FINANCIAL ACCOUNTING

For Semester I & II

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Dedicated to

The Almighty

Preface

The authors really deem it a great privilege to bring out the first edition of *Financial Accounting* under the banner of McGraw Hill Education (India).

This book caters to the needs of vast range of audience which include students from B.Com (General), B.Com (Corporate Secretaryship), B.Com (Bank Management), B.Com (Information and Systems Management), (Computer Applications) BBA and MBA streams. It has a student friendly approach and is organised to provide the readers with adequate knowledge on the basics of Financial Accounting. The book aims at imparting accounting concepts in a simplified manner such that even an average learner can have a thorough understanding. Each chapter is supported with numerous illustrations to acquire in-depth knowledge of the concepts. At the end of each chapter, a set of review questions is provided for recap; and additional exercise problems ranging from simple to complex are listed for enhancing learning skills and problem-solving capabilities. We are confident that students using this textbook will be able to imbibe confidence to solve problems independently and face examinations with courage.

Additionally, solutions to university's latest question papers for B.Com, Financial Accounting, (Semester-I) and Advanced Financial Accounting (Semester-II) have been made available for the students on McGraw Hill Education's Online Learning Center at **www.mhhe.com/sthothadrifa**

We express our sincere thanks to Mr. Suman Sen, Ms. Laxmi Singh, Mr. Anuj K Shriwastava and the entire editorial and production teams of McGraw Hill Education (India) for their unstinted support and cooperation in bringing out this book.

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Last but not the least, we express our sincere gratitude to the Almighty for this wonderful opportunity.

Every effort has been made to evade errors. Any error identified may be brought to our notice which will be considered as a valuable suggestion. Feedback about the book will be much appreciated. Please mail your suggestions and feedback to thothadris@gmail.com

Dr. S. Thothadri

Dr. S. Nafeesa

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CHAPTER

1

Introduction to Accounting

Learning Objectives

After studying this chapter, you will be able to understand the:

- Meaning of Accounting
- Need for Accounting
- Objectives of Accounting
- Advantages and Limitations of Accounting
- Branches of Accounting
- Bookkeeping *Versus* Accounting
- Accounting Cycle
- Methods of Accounting
- Accounting Terminologies

1.1 Accounting

Accounting is the science and art of recording and classifying transactions in a systematic manner so that the financial position of the company can be ascertained at any point of time. Accounting is the systematic and comprehensive recording of financial transactions pertaining to a business. Accounting is a discipline, well- equipped with techniques and methods through which all types of transactions, measurable in terms of money or money's worth, can be recorded, classified and summarised in a proper and systematic way. The main purpose of accounting is to ascertain profit or loss during a specified period and to present the financial position of the business on a particular date. It also helps to have a control over the assets of the firm. Accounting reveals profit or loss for a given period, and the value of a firm's

assets, liabilities and owners' equity. Accounting focuses on presenting the information in the form of general-purpose financial statements (balance sheet, income statement, etc.,) to the stakeholders of the company. It is also a profession consisting of individuals having the required formal education to carry out these tasks. Accounting involves compliance with Government regulations, pertaining to income tax reporting.

"Accounting is the art of recording, classifying, and summarising in a significant manner and in-terms of money transactions and events, which are in part atleast of a financial character and interpreting the results thereof."

American Institute of Certified Public Accountants [AICPA], 1966

"Accounting refers to the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information."

American Accounting Association [AAA], 1941

"Accounting is the process used to measure and report to various users, relevant financial information regarding the economic activities of an organisation or a unit."

Financial Accounting Standard Board [FASB]

1.2 Need for Accounting

Accounting is considered as "The Language of Business". Accounting is vital for a business organisation in order to identify where it stands. Accounting entails recording, classifying, and summarising of business transactions. Accounting, as an information system, collects and communicates economic information about an enterprise to a wide variety of interested parties. Accounting provides quantitative information of financial nature to various stakeholders, which is used in making economic decisions. These stakeholders include Investors, Management, Government, Suppliers, Financiers, Regulators, etc. Accounting helps the management in planning, controlling and decision-making processes. Accounting helps auditors to form the basis of their examinations.

1.3 Objectives of Accounting

The main objectives of accounting are:

- To maintain systematic records
- To ascertain the results
- To ascertain the financial position
- To communicate the information to stakeholders

1.4 Advantages of Accounting

The advantages of accounting are as follows:

- Accounting helps to maintain the records in a systematic manner.
- Accounting provides permanent and reliable record.
- Accounting helps to verify the arithmetical accuracy of the accounts.
- Accounting helps to ascertain the financial position on any given date.
- Accounting helps to compare the performance of the business with other businesses.
- Accounting helps in decision-making.
- Accounting provides information to Investors, Employees, Banks, Financial Institutions, Suppliers, Customers, Public and Government.
- Accounting helps to resolve tax problems.
- Accounting records can be produced as evidence.
- Accounting helps to ascertain the value of business.

1.5 Limitations of Accounting

Accounting is subject to limitations. The limitations are as follows:

- Accounting does not record non-monetary transactions.
- Accounting can be manipulated.
- Accounting is subject to fraud and errors.

- Accounting uses historical cost to measure assets, which fail to account for changes in values over time.
- Accounting does not provide information about opportunity costs.

1.6 Users of Accounting

The users of accounting can be classified into two types, namely:

(i) Internal Users

(ii) External Users

› 1.6.1 Internal Users

- Owners
- Management
- Employees

› 1.6.2 External Users

- Creditors and Financiers
- Potential Investors
- Consumers
- Tax Authorities
- Government
- Research Scholars

1.7 Functions of Accounting

Accounting functions are classified as follows:

- Measurement
- Forecasting
- Decision Making
- Comparison and Evaluation
- Control

- Government Regulation
- Taxation

1.8 Branches of Accounting

Accounting can be classified into:

(i) Financial Accounting
(ii) Cost Accounting
(iii) Management Accounting
(iv) Social Responsibility Accounting
(v) Human Resource Accounting

› 1.8.1 Financial Accounting

Financial Accounting is a branch of accounting that keeps track of a company's financial transactions. Financial accounting is primarily concerned with the preparation of financial statements, which summarises the results of operations for a selected period of time and show the financial position of the company at particular dates.

› 1.8.2 Cost Accounting

Cost Accounting is the process of ascertaining and controlling the cost of a product. The objectives of cost accounting are to ascertain cost, control cost fix the selling price, focus on cost reduction and evaluate performance for decision making.

› 1.8.3 Management Accounting

Management Accounting is the presentation of accounting information in such a way to assist the management in the creation of policy and in the day-to-day operations of an undertaking. It provides information to management for decision-making.

› 1.8.4 Social Responsibility Accounting

Social Responsibility Accounting is the process of accounting for social responsibilities met by the organisation. It is mainly concerned with the measurement and disclosure of costs and benefits to the society, as a result of the operating activities of the business organisation.

› 1.8.5 Human Resource Accounting

Human Resource Accounting is the process of identifying and reporting investments made for the human resources of an organisation. It involves measuring the costs incurred by the business firms to recruit, attract, hire, train and develop human assets. It also measures the economic value of people to organisations.

1.9 Bookkeeping *Versus* Accounting

Bookkeeping	*Accounting*
Bookkeeping is the primary stage.	Accounting is the secondary stage.
Bookkeeping involves recording and maintenance of accounts.	Accounting involves bookkeeping. Besides, it also analyses, summarises, and communicates the results to interested parties.
The main objective of bookkeeping is to maintain systematic records of business transactions.	The main objective of accounting is to ascertain the net results of operations and financial position.
The junior staff do the work of book-keeping.	The senior staff do the accounting work.
Higher level of knowledge is not required for a bookkeeper.	Higher level of knowledge is required for an accountant.
A bookkeeper's job is routine and clerical in nature.	An accountant's job is analytical in nature.
Analytical skill is not required.	Analytical skill is required.
A bookkeeper does not supervise and check the work of an accountant.	An accountant supervises and checks the work of the bookkeeper.

1.10 Accounting Cycle

An accounting cycle is a complete sequence of accounting process that begins with the recording of business transactions and ends with the preparation of final accounts. Accounting cycle involves the following:

- Recording of Transactions
- Preparation of Journal
- Positing them into Ledgers
- Preparation of Trial Balance

- Preparation of Trading Account
- Preparation of Profit and Loss Account/Income Statement
- Preparation of Balance Sheet/Financial Statements

1.11 Methods of Accounting

Accounting methods are classified into:

- Single Entry System
- Double Entry System

› 1.11.1 Single Entry System

A single-entry accounting system records only one side of each and every transaction. Under a single entry system, only personal accounts and cash accounts are opened. Trial Balance and balance sheet cannot be prepared. Single entry system of book-keeping is not acceptable for taxation and insurance claims. Usually, small businesses adopt single entry system. Single-entry records are not accepted as evidence.

› 1.11.2 Double Entry System

Double entry system refers to a system of accounting under which both the aspects (debit or credit) of every transaction are recorded in the accounts involved. According to this system, every debit has an equal amount of credit. The total of all debits must be equal to the total of all credits. All personal, real and nominal accounts are opened. Trial Balance and Balance Sheet can be prepared. Income tax authorities accept the double entry system of bookkeeping as a record.

1.12 Accounting Terminologies

Accounting	Process of identifying, measuring, and reporting financial information of an entity.
Accrual Accounting	A method in which income is recorded when it is earned and expenses are recorded when they are incurred, all independent of cash flow.
Assets	Property with a cash value that is owned by a business or an individual.

(Contd.)

