenses)	xxx	By Consignment Stock	xxx
To Consignee –(commission)	xxx	By Loss on Consignment transferred to General Profit and Loss	xxx
To Profit on Consignment transferred to General Profit and	xxx		

Other accounts - Format

Consignee a/c

Particulars	₹	Particulars	₹
To Consignment (with cash sales)	xxx	By Bank / Bills Receivable	xxx
		By Consignment (consignee expenses & commission)	xxx
		By Bank (settlement of balance)	xxx
	xxx		xxx

Goods sent on Consignment a/c

Particulars	₹	Particulars	₹
To Consignment (goods returned by consignee)	xxx	By Consignment (goods sent)	xxx
To Trading a/c / Purchase a/c			

LEDGER ACCOUNTS IN THE BOOK OF CONSIGNEE

CONSIGNOR A/C

PARTICULARS	AMOUNT (Rs.)	PARTICULARS (Rs.)	AMOUNT Rs)
To Cash/ Bank/ Bills payable A/c	XXX	By Cash/Debtors A/c	XXX
To Cash A/c (Expenses)	XXX		
To Commission A/c	XXX		
To Bank (Bal. fig)	XXX		
	XXX		XXX

COMMISSION A/C

PARTICULARS	AMOUNT (Rs.)	PARTICULARS	AMOUNT(Rs.)
To Debtors A/c	XXX	By Consignor A/c	XXX
To Profit & Loss A/c	XXX		
	XXX		XXX

DEBTORS A/C

PARTICULARS	AMOUNT (Rs.)	PARICULARS	AMOUNT (Rs.)
To Consignor A/c (Credit sales)	XXX	By Bank A/c	XXX
		By Commission A/c	XXX
	XXX		XXX

GOODS SENT ON CONSIGNMENT AT COST PRICE

SUM : Jain of Delhi consigned 300 tins of coconut oil to Narang of Chandigarh, invoiced at Rs. 200 per tin . Jain paid Rs.2,000 as carriage and other expenses. The consignor drew a bill of exchange for Rs. 16,000 which was later discounted at Rs.15,700. The consignee rendered an account sales showing the following details.

200 tins sold at Rs.250 per tin
20 tins sold at Rs.260 per tin
storage and selling expenses Rs.5,000
Clearing and cartage Rs.1,600
Commission at 6% on sales
The consignee sent a sight draft or the balance.

Show the entries and important ledger account in the books o both the parties

JOUNAL ENTRIES

BOOKS OF JAIN(CONSIGNOR)

PARTICULARS	DEBIT (Rs.)	CREDIT (Rs.)
Consignment A/c Dr To Goods sent on consignment (Being goods sent Rs.60,000)	60,000	60,000
Consignment A/c Dr To Cash A/c (Being expenses paid)	2,000	2,000
Bills receivable A/c Dr To Narang A/c (Being bills received)	16,000	16,000
Bank A/c Dr Consignment A/c Dr To Bills receivable (Being bills discounted)	15,700 300	16,000
Narang A/c Dr To Consignment A/c (Being Sales proceeds)	75,200	75,200

BOOKS OF NARANG (CONSIGNEE)

PARTICULARS	DEBIT (Rs.)	CREDIT (Rs)
Jain A/c Dr To Bills payable (Being Bills payable to Jain)	16,000	16,000
Jain A/c Dr To Bank A/c (Being expenses paid)	6,600	6,600
Cash A/c Dr To Jain A/c (Being sale proceeds received)	75,200	75,200
Jain A/c Dr To Commission A/c (Being commission receivable 75,200*6/100)	4,512	4,512
Jain A/c Dr To Bank A/c (Being Final settlement to Jain)	48,088	48,088

JOUNAL ENTRIES IN THE BOOK OF JAIN (CONSIGNOR)

PARTICULARS	DEBIT (Rs)	CREDIT (Rs)
Consignment A/c Dr To Narang A/c (Being expenses paid by consignee)	6,600	6,600
Consignment A/c Dr To Narang A/c (Being commission payable)	4,512	4,512
Consignment A/c Dr To Profit and Loss A/c (Being profit on consignment)	1,788	1,788
Bank A/c Dr To Narang A/c (Amount payable to Jain)	48,088	48,088
Goods sent to consignment A/c Dr To Purchase A/c (Being balance Transfer to Purchase A/c)	60,000	60,000

ACCOUNT SALES

PARICULARS	AMOUNT(Rs.)
280 x 250 (Cash)	70,000
20 x 260 (Cash)	5,200
TOTAL SALES	**75,200**
(-) Expense of Narang (5,000+1,600)	6,600
Amount paid after Expense	**68,600**
(-) Commission (6/100 x 75,200)	**4,512**
Amount paid after Commission	**64,088**
(-) Advance Bills payment	**16,000**
FINAL SETTLEMENT	**48,088**

LEDGER A/C

BOOKS OF JAIN(CONSIGNOR)

CONSIGNMENT A/c

PARTICULARS	Rs.	PARICULARS	Rs.
To Goods sent on consignment A/c	60,000	By Narang(Sale)	75,200
To Bank(Jain Expense)	2,000		
To Bills receivable (Discount)	300		
To Narang (Expense)	6,600		
To Narang (Commission)	4,512		
To **Profit & Loss A/c**	**1,788**		
	75,200		**75,200**

BOOKS OF NARANG (CONSIGNEE)

JAIN A/c

PARTICULARS	Rs.	PARTICULARS	Rs.
To Bills payable A/c	16,000	By Cash A/c	75,200
To Cash A/c	6,600		
To Commission A/c	4,512		
To **Bank A/c(Balance)**	48,088		48,088
	75,200		**75,200**

COMMISSION A/c

TO PARTICULARS	Rs.	PARTICULARS	Rs
To **Profit & Loss A/c**	**4,512**	By Jain A/c	4,512
	4,512		**4,512**

LEDGER A/C IN THE BOOKS OF JAIN(CONSIGNOR)

NARANG A/C

PARTICULARS	Rs.	PARTICULARS	Rs.
To Consignment A/c	75,200	By Bills receivable A/c	16,000
		By Consignment A/c (Expenses)	4,600
		By Consignment A/c (Commission)	4,512
		By Bank (Bal .Fig)	**48,088**
	75,200		**75,200**

GOODS SENT ON CONSIGNMENT A/C

PARTICULARS	Rs.	PARTICULARS	Rs.
To **Purchase A/c**	60,000	By Consignment A/c	60,000
	60,000		**60,000**

SUM: Balan of Bangalore consigned 190 bags of sugar to Raghu of Chennai, invoicing goods at Rs. 180 per bag. Balan paid Rs.1,200 as cartage an other expenses. The consignor drew a bill of exchange for Rs.12,000 which was later accounted at Rs. 11,800. The consignee rendered an account sales showing the details:

100 bags sold at Rs.240 each on credit
90 bags sold at Rs. 230 each or cash
Freight & Carriage Rs.2,000
Transit insurance Rs.600
Storage & Insurance Rs.1,000
Commission at 5%

The consignee sent a sight drat for the amount due. You are required to prepare ledger accounts in the books of both the parties assuming that the consignee incurred a bad debt of Rs.400.

ACCOUNT SALES

PARTICULARS	AMOUNT(Rs)
100 bags x 240 (Cash Sales) 90 bags x 230 (Credit sales)	24,000 20,700
TOTAL SALE (-) Expense of Raghu	**44,700** 3,600
Amount payable after expense (-) Commission (5/100 x 44,700)	**41 ,100** 2,235
Amount payable after commission (-) Bad debts	**38,865** 400
(-) Advance amount paid (Bills)	**38,465** 12,000
FINAL SETTLEMENT	**26,465**

Mrs.P.VASANTHA , GUEST LECTURER IN COMMERCE ,KNGAC,THANJAVUR

LEDGER A/C

BOOKS OF BALAN(CONSIGNOR)

CONSIGNMENT A/C

PARTICULARS	Rs	PARTICULARS	Rs
To goods sent on consignment A/c	34,200	To Raghu(Sales)	44,700
To Bank (Expenses)	1,200		
To Bills receivable	200		
To Raghu (Expenses)	3,600		
To Raghu(Com)	2,250		
To Raghu(Bad debts)	400		
To **Profit & Loss A/c**	**2,850**		
	44,700		**44,700**

RAGHU A/C

PARTICULARS	Rs	PARTICULARS	Rs
To Consignment	44,700	By Bills receivable	12,000
		By Consignment (3600+2235+400)	6,235
		By **Bank (Final pay)**	**26,565**
	44,700		**44,700**

BOOKS OF RAGHU(CONSIGNEE)

BALAN A/C

PARTICULARS	Rs	PARTICULARS	Rs
To Bills payable A/c	12,000	By Bank	24,000
To Bank(Expense)	3,600	By Debtors	20,700
To Commission	2,235		
To Debtors(Bad debt)	400		
To **Bank(Final pay)**	**26,465**		
	44,700		**44,700**

COMMISSION A/C

PARTICULARS	Rs	PARTICULARS	Rs
To **Profit & Loss A/c**	**2,235**	By Balan A/c	2,235
	2,235		**2,235**

DEBTORS A/C

PARTICULARS	Rs	PARTICULARS	Rs
To Balan A/c(Sales)	20,700	By Balan A/c(Bad)	400
		By Bank (Received)	**20,300**
	20,700		**20,700**

VALUATION OF UNSOLD STOCK / CLOSING STOCK

SUM : Prem consigned 200 boxes o Medicines @Rs.100 per Box to Ram. He incurred the following expenses:

Insurance Rs.1,000
Loading charges Rs..1,600
Freight Rs. 1,400

An account sales was received from Ram which showed that 160 boxes were sold @Rs.200 per box… Ram incurred the following expenses:

Clearing charges Rs.1,000
Goown rent Rs.400
Advertisement Rs.600
Other selling expenses Rs.1,000

Ascertain the value of stock on consignment and show also the relevant entry.

PARTICULARS	Rs
Unsold stock = (200 - 160 = 40 Boxes) = 40 x 100 = 4000	4,000
(+) Expenses of Prem: (Non –Recurring nature) Insurance - 1000 Loading charges - 1600 Fright - 1400 4000	
(+) Expense of Ram: (Non – Recurring nature) Clearing charges - 1000 1000	
TOTAL 5000 (+) Proportion- Expenses(5000 /200X 40)	1000
VALUE OF UNSOLD STOCK	5000

JOURNAL ENTRY :

Stock on consignment A/c Dr 5000
To Consignment A/c 5000
(Being Unsold stock valued at cost price)

Mrs.P.VASANTHA , GUEST LECTURER IN COMMERCE ,KNGAC,THANJAVUR

SUM : Arun sent 10,000 liters of sunflower oil to Suresh for sale @ Rs.56,each for which, Arun spent Rs..7,000 for wages and Rs.7,000 for insurance. Suresh spent Rs.. 2,000 as selling expenses.. He receives commission @ 5% on sales . 1,500 liters of oil lost in transit.. Insurance company admitted or the claim Rs.64,000.. Suresh sold 7,000 liters of oil @Rs.67 each litre.

Consignee was allowed to assume 600 liters as normal loss. Calculate the value of abnormal loss to be charged to profit and loss account and the value of closing stock

VALUATION OF CLOSING STOCK/UNSOLD STOCK

Particulars	Amount (Rs.)
Goods sent by Arun - 10,000 (-) Abnormal Loss - **1,500**	
Goods received by Suresh - 8,500	
(-) Normal loss - 600	
(-) Goods for Sales - 7,900	
(-) Goods sold - 7,000	
TOTAL **UNSOLD STOCK** - 900	
UNSOLD STOCK (900 x Rs. 56)	**50,400**
(+) Expense of Arun : **(Non – recurring**) (Wages 7,000 + Insurance 7,000) (14,000 X **900**/ 7,900)	**1,595**
VALUE OF UNSOLD STOCK	**51,995**

VALUATION OF ABNORMAL LOSS

Particulars	Amount (Rs.)
Abnormal loss (1,500 x Rs.56)	84,000
(+) **Proportionate Expense** of **Arun Only** Wages - 7,000 Insurance - 7,000 (14,000 x 1,500 / 10,000)	2,100
ABNORMAL LOSS	**86,100**

ABNORMAL LOSS CHARGED TO PROFIT AND LOSS A/C

Abnormal loss - 86,100
(-) Claim from Insurance company - 64,000
Amount transfer to P/L A/c - 22,100

SUM : Ramesh consigneed 2,000mt.of chemicals at a cost of Rs. 800 per mt. to Jain . Ramesh paid freight and insurance charges of Rs.20,000. Of the above , 500 mt. of chemicals were destroyed by fire during transit. John cleared the balance of Rs.1,500 mt. of chemicals and sold 1,000 mt. at an average price of Rs, 1,000 per mt. John incurred the following expenses: Godown rent Rs.5,000; Insurance Rs3,000; clearing charges Rs.4,500. Insurance claim received against fire Rs.4,00,000 after admitting the salvage value of stock destroyed by fire at Rs.10,000. John was entitled to a commission of 10% on sale proceeds. John sends the balance to Ramesh after adjusting his commission and expenses out of the sale proceeds. Prepare a consignment A/c in the books of Ramesh

ABNORMAL LOSS QUANTITY

PARTICULARS	QUANTITY
Goods sent by Ramesh	2,000
(-) Abnormal loss	500
Goods received by John	1,500
(-) Goods sold by John	1,000
UNSOLD STOCK	**500**

CALCULATION OF ABNORMAL LOSS

PARTICULARS	AMOUNT (RS.)
Abnormal loss (**500** x Rs. 800)	4,00,000
(-) Proportionate Expenses of **Ramesh only** **(20,000 x 500/2000)**	5,000
ABNORMAL LOSS	**4,05,000**
(-) Salvage value	10,000
TOTAL VALUE OF ABMORMAL LOSS	**3,95,000**

CALCULATION OF UNSOLD SOLD

PARTICULARS	ANOUNT(Rs)
Unsold stock (500 x Rs.800)	4,00,000
(+) Proportionate Expenses of Ramesh (20,000 x 500 / 2,000)	5,000
	4,05,000
(+) Proportionate Expenses of John (4,500 x 500 /1,500)	1,500
	4,06,500
(+) Salvage value	10,000
TOTAL VALUE OF UNSOLD STOCK	**4,16,500**

ACCOUNT SALE

PARTICULARS	AMOUNT (Rs)
Total sales (1,000 x 1,000) (-) Expense of John	10,00,000 12,500
(-) Commission (10/100 x10,00,000)	**9,97,500** 1,00,000
FINAL SETTLEMENT	**8,87,500**

LEDGER A/C IN THE BOOKS OF RAMESH

CONSIGNMENT A/C

PARTICULARS	Rs	PARTICULARS	Rs
To Goods sent on Consignment A/c	16,00,000	By Abnormal Loss A/c	3,95,000
To Bank(A/c (Ramesh)	20,000	By John A/c (Sale)	10,00,000
To John (Exp)	12,500		
To John 10*10,00,000)	1,00,000	By Stock on consignment	4,16,500
To **Profit & Loss**	**79,000**		
	18,11,500		**18,11,500**

JOHN A/C

PARTICULARS	Rs	PARTICULARS	Rs
To Consignment	10,00,000	To Consignment	12,500
		To Consignment	1,00,000
		To **Bank(Balance)**	**8,87,500**
	10,00,000		**10,00,000**

SUM : Sankar sends 20,000 units @ Rs.50 to Sunil on 1-1-99 to be sold at a commission of 7.5%. 5% goods were lost in transit and it is considered normal. The consignor spent the following expenses.