Balance Sheet	Summary of a company's financial status, including assets, liabilities, and equity.
Bank Overdraft	Money owed by the firm to the bank; this facility allows the firm to withdraw more money than available in their account.
Bills Payable	Money owed to creditors, vendors, etc.
Bills Receivable	Money owed to a business, i.e., credit sales
Bookkeeping	To keep a record of business transactions in a systematic manner.
Capital	Amount invested by the proprietor
Cash at Bank	Money held in a bank account.
Cash in Hand	Cash held by the company
Cash Transaction	Cash receipt or payment is involved.
Cash-Basis Accounting	A method in which income and expenses are recorded when they are paid.
Credit	An account entry with a negative value for assets, and positive value for liabilities and equity.
Credit Transaction	Cash is not involved immediately but will be received or paid later.
Creditors	People and organisations, which are owed money by the business. This includes suppliers who have supplied goods or services on credit and who will be paid later.
Current Assets	Assets easily converted into cash in the normal course of business.
Debit	An account entry with a positive value for assets, and negative value for liabilities and equity.
Debtors	Persons who owe money to the business. This includes customers who have bought goods on credit and will pay later.
Depreciation	Gradual decline in the value of an asset due to wear and tear.
Double-Entry System	Every transaction affects two accounts.
Drawings	Money or money's worth withdrawn by the owners for their personal use.
Examples of Current Assets	Cash in Hand, Cash at Bank, Stock/Inventory, Bills Receivable, Prepaid Expenses, Work in Progress, Short-term Investments, Accrued Incomes, Sundry Debtors, etc.

(Contd.)

Examples of Current Liabilities	Sundry Creditors, Bills Payable, Bank Overdraft, Outstanding Expenses, Short Loans, Income received in advance, Provision for Bad and Doubtful Debts, etc.
Examples of Fictitious Assets	Preliminary/Formation Expenses, Underwriting Commission, Discount on Issue of Shares/Debentures
Examples of Fixed Assets	Land & Buildings, Loose Tools, Furniture & Fixtures, Vehicles, Long-term Loans and Advances
Examples of Intangible Assets	Goodwill, Patent, Trademark, Copyright
Examples of Long-term Liabilities	Bank Loan, Loan on Mortgage, Debentures, etc.
Expenses	Amount spent in order to produce and sell the goods
Financial Accounting	Accounting focused on reporting an entity's activities to an external party, i.e., shareholders.
Financial Statement	A record containing the balance sheet and the income statement.
Fixed Asset	Assets acquired for income generation, but not for resale.
Goodwill	Intangible asset – represented in terms of monetary value.
Income	The difference between revenue and expense.
Income Statement	A summary of income and expenses.
Inventory/Stock	Goods lying unsold on a particular date; it includes opening and closing stock.
Invoice	A document prepared by the seller; it contains the name and address of the buyer, the goods purchased, and the date of sale with the quantity and the corresponding price.
Journal	A book of Original Entry
Liability	Money owed to creditors, vendors, etc.
Loan	Money borrowed from a lender and usually repaid with interest.
Long-term Bank Loans	Loans to be repaid after 1 or 2 years. In other words, it need not be repaid in the next 12 months.
Non-operating Incomes	Extra income, other than sales income, that may be received by the businesses.
Proprietor	One who owns a business
Purchase Returns	Goods returned to suppliers due to defective quality.
Purchases	Amount of goods bought for production
Sales Returns	Goods returned by the customers due to defective quality.

(Contd.)

Sales/Turnover	Amount of goods sold during the year. It includes both cash and credit sales.
Single-Entry System	A system of accounting, in which transactions are entered into one account.
Sundry Expenses	A variety of small purchases, such as stationery items.
Transactions	Activities of business, which involve transfer of money, goods or services between two persons.
Voucher	A written document, in support of a transaction
Wasting Assets	Assets, which lose its value due to usage.

■ *Theory Questions* ■

Short-Answer Questions

1. State the meaning of Accounting.
2. Define Accounting.
3. What are the objectives of accounting?
4. What is Bookkeeping?
5. Who are the persons interested in accounting information?
6. What do you understand by Debit and Credit?
7. What are Current Assets?
8. What do you understand by Fixed Assets?
9. What are Fictitious Assets?
10. What are the limitations of accounting?
11. Write a note on Tangible Assets.
12. Write a note on Intangible Assets.
13. What do you understand by Current Liabilities?
14. What do you understand by Long-term Liabilities?
15. What is Accounting Cycle?

Long-Answer Questions

1. State the need for accounting.
2. "Accounting is the language of business." Elaborate.

3 Distinguish between Accounting and Bookkeeping.

4. Explain the advantages and limitations of accounting.

5. Explain about the internal and external users of accounting information and their requirements.

6. Explain the branches of accounting.

7. What are the different methods of accounting?

8. What is Double Entry System? What are its advantages?

9. What are the bases of accounting?

10. Distinguish between 'Cash Basis' and 'Accrual Basis' of accounting.

CHAPTER

2

Accounting Concepts and Conventions

Learning Objectives

After studying this chapter, you will be able to understand the:

- Meaning of Accounting Concepts
- Need for Accounting Concepts
- Accepted List of Accounting Concepts
- Meaning of Accounting Conventions
- Accepted List of Accounting Conventions
- Accounting Equations

2.1 Accounting Concepts

Accounting concepts and principles are a set of broad conventions that have been devised to provide a basic framework for financial reporting. Accounting concepts provide guidelines of accounting, which should be strictly adhered while preparing and maintaining the accounting records. The main objective of accounting concepts is to maintain uniformity and consistency in maintaining books of accounts. The accounting concepts form the very basis of accounting. These have been developed over the years and are universally accepted.

2.2 Need for Accounting Concepts

Accounting principles are based on certain concepts, conventions, and traditions, which have been evolved by accounting authorities and regulators. These principles serve as the rules for accounting for financial transactions

and preparing financial statements, and are known as the "Generally Accepted Accounting Principles" (GAAP). The purpose of GAAP is to ensure that financial reporting is transparent and consistent from one organisation to another. The application of the principles by the accountants ensures that financial statements are both informative and reliable. Financial reporting involves significant professional judgments by accountants. These accounting concepts ensure that the users of financial information are not mislead by the adoption of accounting policies and practices. Therefore, the accounting treatments adopted are consistent with the accounting concepts and principles.

2.3 Accepted List of Accounting Concepts

Accounting concepts communicate the results of the transactions in the form of financial statements to the internal and external users, who are in need of the data. The users must understand the accounting reports in the same sense, as prepared by the accountants. Accounting concepts are the assumptions, postulates or ideas, which are essential to the practice of accounting and preparation of financial statements. The following are the generally accepted list of accounting concepts:

1. Business entity concept
2. Money measurement concept
3. Going concern concept
4. Dual aspect concept
5. Accounting period concept
6. Cost concept
7. Revenue recognition concept
8. Matching concept
9. Accrual concept
10. Objective evidence concept

› 2.3.1 Business Entity Concept

Business Entity Concept is the very basis of accounting concepts, conventions, and principles. A business is a separate legal entity from its owners and should be accounted for separately. Businesses are organised either as a proprietorship, a partnership or a company but they differ on the level of control. A separate set of books is to be maintained for the accounting

entity. All the transactions related to the business are exclusively recorded. The personal transactions of owners are treated separately from those of the business. This concept helps to assess the financial position of each business separately and every business unit is taxed separately. Each entity has to maintain the financial records of the business. The entity has to record the incomes and expenses of the business and ascertain the profit or loss, which are to be disclosed periodically. It also facilitates the recording and reporting of business transactions from the business point of view.

› 2.3.2 Going Concern Concept

Going Concern Concept is a fundamental principle of accounting. According to this concept, the business will exist for an indefinite period of time. A business is judged for its capacity to earn profits in future. Financial statements are prepared assuming that the company can and will continue its business in the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate its operations. This concept is applicable to the company's business as a whole. Based on this assumption, outsiders enter into contracts with the firm. Financial institutions lend money to a business and creditors supply goods on credit and customers buy goods on credit. It is important for a business enterprise, as it recognises the value of assets and liabilities, on the basis of their productivity. Based on this concept, depreciation is charged on fixed assets. In the absence of this concept, the cost of fixed assets will be treated as an expense in the year of its purchase.

› 2.3.3 Money Measurement Concept

Money Measurement Concept records transactions and events that are capable of being measured in monetary terms in the financial statements. In simple words, it records the transactions, which are of financial nature. It excludes all business transactions and events, which are not measurable in terms of money. It also excludes qualitative transactions such as production policies, working conditions of employees, job satisfaction of workers, managerial skill of employees, and quality of products. This concept provides guidelines to the accountants regarding the transactions to be recorded and what not to be recorded. It helps in recording business transactions uniformly. This concept facilitates comparison of business performance of two different periods of the same firm or two different firms for the same period.

› 2.3.4 Dual Aspect Concept

Dual Aspect Concept is the basic principle of accounting. As per this concept, every transaction has a dual effect, i.e. it affects two accounts. The transaction should be recorded at two places. It means that both the aspects

of the transaction must be recorded in Books of Accounts. It is based on the following fundamental accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

OR

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

Double Entry System of book-keeping is based on this concept. Every transaction has an equal impact on Assets and Liabilities in such a way that total assets are always equal to total liabilities.

› 2.3.5 Accounting Period Concept

Normally, an accounting period consists of twelve months. One year is assumed as one accounting period. This may be a calendar year or a financial year. A calendar year begins from 01st January and ends on 31st December. A financial year begins from 01st April and ends on 31st March of the following year. All the transactions relating only to the specific period are recorded in 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. It helps to identify the incomes generated during the specific accounting period and to compare the results of one accounting period with other.

This concept helps to predict the future prospects of the business. It also helps to calculate tax on business income for the accounting period. Banks, financial institutions, and creditors can 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.

› 2.3.6 Cost Concept

Cost Concept is also known as Historical Cost Concept. According to this concept, all assets are recorded in books of accounts, at their purchase price, which includes cost of acquisition and installation. Fixed assets like building, plant and machinery, furniture and so on are recorded in books of accounts only at a price paid for them. Assets are gradually depreciated on the basis of cost and the effective life of assets. Market value of the assets is not taken into consideration for valuation. As per this concept, assets purchased have to be shown at the price, which can be verified from the supporting documents. This helps to calculate depreciation on fixed assets.

› 2.3.7 Revenue Realisation Concept

According to this concept, revenue is considered as the income earned on the date when it is realised. Unrealised revenue should not be taken into account.

This realisation concept is vital for determining the incomes relating to an accounting period. This helps to reduce the possibility of inflating the profits and incomes.

› 2.3.8 Matching Concept

The main aim of any business is to earn profit. According to Matching Concept, the revenue and the expenses incurred to earn the incomes must belong to the same accounting period. In other words, matching of revenues and costs relevant to a specific period is the basis of matching concept. All the revenue expenses and incomes associated with the accounting period have to be identified. This concept helps us to show how the expenses should be matched with revenue for determining the exact profit or loss for a particular period. This also helps the investors/shareholders to know the exact amount of profit or loss of the business during a particular period.

› 2.3.9 Accrual Concept

According to Accrual Concept, expenses and revenues are recorded in the period they occur, whether cash is involved or not. This concept is the basis for mercantile system of accounting. All expenses and losses pertaining to the accounting period must be listed out while finalising the accounts. Prepaid expenses and outstanding expenses must also be recorded. Similarly, all incomes associated with the period should be included. Any accrued incomes and incomes received in advance must be appropriately recorded. The accrual concept ensures that the profit or loss shown is on the basis of full facts relating to all expenses and incomes.

› 2.3.10 Objective Evidence Concept

According to this concept, all recorded business transactions in books of accounts should have adequate evidence to support it. The documentary evidence should be free from any bias. No transactions should be recorded without any verifiable documentary evidence. This concept helps to eliminate unauthorised entries in the books of accounts. It achieves authenticity, accuracy, and reliability of books of accounts, which in turn increases the confidence of the users of financial statements.

2.4 Accounting Conventions

Accounting Conventions have evolved and were developed to bring about uniformity in the maintenance of accounts. Conventions denote customs, traditions or usages, which have been in existence for a long period of time. Accounting conventions provide guidelines for recording a business

transaction. These conventions can be used when there are no clear guidelines in the accounting standards that govern a specific situation. Thus, accounting conventions serve to fill in the gaps not yet addressed by accounting standards. The following are the generally accepted accounting conventions:

1. Convention of Conservatism
2. Convention of Consistency
3. Convention of Full Disclosure and
4. Convention of Materiality

› 2.4.1 Convention of Conservatism

Conservatism refers to the policy of choosing the procedure that leads to understatement, as against overstatement of resources and income. "Anticipate no profit and provide for all possible losses" is the essence of this convention. Profit should not be overestimated and there should always be a provision for losses. However, the law of conservatism provides the following:

- The value of an asset should not be overestimated.
- The value of a liability should not be underestimated.
- The profit should not be overestimated.
- The loss should not be underestimated.

Such conservatism is accepted to present a true and fair value of business in the financial statements.

› 2.4.2 Convention of Consistency

Consistency prescribes the use of the same accounting principles from one period to another with the same standards, which are applied to calculate profit and loss. Consistency of rules and practices of accounting should be continuously observed and applied. It is essential that the practices and methods of accounting remain unchanged from one period to another. Comparisons are possible only if a consistent policy of accounting is followed.

› 2.4.3 Convention of Full Disclosure

Convention of Full Disclosure principle requires the company to provide complete and accurate information in the financial statements. According to this convention, the accounting statements should be prepared in an honest manner. All the significant and relevant information should be disclosed in the financial statements. This convention assumes greater importance with respect to corporate organisations, where the management is divorced from

ownership. The purpose of this convention is to communicate all material and relevant facts of financial position and the results of operations to all the stakeholders. Both favourable information and detrimental information should be revealed in the financial statements.

› 2.4.4 Convention of Materiality

According to this convention, all material facts should be recorded and disclosed in the accounting statements. Facts, which are not relevant or immaterial, need not be given. It should record all the important data and leave insignificant information.

2.5 Accounting Equation

Accounting equation is based on dual aspect concept. It is the foundation of double entry system of accounting. The accounting equation denotes the fact that all assets are financed either by borrowing money or by paying with the money of the company's shareholders.

› 2.5.1 Fundamental Accounting Equation

Assets = Capital + Liabilities
Capital = Assets – Liabilities
Liabilities = Assets – Capital

✎ **ILLUSTRATION 1:**

If the capital of a business is ₹5,00,000 and other liabilities are ₹3,00,000, calculate total assets of the business.

Solution:

Assets = Capital + Liabilities
Assets = 5,00,000 + 3,00,000 = ₹8,00,000

✎ **ILLUSTRATION 2:**

The total assets of a business are ₹10,00,000 and the capital is ₹3,00,000, calculate liabilities.

Solution:

Liabilities = Assets – Capital
10,00,000 – 3,00,000 = ₹7,00,000

✎ **ILLUSTRATION 3:**

If total assets of a business are ₹12,00,000 and outside liabilities are ₹3,00,000, calculate the capital.

Solution:

Capital = Assets – Liabilities
12,00,000 – 3,00,000 = ₹9,00,000

■ *Theory Questions* ■

Short-Answer Questions

1. What do you understand by Accounting Concepts?
2. What do you understand by Money Measurement Concept?
3. What is Cost Concept?
4. What is Going Concern Concept?
5. What is Matching Concept?
6. Write a note on Dual Aspect Concept.
7. What is Revenue Recognition Concept?
8. What is Accrual Concept?
9. What is Objective Evidence Concept?
10. What are Accounting Conventions?
12. Write a note on Convention of Full Disclosure.
13. What do you understand by Convention of Consistency?
14. What do you understand by Convention of Materiality?
15. Write a note on Convention of Conservatism.
16. What is Accounting Equation?

Long-Answer Questions

1. How are accounting concepts classified?
2. Explain Accounting Conventions.
3. Explain Accounting Equation with examples.

CHAPTER

3

Journal

Learning Objectives

After studying this chapter, you will be able to understand the:

- Meaning of Journal
- Importance of Journal
- Objectives of preparing the Journal
- Golden Rules of Accounting

Every business unit needs to record the transactions that take place in their concern. The business units have to keep track of the flow of money and other assets, in order to ascertain the progress of their operations. The transactions are to be entered in a scientific manner with a view to get information in the near future. The business includes various kinds of transactions that may be carried out in time or in future. But while recording in the books of accounts, all the transactions have to be entered in such a way that they provide vital information to its users.

3.1 JOURNAL

Journal is the book of original entry. It is the prime book where the business transactions are entered as soon as they occur. It is recorded from the view of business on the basis of dual aspect concept of accounting in a chronological order, based on the dates of transactions. It records the transactions on actual and accrual basis. It includes the accounts that are related to every transaction. The journal shows both the debit, i.e. benefit-receiving aspect and credit, i.e. benefit-giving aspect for every transaction. Both the aspects in a transaction are identified and recorded in the journal, on the basis of the golden rules of accounting.

› 3.1.1 Format of Journal

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*

After entering every transaction, a brief explanation about the transaction will be provided for easy understanding. This is called as narration. The process of entering the transactions in journal is known as journalising.

› 3.1.2 Importance of Journal

Journal is the first book of systematic record of the financial transactions of the business. The accounting process starts with the identification of financial transactions of a business. Such financial transactions are recorded permanently in books of accounts systematically, in different specialised books. These books of accounts are called journals. A journal is an important book under the double entry system. Journal entries are an important part of accountancy. Each transaction is recorded as soon as it takes place. So there is no possibility of omitting any transactions in the books of accounts. The transactions are recorded in the journal, chronologically, with narration. Hence, it can be easily ascertained when and why a transaction has taken place. A journal helps to identify which account has to be debited and which account has to be credited for each and every transaction. A journal shows the complete details of a transaction in one entry. Any mistake in a ledger can be easily detected with the help of a journal.

› 3.1.3 Objectives of Preparing a Journal

The objectives of preparing a journal are:

- To keep a systematic record of financial transactions
- To show financial transactions in chronological order
- To present necessary information about the financial transactions
- To use as a legal evidence of financial transactions
- To facilitate the preparation of a ledger book

3.2 JOURNALISING

Journalising is the act of recording financial transactions in the journal book. It is a process of systematic recording of financial transactions in the book of prime or original entry.

The following steps are undertaken while journalising the transactions in the journal book.

- Identify the two aspects of the transaction.
- Identify the appropriate accounts for the two aspects of the transactions.
- Debit and credit the accounts relevant to the transaction by using the rules of debit and credit.

› 3.2.1 Ledger Folio

Ledger Folio is a page number of an account in the ledger that is written in the L.F. column of a journal format. Ledger folio number is written corresponding to the name of the account in the ledger folio column.

› 3.2.2 Compound Journal Entry

Compound Journal Entry is an accounting entry, which affects more than two accounts' heads. A simple journal entry has one debit and one credit, whereas a compound journal entry includes one or more debits and/or credits than a simple journal entry. A compound journal entry may combine two or more debits and a credit, or a debit and two or more credits, or two or more of both debits and credits.

› 3.2.3 Opening Entry

Opening Entry is an entry, which is passed in the beginning of each current year to record the closing balance of assets and liabilities of the previous year. In this entry, assets accounts are debited and liabilities and capital accounts are credited. If capital is not given, the difference between total assets and total liabilities will be the capital.

› 3.2.4 Golden Rules of Accounting

Personal Accounts

The accounts that represent persons or organisations are known as personal accounts. They include Natural Persons, Artificial Persons and Representative Persons. Examples of Personal Accounts are:

- Capital
- Drawings
- Bank
- Creditors
- Debtors

Golden Rule for Personal Accounts	
Debit the Receiver	Credit the Giver

Real Accounts

The accounts that represent tangible and intangible assets are known as real accounts. Examples of Real Accounts are:

- Plant & Machinery
- Land
- Buildings
- Cash

Golden Rule for Real Accounts	
Debit What Comes In	Credit What Goes Out

Nominal Accounts

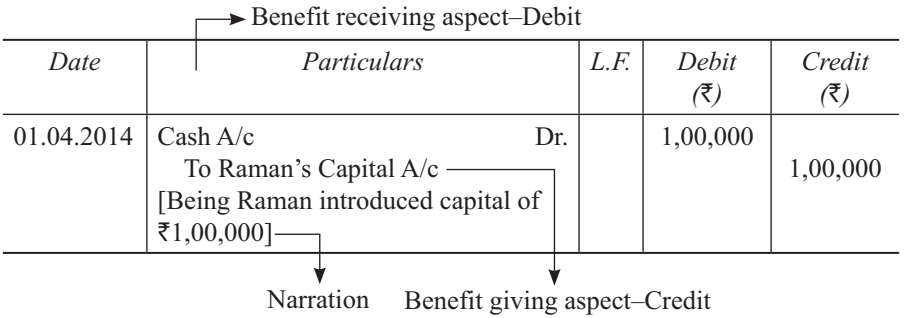
Accounts that are related to expenses, losses, incomes or gains are called nominal accounts. Examples of Nominal Accounts are:

- Purchases
- Wages
- Salaries
- Discount
- Printing and Stationery

Golden Rule for Nominal Accounts	
Debit All Expenses and Losses	Credit All Incomes and Gains

› 3.2.5 Journalising the Transaction

On 1st April 2014, Raman commenced a business with a capital of ₹1,00,000. To journalise the above transaction, the two aspects have to be identified and they have to be classified as debit and credit. In this transaction, Raman introduced his capital of ₹1,00,000 to the business. Here, the money is given to business as a capital. That means the business has received a sum of money as capital from its owner, which is to be repaid. Hence, cash is one aspect and capital is another aspect. The business received cash (receiving aspect) and it is to be given to Raman as capital (giving aspect).