Packing expenses @ Rs. 2 per case(Cash)
Freight Rs.10,000 (Due)
Insurance Rs.6,000(Bank)

The consignee received the balance consignment and sent a cheque of Rs.2,00,000 as advance. He incurred Rs.8,000 as unloading charges and Rs.36,000 as selling distribution expenses. He submitted an account current sales on 31-3-99 disclosing that 14,000 units were sold @ Rs.80 per unit. Assuming the consignee sent draft for balance . You are required to prepare, the necessary ledger accounts in the books of both the parties.

CALCULATION OF UNSOLD QUANTITY

PARTICULARS	QUANTITY
Goods **sent** by Sankar	**2,0000** @ Rs.50
5% **Loss in transit**(Normal loss) (2,000 x 5/100)	1,000
Goods **received** by Sunil	**19,000**
(-) Goods **sold** by Sunil	14,000 @Rs.80
GOODS UNSOLD IN THE HANDS OF SUNIL	**5,000**

PARTICULARS VALUATION OF UNSOLD STOCK	AMOUNT(Rs.)
Total value of **goods sent** (20,000 xRs.50)	**10,00,000**
(+) Expenses of **Sankar** (Non –Recurring) Packing charges(20,000 x 2) -40,000 Freight -10,000 Insurance - 6,000	56,000
(+) Expenses of Sunil (Non – Recurring) Unloading charges -	8,000
Value of goods sent	**10,64,000**
Value of Unsold(10,64,000/19,000 x 5000)	**2,80,000**

LEDGER A/C IN THE BOOK OF SANKAR(CONSIGNOR)

CONSIGNMENT A/C

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Goods sent on consignment A/c	10,00,000	By Sunil A/c(Sales)	11,20,000
To Cash A/c(20000 x 2)	40,000	By Stock on consignment A/c	2,80,000
To Bank A/c(Insurance)	6,000		
To freight A/c	10,000		
To Sunil /c(Expenses)	44,000		
To Sunil A/c(Com)	84,000		
To **Profit & Loss A/c**	2,16,000		
	14,00,000		14,00,000

SUNIL A/C

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Consignment	11,20,000	By Bank A/C	2,00,000
		By Consignment	44,000
		By Consignment	84,000
		By **Bank(Balance)**	7,92,000
	11,20,000		11,20,000

GOODS SENT ON CONSIGNMENT A/C

PARTICUARS	Rs	PARTICULARS	Rs
To **Trading A/c**	10,00,000	By Consignment A/c	10,00,000
	10,00,000		10,00,000

PARTICULARS ACCOUNT SALE	AMOUNT
Goods sold (14,000 x Rs.80)	11,20,000
(-) Expense of Sunil : Unloading charges - 8,000 Selling and Distribution - 36,000	44,000
(-) Commission (11,20,000 x7.5/100)	**84,000**
Amount to be sent	9,92,000
(-) Advance payment	2,00,000
FINAL SETTLEMENT TO SANKAR	7,92,000

LEDGER A/C IN THE BOOKS OFSUNIL (CONSIGNEE)

SANKAR A/C

PARTICULARS	Rs	PARTICULARS	Rs
To Bank A/c(Advance)	2,00,000	BY Bank A/c(Sales)	11,20,000
To Bank A/c(Expense)	44,000		
To Commission	84,000		
To **Bank(Balance)**	**7,92,000**		
	11,20,000		**11,20,000**

COMMISSION A/C

PARTICULARS	Rs	PARTICULARS	Rs
To **Profit & Loss A/c**	**84,000**	By Sankar A/c	84,000
	84,000		84,000

SUM : Malan of Madurai forwarded on 1-6-99 , 100 Mopeds to Paul of Kolkatta to be sold on his behalf . The cost of one Moped was Rs. 1,600 but the invoice price was Rs.2,000. Malan incurred Rs. 20,000 on insurance and freight. The consignment was received by Paul on 10-6-99 . He also send a bank draft for Rs.1,50,000 as advance against the consignment.

Paul also incurred Rs.1,200 on godown rent and Rs. 2,800 on advertisement . On 10-8-99 , Paul sent an account sales stating that he had sold 90 Mopeds at a price of Rs.2,150 each. He is also entitled to a commission of 5% on gross sales.

You are required to show journal entries and ledger accounts in the books of Malan and Paul, assuming that the balance due by Paul is sent by bank draft on 31-8-99.

JOURNAL ENTRIES IN THE BOOK MALAN

PARTICULARS	DEBIT(Rs.)	CREDIT(Rs.)
FOR **GOODS SEND** Consignment A/c Dr To Goods send on consignment A/c (Being goods send on consignment)	2,00,000	2,00,000
FOR THE **EXPENSES OF MALAN** Consignment A/c Dr To Bank A/c (Being expense paid by Malan)	20,000	20,000
FOR **ADVANCE RECEIVED** Bank A/c Dr To Paul A/c (Being Advanced receive by Malan)	1,50,000	1,50,000
FOR **ACCOUNT SALE RECEIVABLE** Paul A/c Dr To Consignment A/c (Being account sale receivable)	1,93,500	1,93,500
FOR **EXPENSES OF PAUL** Consignment A/c Dr To Paul A/c (Being expenses of Paul)	4,000	4,000

JOURNAL ENTRIES IN THE BOOK PAUL

PARTICULARS	DEBIT(Rs)	CREDIT(Rs)
FOR **ADVANCE PAID** Malan A/c Dr To Bank A/c (Being advance paid)	1 ,50,000	1,50,000
FOR **SALE** Bank A/c Dr To Malan A/c (Being goods sold)	1,93,5000	1,93,500
FOR **EXPENSES OF PAUL** Malan A/c Dr To Bank Ac (Being expense paid)	4,000	4,000
FOR **COMMISSION RECEIVABLE** Malan A/c Dr To Commission A/c (Being commission receivable) 1,93,500 x 5/100)	9,675	9,675
FOR **FINAL SETTLEMENT** Malan A/c Dr To Bank A/c (Being final payment)	29,825	29,825

JOURNAL ENTRIES IN THE BOOK MALAN

PARTICULAR	DEBIT (Rs)	CREDIT(Rs)
FOR **COMMISSION PAYABLE** Consignment A/c Dr To Paul Ac (Being commission payable)	9,675	9,675
FOR **UNSOLD STOCK** Stock in consignment A/c Dr To Consignment A/c (Being unsold stock in the hand of Paul)	22,000	22,000
FOR **LOADING ON GOODS SENT** Goods sent on consignment A/c Dr To Consignment A/c (Being loading in unsold stock	4,000	4,000
FOR **LOADING ON UNOLD STOCK** Consignment A/c Dr To Consignment stock reserve A/c (Being loading in unsold stock)	4,000	4,000
FOR **PROFIT ON CONSIGNMENT** Consignment A/c Dr To Profit & Loss A/c (Being profit on consignment A/c	17,825	17,825

GOODS **SENT FOR SALE** - **100** X Rs. 2,000 = **Rs.2,00,000**

GOODS **SOLD** - **90** X Rs. 2,150 = **Rs. 1,93,500**

GOODS **UNSOLD** - **10 X Rs.**2,000 = **Rs.20,000**

VALUATION OF UNSOLD STOCK

PARTICULARS	AMOUNT(Rs)
Goods **unsold**	20,000
(+) **Proportionate** expenses of **Malan** (20,000 /100 x10	2,000
Value of unsold stock	22,000

ACCOUNT SALE

PARTICULARS	AMOUNT(Rs)
Goods **sold**	**1,93,500**
(-) Expenses of Paul Godown rent - 1,200 Advertisement - 2,800	4,000
AMOUNT PAYABLE	**1,89,500**
(-) Commission	9,675
	1,79,825
(-) Advance amount paid	1,50,000
FINAL SETTLEMENT	29,825

Mrs.P.VASANTHA , GUEST LECTURER IN COMMERCE ,KNGAC,THANJAVUR

LEDGER A/C IN THE BOOK OF MALAN

CONSIGNMENT A/C

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
1-6-99	To Goods sent on consignment A/c	2,00,000	10-8-99	By Paul A/c (Sales)	1,93,500
	To Bank (Expenses)	20,000		By Stock on consignment A/c	22,000
10-8-99	To Paul A/c (Expenses)	4,000		By Goods sent on consignment(Loading)	40,000
	To Paul A/c(Commission)	9,675			
	To Consignment stock reserve(loading)	4,000			
	To **Profit and Loss A/c**	**17,825**			
		2,55,500			**2,55,500**

PAUL A/C

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
10-8-99	To Consignment A/c (Sales)	1,93,500	10-8-99	By Consignment A/c (Expenses)	4,000
				By Consignment A/c (Commission)	9,675
			10-6-99	By Bank (Advance)	1,50,000
				By **Bank (Balance)**	**29,825**
		1,93,500			**1,93,500**

LEDGER A/C IN THE BOOK OF MALAN

GOODS SENT ON CONSIGNMENT A/C

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
10-8-99	To Consignment A/c	40,000	1-6-99	By Consignment A/c	2,00,000
	To Purchase A/c (Transfer)	**1,60,000**			
		2,00,000			**2,00,000**

STOCK ON CONSIGNMENT A/C

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
10-8-99	To Consignment A/c	22,000		**By Balance c/d**	**22,000**
		22,000			**22,000**

CONSIGNMENT STOCK RESERVE A/C

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
10-8-99	**To Balance c/d**	**4,000**	10-8-99	By Consignment (Load)	4,000
		4,000			**4,000**

LEDGER A/C IN THE BOOK OF PAUL

MALAN A/C

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
10-8-99	To Bank A/c (Expenses)	4,000	10-8-99	By Bank A/c (Sales)	1,93,500
	To Commission A/c	9,675			
	To Bank (Advance)	1,50,000			
	To Bank A/c (Balance)	**29,825**			
		1,93,500			**1,93,500**