In a journal, for every debit, there will be an equal and corresponding credit and vice versa. Thus, it is the procedure to be followed to journalise the transactions.

✎ ILLUSTRATION 1:

From the following transactions, identify the aspects and mention the accounting aspects.

(a) Rahul commenced business with a capital of ₹5,00,000

(b) Deposited ₹1,00,000 into Canara Bank

(c) Purchased goods worth ₹25,500 for cash

(d) Goods bought from Mohan ₹45,200

(e) Sold goods for cash ₹12,000

(f) Sold goods to Ram Kumar ₹15,500

(g) Paid electrical charges ₹5,400

(h) Purchased furniture for office use ₹2,500

(i) Amount withdrawn from bank ₹40,000

(j) Paid to Mohan ₹15,000

(k) Received cash from Ram Kumar ₹5,500

Transactions	*Two Accounts identified*	*Type of Accounts*	*Effects*
Rahul commenced business with a capital of ₹5,00,000	i. Cash A/c ii. Capital A/c	Real A/c Real A/c	Debit – receiving benefit Credit – giving benefit

(Contd.)

Deposited ₹1,00,000 into Canara Bank	i. Canara Bank A/c ii. Cash A/c	Real A/c Real A/c	Debit – receiving benefit Credit – giving benefit
Purchased goods worth ₹25,500 for cash	i. Purchases A/c ii. Cash A/c	Nominal A/c Real A/c	Debit – receiving benefit Credit – giving benefit
Goods bought from Mohan ₹45,200	i. Purchases A/c ii. Mohan A/c	Nominal A/c Personal A/c	Debit – receiving benefit Credit – giving benefit
Sold goods for cash ₹12,000	i. Cash A/c ii. Sales A/c	Real A/c Nominal A/c	Debit – receiving benefit Credit – giving benefit
Sold goods to Ram Kumar ₹15,500	i. Ram Kumar A/c ii. Sales A/c	Personal A/c Nominal A/c	Debit – receiving benefit Credit – giving benefit
Paid electrical charges ₹5,400	i. Electrical Charges A/c ii. Cash A/c	Nominal A/c Real A/c	Debit – receiving benefit Credit – giving benefit
Purchased a furniture for office use ₹2,500	i. Office Furniture A/c ii. Cash A/c	Real A/c Real A/c	Debit – receiving benefit Credit – giving benefit
Amount withdrawn from bank ₹40,000	i. Cash A/c ii. Bank A/c	Real A/c Personal A/c	Debit – receiving benefit Credit – giving benefit
Paid to Mohan ₹15,000	i. Mohan A/c ii. Cash A/c	Personal A/c Real A/c	Debit – receiving benefit Credit – giving benefit
Received cash from Ram Kumar ₹5,500	i. Cash A/c ii. Ram Kumar A/c	Real A/c Personal A/c	Debit – receiving benefit Credit – giving benefit

✎ ILLUSTRATION 2:

The following are the transactions of Mr. Kumar during the month of July 2011.

1 Capital introduced by Mr. Kumar ₹10,000

2 Furniture purchased for cash ₹500

7 Purchased goods for cash ₹3,000

11 Sold goods to Raman for cash ₹1,500

15 Paid electricity charges ₹150

Journalise the above transactions in the books of Mr. Kumar.

Solution:

Journal Entries in the books of Mr. Kumar

Date	*Particulars*		*L.F.*	*Debit (₹)*	*Credit (₹)*
01.07.2011	Cash A/c	Dr.		10,000	
	To Kumar's Capital A/c				10,000
	[Being capital introduced by Kumar]				
02.07.2011	Furniture A/c	Dr.		500	
	To Cash A/c				500
	[Being furniture purchased for cash]				
07.07.2011	Purchases A/c	Dr.		3,000	
	To Cash A/c				3,000
	[Being cash purchases made]				
11.07.2011	Cash A/c	Dr.		1,500	
	To Sales A/c				1,500
	[Being cash sales made]				
15.07.2011	Electricity Charges A/c	Dr.		150	
	To Cash A/c				150
	[Being electricity charges paid]				

✎ ILLUSTRATION 3:

Mr. Kiran gives the following information. You are required to journalise them in his books.

March 2000

1	Commenced business with a cash	2,60,000
3	Opened an account with a bank and deposited	25,000
8	Purchased goods for cash	50,000
10	Purchased furniture for cash	1,500
13	Sold goods for cash	12,000
15	Sold goods to Kumar	8,000

Solution:

In the books of Mr. Kiran

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.03.2000	Cash A/c Dr.		2,60,000	
	To Kiran's Capital A/c			2,60,000
	[Being capital introduced by Kiran]			
03.03.2000	Bank A/c Dr.		25,000	
	To Cash A/c			25,000
	[Being cash deposited into bank]			
08.03.2000	Purchases A/c Dr.		50,000	
	To Cash A/c			50,000
	[Being purchases made]			
10.03.2000	Furniture A/c Dr.		1,500	
	To Cash A/c			1,500
	[Being furniture purchased for cash]			
13.03.2000	Cash A/c Dr.		12,000	
	To Sales A/c			12,000
	[Being goods sold for cash]			
15.03.2000	Kumar A/c Dr.		8,000	
	To Sales A/c			8,000
	[Being goods sold to Kumar on credit]			

✎ ILLUSTRATION 4:

Mr. Narayanan, running a business, gives the following transactions during the month of February 2011.

10 Cash invested into business ₹1,45,000

18 Sold goods to Ganesh ₹14,000

20 Purchased goods from Daniel ₹33,000

23 Ganesh settled his account ₹13,500

26 Paid to Daniel ₹32,000 and settled the account

Journalise the above transactions.

Solution:

In the books of Mr. Narayanan

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
10.02.2011	Cash A/c Dr.		1,45,000	
	To Narayanan's Capital A/c			1,45,000
	[Being capital introduced by Narayanan]			
18.02.2011	Ganesh A/c Dr.		14,000	
	To Sales A/c			14,000
	[Being goods sold to Ganesh on credit]			
20.02.2011	Purchases A/c Dr.		33,000	
	To Daniel A/c			33,000
	[Being goods purchased on credit from Daniel]			
23.02.2011	Cash A/c Dr.		13,500	
	Discount Allowed A/c Dr.		500	14,000
	To Ganesh A/c			
	[Being cash received from Ganesh and allowed a discount]			
26.02.2011	Daniel A/c Dr.		33,000	
	To Cash A/c			32,000
	To Discount Received A/c			1,000
	[Being cash paid to Daniel in full settlement]			

✎ ILLUSTRATION 5:

Mr. Vishnu furnishes the following information relating to his business in October 2014. Pass Journal Entries in his books.

1 Bought Plant and Machinery for ₹2,40,000

4 Purchased goods on credit from Krishna ₹1,20,000

7 Sold goods on credit to Pramesh ₹45,000

8 Cash paid to Krishna ₹54,500

12 Commission received ₹2,000

15 Rent received ₹12,000

Solution:

In the books of Vishnu

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.10.2014	Plant and Machinery A/c Dr.		2,40,000	
	To Cash A/c			2,40,000
	[Being plant & machinery purchased for cash]			
04.10.2014	Purchases A/c Dr.		1,20,000	
	To Krishna A/c			1,20,000
	[Being goods purchased from Krishna on credit]			
07.10.2014	Pramesh A/c Dr.		45,000	
	To Sales A/c			45,000
	[Being goods sold to Pramesh on credit]			
08.10.2014	Krishna A/c Dr.		54,500	
	To Cash A/c			54,500
	[Being cash paid to Krishna]			
12.10.2014	Cash A/c Dr.		2,000	
	To Commission A/c			2,000
	[Being commission received]			
15.10.2014	Cash A/c Dr.		12,000	
	To Rent Received A/c			12,000
	[Being rent received]			

✎ ILLUSTRATION 6

Yogesh provides the following particulars on 1st June 2006: Cash in hand ₹20,000; Cash at bank ₹15,050; Stock ₹45,000; Machinery ₹30,000; Debtors: Nalan ₹10,530, Kovalan ₹5,500; Creditors: Bala ₹12,500, Murugan ₹45,200; and Loan from Ashish ₹5,780. Pass Journal entry and calculate the Capital.

Solution:

In the books of Yogesh

Date	*Particulars*		*L.F.*	*Debit (₹)*	*Credit (₹)*
01.06.2006	Cash in Hand A/c	Dr.		20,000	
	Cash at Bank A/c	Dr.		15,050	
	Stock A/c	Dr.		45,000	
	Machinery A/c	Dr.		30,000	
	Nalan A/c	Dr.		10,530	
	Kovalan A/c	Dr.		5,500	
	To Bala A/c				12,500
	To Murugan A/c				45,200
	To Loan from Ashish A/c				5,780
	To Capital A/c (Bal. fig.)				**62,600**
	[Being various opening balances of assets and liabilities on 01.06.2006 and the capital entered]				

✎ ILLUSTRATION 7:

Mr. Siddarth started his business on 1st May 2010 with the following balances: Cash ₹25,000; Stock ₹10,500; Furniture ₹2,000; Office Equipment ₹14,000; and Creditors ₹3,500. Give an opening entry.

Solution:

In the books of Mr. Siddarth

Date	*Particulars*		*L.F.*	*Debit (₹)*	*Credit (₹)*
01.05.2010	Cash A/c	Dr.		25,000	
	Stock A/c	Dr.		10,500	
	Furniture A/c	Dr.		2,000	
	Office Equipment A/c	Dr.		14,000	
	To Creditors A/c				3,500
	To Siddarth's Capital A/c (Bal. fig.)				**48,000**
	[Being entry for all opening balances made]				

✎ ILLUSTRATION 8:

Mr. Prem Kumar provides the following information for the month of March 2008. Pass necessary Journal Entries in his books.

01 Started business with a capital of ₹1,25,000

03 Deposited cash into bank ₹25,000

08 Purchased goods from Ashiq ₹18,000

11 Sold goods for cash ₹8,000

15 Paid cheque to Ashiq ₹7,500

19 Sold goods to Joseph ₹3,500

22 Paid carriage inwards ₹500

29 Joseph paid ₹3,250 and settled the account

30 Paid ₹10,000 to Ashiq and settled his account

31 Paid salaries ₹1,000 and rent ₹500

Solution:

In the books of Mr. Prem Kumar

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.03.2008	Cash A/c Dr.		1,25,000	
	To Prem Kumar's Capital A/c			1,25,000
	[Being capital introduced by Prem Kumar]			
03.03.2008	Bank A/c Dr.		25,000	
	To Cash A/c			25,000
	[Being cash paid into bank]			
08.03.2008	Purchases A/c Dr.		18,000	
	To Ashiq A/c			18,000
	[Being goods purchased from Ashiq on credit]			
11.03.2008	Cash A/c Dr.		8,000	
	To Sales A/c			8,000
	[Being goods sold for cash]			
15.03.2008	Ashiq A/c Dr.		7,500	
	To Bank A/c			7,500
	[Being cheque paid to Ashiq]			

(Contd.)

19.03.2008	Joseph A/c	Dr.		3,500	
	To Sales A/c				3,500
	[Being goods sold to Joseph on credit]				
22.03.2008	Carriage Inwards	Dr.		500	
	To Cash A/c				500
	[Being carriage inwards paid]				
29.03.2008	Cash A/c	Dr.		3,250	
	Discount Allowed A/c	Dr.		250	
	To Joseph A/c				3,500
	[Being cash received from Joseph and allowed discount]				
30.03.2008	Ashiq A/c	Dr.		10,500	
	To Cash A/c				10,000
	To Discount Received A/c				500
	[Being cash paid to Ashiq and received discount]				
31.03.2008	Salaries A/c	Dr.		1,000	
	Rent A/c	Dr.		500	
	To Cash A/c				1,500
	[Being salaries and rent paid in cash]				

✎ ILLUSTRATION 9:

Pass journal entries for the following transactions.

01.01.2016 Goods bought from Kiran for cash ₹1,00,000

03.01.2016 Paid cartage ₹4,000

07.01.2016 Purchased a machinery for ₹40,000 and spent ₹1,500 for its installation

09.01.2016 Sold goods for cash ₹45,000

13.01.2016 Dinesh sold goods to us ₹75,000

15.01.2016 Goods returned to Dinesh ₹2,500

19.01.2016 Symphony Co. bought goods from us ₹18,500

24.01.2016 Paid travelling expenses ₹800

31.01.2016 Symphony Co. returned goods ₹500

Solution:

Journal Entries

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.01.2016	Purchases A/c Dr.		1,00,000	
	To Cash A/c			1,00,000
	[Being goods purchased for cash]			
03.01.2016	Cartage A/c Dr.		4,000	
	To Cash A/c			4,000
	[Being cartage paid]			
07.01.2016	Machinery A/c Dr.		41,500	
	To Cash A/c			41,500
	[Being machinery purchased and installation charges paid]			
09.01.2016	Cash A/c Dr.		45,000	
	To Sales A/c			45,000
	[Being goods sold for cash]			
13.01.2016	Purchases A/c Dr.		75,000	
	To Dinesh A/c			75,000
	[Being goods purchased from Dinesh on credit]			
15.01.2016	Dinesh A/c Dr.		2,500	
	To Purchases Returns A/c			2,500
	[Being goods returned to Dinesh]			
19.01.2016	Symphony Co. A/c Dr.		18,500	
	To Sales A/c			18,500
	[Being goods sold to Symphony Co. on credit]			
24.01.2016	Travelling Expenses A/c Dr.		800	
	To Cash A/c			800
	[Being travelling expenses paid]			
31.01.2016	Sales Returns A/c Dr.		500	
	To Symphony Co. A/c			500
	[Being goods returned by Symphony Co.]			

✎ ILLUSTRATION 10:

The following transactions occurred during the month of March 2007.

02 Purchased Furniture for ₹12,000

05 Spent ₹5,000 for general expenses

10 Received cash from Sundar ₹14,000

15 Purchased goods worth ₹25,600 from Arun

20 Sold goods for ₹18,600 for cash

22 Paid cash to Arun ₹12,600 on account

25 Purchased goods from Asha ₹15,525

Journalise the above transactions.

Solution:

Journal Entries

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
02.03.2007	Furniture A/c Dr.		12,000	
	To Cash A/c			12,000
	[Being Furniture paid for cash]			
05.03.2007	General Expenses A/c Dr.		5,000	
	To Cash A/c			5,000
	[Being general expenses paid in cash]			
10.03.2007	Cash A/c Dr.		14,000	
	To Sundar A/c			14,000
	[Being cash received from Sundar]			
15.03.2007	Purchases A/c Dr.		25,600	
	To Arun A/c			25,600
	[Being goods purchased from Arun on Credit]			
20.03.2007	Cash A/c Dr.		18,600	
	To Sales A/c			18,600
	[Being goods sold for cash]			
22.03.2007	Arun A/c Dr.		12,600	
	To Cash A/c			12,600
	[Being cash paid to Arun]			

(Contd.)

25.03.2007	Purchases A/c Dr. To Asha A/c [Being goods purchased from Asha on credit]		15,525	 15,525

✎ ILLUSTRATION 11:

Nalan submits the following records of his business during the month of May 2005. You are required to journalise the transactions.

01 Nalan introduced an additional capital of ₹50,000

08 Deposited cash into bank ₹12,000

12 Sold goods to Mukesh ₹3,000

15 Bought goods worth ₹7,220 from ABC & Co.

18 Purchased machinery for cash ₹13,500

20 Sold an office equipment for ₹2,500

22 Withdrew ₹4,000 from bank for personal use

Solution:

In the books of Nalan

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.05.2005	Cash A/c Dr. To Nalan's Capital A/c [Being capital introduced by Nalan]		50,000	 50,000
08.05.2005	Bank A/c Dr. To Cash A/c [Being cash deposited into bank]		12,000	 12,000
12.05.2005	Mukesh A/c Dr. To Sales A/c [Being goods sold to Mukesh on credit]		3,000	 3,000
15.05.2005	Purchases A/c Dr. To ABC & Co. A/c [Being goods purchased from ABC & Co. on credit]		7,220	 7,220

(Contd.)

18.05.2005	Machinery A/c Dr.		13,500	
	To Cash A/c			13,500
	[Being machinery purchased for cash]			
20.05.2005	Cash A/c Dr.		2,500	
	To Office Equipment A/c			2,500
	[Being office equipment sold for cash]			
22.05.2005	Drawings A/c Dr.		4,000	
	To Bank A/c			4,000
	[Being amount withdrawn for personal use]			

✎ ILLUSTRATION 12:

Paneer Selvam submits the following details of his business transactions for the month of November 2011.

1 Purchased goods for cash ₹45,550

2 Sold goods to Narendran ₹4,500

3 Bought a machinery from Sam ₹14,000 on credit

4 Narendran paid ₹4,000 and settled his account

5 Electricity charges paid in cash ₹120

6 Withdrew cash ₹400 for his personal use

7 Shah sold goods to us ₹25,000

8 Muqthar bought goods worth ₹12,500

9 Muqthar paid ₹11,750 and settled his account

10 Paid to Shah ₹24,800 and settled the account

Journalise the above transactions in his books of accounts.

Solution:

In the books of Paneer Selvam

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.11.2011	Purchases A/c Dr.		45,550	
	To Cash A/c			45,550
	[Being goods purchased for cash]			

(Contd.)

02.11.2011	Narendran A/c Dr.		4,500	
	To Sales A/c			4,500
	[Being goods sold to Narendran on credit]			
03.11.2011	Machinery A/c Dr.		14,000	
	To Sam A/c			14,000
	[Being machinery bought from Sam on credit]			
04.11.2011	Cash A/c Dr.		4,000	
	Discount Allowed A/c Dr.		500	
	To Narendran A/c			4,500
	[Being cash received from Narendran in full settlement]			
05.11.2011	Electricity Charges A/c Dr.		120	
	To Cash A/c			120
	[Being electricity charges paid in cash]			
06.11.2011	Drawings A/c Dr.		400	
	To Cash A/c			400
	[Being cash withdrawn for personal use]			
07.11.2011	Purchases A/c Dr.		25,000	
	To Shah A/c			25,000
	[Being goods bought from Shah on credit]			
08.11.2011	Muqthar A/c Dr.		12,500	
	To Sales A/c			12,500
	[Being goods sold to Muqthar on credit]			
09.11.2011	Cash A/c Dr.		11,750	
	Discount Allowed A/c Dr.		750	
	To Muqthar A/c			12,500
	[Being cash received from Muqthar and allowed him a discount on settlement]			
10.11.2011	Shah A/c Dr.		25,000	
	To Cash A/c			24,800
	To Discount Received A/c			200
	[Being cash paid to Shah in full settlement]			

✎ ILLUSTRATION 13:

Lokesh is a small merchant and had the following business transactions during the month of September 2009.