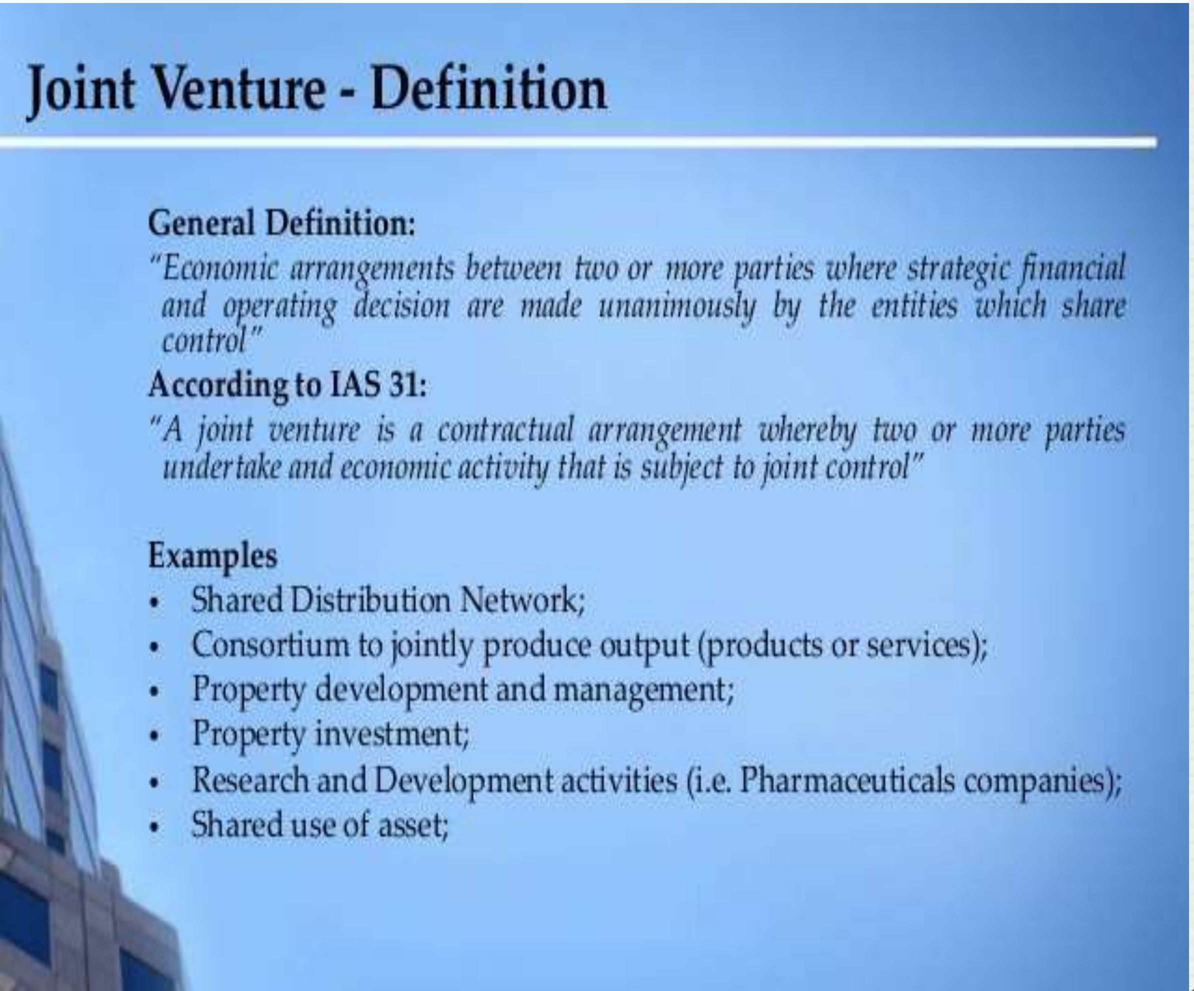
COMMISSION A/C

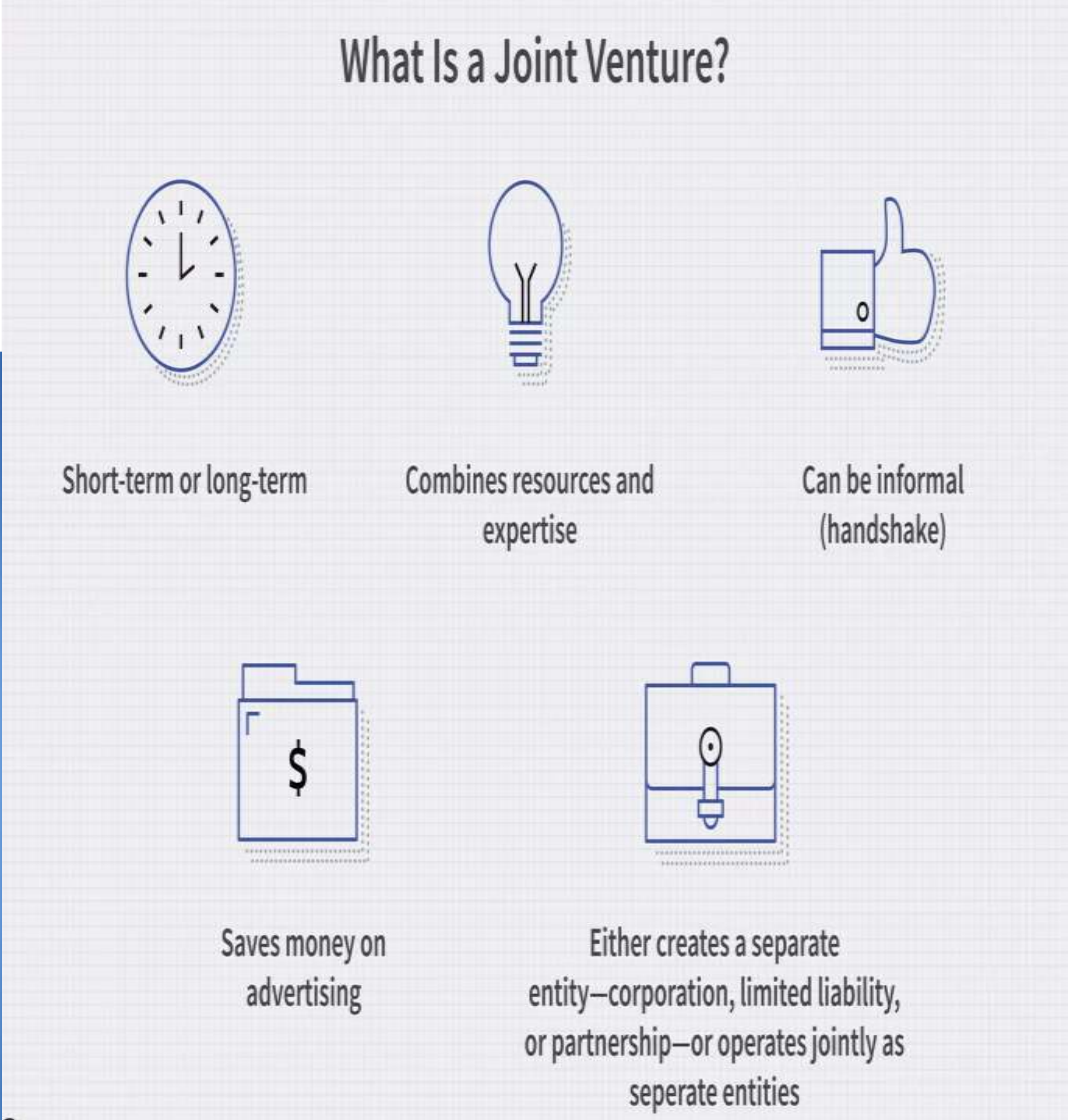
DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
	To Profit & Loss A/c	9,675	10-8-99	**By Malan A/c**	**9,675**
		9,675			**9,675**

UNIT –IV
JOINT VENTURE

MEANING

A joint venture is a **contractual business undertaking between two or more parties.** It is similar to a business partnership, with one key difference: a partnership generally involves an ongoing, long-term business relationship, whereas a joint venture is based on a single business transaction.





FEATURES OF JOINT VENTURE

1. Specific Purposes

Parties create joint ventures keeping **pre-determined purposes in mind**. They generally state this purpose **clearly in their agreement.**

2. Agreement

The parties to a joint venture, i.e. the co-venturers, generally execute a **written agreement between them**. This agreement states details like their **obligations, profit/loss sharing ratios, their rights and liabilities, etc.**

3. Specific Duration

Since all joint ventures are created for a **specific purpose**, they generally come to an **end once that purpose is fulfilled.** The parties can, however, continue working together as well if they mutually agree to do so.

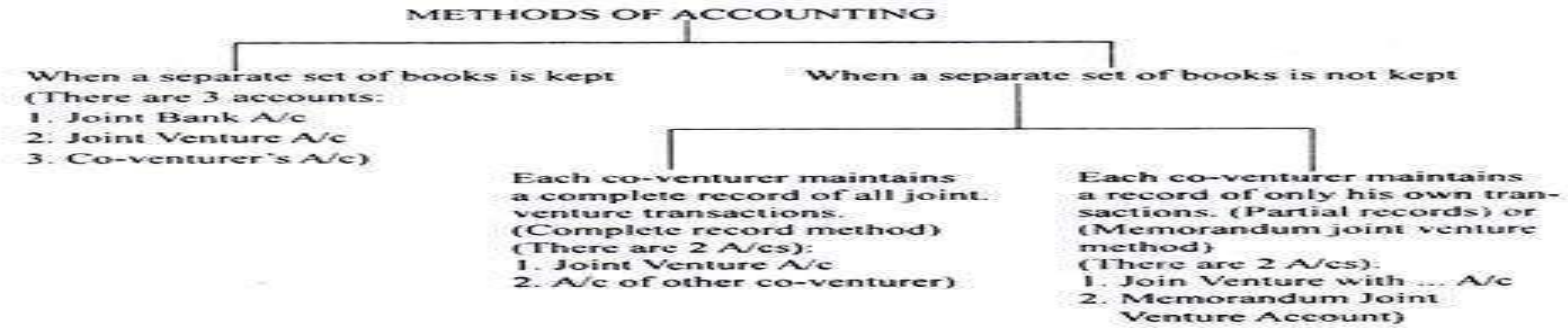
4. Structure of the Venture

Parties can create a joint venture by exercising control on any of the following aspects:

- Assets,
- Operations, or
- Entity itself.

5. Profit Sharing

The parties always agree on the ratio in which they will share their profits and losses. If there is no agreement to this effect, they have to share profits equally or according to the contribution they made during their admission into the joint venture.



Accounting Methods

(I) Joint venture Account

(II) Joint bank Account

(III) Co-venturer's Account

(I) Joint Venture Account:

This account represents the results of the business, that is, profit or loss. It is like a **Trading/Profit & Loss Account** of a trading concern. This account **is debited** by the **cost of goods, expenses; goods supplied by the venturers etc. and are credited by sale proceeds, unsold stock, stock taken by venturers** etc. The profit or loss so made is transferred to co-venturer's account.

(II) Joint Bank Account:

It is like an ordinary **Cash Book or Bank Account.** All incomes including the capital contribution by the ventures appear on the **debit side** of this account whereas **all expenses** of the venture appear on the **credit side** of this account. It is finally closed by payment to the co-venturers, leaving no balance either side.

(III) Co-Venturer's Account:

This is the **capital account** of the venturer relating to venture. This account is **credited** by the capital contributed by the venturers, **goods supplied** by them from their own stock, **expenses made** personally by them etc. whereas this account is **debited** for any **withdrawals or any asset taken** from the venture

JOURNAL ENTRIES (WHEN SEPARATE SET OF BOOKS ARE MAINTAINED)

PARTICULARS	DEBIT	CREDIT
FOR **CASH CONTRIBUTION**		
Joint Bank A/c Dr	XXX	
To Respective Co-Venturers A/c		XXX
FOR **PURCHASE OF GOODS**		
Joint Venture A/c Dr	XXX	
To Joint Bank A/c (Cash)		XXX
To Creditors A/c(Credit)		XXX
To Respective Co-Venturers A/c		XXX
FOR **EXPENSES INCURRED**		
Joint venture A/c Dr	XXX	
To Joint Bank A/c		XXX
To Respective Co-Venturers		XXX
FOR **SALE OF GOODS**		
Joint Bank A/c (Cash) Dr	XXX	
Debtors A/c (Credit) Dr	XXX	
Respective Co-venturers A/c Dr	XXX	
To Joint venture A/c		XXXX
FOR **PAYMENT TO CREDITORS**		
Creditors A/c Dr	XXX	
To Joint Bank A/c (Payment)		XXX
To Joint Venture A/c		XXX

PARTICULARS	DEBIT	CREDIT
FOR **RECEIVED FROM DEBTORS**		
Joint Bank A/c Dr	XXX	
Joint venture A/c Dr	XXX	
To Debtors A/c		XXX
FOR **MUTUAL ACCEPATANCE OF BILL**		
Bills receivable A/c Dr	XXX	
To Respective Co-Venturers A/c		XXX
FOR **DISCOUNTING THE BILLS**		
Joint Bank A/c (Cash received) Dr	XXX	
Joint Venture A/c (Discount) Dr	XXX	
To Bills receivable A/c		XXX
FOR **CO-VENTURERS GOODS TAKEN**		
Respective Co-venturers A/c Dr	XXX	
To Joint venturer A/c		XXX
FOR PROFIT		
Joint venturer A/c Dr	XXX	
To Each joint venturer's A/c		XXX
FOR **SETTLEMENT OF ACCOUNTS**		
Each joint venturer's A/c Dr	XXX	
To joint bank A/c		XXX

LEDGER ACCOUNT (FORMAT)

JOINT VENTURE A/C

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Joint Bank (Goods Purchased)	XXX	By Joint Bank A/c (Sales)	XXX
To Joint Bank (Expenses)	XXX	By Respective Co-Venturers Capital A/c (Unsold)	XXX
To Respective Co-Venturers A/c (Exp & Material)	XXX		
To **Joint venturer's A/c (Profit)**	XXX		
	XXX		XXX

JOINT VENTURERS CAPITAL A/C

To Joint venture A/c (Unsold stock taken)	**XXX**	**By Joint Bank A/c (Capital)**	**XXX**
To **Joint Bank A/c (Final settlement)**	XXX	By Joint venture A/c (Exp & Material)	XXX
		By Joint venture A/c (Profit)	XXX
	XXX		XXX

JOINT BANK A/C

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Joint venture A/c (Sales)	XXX	By Joint venture A/c (Goods purchased))	XXX
To Joint Bank A/c (Capital)	XXX	By Joint venture A/c (Expenses)	XXX
	XXX	By Joint venturers A/c (Final settlement)	XXX
	XXX		XXX

SUM : S and P entered into joint venture and agreed to divide the profits as to S 60% and P 40%. Sand P contributed Rs.1,80,000 and Rs.1,20,000 respectively for carrying on transactions relating to the venture. They opened a joint bank account with the above contributions. They purchased three old state buses for Rs.2,40,000. S and P personally paid Rs.45,000 and Rs.30,000 respectively for repairs and renewals. They purchased a few tyres and tubes costing Rs.54,000.Two buses were sold for Rs.2,70,000 and third one was taken by P at cost price. Pass necessary journal entries and prepare joint venture account, Joint bank account and close the accounts of venture.

IN THE BOOK OF JOINT VENTURE

PARTICULARS	Rs	RS
FOR **CASH CONTRIBUTION** Joint Bank A/c Dr To S A/c To P A/c (Being cash contribution by Co-venturers)	 3,00,000	 1,80,000 1,20,000
FOR **PURCHASE** OF THREE OLD STATE BUS Joint venture A/c To Joint Bank A/c (Being assets purchased for the venture)	 2,40,000	 2,40,000
FOR **EXPENSES** BY CO-VENTURERS) Joint venture A/c Dr To A A/c To B A/c (Being expenses paid by the Co-venturers)	 75,000	 45,000 30,000

PARTICULARS	Rs	Rs
FOR **PURCHASE** OF TYRES & TUBES Joint Venture A/c Dr To Joint Bank A/c (Being purchase of tyres and tubes)	 54,000	 54,000
FOR TWO BUSES **SOLD** Joint Bank A/c Dr To Joint venture A/c (Being Two buses sold)	 2,70,000	 2,70,000
FOR **UNSOLD** ONE BUS TAKEN P A/c Dr To joint venture A/c (Being assets taken over by A)	 1.23,000	 1,23,000

LEDGER ACCOUNTS IN THE BOOK OF JOINT VENTURE

JOINT VENTURE ACCOUNT

PARTICULARS	Rs	PARTICULARS	Rs
To Joint Bank A/c	2,40,000	By Joint Bank A/c	2,70,000
To S A/c	45,000	By P A/c (Asset taken)	1,23,000
To P A/c	30,000		
To Joint Bank A/c	54,000		
To A Profit -14,400			
To B Profit - 9,600	24,000		
	3,93,000		3,93,000

JOINT BANK ACCOUNT

PARTICULARS	Rs	PARICULARS	Rs
To Joint venture	2,70,000	To Joint venture	2,40,000
To S A/c	1,80,000	To Joint venture	54,000
To P A/c	1,20,000	To S A/c	2,39,400
		To P A/c	36,600
	5,70,000		5,70,000

RESPECTIVE CO-VENTURERS ACCOUNT

PARICULARS	S	P	PARTICULARS	S	P
To Joint venture A/c	-	1,23,000	To Joint Bank A/c (Capital)	1,80,000	1,20,000
To Joint Bank A/c (Transfer to Joint Bank)	2,39,400	36,600	To Joint venture A/c	45.000	30.000
			To Joint venture A/c	14,400	9,600
	2,39,400	1,59,600		2,39,400	1,59,600

P -ASSESTS TAKEN OVER

PARTICULARS	Rs
3 BUSES (.2.40.000/3)	80,000
TYRES & TUBES (54,000/3)	8,000
REPAIRS AND RENEWALS(75,000/3)	25,000
TOTAL	1,23,000

SUM :

Das and Krishnan entered into joint venture sharing profits and losses as 3:2, they opened a bank A/c by depositing Rs.40,000 each.