1 Purchased goods worth ₹14,000 from Rajesh & Co.

5 Sold typewriter for cash ₹3,000

10 Goods worth ₹2,500 were returned to Rajesh & Co.

13 Purchased goods from Pramesh for ₹25,000

17 Paid cash to Rajesh ₹8,500

22 Sold goods to Ravi Kumar ₹10,000

24 Paid import duty ₹4,500

27 Goods returned by Ravi Kumar ₹750

28 Paid salaries in cash ₹4,000

29 Received cash ₹9,000 from Ravi Kumar in full settlement

Solution:

In the books of Lokesh

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.09.2009	Purchases A/c Dr.		14,000	
	To Rajesh & Co. A/c			14,000
	[Being goods purchased from Rajesh on credit]			
05.09.2009	Cash A/c Dr.		3,000	
	To Typewriter A/c			3,000
	[Being typewriter sold for cash]			
10.09.2009	Rajesh & Co. A/c Dr.		2,500	
	To Purchases Returns A/c			2,500
	[Being goods returned to Rajesh]			
13.09.2009	Purchases A/c Dr.		25,000	
	To Pramesh A/c			25,000
	[Being goods purchased from Pramesh on credit]			
17.09.2009	Rajesh A/c Dr.		8,500	
	To Cash A/c			8,500
	[Being cash paid to Rajesh]			

(Contd.)

22.09.2009	Ravi Kumar A/c Dr.		10,000	
	To Sales A/c			10,000
	[Being goods sold to Ravi Kumar on credit]			
24.09.2009	Import Duty A/c Dr.		4,500	
	To Cash A/c			4,500
	[Being import duty paid in cash]			
27.09.2009	Sales Returns A/c Dr.		750	
	To Ravi Kumar A/c			750
	[Being goods returned by Ravi Kumar]			
28.09.2009	Salaries A/c Dr.		4,000	
	To Cash A/c			4,000
	[Being salaries paid in cash]			
29.09.2009	Cash A/c Dr.		9,000	
	Discount Allowed A/c Dr.		250	
	To Ravi Kumar A/c			9,250
	[Being cash received from Ravi Kumar and discount allowed]			

✎ ILLUSTRATION 14:

Ms. Parveen gives the following data relating to the month of April 2015.

1 Started business with Cash ₹1,40,000, Bank ₹40,250, Stock ₹30,400, Machinery ₹14,500, Debtors ₹4,000 and Creditors ₹10,000

5 Withdrew cash from bank for office use ₹20,500

10 Purchased goods from Keerthilal & Co. ₹40,600

13 Returned goods to Keerthilal & Co. ₹1,600

16 Sold goods for cash ₹29,400

17 Paid salesman salaries ₹14,000

20 Paid ₹15,400 to Keerthilal & Co.

23 Sold goods to Ram ₹4,500

26 Goods returned by Ram ₹75

29 Conveyance charges paid ₹180

30 Paid telephone charges ₹200 and rent ₹4,000

Solution:

In the books of Ms. Parveen

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.04.2015	Cash A/c Dr.		1,40,000	
	Bank A/c Dr.		40,250	
	Stock A/c Dr.		30,400	
	Machinery A/c Dr.		14,500	
	Debtors A/c Dr.		4,000	
	To Creditors A/c			10,000
	To Capital A/c (Bal. fig.)			**2,19,150**
	[Being the opening balances entered]			
05.04.2015	Cash A/c Dr.		20,500	
	To Bank A/c			20,500
	[Being cash withdrawn from bank for office use]			
10.04.2015	Purchases A/c Dr.		40,600	
	To Keerthilal & Co. A/c			40,600
	[Being goods purchased from Keerthilal & Co. on credit]			
13.04.2015	Keerthilal & Co. A/c Dr.		1,600	
	To Purchases Returns A/c			1,600
	[Being goods returned from Keerthilal & Co.]			
16.04.2015	Cash A/c Dr.		29,400	
	To Sales A/c			29,400
	[Being goods sold for cash]			
17.04.2015	Salesman Salaries A/c Dr.		14,000	
	To Cash A/c			14,000
	[Being salesman salaries paid in cash]			
20.04.2015	Keerthilal & Co A/c Dr.		15,400	
	To Cash A/c			15,400
	[Being cash paid to Keerthilal & Co.]			
23.04.2015	Ram A/c Dr.		4,500	
	To Sales A/c			4,500
	[Being goods sold to Ram on credit]			

(Contd.)

26.04.2015	Sales Returns A/c	Dr.		75	
	To Ram A/c				75
	[Being goods returned by Ram]				
29.04.2015	Conveyance Charges A/c	Dr.		180	
	To Cash A/c				180
	[Being conveyance charges paid in cash]				
30.04.2015	Telephone Charges A/c	Dr.		200	
	Rent A/c	Dr.		4,000	
	To Cash A/c				4,200
	[Being telephone expenses and rent paid in cash]				

✎ ILLUSTRATION 15:

Mr. Ansar is a cloth merchant and gives the following list of transactions.

July 2014

1	Commenced his business with a capital of ₹5,20,000
8	Opened an account in Canara Bank and deposited ₹50,000
9	Withdrawn money from bank ₹13,500 for personal use
12	Purchased goods for ₹1,25,000 on credit from Sangam & Co.
15	Paid ₹45,000 to Sangam & Co. through cheque
19	Sold goods for cash ₹75,000
20	Paid Freight charges ₹4,500 by cheque
23	Paid sales commission ₹4,000
26	Withdrew from Bank ₹15,550 for office use
27	Goods withdrawn for personal use ₹2,250
30	Salaries paid in cash ₹12,500
30	Insurance premium in cash ₹5,000

Solution:

In the books of Mr. Ansar

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.07.2014	Cash A/c Dr.		5,20,000	
	To Ansar's Capital A/c			5,20,000
	[Being capital introduced by Ansar]			

(Contd.)

08.07.2014	Canara Bank A/c Dr.		50,000	
	To Cash A/c			50,000
	[Being an account opened with Canara Bank and money deposited]			
09.07.2014	Drawings A/c Dr.		13,500	
	To Canara Bank A/c			13,500
	[Being amount withdrawn from Canara Bank]			
12.07.2014	Purchases A/c Dr.		1,25,000	
	To Sangam & Co.			1,25,000
	[Being goods purchased from Sangam & Co. on credit]			
15.07.2014	Sangam & Co. A/c Dr.		45,000	
	To Bank A/c			45,000
	[Being amount paid to Sangam & Co through cheque]			
19.07.2014	Cash A/c Dr.		75,000	
	To Sales A/c			75,000
	[Being goods sold for cash]			
20.07.2014	Freight Charges A/c Dr.		4,500	
	To Bank A/c			4,500
	[Being freight charges paid]			
23.07.2014	Sales Commission A/c Dr.		4,000	
	To Cash A/c			4,000
	[Being sales commission paid]			
26.07.2014	Cash A/c Dr.		15,550	
	To Bank A/c			15,550
	[Being cash withdrawn from bank]			
27.07.2014	Drawings A/c Dr.		2,250	
	To Purchases A/c			2,250
	[Being goods withdrawn for personal use]			
30.07.2014	Salaries A/c Dr.		12,500	
	Insurance A/c Dr.		5,000	
	To Cash A/c			17,500
	[Being salaries and insurance paid in cash]			

✎ ILLUSTRATION 16:

Shri Kothari gives the following details of his business transactions. You are required to journalise the transactions.

2 Opened an account in a bank and deposited cash ₹20,000

5 Air conditioner purchased for cash ₹18,000

8 Sold machinery to Rahim on credit ₹1,000

13 Withdrew cash from Bank for office use ₹4,500

18 Received cash from Rahim ₹500

25 Purchased printer from Kannan ₹14,200

28 Bonus paid in cash to employees ₹1,500

Solution:

In the books of Shri Kothari

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
02.01.2014	Bank A/c Dr.		20,000	
	To Cash A/c			20,000
	[Being cash deposited in to bank]			
05.01.2014	Air Conditioner A/c Dr.		18,000	
	To Cash A/c			18,000
	[Being air conditioner purchased for cash]			
08.01.2014	Rahim A/c Dr.		1,000	
	To Machinery A/c			1,000
	[Being machinery sold to Rahim on credit]			
13.01.2014	Cash A/c Dr.		4,500	
	To Bank A/c			4,500
	[Being cash withdrawn from bank]			
18.01.2014	Cash A/c Dr.		500	
	To Rahim A/c			500
	[Being cash received from Rahim]			
25.01.2014	Printer A/c Dr.		14,200	
	To Kannan A/c			14,200
	[Being printer purchased from Kannan on credit]			

(Contd.)

28.01.2014	Bonus A/c Dr.		1,500	
	To Cash A/c			1,500
	[Being bonus paid in cash]			

✎ ILLUSTRATION 17:

Journalise the following transactions in the books of Ms. Janani.

July 2004

1 Commenced business with a capital of ₹50,000

4 Opened an account with IOB and deposited ₹4,000

8 Purchased goods worth ₹5,000 for cash

10 Sold motor cycle for cash ₹2,500

15 Purchased equipment from Mohan ₹10,000

20 Sold goods to Ramesh ₹3,500

31 Paid wages ₹1,500

31 Entertainment expenses paid in cash ₹1,000

Solution:

In the books of Ms. Janani

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.07.2004	Cash A/c Dr.		50,000	
	To Janani's Capital A/c			50,000
	[Being capital introduced by Janani]			
04.07.2004	IOB A/c Dr.		4,000	
	To Cash A/c			4,000
	[Being account opened with IOB and cash deposited]			
08.07.2004	Purchases A/c Dr.		5,000	
	To Cash A/c			5,000
	[Being purchased for cash]			
10.07.2004	Cash A/c Dr.		2,500	
	To Motor Cycle A/c			2,500
	[Being motor cycle sold for cash]			

(Contd.)

15.07.2004	Equipment A/c Dr.		10,000	
	To Mohan A/c			10,000
	[Being equipment purchased from Mohan]			
20.07.2004	Ramesh A/c Dr.		3,500	
	To Sales A/c			3,500
	[Being goods sold to Ramesh on credit]			
31.07.2004	Wages A/c Dr.		1,500	
	To Cash A/c			1,500
	[Being wages paid in cash]			
31.07.2004	Entertainment Expenses A/c Dr.		1,000	
	To Cash A/c			1,000
	[Being entertainment expenses paid]			

✎ ILLUSTRATION 18:

Journalise the following transactions in the books of Kannan.

June 2009

1 Kannan started business with a capital of ₹1,50,000
3 Cash deposited into bank ₹34,000
9 Purchased goods for cash ₹25,000
17 Sold goods for cash ₹7,500
19 Purchased goods from Sohan ₹60,000
28 Furniture sold to Kamesh ₹23,500
31 Salaries and wages paid in cash ₹2,500
31 Godown rent paid ₹4,000
31 Electricity charges paid ₹200

Solution:

In the books of Kannan

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.06.2009	Cash A/c Dr.		1,50,000	
	To Kannan's Capital A/c			1,50,000
	[Being capital invested into business]			

(Contd.)

03.06.2009	Bank A/c Dr.		34,000	
	To Cash A/c			34,000
	[Being an account opened and cash deposited]			
09.06.2009	Purchases A/c Dr.		25,000	
	To Cash A/c			25,000
	[Being goods purchased for cash]			
17.06.2009	Cash A/c Dr.		7,500	
	To Sales A/c			7,500
	[Being goods sold for cash]			
19.06.2009	Purchases A/c Dr.		60,000	
	To Sohan A/c			60,000
	[Being goods purchased from Sohan on credit]			
28.06.2009	Kamesh A/c Dr.		23,500	
	To Furniture A/c			23,500
	[Being furniture sold to Kamesh on credit]			
31.06.2009	Salaries & Wages A/c Dr.		2,500	
	To Cash A/c			2,500
	[Being salaries and wages paid in cash]			
31.06.2009	Godown Rent A/c Dr.		4,000	
	To Cash A/c			4,000
	[Being godown rent paid in cash]			
31.06.2009	Electricity Charges A/c Dr.		200	
	To Cash A/c			200
	[Being electricity charges paid in cash]			

✎ ILLUSTRATION 19:

Journalise the following transactions in the books of Suresh.

Jan. 2010

1 Suresh commenced business with a capital of ₹8,50,000

3 Purchased furniture for office ₹30,000

8 Deposited cash into bank ₹1,50,000

10 Purchased goods ₹1,25,000 for cash

13 Withdrew cash from bank for office use ₹25,000

15 Telephone charges paid ₹1,500

17 Dividend received in cash ₹2,000

18 Sold HP printer for cash ₹17,500

19 Purchased motor car from Prem ₹80,000

28 Land sold to Karthick ₹83,500

30 Paid wages ₹12,500, commission ₹24,000 and conveyance charges ₹2,200

Solution:

In the books of Suresh

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.01.2010	Cash A/c Dr.		8,50,000	
	To Suresh's Capital A/c			8,50,000
	[Being capital introduced by Suresh]			
03.01.2010	Furniture A/c Dr.		30,000	
	To Cash A/c			30,000
	[Being furniture purchased for cash]			
08.01.2010	Bank A/c Dr.		1,50,000	
	To Cash A/c			1,50,000
	[Being cash deposited into bank]			
10.01.2010	Purchases A/c Dr.		1,25,000	
	To Cash A/c			1,25,000
	[Being goods purchased for cash]			
13.01.2010	Cash A/c Dr.		25,000	
	To Bank A/c			25,000
	[Being cash withdrawn from bank for office use]			
15.01.2010	Telephone Charges A/c Dr.		1,500	
	To Cash A/c			1,500
	[Being telephone charges paid]			

(Contd.)

17.01.2010	Cash A/c	Dr.		2,000	
	To Dividend Received A/c				2,000
	[Being dividend received in cash]				
18.01.2010	Cash A/c	Dr.		17,500	
	To HP Printer A/c				17,500
	[Being HP printer sold for cash]				
19.01.2010	Motor Car A/c	Dr.		80,000	
	To Prem A/c				80,000
	[Being motor car purchased from Prem on credit]				
28.01.2010	Karthick A/c	Dr.		83,500	
	To Land A/c				83,500
	[Being land sold to Karthick on credit]				
30.01.2010	Wages A/c	Dr.		12,500	
	Commission A/c	Dr.		24,000	
	Conveyance Charges A/c	Dr.		2,200	
	To Cash A/c				38,700
	[Being wages, commission and conveyance charges paid in cash]				

✎ ILLUSTRATION 20:

Journalise the following transactions in the books of Saurav for June 2013.

1 Started business with ₹1,50,000; out of which, ₹50,000 was borrowed from his wife

4 Purchased goods from Sri Venkat for ₹50,000; out of which, 10% is paid in cash

7 Cash purchases ₹41,500

11 Sold goods to Raghavan worth ₹25,000; out of which, ₹5,000 was received in cash

16 Deposited ₹7,500 into bank

20 Uninsured goods caught in fire worth ₹400

22 Cash paid to Venkat ₹43,500 in full settlement of account

25 Cash received ₹19,800 from Raghavan in full settlement of his account

30 Interest credited ₹1,200 directly into bank account

Solution:

In the books of Saurav

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.06.2013	Cash A/c Dr.		1,50,000	
	To Capital A/c			1,00,000
	To Loan from Wife A/c			50,000
	[Being capital brought into business]			
04.06.2013	Purchases A/c Dr.		50,000	
	To Cash A/c			5,000
	To Sri Venkat A/c			45,000
	[Being goods purchased from Venkat. 10% is paid in cash and the balance on credit]			
07.06.2013	Purchases A/c Dr.		41,500	
	To Cash A/c			41,500
	[Being goods purchased for cash]			
11.06.2013	Raghavan A/c Dr.		20,000	
	Cash A/c Dr.		5,000	
	To Sales A/c			25,000
	[Being goods sold to Raghavan and ₹5,000 is received in cash]			
16.06.2013	Bank A/c Dr.		7,500	
	To Cash A/c			7,500
	[Being cash deposited into bank]			
20.06.2013	Loss by Fire A/c Dr.		1,500	
	To Purchases A/c			1,500
	[Being uninsured goods lost in fire entered]			
22.06.2013	Sri Venkat A/c Dr.		45,000	
	To Cash A/c			43,500
	To Discount Received A/c			1,500
	[Being amount paid to Venkat and received discount]			

(Contd.)

25.06.2013	Cash A/c	Dr.		19,800	
	Discount Allowed A/c	Dr.		200	
	To Raghavan A/c				20,000
	[Being cash received from Raghavan in full settlement]				
30.06.2013	Bank A/c	Dr.		1,200	
	To Interest A/c				1,200
	[Being interest received directly added into bank account]				

✎ ILLUSTRATION 21:

Mr. Easwar gives the following transactions, which took place in the month of December 2010.

1 Cash in hand ₹45,000; stock ₹15,200; Ravi (debtor) ₹4,500; prepaid insurance ₹300; capital ₹50,000; Sundar (creditor) ₹12,000; outstanding rent ₹3,000

5 Cash paid to Sundar 5,000

6 Purchased goods from Sundar ₹4,500

10 Laptop purchased from Sangavi for ₹10,500

15 Sold goods for cash ₹6,000

19 Paid Municipal Tax ₹500 and general expenses ₹400

22 Cash received from Ravi ₹3,000 and sold goods to him for ₹2,000

25 Fire insurance premium paid ₹1,200

Journalise the above transactions.

Solution:

In the books of Mr. Easwar

Date	*Particulars*		*L.F.*	*Debit (₹)*	*Credit (₹)*
01.12.2010	Cash A/c	Dr.		45,000	
	Stock A/c	Dr.		15,200	
	Ravi A/c	Dr.		4,500	
	Prepaid Insurance	Dr.		300	
	To Capital A/c				50,000

(Contd.)

	To Sundar A/c			12,000
	To Outstanding Rent A/c			3,000
	[Being assets and liabilities recorded]			
05.12.2010	Sundar A/c Dr.		5,000	
	To Cash A/c			5,000
	[Being cash paid to Sundar]			
06.12.2010	Purchases A/c Dr.		4,500	
	To Sundar A/c			4,500
	[Being goods purchased from Sundar on credit]			
10.12.2010	Laptop A/c Dr.		10,500	
	To Sangavi A/c			10,500
	[Being laptop purchased from Sangavi on credit]			
15.12.2010	Cash A/c Dr.		6,000	
	To Sales A/c			6,000
	[Being goods sold for cash]			
19.12.2010	Municipal Tax A/c Dr.		500	
	General Expenses A/c Dr.		400	
	To Cash A/c			900
	[Being Municipal Tax and general expenses paid in cash]			
22.12.2010	Cash A/c Dr.		3,000	
	To Ravi A/c			3,000
	[Being cash received from Ravi]			
22.12.2010	Ravi A/c Dr.		2,000	
	To Sales A/c			2,000
	[Being goods sold to Ravi on credit]			
25.12.2010	Fire Insurance Premium A/c Dr.		1,000	
	To Cash A/c			1,000
	[Being fire insurance premium paid]			

✎ ILLUSTRATION 22:

Journalise the following transactions in the books of Ganesh for the month of August 2014.

1 Ganesh started business with cash ₹4,00,000 and goods ₹40,000
2 Cash deposited into bank ₹1,50,000
3 Purchased goods from Surya & Co for ₹40,000
8 Plant and Machinery sold for cash ₹25,000
11 Paid by cheque to Surya & Co ₹20,000
14 Bought a computer for ₹18,000 for office use. Paid by cheque
19 Withdrew goods worth ₹4,000 for his personal use
20 Sold goods to Arya & Bros. for ₹19,000
21 Withdrew ₹40,000 from bank for office use
24 Bought an auto-rickshaw for delivery of goods ₹35,000
27 Cash received from Arya & Bros ₹12,500.
28 Interest paid ₹450
29 Stationery purchased ₹14,000
31 Depreciation on machinery ₹18,000

Solution:

In the books of Ganesh

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.08.2014	Cash A/c Dr.		4,00,000	
	Stock A/c Dr.		40,000	
	To Capital A/c			4,40,000
	[Being Ganesh started business with cash and goods]			
02.08.2014	Bank A/c Dr.		1,50,000	
	To Cash A/c			1,50,000
	[Being cash deposited into bank]			
03.08.2014	Purchases A/c Dr.		40,000	
	To Surya & Co.			40,000
	[Being goods purchased from Surya & Co. on credit]			
08.08.2014	Cash A/c Dr.		25,000	
	To Plant and Machinery A/c			25,000
	[Being plant and machinery sold for cash]			

(Contd.)