Das purchased 800 kg. of an item @ Rs.60 per kg and his expenses were Rs.13,000. Krishna purchased a second item of Rs.10,000 kg @ Rs.2.10 per kg and his expenses were Rs.11,000.Expenses were met from private sources and purchases were paid from private bank account.

Krishna sold 600 kg of the first item @ Rs.100 per kg and his selling expenses were Rs.5,500. Das sold 8,000 kg of the second item @ Rs. 5 per kg and selling expenses were Rs.6,000. All the sale proceeds were deposited in Bank account and Expenses were met from private sources .

Write up necessary accounts in the books of the venture . Also prepare Balance sheet of the venture.

CALCULATION OF UNSOLD STOCK

PARTICULARS	Rs
Cash contribution : (Each 40,000) Das - 40,000 Krishnan - 40,000	**80,000**
Das : (I item) Kg x Per Kg - Rs **Purchases** - **800** x 60 = 48,000 Expense - = 13,000	**61,000**
Krishnan(I item) **Purchase** - **10,000** x 2.10 =21,000 Expenses - =11,000	**32,000**

Krishna:(I item) Kg x Per Kg - Rs **Sales** - **600** x 100 = 60,000 Expense - = 5,500	**65,500**
Das: (II item) **Sales** - **8,000** x 5 =40,000 Expenses - = 6,000	**46,000**
UNSOLD STOCK: **Purchase - sale = Unsold** **I item** : (800 - 600 = 200) (61,000/800 x200) = **15,250** **II item** : (10,000 - 8,000=2000) (32,000/10,000 x 2000) = **6,400**	**21,650**

LEGER ACCOUNTS IN THE BOOK OF JOINT VENTURE

JOINT VENTURE ACCOUNT

PARICULARS	AMOUNT(Rs)	PARTICULARS	AMOUNT(Rs.)
To Joint Bank A/c (I-Item Purchase)	48,000	By Joint Bank A/c (I-Item sales)	60,000
To Das A/c (Purchase Expenses)	13,000	By Joint Bank A/c (II-Item sale)	40,000
To Joint Bank A/c (II-Item Purchase)	21,000	By Stock on joint venture A/c(Unsold stock) I –Item - 15,250 II – Item - 6,400	21,650
To Krishnan A/c (Purchase Expenses)	11,000		
To Krishnan A/c (Sales expenses)	5,500		
To Das A/c (Sales expenses)	6,000		
To Profit: **Das - 17,150/5x3 = 10,290** **Krishnan - 17,150/5x2 = 6,860**	17,150		
	1,21,650		1,21,650

RESPECTIVE CO-VENTURES ACCOUNT

PARTICULARS	Das	Krishnan	PARTICULARS	Das	Krishnan
To **Balance**(Transferred to joint bank)	69,290	63,360	By Joint Bank A/c	40.000	40,000
			By Joint venture A/c(Purchase Exp)	13,000	11,000
			By Joint venture A/ c(Sales exp)	6,000	5,000
			To Joint venture A/c (Profit)	10,290	6,860
	69,290	63,360		69,290	63,360

JOINT BANK ACCOUNT

PARTICULARS	AMOUNT	PARICULARS	AMOUNT
To Das A/c (Cash contribution)	40,000	By Joint venture A/c (I-Item purchase)	48,000
To Krishnan A/c (Cash contribution)	40,000	By Joint venture A/c)II-Item purchase)	21,000
To Joint venture A/c (I-Item sales)	60,000	**By Balance (Transferred to Balance sheet Asset side)**	**1,11,000**
To Joint venture A/c (II-Item sales)	40,000		
	1,80,000		**1,80,000**

BALANCE SHEET

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Das A/c	69,290	Joint bank	1,11,000
Krishnan A/c	63,360	Stock (Unsold)	21,650
	1,32,650		**1,32,650**

WHEN SEPARATE SET OF BOOK IS NOT KEPT

I. When each Co-venturer maintain a complete record of **ALL** the joint venture transactions
II. When each Co-venturer maintain a complete record **HIS** the joint venture transactions

I. When each Co-venturer maintain a complete record of **ALL** the joint venture transactions :

In this case **Each venturer** maintain in **his own books** a complete record of **all transaction** of the joint venture

Two set of books are maintained

1. Joint venture A/c

2, Account of other Co-venturer

1.JOINT VENTURE A/C

- **It is nominal account nature**
- **It is a special Profit &L oss A/c**

LEDGER ACCOUNT IN THE BOOKS OF A

JOINT VENTURE A/C

Particulars	Rs	Particulars	Rs
To Purchases (Goods Given)	xxx	By Bank (Sales)	xxx
To Bank (Expenses)	xxx	By Purchases (Goods Taken)	xxx
To Commission	xxx	By B A/c (Goods sold)	xxx
To B A/c (Material)	xxx	By B A/c (Unsold stock taken)	xxx
To B A/c (Expenses)	xxx		
To B A/ (Commission)	xxx		
To **Profit (Balance)** Profit & Loss A/c - xxx B A/c - xxx			
	xxx		xxx

LEDGER ACCOUNT IN THE BOOKS OF A

B A/C

Particulars	Rs	Particulars	Rs
By Joint venture A/c (Goods sold)	xxx	By Joint venture(Goods Given)	xxx
By Joint venture A/c (Unsold stock taken)	xxx	By Joint venture (Expenses)	xxx
		By Joint venture Commission	xxx
		By Joint venture (Material)	xxx
		By Joint venture (Profit Share)	xxx
	xxx		**xxx**

SUM :

Ramu and Chand enter into a Joint venture to share the results as to 2:1. The Joint venture transactions are as under.

Particulars	Ramu(Rs)	Chand(Rs)
Goods supplied	60,000	30,000
Expenses paid	8,000	2,000
Sales proceeds	80,000	56,000

Show the Journal Entries and Ledger accounts in the books of the partners.

JOURNAL ACCOUNTS IN THE BOOKS OF RAMU

Particulars		Debit (Rs)	Credit (Rs)
FOR **GOODS SUPPLIED** Joint venture A/c To Purchase A/c (Being goods supplied)	Dr	60.000	60,000
FOR **EXPENSES PAID** Joint venture A/c To Bank A/c (Being Expenses paid)	Dr	8,000	8,000
FOR **GOODS SUPPLIED** Joint venture A/c To Chand A/c (Being goods supplied)	Dr	30.000	60,000
FOR **EXPENSES PAID** Joint venture A/c To Chand A/c (Being Expenses paid	Dr	2,000	2,000
FOR **GOODS SOLD** Bank Ac To Joint venture A/c (Being goods sold)	Dr	80.000	80,000
FOR **GOODS SOLD** Chand A/c To Joint venture A/c (Being goods sold)	Dr	56.000	56,000
FOR **PROFIT** Joint venture A/c To Profit & Loss A/c To Chand A/c (Being Expenses paid)	Dr	36,000	12,000 24,000
FOR **FINAL SETTLEMENT** Bank A/c To Chand A/c (Being final settlement)	Dr	12,000	12,000

LEDGER ACCOUNTS IN THE BOOKS OF RAMU

JOINT VENTURE A/C

Particulars	Rs	Particulars	Rs
To Purchase(Goods given)	60,000	By Bank(Sale)	80,000
To Bank(Expenses paid)	8,000	By Chand(Sale)	56,000
To Chand(Goods supplied)	30,000		
To Chand(Expenses)	2,000		
To Profit:(2:1) Profit & Loss A/c-12.000 Chand A/c -24,000	**36,000**		
	1,36,000		**1,36,000**

LEDGER ACCOUNTS IN THE BOOKS OF RAMU

CHAND A/C

Particulars	Rs	Particulars	Rs
To Joint venture A/c (Sales)	56,000	To Joint venture A/c(Goods given)	30,000
		To Joint venture A/c (Expenses paid)	2,000
		To Joint venture A/c(Profit)	12,000
		To **Bank A/c (Balance)**	**12,000**
	56,000		**56,000**

JOURNAL ACCOUNTS IN THE BOOKS OF CHAND

JOINT VENTURE A/C

Particulars	**Debit (Rs)**	**Credit (Rs)**
FOR **GOODS SUPPLIED** Joint venture A/c Dr To Purchase A/c (Being goods supplied)	30.000	30,000
FOR **EXPENSES PAID** Joint venture A/c Dr To Bank A/c (Being Expenses paid)	2,000	2,000
FOR **GOODS SUPPLIED** Joint venture A/c Dr To Ramu A/c (Being goods supplied)	60.000	60,000
FOR **EXPENSES PAID** Joint venture A/c Dr To Ramu A/c (Being Expenses paid	8,000	8,000
FOR **GOODS SOLD** Bank Ac Dr To Joint venture A/c (Being goods sold)	56.000	56,000
FOR **GOODS SOLD** Ramu A/c Dr To Joint venture A/c (Being goods sold)	80.000	80,000
FOR **PROFIT** Joint venture A/c Dr To Profit & Loss A/c To Ramu A/c (Being Expenses paid)	36,000	24,000 12,000
FOR **FINAL SETTLEMENT** Ramu A/c Dr To Bank A/c (Being final settlement)	12,000	12,000

LEDGER ACCOUNTS IN THE BOOKS OF CHAND

JOINT VENTURE A/C

Particulars	Rs	**Particulars**	**Rs**
To Purchase(Goods given)	30,000	By Bank (Sale)	56,000
To Bank(Expenses paid)	2,000	By Ramu (Sale)	80,000
To Ramu (Goods supplied)	60,000		
To Ramu (Expenses)	8,000		
To Profit:(2:1) Profit & Loss A/c- 24.000 Ramu A/c -12,000	**36,000**		
	1,36,000		**1,36,000**

RAM A/C

Particulars	**Rs**	**Particulars**	**Rs**
To Joint venture A/c (Sales)	80,000	By Joint venture A/c(Goods given)	60,000
To **Bank A/c (Balance)**	**12,000**	By Joint venture A/c (Expenses paid)	8,000
		By Joint venture A/c(Profit)	24,000
	92,000		**92,000**

EACH CO-VENTURER MAINTAIN HIS OWN RECORDS

(I) JOINT VENTURER WITH ------- ACCOUNT

(II) MEMORANDAM JOINT VENTURER ACCOUNT

(I) JOINT VENTURER WITH ------- ACCOUNT

- This account is a **personal account** nature.
- Record transaction only on **his behalf** and the information is related to him
- **Debit** - Goods purchased, Expenses incurred.
- **Credit** - Payment received.

(II) MEMORANDAM JOINT VETURER ACCOUNT

- This account is **prepared at the time of closing of venture.**
- **Each Co-venturer** prepare his own account and submit a copy to others .
- This account summarises all the **Co-venture income and expenses**.
- Finally calculate the **profit** on the venture.

JOURNAL ENTRIES IN THEBOOKS OF EACH VENTUERES

PARTICULARS		Rs.	Rs.
FOR **CASH PURCHASE** Joint venture – A/c To Bank/Cash	Dr	xxx	xxx
FOR **CREDIT PURCHASE** Joint venture A/c To Creditors -- A/c	Dr	xxx	xxx
FOR **GOODS SUPPLIED TO VENTURE** Joint venture - A//c To Purchase A/c	Dr	xxx	xxx

PARTICULARS		Rs	Rs
FOR **EXPENSES PAID** Joint venture - -A/c To Cash/Bank A/c	Dr	xxx	xxx
FOR **EXPENSES UNPAID** Joint venture --A/c To Creditors for Expenses A/c	Dr	xxx	xxx
FOR **AMOUNT RECEIVED** FROM OTHERS Bank /Cash A/c To joint venture A/c	Dr	xxx	xxx
FOR **AMOUNT PAID TO OTHERS** Joint venture --A/c To Cash /Bank A/c	Dr	xxx	xxx
FOR VENTURE **GOODS SOLD FOR CASH** Bank/ Cash A/c To Joint venture --A/c	Dr	xxx	xxx
FOR VENTURE **GOODS SOLD ON CREDIT** Debtors A/c To Joint venture --A/c	Dr	xxx	xxx
FOR **ASSETS TAKEN BY SELF** Asset A/c To Joint venture -- A/c	Dr	xxx	xxx

JOURNAL ENTRIES (BOOKS OF EACH VENTUERES)

PARTICULARS		Rs.	Rs.
FOR **GOODS TAKEN BY SEIF**			
Drawing A/c (Personal use)	Dr	xxx	
Purchase A/c (Business use)	Dr	xxx	
To Joint venture – A/c			xxx
FOR **PROFIT**			
Joint venture A/c	Dr	xxx	
To General Profit & loss A/c			xxx
FOR **LOSS**			
General Profit & Loss A/c	Dr	xxx	
To Joint venture --A/c			xxx
FOR **SETTLEMENT OF CO-VENTURER (DEBIT)**			
Joint venturer – A/c	Dr	xxx	
To Bank /Cash A/c			xxx
FOR **SETTLEMENT OF CO-VENTURER (CREDIT)**			
Bank /Cash A/c	Dr	xxx	
To Joint venturer – A/c			xxx

LEDGER ACCOUNTS(BOOKS OF X& Y VENTURERS)

MEMORANDAN JOINT VENTURE ACCOUNT

PARICULARS	Rs	PARTICULARS	Rs
To X (Material)	xxx	By X (Sold)	xxx
To X (Expenses)	xxx	By Y (Sold)	xxx
To Y (Material)	xxx	By X (Unsold)	xxx
To Y (Expenses)	xxx	By Y (Unsold)	xxx
To **Profit (Balance)**	xxx		
	xxx		xxx

BOOKS OF X

Joint venture with **Y A/c**

To Bank A/c	xxx	By Bank A/c (Sale)	xxx
To Bank A/c	xxx	By Purchas A/c (Unsold)	xxx
To General P&LossA/c_	xxx		
To Bank A/c (Final)	xxx		
	xxx		xxx

SUM :

A & B were partners in a joint venture sharing profits and losses equally. A supplied goods to the value of Rs.10,000 and incurred expenses amounted to Rs.800. B supplied goods to the value of Rs.8,000 and expenses amounted to Rs.800. B sold the entire goods on the behalf of the venture and realized Rs.24,000. B was entitled to a commission of 5% on sales . B settled his account by bank draft . Show the journal entries and ledger accounts in the books of A and B under **Memorandum joint venture method**.

IN THE BOOKS OF A & B

MEMORANDUM JOINT VENTURE ACCOUNT

Particulars	Amount(Rs)	Particulars	Amount(Rs)
To A A/c: Goods supplied - 10,000 Expenses - 800	10,800	By B A/c (Sales)	24,000
To B A/c: Goods supplied - 8,000 Expenses - 800 Commission - 1,200 (24,000 x 5/100)	10,000		
To Profit & Loss A/c : **A A/c - 1,600** **B A/c - 1,600** **(3,200 x ½)**	**3,200**		
	24,000		**24,000**

JOURNAL ENTERIES IN THE BOOKS OF A

Particulars	Debit(Rs)	Credit(Rs)
FOR **GOODS SUPPLIED** : Joint venture account with B A/c Dr To Purchase A/c (Being goods supplied for venture)	10,000	10,000
FOR **EXPENSES PAID** Joint venture account with B A/c Dr To Bank A/c (Being expenses incurred for the venture)	800	800
FOR **PROFIT SHARING** Joint venture account with B A/c Dr To Profit & Loss A/c (Being Profit sharing)	1,600	1,600
FOR **FINAL SETTLEMENT** Bank A/c Dr To joint venture account with B A/c (Being final settlement)	12,400	12,400

LEDGER ACCOUNTS IN THE BOOKS OF A

JOINT VENTURE ACCOUNT WITH B

Particulars	Amount	Particulars	Amount
To Purchase (Goods supplied)	10,000	By Bank (Balance received)	12,400
To Bank (Expenses)	800		
To Profit & Loss A/c (3,200 x ½)	**1,600**		
	12,400		**12,400**

JOURNAL ENTERIES IN THE BOOKS OF B

Particulars	Debit(Rs)	Credit(Rs)
FOR **GOODS SUPPLIED** : Joint venture account with A A/c Dr To Purchase A/c (Being goods supplied for venture)	8,000	8,000
FOR **EXPENSES PAID** Joint venture account with A A/c Dr To Bank A/c (Being expenses incurred for the venture)	800	800
FOR **COMMISSION** Joint venture account with A A/c Dr To Commission A/c (Being commission received)	1,200	1,200
FOR **PROFIT SHARING** Joint venture account with A A/c Dr To Profit & Loss A/c (Being final settlement)	1,600	1,600
FOR **FINAL SETTLEMENT** Bank A/c Dr Joint venture account with A A/c (Being final settlement)	12,400	12,400

LEDGER ACCOUNTS IN THE BOOKS OF B

JOINT VENTURE ACCOUNT WITH A

Particulars	Amount	Particulars	Amount
To Purchase (Goods supplied)	8,000	By Bank (Sales)	24,000
To Bank (Expenses)	800		
To Commission (24,000 x 5/100)	1.200		
To Profit & Loss A/c (3,200 x ½)	**1,600**		
To Bank(Balance paid)	**12,400**		
	24,000		**24,000**

X and Y decided to work joint venture for sale of electric motors. On 21.05.93, X Purchased 200 electric motors at Rs.175 each and despatched 150 electric motors to Y, incurring Rs.1,000 as fright and insurance charges. 10 electric motors were damaged in transit. On 01.02.94, Rs.500 were received by X from insurance company in full settlement of claim. On 15.03.94, X sold 50 electric motors at Rs.225 each. He received Rs.15,000 from Y on 01.04.94.

On 25.05.93 Y took delivery of electric motors and incurred the following:

Clearing charges Rs.125; Repair charges for motor damaged in transit Rs.300 and Godown rent Rs.600.

Y sold the entire motors as follows: On 01.02.94, 10 damaged motors at Rs.170 each : On 15.03.94,40 motors at Rs.200 each. On 01.04.94, 20 motors at Rs.315 each: On 03.04.94 ,80 motors at Rs.250 each. It was agreed that they are entitled to commission of 10% on the respective sale effected by them and that the profits and losses shall be shared by X and Y in the ratio of 2:1.Y remits to X the balance of money due on 30.04.94.Prepare (i) Joint venture in the books of X and (ii) Memorandum joint venture A/c.

IN THE BOOKS OF X & Y

MEMORANDUM JOINT VENTURE ACCOUNT

Particulars		Amount(Rs)	Particulars	Amount(Rs)
To X A/c : Purchase (200 x175)	- 35,000		By X A/c (Sales=50 x225= 11,250)	**11,250**
Freight	- 1,000		By Y A/c (Sale:10x170+40x200+20x315+80x250 = 36,000)	**36,000**
Commission (11,250 x10/100)	- 1,125	**37,125**		
To Y A/c : Clearing charges	- 125			
Repairs	- 300			
Godown rent	- 600			
Commission (36,000 x 10/100)	- 3,600	**4,625**		

Particulars	Amount(Rs)	Particulars	Amount(Rs)
To **Profit & Loss A/c :** **X : (6,000 x 2/3) - 4,000** **Y : (6,000 x 1/3) - 2,000**	**6,000**		
	47,750		**47,750**

LEDGER ACCOUNTS IN THE BOOKS OF X

JOINT VENTURE ACCOUNT WITH Y

Particulars	Amount	Particulars	Amount
To Purchase (Goods supplied)	35,000	By Bank (Insurance claim)	500
To Bank (Freight)	1,000	By Bank (Sales)	11,250
To Commission	1,125	By Bank (Amount received X)	15,000
To Profit & Loss A/c (6,000 x2/3)	4,000	By Bank (Balance received)	14,375
	41,125		**41,125**

AVERAGE DUE DATE

UNIT-IV

Meaning of Average Due Date :

Average due date is an "Equated" or "Mean" date on which a single payment of a consolidated amount can be made in lieu of several payments due on different dates .

Actual payment of total amount may be made on the average due date

Practical uses of Average due date:

- Settlement account between traders or traders and customers.
- Settlement of transaction between Principal and agent.
- Settling series of bills of exchange or post dated cheque.
- Calculation of interest on drawings of partners.
- Calculation of interest on book debts.

Accounts of average due date

1. **Amounts lent in different instalment to be repaid in single instalment**
2. **Amounts lent in one instalment repayable in several instalment**

1. Amounts lent in different instalment to be repaid in single instalment

Steps :

1. Take base date as a due date (Take earlier date)
2. Calculate the number of days from the base date
3. Calculate amount of each transaction and number of days from the base days
4. Add all product and payments
5. Divide the total product from the total payments

Average due date = Base date + (Total product / Total payment)

= Days (Answer in Days only)

SUM :

Kannan purchased goods from Raman , the due dates for payment in cash being as follows:

	Rs.	
March-15th	1,000	Due 18^{th} Aril
April- 21th	1,500	Due 24^{th} May
April -27th	500	Due 30^{th} June
May -15th	600	Due 18^{th} July

Raman agree to draw a bill for the total amount due on the average due date. Ascertain the date.

CALCULATION OF AVERAGE DUE DATE

DUE DATE	AMOUNT(Rs)	TOTAL DAYS FROM THE BASE DATE(18^{th} April)	PRODUCT(Rs)
18^{th} April	1,000	0	0
24^{th} May	1,500	36	54,000
30^{th} June	500	73	36,500
18^{th} July	600	91	54,600
	3,600		**1,45,100**

Average due date = Base date + (Total products / Total Amounts) = Days(nearest)

= **18^{th} April** + (1,45,100 /3,600 = **40 Days**

= **18^{th} April** + **40 Days**

Average due date = May 28^{th}.

Calculation of interest :

R owes S the following sums of money due from him on the dates stated:

Rs.300 due on March 9. 1993

Rs.1,000 due on April 2. 1993

Rs.4,000 due on April 30. 1993

Rs.100 due on June 1 . 1993

He wants to make the complete payment on 30.06.1993. Calculate interest at 5% p.a. with the help of Average due date method.

CALCULATION OF AVERAGE DUE DATE

DUE DATE	AMOUNT(Rs)	TOTAL DAYS FROM THE BASE DATE	PRODUCT(Rs)
09.3.1993	300	0	0
02.4.1993	1,000	24	24,000
30.4.1993	4,000	52	2,08,000
01.6.1993	100	84	8,400
	5,400		**2,40,400**

Average due date = Base date + (Total products / Total Amounts) = Days(nearest)

= **09.3.1993** + (2,40,400 /5,400 =**45** Days)

= **09.3.1993** + **45** Days

Average due date = 23.04.1993

Calculation of interest : (23.04.1993 - 30.06.1993) = 68 Days

= 5,400 x 68/365 x 5/100

Interest = Rs.50.30

Bills due date are given :

Find out the Average due date of the following bills accepted by a trader who wishes to settle them with one single payment .

Date of Bills	Amount of Bills (Rs)	Due date
01.04.90	800	06.06.90
30.04.90	1,000	03.08.90
03.06.90	400	06.07.90
15.06.90	600	18.09.90

CALCULATION OF AVERAGE DUE DATE

DUE DATE	AMOUNT(Rs)	TOTAL DAYS FROM THE BASE DATE	PRODUCT(Rs)
06.06.90	800	0	0
03.08.90	1,000	58	58,000
06.07.90	400	30	12,000
18.09.90	600	104	62,400
	2,800		**1,32,400**

Average due date = Base date + (Total products / Total Amounts) = Days(nearest)

= **06.06.90** + (1,32,400 /2,800 =**47Days)**

= **06.06.90** + **47 Days**

Average due date = 23.07.90

Calculation of Interest on Drawings:

A partner has withdrawn the following sums of money during the half year ending 30.06.94.

Jan.15	Rs.300
Feb.18	Rs.250
Mar.10	Rs.150
Mar.26	Rs.200
April.20	Rs.400
May.16	Rs.300
June.18	Rs.500

Interest is be charged at 8% p.a.. Find out the Average due date and calculate the amount of interest to be debited to the partner.

CALCULATION OF AVERAGE DUE DATE

DUE DATE	AMOUNT(Rs)	TOTAL DAYS FROM THE BASE DATE	PRODUCT(Rs)
Jan.15	300	0	0
Feb.18	250	34	8,500
Mar.10	150	54	8,100
Mar.26	200	70	14,000
April.20	400	95	38,000
May.16	300	121	36,300
June.18	500	154	77,000
	2,100		**1,81,900**

Average due date = Base date + (Total products / Total Amounts) = Days(nearest)

= **Jan.15** + (1,81,900 /2,100 = **87** Days)

= **Jan.15** + **87** Days

Average due date = April.12

Calculation of interest : (April 12 - June 30)

= 79Days

= 2,100 x 79/365 x 8/100

Interest = Rs.36.36

2 . Amounts lent in one instalment / single instalment repayable in several instalment

SUM :

Anusha lent Rs.30,000 to Kavitha on 1st January 1991 which is repayable in 6 equal annual instalments commencing from 1st January 1992. Calculate the average due date and amount of each instalment at 10% p.a. interest.

Total Instalment = 6

Total years = 21 (Year 1+2+3+4+5+6 = 21)

Average due date = 1..1.1991 + (**21/6**)

= 1.1.1991 + 3.5 Years

= 1.7.94

Interest = 30,000 x 10/100 x 3.5 years

= Rs.10,500

Amount payable per Instalment = (30,000 +10,500= 40,500)

= **40,500/6**

= Rs.6,750

SUM:

Jayakumar has lent Rs.80,000 to Ravikumar on 1st January 1993 which is repayable in four equal yearly instalments, commencing from 1st January 1994. Calculate average due date and interest at 10% per annum

1 .Instalment paid = **12** months after due date of loan

2 .Instalment paid = **18** months after due date of loan

3 .Instalment paid = **24** months after due date of loan

4 .Instalment paid = **30** months after due date of loan

Total months = 84

Total instalment = 4

Average due date = 1.1.93 + (**84/ 4**) = 1.1.94 + 21 months

= **30-9.94**

Interest = 80,000 x 21/12 x 10/20

(1.1.93-30.9.94) = **Rs.14,000**

ACCOUNT CURRENT

UNIT - IV

MEANING :

An Account Current is a statement of transactions which represents **running transactions between parties**. We prepare Account Current for a specific period of time. It includes **interest received or charged on transactions**. There are two parties involved, one who prepares the Account and the other for whom the account is prepared.

Methods of Preparing an Account Current

We prepare the Account current in the following situations:

- When f**requent transactions regularly take place between two parties**, they prepare Account current.
- In the case of consignment, **consignee prepares it.**
- When frequent **transactions occur between Bank and customers.**
- In case of a joint venture and **each co-venture is entitled to interest.**

Method 1: Account Current by means of Products.

This method is also known as the Product Method.

calculating interest is different.

- In place of the interest columns, we prepare “product” columns.
- The product is the amount multiplied with the number of days
- Find out the balance of the products on both sides.
- Calculate interest at the prescribed rate on the balance of the products for a single day.
- Enter interest on that side in the amount column on which the balance of products appears.

Method 2: Account Current with the help of Interest Tables.

This method is also known as Individual Method

- Arrange all the transactions in the form of a ledger account.
- Two more columns on both the sides of the account. One column represents the number of days counted from the due date of each transaction to the date of rendering the account.
- Absence of the due date of payment, we assume the date of the transactions to be the due date. While the other column represents interest.
- Calculate the interest due on different amounts at given rates for different periods of time and enter it against each item.
- Total the interest columns of both sides. The difference is the balance.

Method of Computing the numbers of Days

Generally, we use the following two methods for calculating the number of days:

- **Forward Method:** In this method, the number of days is **calculated from the due date of the transaction to the date of closing the account.**
- **Backward (Epoque Method):** In this method, the number of the days are **calculated from the opening date of account to the due date of the transaction.**
- **Red – Ink Interest:** If the due date of a bill is after the date of closing the account, then we charge no interest for that. However, we write the **interest from the date of closing to the due date in "Red-Ink" in the relevant side of the 'Account current'.** This interest is known as Red-Ink interest. Thus, we always treat Red-ink interest as negative interest.

POINTS TO REMEMBER:

- For calculation left out date of transaction
- For Bills transaction add 3 grace days

SUM : **Method 1: Account Current by means of Products.**

The following transactions took place between Ram and Krishna from **01.01.09** to **30.06.09**

DATE	PARTICULARS	AMOUNT(Rs)
2009 Jan- 1	Sold goods to Ram	2,240
Jan -10	Received Ram acceptance at 2 months	1,000
Feb -15	Received cash from Ram	1,200
Mar - 2	Bought goods from Ram	5,500
Mar -3	Accepted Ram Bills at 1 month	2,000
April -11	Paid cash to Ram	2,000
April-30	Sold goods to Ram payable upto 31st May	2,400
May-11	Bought goods from Ram	1,500

DATE	PARTICULARS	AMOUNT(Rs)
May - 31	Sold goods to Ram payable up to 10th June	2,200
June - 15	Bought goods from Ram	3,000

Prepare account current to be sent by Krishna on 30th June 2009. The rate of interest at 5%

RAM CURRENT ACCOUNT WITH KRISHNA AS ON 30.06.2009

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
2009 Jan-1	To Sales	2,240	180	4,03,200	2009 Jan-10	By B/R	1,000	109	1,09,000
Mar-3	To B/P	2,000	85	1,70,000	Feb-15	By Cash	1,200	135	1,62,000
Apr-11	To Cash	2,000	80	1,60,000	Mar-2	By Purchases	5,500	120	6,60,000
Apr-30	To Sales	2,400	30	72,000	May-11	By Purchases	1,500	50	75,000
May-31	To Sales	2,200	20	44,000	Jun-15	By Purchases	2,000	15	45,000
Jun-30	To Balance			**2,01,800**	Jun-30	By Interest on Balance(**2,01,800** x 5/100 x 1/365)	27.64		
		12,227.64		**10,51,000**			**12,227.64**		**10,51,000**

SUM : Prepare account current for Nagesh of the following transactions and with Basha.

Date	Particulars	Rs.
1994 Sep.16	Goods sold to Basha	400 (due 1st Oct)
Oct .1	Cash received from Basha	180
Oct.21	Goods purchased from Basha	1,000(due 1st Dec)
Nov.1	Paid to Basha	660
Dec.1	Paid to Basha	600
Dec.5	Goods purchased from Basha	1,000(due 1st Jan)
Dec.10	Goods purchased from Basha	400(due 1st Jan)
1995 Jan . 1	Paid to Basha	1,200
Jan.19	Goods sold to Basha	40(due 1st Feb)

The account is to prepared up to 1st Feb .Calculate interest @ 6%

BASHA CURRENT ACCOUNT WITH NAGESH AS ON 01.04.1994

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
1994Sep.16	To Sales A/c	400	123	49,200	1994 Oct.1	By Cash A/c	180	123	22,140
Nov.1	To Cash A/c	660	92	60,720	Oct.21	By Purchase A/c	1,000	62	62,000
Dec.1	To Cash A/c	600	62	37,200	Dec.5	By Purchase A/c	1,000	31	31,000
1995 Jan.1	To Cash A/c	1,200	31	37,200	Dec.10	By Purchase A/c	440	31	13,640
Jan.19	To Sales A/c	40	0	0	1995 Feb.1	**By Balance C/d**	**289.13**	**-**	**55,540**
Feb.1	To Interest A/c	9.13							
		2909.13		**1,84,320**			**2909.13**		**1,84,320**

RED –INK INTEREST:

Balaji had the following transactions with Ganesan.

Date	Particulars	Amount(Rs.)
Jan.20	Sold goods to Ganesan	400
Mar.2	Purchased goods from Ganesan	250
Mar.3	Accepted Ganesan's draft at 1 month due	200
Apr.11	Cash paid to Ganesan	400
Apr.30	Goods sold to Ganesan due end of May	100
May.11	Brought goods from Ganesan	300
June.11	Balaji drew a bill on Ganesan this day. Payable two months after date, and this was duly accepted by Ganesan	300

Prepare an account current to be rendered by Balaji to Ganesan as at 30th June, bringing interest into account as 20% p.a.

GANESAN IN CURRENT ACCOUNT WITH BALAJI AS ON 30.06.1995

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
1995 Jan.20	To Sales A/c	400	161	64,400	1995 Mar.2	By Purchase	250	120	30,000
Mar.3	To B/P A/c	200	85	17,000	May.11	By Purchase	300	50	15,000
April.11	To Cash A/c	400	80	32,000	June.11	**By B/R A/c**	**300**	**(-)45**	**(-)13,500**
April.30	To Sales A/c	100	30	3,000	June.30	By Balance (product)	-	-	**84,900**
June.30	To Interest (**84,900** x20/100 1/365)	**46.52**			June.30	By **Balance C/d**	**296.52**	**-**	**-**
		1,146.52		**1,16,400**			**1,146.52**		**1,16,400**
July-1	To Balance B/d	296.52							

Method 2: Account Current with the help of Interest Tables.

SUM:

On 1.1.90 Ramesh owed Rs.6,000 to Umesh on account. During the six months ended 30.6.90,the transaction were as follows in the books of Umesh.

Date	Particulars	Amount(Rs.)
Jan.1	Goods sold to Ramesh	3,000
Feb.1	Amount received from Ramesh	6,000
Mar.1	Goods sold to Ramesh	12,000
Apr.1	Goods purchased from Ramesh	4,500
May.1	Goods sold to Ramesh	15,000
May.1	Cash received from Ramesh	6,000
June.1	Goods purchased from Ramesh	7,500
June.30	Cash received from Ramesh	3,000

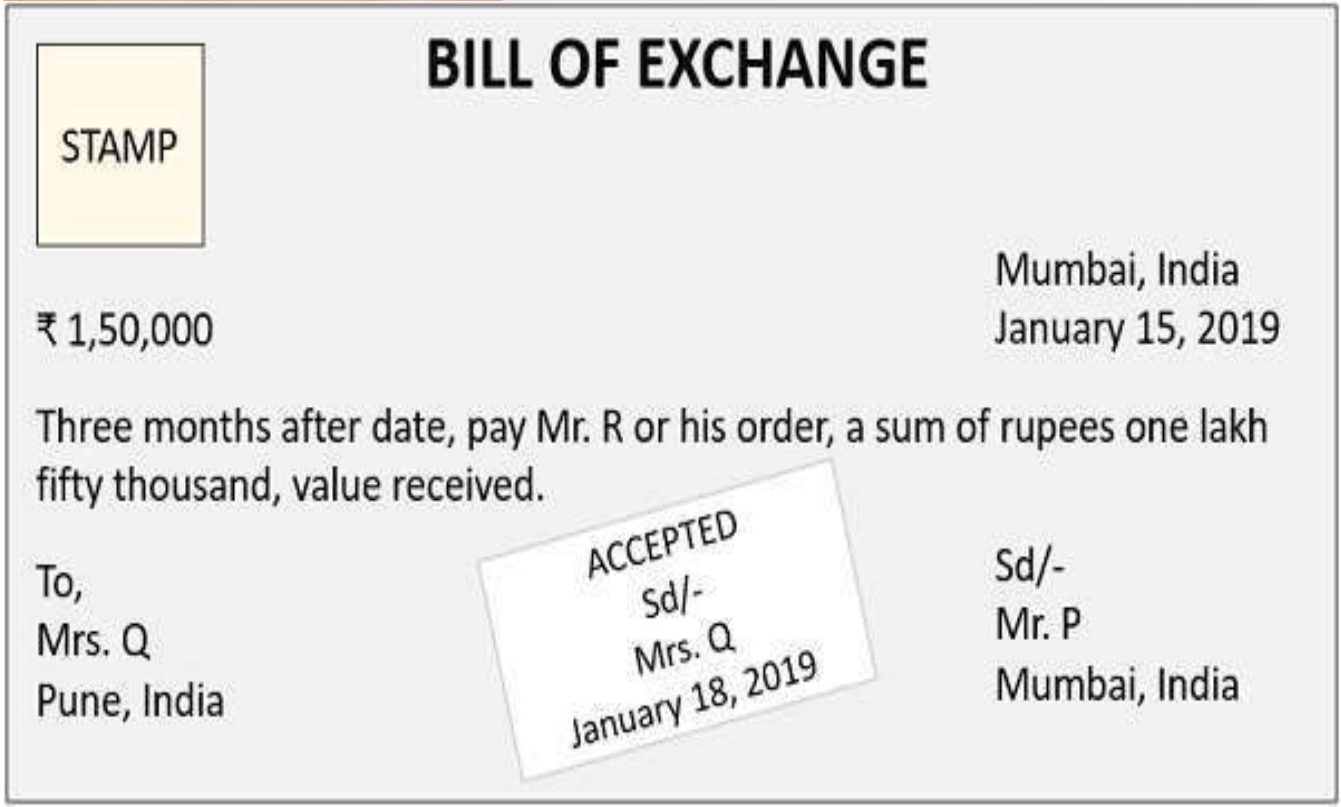
Prepare Account current to be rendered to Ramesh on 30.06.90. Interest to be calculated at 18% p.a.in months.

RAMESH IN CURRENT ACCOUNT WITH UMESH AS ON 30.06.1990

Date	Particulars	Month	Interest	Amount	Date	Particulars	Month	Interest	Amount
1990 Jan.1	To Balance B/d (6,000 x18/100 x 6/12)	6	540	6,000	1990 Feb.1	By Cash (6,000 x18/100 x 5/12)	5	450	6,000
Jan.1	To Sales	6	270	3,000	Apr.1	By Purchase	3	202.50	4,500
Mar.1	To Sales	4	720	12,000	May.1	By Cash	2	180	6,000
May.1	To Sales	2	450	15,000	June.1	By Purchase	1	112.50	7,500

Date	Particulars	Month	Interest	Amount	Date	Particulars	Month	Interest	Amount
June.30	To Interest as per contra	-	-	**1,035**	June.30	By Cash	0	0	3,000
					June.30	By **Transfer to contra**	-	**1,035**	-
					June.30	**By Balance C/d**	-	-	**10,035**
			1,980	**37,035**				**1,980**	**37,035**
July-1	To Balance B/d			**10,035**					

BILL OF EXCHANGE -V



BILL OF EXCHANGE

STAMP

Mumbai, India
January 15, 2019

₹ 1,50,000

Three months after date, pay Mr. R or his order, a sum of rupees one lakh fifty thousand, value received.

To,
Mrs. Q
Pune, India

ACCEPTED
Sd/-
Mrs. Q
January 18, 2019

Sd/-
Mr. P
Mumbai, India

Meaning of Bill of Exchange

According to the Negotiable Instruments Act 1881, ‘a bill of exchange is defined as an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument.’

Features of Bill of Exchange

- It is important to have a bill of exchange in writing
- It must contain a confirm order to make a payment and not just the request
- The order should not have any condition
- The bill of exchange amount should be definite
- Fixed date for the amount to be paid
- The bill must be signed by both the drawee and the drawer
- The amount stated on the bill should be paid on-demand or on the expiry of a fixed time
- The amount is paid to the beneficiary of the bill, specific person, or against a definite order

Types of Bill of Exchange

Documentary Bill: In this, the bill of exchange is supported by the relevant documents that confirm the genuineness of sale or transaction that took place between the seller and buyer.

Demand Bill: This bill is payable when it demanded. The bill does not have a fixed date of payment, therefore, the bill has to be cleared whenever presented.

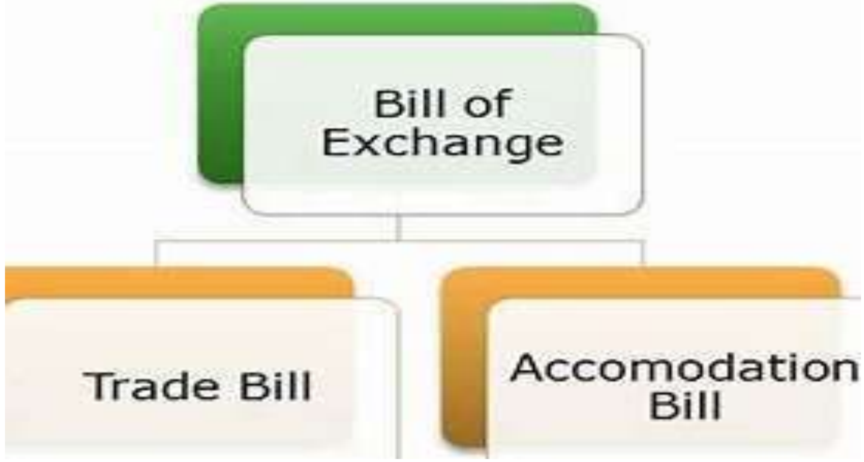
Usance Bill: It is a time-bound bill which means the payment has to be made within the given time period and time.

Inland Bill: An Inland bill is payable only in one country and not in any other foreign country. This bill is opposite to foreign bill.

Clean Bill: This bill does not have any proof of a document, so the interest is comparatively higher than the other bills.

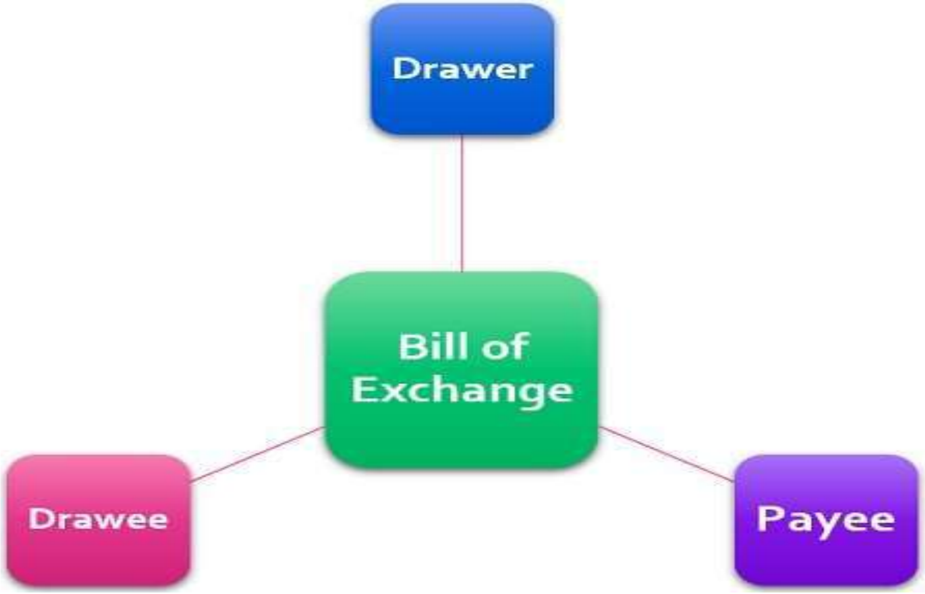
Foreign Bill: A bill that can be paid outside India is termed as a foreign bill. Two examples of a foreign bill are an export bill and import bill.

Supply Bill : The bill that is withdrawn by the supplier or contractor from the government department is known as the supply bill.



Trade bill : Where the bill of exchange is drawn and accepted to settle a trade transaction, it is called Trade bill. This bill of exchange is drawn by the seller of the goods and is accepted by the buyer.

Accommodation bill : Where a bill of exchange is drawn and accepted for mutual help, it is called Accommodation bill. This bill is for mutual benefit without a trade transaction. It does not involve a sale or purchase of any goods or services. This bill carries an agreement between two parties for the purpose of giving financial support to others.



PARTIES TO A BILL OF EXCHANGE

Drawer The person who makes the bill, or who gives the order to pay a certain sum of money, is the drawer of the instrument.

Drawee The person who accepts the bill of exchange, or who is directed to pay a certain sum, is called drawee.

Payee The person receiving payment is called the payee, who can be a designated person or the drawer himself.

ACCOUNTING OF BILL OF EXCHANGE

TWO ASPECTS OF BILL OF EXCHANGE:

- **Bill Receivable –Party to receive the payment**
- **Bill Payable – Party to pay the payment**
- **Honoring of the bill – Acceptor make the payment**

Recording Journal and ledger in the Bills transactions for trade

1. When the bill is retained by the Drawer till due date:
2. When the bill is discounted with bank
3. When the bill is endorsed to a third party
4. When the bill is sent for collection

JOURNAL ENTRIES IN THE BOOK OF DAWER

Particulars	Debit(Rs)	Credit(Rs)
FOR SALE OF GOODS: Drawee A/c Dr To Sales A/c	xxx	xxx
FOR RECEIVABLE OF BILL: Bills receivable A/c Dr To Drawee A/c	xxx	xxx
FOR RECEPIT ON DUE DATE: Cash / Bank A/c Dr To Bills receivable A/c	xxx	xxx

JOURNAL ENTRIES IN THE BOOK OF DRAWEE

Particulars	Debit(Rs)	Credit(Rs)
FOR PURCHASE OF GOODS: Purchases A/c Dr To Drawer A/c	xxx	xxx
FOR ACCEPTANCE OF BILL: Drawer A/c Dr To Bills payable A/c	xxx	xxx
FOR PAYMENT ON DUE DATE: Bills payable A/c Dr To Cash / Bank A/c	xxx	xxx

1.BILL HONOURED IN MATURITY:

SUM: On.1.1.1999,mJayanthy sold goods to Devi on credit for Rs.2,000 and drew a bill on Devi for Rs.2,000 for 3months after date .Devi accepted it on 3.1.19999 and returned it to Jayanthy. On Maturity ,the bill was duly honored by Devi. Pass Journal entries in the books both the parties.

JOURNAL ENTRIES IN THE BOOK OF JAYANTHY

Particulars	Debit(Rs)	Credit(Rs)
FOR **SALE** OF GOODS: Devi A/c Dr To Sales A/c (Being goods sold)	2,000	2,000
FOR **RECEIVABLE** OF BILL: Bills receivable A/c Dr To Devi A/c (Being bill receivable)	2,000	2,000
FOR **AMOUNT RECEIVED** Cash Dr To Bills receivable A/c (Being receipt of bill on due date)	2,000	2,000

JOURNAL ENTRIES IN THE BOOK OF DEVI

Particulars	Debit(Rs)	Credit(Rs)
FOR **PURCHASE** OF GOODS: Purchases A/c Dr To Jayanthy A/c (Being goods purchased)	2,000	2,000
FOR **ACCEPTANCE** OF BILL: Jayanthy A/c Dr To Bills payable A/c (Being acceptance of bill)	2,000	2,000
FOR **PAYMENT** ON DUE DATE: Bills payable A/c Dr To Cash / Bank A/c Being amount paid on due date)	2,000	2,000

2.BILL DISCOUNTED WITH BANK AND HONOURED:

SUM: Mala purchased goods for Rs.3,000 from Kala on 1.4.1999. Mala accepted a three bill for the amount and gave it to Kala the same day. Kala discounted immediately with India bank at discount of 5% P.a.. On the due date the bill was honoured by payment.

You are required to give entries in the books of all the parties.

JOURNAL ENTRIES IN THE BOOK OF KALA

Particulars	Debit(Rs)	Credit(Rs)
FOR **SALE** OF GOODS: Mala A/c Dr To Sale A/c (Being goods sold)	 1,000	 1,000
FOR **RECEIVABLE** OF BILL: Bills receivable A/c Dr To Mala A/c (Being bill receivable)	 3,000	 3,000
FOR **AMOUNT RECEIVED** Bank A/c Dr Discount A/c Dr **(3,000 x 5/100 x 3/12)** To Bills receivable A/c (Being receipt of bill on due date)	 2,962.50 37.50	 3,000

JOURNAL ENTRIES IN THE BOOK OF MALA

Particulars	Debit(Rs)	Credit(Rs)
FOR **PURCHASE** OF GOODS: Purchases A/c Dr To Mala A/c (Being goods purchased)	 1,000	 1,000
FOR **ACCEPTANCE** OF BILL: Mala A/c Dr To Bills payable A/c (Being acceptance of bill)	 1,000	 1,000
FOR **PAYMENT** ON DUE DATE: Bills payable A/c Dr To Cash A/c Being amount paid on due date)	 2,000	 2,000

JOURNAL ENTRIES IN THE BOOK OF INDIAN BANK

Particulars	Debit(Rs)	Credit(Rs)
FOR **BILLS DISCOUNTED** Bill discounted A/c Dr To Discount on Bill A/c To Kala current A/c (Being bill discounted in the bank)	3,000	 2,962.50 37.50
FOR **CASH RECEIVED** FROM KALA Cash A/c Dr To Bills discounted A/c	 3,000	 3,000

BILL IS ENDORSED TO CREDITORS / THIRD PARTIES AND HONOURED AT MATURITY

SUM : 0n 1.4.1999, Balu draws a bill on Ravi for Rs.1,600 for goods sold at 90 days after sight. Ravi accepts the bill on 5.4.1999. Balu , however ,endorsed the bill to Sohan in settlement of a debt of Rs.1,700. On maturity the bill was duly honoured by Ravi.

JOURNAL ENTRIES IN THE BOOK OF BALU

Particulars	Debit(Rs)	Credit(Rs)
FOR **SALE** OF GOODS: Ravi A/c Dr To Sales A/c (Being goods sold)	1,600	1,600
FOR **RECEIVABLE** OF BILL: Bills receivable A/c Dr To Mala A/c (Being bill receivable)	1,600	1,600
FOR **BILLS ENDORSED TO SOHAN** Sohan A/c Dr To Bills receivable A/c To Discount received A/c (Being bill endorsed to Sohan)	1,700	1,600 100

JOURNAL ENTRIES IN THE BOOK OF RAVI

Particulars	Debit(Rs)	Credit(Rs)
FOR **PURCHASE** OF GOODS: Purchases A/c Dr To Balu A/c (Being goods purchased)	1,600	1,600
FOR **ACCEPTANCE** OF BILL: Balu A/c Dr To Bills payable A/c (Being acceptance of bill)	1,600	1,600
FOR **PAYMENT** ON DUE DATE: Bills payable A/c Dr To Cash A/c Being amount paid on due date)	1,600	1,600

JOURNAL ENTRIES IN THE BOOK OF SOHAN

Particulars	Debit(Rs)	Credit(Rs)
FOR **RECEIVING OF BILL**: Bill receivable A/c Dr Discount allowed Dr To Balu A/c (Being goods sold)	1,600 100	1,700
FOR **AMOUNT RECEIVED** Cash A/c Dr To Bills receivable A/c (Being bill receivable**)**	1,600	1,600

BILL **SENT TO BANK** FOR COLLECTION AND HONOURED AT MATURITY

SUM : On 1.5.99 Mohan gave his acceptance for three months bill of Rs,6,000 drawn by of Murali sent the bill to bank for collecting the amount on maturity. After maturity Murali received intimation from the bank that the bill was duly honoured by Mohan and Bank charged Rs. 20 for collection

JOURNAL ENTRIES IN THE BOOK OF MURALI

Date	Particulars	Debit(Rs)	Credit(Rs)
1999 May-1	FOR **RECEIVABLE** OF BILL Bill receivable A/c Dr To Mohan A/c (Being acceptance of Mohan bill)	6,000	6,000
May-1	FOR BILL **SENT TO BANK** Bills for collection A/c Dr To Bill receivable A/c (Being bill sent to bank for collection)	6,000	6,000
Aug-4	FOR **AMOUNT RECEIVED** Bank A/c Dr Bank charges A/c Dr To Bill for collection A/c (Being amount received)	5,980 20	6,000

JOURNAL ENTRIES IN THE BOOK OF MOHAN

Date	Particulars	Debit(Rs)	Credit(Rs)
1999 May-1	FOR **PAYMENT** OF BILL Murali A/c Dr To Bill payable A/c (Being payment of Murali bill)	6,000	6,000
May-1	FOR **BILL PAYMENT** Bills payable A/c Dr To Cash A/c (Being bill payment for acceptance)	6,000	6,000

RETIRING OF BILL **BEFORE DUE DATE**

SUM: Abdul gave his acceptance for Amir's four months bill of Rs.2,400 on Jan.1,1999. One month before the due date Abul paid the amount of the bill at 5% p.a. rebate.. Pass the necessary journal entries in the books of both the parties.

JOURNAL ENTRIES IN THE BOOK OF AMIR

Date	Particulars	Debit(Rs)	Credit(Rs)
1999 Jan-1	FOR **RECEIVABLE** OF BILL Bill receivable A/c Dr To Abdul A/c (Being acceptance of Abdul bill)	2,400	 2,400
April-4	FOR **REBATE BILL RECEIVED** Cash A/c Dr Rebate A/c Dr To Bill receivable A/c (Being amount received for rebate on bill 2400x5/100x1/12)	 2,390 10	 2,400

JOURNAL ENTRIES IN THE BOOK OF ABDUL

Date	Particulars	Debit(Rs)	Credit(Rs)
1999 Jan-1	FOR **ACCEPTANCE** OF BILL Amir A/c Dr To Bill payable A/c (Being payment of bill)	 2,400	 2,400
May-1	FOR **BILL PAYMENT** Bills payable A/c Dr To Cash A/c To Rebate A/c (Being bill payment for acceptance)	 2,400	 2,390 10

DISHONOUR OF BILL:

Dishonour of a bill means the acceptor refuses to honour his commitment on date and therefore, payment of bill on presentation does not take place. The original relationship of the parties is restored.

SUM : Gani sold goods to Mani for Rs.3,000 on credit on 1.4.1999.For this purpose , Gani drew a bill on Mani for Rs.3,000 for 3months.Mani accepted the same and returned it to Gani. On maturity .the bill was dishonoured by Mani. Show the entries in the books of both the parties under each of the following transactions .

(i) If Gani retained the bill till maturity;
(ii) If Gani discounted the bill by the a bank at18% p.a.;
(iii) If Gani endorsed the bill to his creditor Anil;
(iv) If Gani sent the bill to the bank for collection.

JOURNAL ENTRIES IN THE BOOK OF GANI

Date	Particulars	Debit(Rs)	Credit(Rs)
(I) 1999 April-1	FOR **SALE** OF GOODS: Mani A/c Dr To Sales A/c (Being goods sold)	3,000	3,000
	FOR **ACCEPTANCE** OF BILL: Bills receivable A/c Dr To Mani A/c (Being bill receivable)	3,000	3,000
July-4	FOR **ACCEPTANCE OF BILL DIHONOUR** Mani A/c Dr To Bills receivable A/c (Being bill endorsed to Sohan)	3,000	3,000
(I) April-1	FOR **BILL DISCOUNT** Bank A/c Dr Discount A/c Dr To Bills receivable (For bill discount in the bank)	2,865 135	3,000
July-4	FOR **ACCEPTANCE OF DISHONOUR** Mani A/c Dr To Bank A/c (Being acceptance of dishonour)	3,000	3,000

JOURNAL ENTRIES IN THE BOOK OF MANI

Date	Particulars	Debit(Rs)	Credit(Rs)
1999 Aril-1	FOR **PURCHASE** OF GOODS: Purchases A/c Dr To Gani A/c (Being goods purchased)	3,000	3,000
	FOR **ACCEPTANCE** OF BILL: Gani A/c Dr To Bills payable A/c (Being acceptance of bill)	3,000	3,000
	FOR **DISHONOUR** Bills payable A/c Dr To Gani A/c Being dishonour on due date)	3,000	3,000

JOURNAL ENTRIES IN THE BOOK OF GANI

Date	Particulars	Debit(Rs)	Credit(Rs)
(III) Aril-1	FOR **BILL ENDORSED** Anil A/c Dr To Bills receivable (Being bill endorsed for Anil)	3,000	3,000
July-4	FOR **BILL ENDORSED** Mani A/c Dr To Anil A/c (Being Anil dishonoured)	3,000	3,000
(IV) April.1	FOR **BILL SEND TO** BANK Bills for collection A/c Dr To Bills receivable A/c (Being bill sent to bank for collection)	3,000	3,000
July-4	FOR **COLLECTION DISHONOURED** Mani A/c Dr To Bills receivable A/c (Being collection bill dishonoured)	3,000	3,000

ACCOMODATION OF BILL

SUM : On 1st May 1999 , Madhan accepted a two months for Rs.10,000 draw on him by Mani for the latter's benefit . Mani discounted the bill on 4th May at 12% p.a. and on the due date sent Madhan a cheque for Rs.10,000 in order to enable him to honour the bill . Madhan duly honoured his acceptance. Pass journal entries in the books of Mani and Madhan.

JOURNAL ENTRIES IN THE BOOK OF MANI

Date	Particulars	Debit(Rs)	Credit(Rs)
1999 May-1	FOR **ACCEPTANCE** OF BILL: Bills receivable A/c Dr To Madhan A/c (Being bill receivable)	 10,000	 10,000
May-1	FOR **BILL DISCOUNT** Bank A/c Dr Discount A/c Dr To Bills receivable (Being bill discount in the bank 10,000 x12/100 x2/12)	 9,800 200	 10,000
May-4	FOR **CHEQUE SENT** Madhan A/c Dr To Bank A/c (Being cheque sent to Madhan)	 10,000	 10,000

JOURNAL ENTRIES IN THE BOOK OF MADHAN

Date	Particulars	Debit(Rs)	Credit(Rs)
1999 May-1	FOR **BILLS ACCEPTANCE** Mani A/c Dr To Bills payable A/c (Being acceptance of bill)	 10,000	 10,000
May-4	FOR **CHEQUE RECEIVED** Bank A/c Dr To Gani A/c Being cheque received from Mani)	 10,000	 10,000
July-4	FOR **PAYMENT OF BILL** Bills payable A/c Dr To Bank (Being payment of bill)	 10,000	 10.000

ACCOMODATION BILL WRITTEN ON EACH OTHER

SUM: On 1.1.1999, Ramya and Priya draw on each other at two months bill for Rs.3.000 for their mutual accommodation. They discount each others bill at 12%p.a. and on maturity, each party honours his own acceptance. Record the transaction in the journals of Ramya and Priya.

JOURNAL ENTRIES IN THE BOOK OF RAMYA

Date	Particulars	Debit(Rs)	Credit(Rs)
1999 May-1	FOR **ACCEPTANCE** OF BILL: Bills receivable A/c Dr To A/c (Being bill receivable)	10,000	10,000
May-1	FOR **BILL DISCOUNT** Bank A/c Dr Discount A/c Dr To Bills receivable (Being bill discount in the bank 10,000 x12/100 x2/12)	9,800 200	10,000
May-4	FOR **CHEQUE SENT** Madhan A/c Dr To Bank A/c (Being cheque sent to Madhan)	10,000	10,000

JOURNAL ENTRIES IN THE BOOK OF PRIYA

Date	Particulars	Debit(Rs)	Credit(Rs)
1999 May-1	FOR **BILLS ACCEPTANCE** Mani A/c Dr To Bills payable A/c (Being acceptance of bill)	10,000	10,000
May-4	FOR **CHEQUE RECEIVED** Bank A/c Dr To Gani A/c Being cheque received from Mani)	10,000	10,000
July-4	FOR **PAYMENT OF BILL** Bills payable A/c Dr To Bank (Being payment of bill)	10,000	10.000

V Unit Depreciation

Depreciation means

Decrease or decline in value of assets Fixed assets are liable to loss of their value once they begin to be used in the productive process. Depreciation is the gradual and permanent reduction in the value of an asset.

Definition

“Depreciation may be defined as the permanent decrease in the value of an asset through wear and tear in use or the passage of time”.

“ The term depreciation represents loss or diminution in the value of an asset consequent upon wear and tear ,obsolescence, effluxion of time or permanent fall in market value”.

Causes of depreciation

Wear and tear : When an asset is constantly used for production, the assets wear out . More and more use of an asset, the greater would be the wear and tear.
Lapse of time : There are certain assets like leasehold property, patents, copy right etc ,that are acquired for a particular period.
Obsolescence : Appearance of new and improved machines result in discarding of old machines.
Exhaustion : The assets are of wasting nature for instance quarries ,mines, oil-well etc , It is the reduction in the value of natural deposits as resources have been extracted year after year.
Non-use : Machines which are idly lying ,become less and less useful with the passage of time.
Maintenance : A good maintenance of machine will naturally increase its life. When there is no maintenance, there is more depreciated value.
Market trend : The market price may fluctuate in case of certain assets, for instance, investment in gilt-edged securities.

Need for Depreciation

- **1.To ascertain the true working result**
- Asset in an important tool in earning revenues. Huge amounts are spent for acquisition of assets which are worn out in the process of earning income.
- 2.**To ascertain true value of asset**
- The function of the balance sheet is to show the true value an correct view of the state of affairs of a business.
- 3.**To retain funds for replacement**
- Assets used in the business need replacement after the expiry of their service. It is always not possible to determine the useful life of asset.

- **Methods of Depreciation**
- 1.Fixed Instalment Method
- 2.Diminishing Balance Method
- 3.Annuity Method
- 4.Depreciation Fund Method
- 5.Insurance Policy Method
- 6.Depreciation Reserves and Repairs Fund Method

1.Fixed Instalment method or Equal Instalment Method or Straight Line Method or Fixed percentage on original cost method .

The amount of depreciation may be

a) When the assets has no residual value :

$$\text{Each Years Depreciation} = \frac{\text{Original cost of Asset}}{\text{Estimated life of assets in years}}$$

B) When the asset has residual value :

$$\text{Each year Depreciation} = \frac{\text{Original cost of Asset} - \text{Estimated Scrap value}}{\text{Estimated life of asset in years}}$$

2.Diminishing Balance 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.

3.Annuity Method

The method it is assumed that the amount spent in the purchase of the asset is an investment which should yield interest . The amount spent acquiring an asset assumed as an investment and interest is charged at a certain rate on the diminishing balance of the asset and is debited to asset account and credited to interested account which is transferred to profit and loss account.

4.Depreciation fund method

The method a fixed amount is debited ever year to depreciation account or profit and loss account is credited to depreciation fund account , instead of asset account . The asset is shown at is original cost in the books in every year .

5.Insurance policy method

An insurance policy is purchased for an amount equal to the cost of replacement of asset. The insurance company agrees of pay a lump sum in return for a sum known as premium to be paid at the beginning of every year.

1. Depreciation by Fixed Instalment Method

A company whose accounting year is the calendar year. Purchased on 1st April 2003, machinery costing Rs.30,000.

It purchased another machine on 1st October 2003. Costing Rs.20,000 and on 1st July 2004,costing Rs.10,000.

On 1st Jan 2005,one – third of the machinery which was installed on 1st April 2003 become obsolete and was sold for Rs.3,000.

Show how the Machinery Account would appear in the books of the company. The machinery was depreciated by the Fixed Instalment Method @ 10% .

Working notes

Loss on sale of machine :

	RS
Cost of Machinery (RS.30,000 *1/3)	10,000
Less : Depreciation for 2003 (9 months)	750
	9,250
Less: Depreciation for 2004 (1 year)	1,000
Book value on 1.1.2005	8,250
Less: Sale proceeds	3,000
	5,250

Machinery account

Date	Particulars	Rs	Date	Particulars	Rs
2003 April 1	To Bank A\c	30,000	2003 Dec31	By Depreciation A\c (2250+ 500)	2,750
Oct 1	To Bank A\c	20,000		By Balance	47,250
		50,000			50,000
2004 Jan 1	To Balance b\d	47,250	2004 Dec31	By Depreciation (5,000+ 500)	5,500
July 1	To Bank A\C	10,000		By Balance	51,750
		57,250			57,250
2005 Jan 1	To Balance b\d	51,750	2005 Jan 1	By Bank A\C	3,000
				By profit and loss A\C	5,250
				By Depreciation A\C	5,000
				By Balance c\d	38,500
		51,750			51,750
2006 Jan 1	To Balance b\d	38,500			

2.**Depreciation by Straight Line Method**

Depreciation in a factory is provided by straight line method at the rate of 10%p.a

The balance standing on plant and Machinery Account on 31st Dec 2003, after writing off depreciation for that year, was Rs.19,515.(Total cost price of the plant was Rs.35,800,including plant purchased in 95,Rs.8,900).

During Jan 2004 new plant was purchased at the cost of Rs.2950 and one machine which had cost Rs.550 in 1980 was sold as scrap for Rs.35.

During Jan 2005 there was additions costing Rs.1,800 and a machine which had cost Rs.700 in 2001 was sold for Rs.350.

You are required to write up the machinery Account for 2004 and 2005 .All calculations are to be shown.

Working notes:

	RS
Cost of plan in 2001	700
Less: 4 years depreciation	280
Book value	420
Less: Sale price	350
Loss	70

Machinery Account

Date	Particulars	RS	Date	Particulars		RS
2004			2004	By Bank		35
Jan 1	To Balance b\d	19,515	Jan 1			
Jan 1	To Bank A\C	2,950	Dec 31	By Depreciation at 10%		
Jan 1	To Profit and loss A\C	35		Total cost	35,800	
				Less: Purchased	8,900	
					26.900	2,690
				By Depreciation at 10% on Rs.2950		295
				ByBalance c\d		1 9,480
		22,500				22,500
2005			2005			
Jan 1	To Balance b\d	19,480	Jan 1	By Bank A\c (sale)		350
Jan 1	To Bank A\C	1,800		By profit and loss		70
				By Depreciation		3,095
			Dec 31	By Balance c\d		17,765
2006		21,280				21,280
Jan 1	To Balance b\d	17,765				

3.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 Jan 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

Working notes

Pofit on sale of machinery:

	RS	
1. Cost of machinery(1.1.2004)	12,000	
Less: Deprication for 2004	1,200	
	10,800	
Less: Deprication 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: Deprication for 2004	2,880	
	25,920	
Less:Depreciation for 2005 (6 month)	1296	
Book value on 30.6.2005		
	24,624	
Sale proceeds Rs.26,700		
Profit =Rs.26,700 – 24,624		2,076

3. Depreciation for the remaining assets:

	RS
Book value of machinery on 1.1.2004	1,00,800
Book value of machinery sold	
RS10800 + 25,920	36,720
	64,080
Depreciation for 2005	6,408
Depreciation for the machinery purchased (3 months)	500

Machinery account

Date	Particulars	Rs	Date	Particulars	RS
2003			2003		
Jan 1	To Bank a\c	80,000	Dec31	By Depreciation a\c	8,000
			Dec31	By Balance c\d	72,000
		80000			80000
			2004		
2004					
Jan 1	To Balance b\d	72000	Dec31	By Depreciation a\c	11200
	To Bank a\c	40000	Dec31	By Balance c\d	100800
		112000			112000
2005			2005		
Jan 1	To Balance b\d	100800	Dec31	By Depreciation a\c (3 month)	270
Oct 1	To p & l a\c	470	Dec31	BY Bank a\c	11000
June 30	To p & l a\c	2076		By Depreciation a\c (6 month)	1296
	To Bank a\c	20000		BY Bank a\c	26700
				By Depreciation a/c	5908
				By Balance c\d	78172
		123346			1,23,346

Annuity method

4. A five lease worth Rs.30,000 is to be depreciated by Annuity system the unwritten balance of the assets bearing interest at 5% .The annual amount to be written off as shown by the Annuity table is Rs.6,929.24.

Show the working of the lease account for the five years

Lease Account

DATE	PARTICULARS	Rs	DATE	PARTICULARS	Rs
1st year			1st year	By Depreciation a\c	6929.24
Jan 1	To Bank A\c	30000	Dec31	By Balance c\d	24570.76
DEc31	To Interest A\c	1500			31500
I1st year		31500	I1st year		
Jan 1		24570.76	Dec31	By Depreciation a\c	6929.24
Dec31	To Bank A\c	1228.54	Dec31	By Balance c\d	18870.06
	To Interest A\c	25799.30			25799.30
I1Ist year			II1st year		
Jan 1	To Bank A\c	18870.06	Dec31	By Depreciation a\c	6929.24
Dec31	To Interest A\c	943.50	Dec31	By Balance c\d	12884.32
IVst year		19813.56			19813.56
Jan 1			IVst year		
Dec31	To Bank A\c	12884.32	Dec31	By Depreciation a\c	6929.24
	To Interest A\c	644.22	Dec31	By Balance c\d	6599.30
		13528.54			13528.54
Vst year			Vst year		
Jan 1		6599.30	Dec31	By Depreciation a\c	6929.24
Dec31	To Bank A\c	329.94			
	To Interest A\c	6929.24			6929.24

Provision and Reserves

Meaning of provision

provision means the setting aside of certain amount to meet some contingencies which may be expected but not yet incurred.

The companies act 1956 states that

" provision usually means may be expected written off or retained by way of providing depreciation renewal or diminution in the value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy"

Meaning of Reserves:

Reserve or reserve fund consists of sums set aside out of divisible profits for the purpose of strengthening the financial positions of the business . It is an appropriation of profits and is not a charge to profit and loss account. Reserve is the amount set aside out of undivided profits and other surpluses in order to strengthen the financial position of the business.

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