11.08.2014	Surya & Co. Dr.		20,000	
	To Bank A/c			20,000
	[Being cheque paid to Surya & Co.]			
14.08.2014	Computer A/c Dr.		18,000	
	To Bank A/c			18,000
	[Being computer purchased and paid by cheque]			
19.08.2014	Drawings A/c Dr.		4,000	
	To Purchases A/c			4,000
	[Being goods taken for personal use]			
20.08.2014	Arya & Bros. A/c Dr.		19,000	
	To Sales A/c			19,000
	[Being goods sold to Arya & Bros. on credit]			
21.08.2014	Cash A/c Dr.		40,000	
	To Bank A/c			40,000
	[Being cash withdrawn from bank for office use]			
24.08.2014	Auto-rickshaw A/c Dr.		35,000	
	To Cash A/c			35,000
	[Being auto-rickshaw bought]			
27.08.2014	Cash A/c Dr.		12,500	
	To Arya & Bros.			12,500
	[Being cash received from Arya & Bros.]			
28.08.2014	Interest A/c Dr.		450	
	To Cash A/c			450
	[Being interest paid in cash]			
29.08.2014	Stationery A/c Dr.		14,000	
	To Cash A/c			14,000
	[Being stationery purchased]			
31.08.2014	Depreciation A/c Dr.		18,000	
	To Machinery A/c			18,000
	[Being depreciation provided for machinery]			

✎ ILLUSTRATION 23:

Journalise the following transactions in the books of Karnan for the month of July 2010.

1 Commenced business with a capital of ₹1,58,000

8 Cash deposited into bank ₹42,000

10 Purchased goods ₹15,000 for cash

15 Depreciation on Furniture ₹750

20 Purchased books from Sohan ₹60,000

25 Sold typewriter to Kamesh ₹23,500

27 Kamesh settled his account with ₹23,000

28 Cash paid to Sohan ₹45,000

31 Dividend received in cash ₹. 2,500

31 Bonus paid in cash ₹4,000

31 Fixed Assets (Book value ₹10,000 and depreciation written off ₹3,000) was sold for cash ₹5,000

Solution:

In the books of Karnan

Date	*Particulars*		*L.F.*	*Debit (₹)*	*Credit (₹)*
01.07.2010	Cash A/c	Dr.		1,58,000	
	To Karnan's Capital A/c				1,58,000
	[Being capital introduced into business]				
08.07.2010	Bank A/c	Dr.		42,000	
	To Cash A/c				42,000
	[Being cash deposited into bank]				
10.07.2010	Purchases A/c	Dr.		15,000	
	To Cash A/c				15,000
	[Being purchased for cash]				
15.07.2010	Depreciation A/c	Dr.		750	
	To Furniture A/c				750
	[Being depreciation provided for furniture]				

(Contd.)

20.07.2010	Books A/c	Dr.		60,000	
	To Sohan A/c				60,000
	[Being books purchased from Sohan on credit]				
25.07.2010	Kamesh A/c	Dr.		23,500	
	To Typewriter A/c				23,500
	[Being typewriter sold to Kamesh on credit]				
27.07.2010	Cash A/c	Dr.		23,000	
	Discount Allowed A/c	Dr.		500	
	To Kamesh A/c				23,500
	[Being amount received from Kamesh and settled his account]				
28.07.2010	Sohan A/c	Dr.		45,000	
	To Cash A/c				45,000
	[Being cash paid to Sohan]				
31.07.2010	Cash A/c	Dr.		2,500	
	To Dividend A/c				2,500
	[Being dividend received in cash]				
31.07.2010	Bonus A/c	Dr.		4,000	
	To Cash A/c				4,000
	[Being bonus paid in cash]				
31.07.2010	Cash A/c	Dr.		5,000	
	Depreciation A/c	Dr.		3,000	
	Profit & Loss A/c	Dr		2,000	
	To Fixed Assets A/c				10,000
	[Being fixed assets sold for cash]				

✎ ILLUSTRATION 24:

Following are the business transactions of Mr. Xavier in the month of June 2013.

1 Started business with ₹1,40,000; out of which, 10% was borrowed from Josuva

5 Purchased goods from Sri Prem for ₹25,000

7 Paid ₹15,000 to Sri Prem

9 Cash purchases ₹44,500

13 Sold goods to Rahim worth ₹25,000

18 Cash deposited into bank ₹7,500

22 Uninsured goods lost by theft worth ₹4,000

23 Paid audit fees ₹1,000

24 Cash paid to Sri Prem ₹9,500 in full settlement of account

27 Cash received ₹24,800 from Rahim in full settlement of his account

30 Dividend received ₹1,200

30 Lighting expenses paid in cash ₹200

30 Advertisement expenses paid in cash ₹12,000

30 Loan repaid to Josuva ₹4,000

Solution:

In the books of Mr. Xavier

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.06.2013	Cash A/c Dr.		1,40,000	
	To Xavier's Capital A/c			1,26,000
	To Josuva's Loan A/c			14,000
	[Being capital brought into business]			
05.06.2013	Purchases A/c Dr.		25,000	
	To Sri Prem A/c			25,000
	[Being goods purchased from Sri Prem on credit]			
07.06.2013	Sri Prem A/c Dr.		15,000	
	To Cash A/c			15,000
	[Being cash paid to Sri Prem on account]			
09.06.2013	Purchases A/c Dr.		44,500	
	To Cash A/c			44,500
	[Being cash purchases made]			
13.06.2013	Rahim A/c Dr.		25,000	
	To Sales A/c			25,000
	[Being goods sold on credit to Rahim]			

(Contd.)

18.06.2013	Bank A/c Dr.		7,500	
	To Cash A/c			7,500
	[Being cash deposited into bank]			
22.06.2013	Loss by Theft A/c Dr.		4,000	
	To Purchases A/c			4,000
	[Being uninsured goods lost by theft recorded]			
23.06.2013	Audit Fees A/c Dr.		1,000	
	To Cash A/c			1,000
	[Being Audit paid]			
24.06.2013	Sri Prem A/c Dr.		9,500	
	To Cash A/c			9,500
	To Discount Received A/c			500
	[Being amount paid to Sri Prem and discount received]			
27.06.2013	Cash A/c Dr.		24,800	
	Discount Allowed A/c Dr.		200	
	To Rahim A/c			25,000
	[Being amount received from Rahim and his account settled]			
30.06.2013	Cash A/c Dr.		1,200	
	To Dividend A/c			1,200
	[Being dividend received in cash]			
30.06.2013	Lighting Expenses A/c Dr.		200	
	To Bank A/c			200
	[Being lighting charges paid in cash]			
30.06.2013	Advertisement Expenses A/c Dr.		12,000	
	To Cash A/c			12,000
	[Being advertisement expenses paid in cash]			
30.06.2013	Josuva's Loan A/c Dr.		4,000	
	To Cash A/c			4,000
	[Being loan repaid to Josuva]			

✎ ILLUSTRATION 25:

The following are the transactions of Mr. Kumar for the month of September 2011.

1 Introduced a capital of ₹5,50,000

2 Purchased a computer for office purpose ₹25,000

7 Cash deposited into bank ₹50,000

10 Purchased goods worth ₹14,000 and paid through cheque

15 Cash sales ₹4,000

16 Sold loose tools for cash ₹4,500

19 Jain & Co. sold goods to us ₹50,000

20 Somesh & Bros. bought goods from us ₹12,300

21 Selling & distribution expenses paid ₹200

22 Stationery purchased ₹500

23 Paid by cheque ₹35,000 to Jain & Co. on account

24 Received cash from Somesh ₹9,300

25 Cash withdrawn from bank for office purposes ₹15,000

26 Dilip sold goods worth ₹14,500

27 Dilip returned goods worth ₹1,000

28 General expenses paid in cash ₹4,100

29 Received rent ₹14,000 and interest ₹500

30 Paid manager's salary ₹6,500

Journalise the above transactions in the books of Kumar.

Solution:

In the books of Mr. Kumar

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.09.2011	Cash A/c Dr.		5,50,000	
	To Kumar's Capital A/c			5,50,000
	[Being capital introduced by Kumar]			

(Contd.)

02.09.2011	Computer A/c Dr.		25,000	
	To Cash A/c			25,000
	[Being computer purchased for cash]			
07.09.2011	Bank A/c Dr.		50,000	
	To Cash A/c			50,000
	[Being cash deposited in bank]			
10.09.2011	Purchases A/c Dr.		14,000	
	To Bank A/c			14,000
	[Being goods purchased and payment made by cheque]			
15.09.2011	Cash A/c Dr.		4,000	
	To Sales A/c			4,000
	[Being goods sold for cash]			
16.09.2011	Cash A/c Dr.		4,500	
	To Loose Tools A/c			4,500
	[Being loose tools sold for cash]			
19.09.2011	Purchases A/c Dr.		50,000	
	To Jain & Co. A/c			50,000
	[Being goods purchased on credit from Jain]			
20.09.2011	Somesh A/c Dr.		12,300	12,300
	To Sales A/c			
	[Being goods sold on credit to Somesh]			
21.09.2011	Selling & Distribution Expenses A/c Dr.		200	
	To Cash A/c			200
	[Being selling & distribution expenses paid]			
22.09.2011	Stationery A/c Dr.		500	
	To Cash A/c			500
	[Being stationery purchased]			
23.09.2011	Jain & Co. A/c Dr.		35,000	
	To Bank A/c			35,000
	[Being amount paid by cheque]			

(Contd.)

24.09.2011	Cash A/c Dr.		9,300	
	To Somesh A/c			9,300
	[Being cash received from Somesh]			
25.09.2011	Cash A/c Dr.		15,000	
	To Bank A/c			15,000
	[Being cash withdrawn from bank for office use]			
26.09.2011	Purchases A/c Dr.		14,500	
	To Dilip A/c			14,500
	[Being goods purchased from Dilip on credit]			
27.09.2011	Dilip A/c Dr.		1,000	
	To Purchases Returns A/c			1,000
	[Being goods returned to Dilip]			
28.09.2011	General Expenses A/c Dr.		4,100	
	To Cash A/c			4,100
	[Being general expenses paid in cash]			
29.09.2011	Cash A/c Dr.		14,500	
	To Rent A/c			14,000
	To Interest A/c			500
	[Being rent and interest received in cash]			
30.09.2011	Manager's Salary A/c Dr.		6,500	
	To Cash A/c			6,500
	[Being manager's salary paid in cash]			

✎ ILLUSTRATION 26:

Mr. Sekar commenced a business on 1st December 2014 with cash ₹45,000, machinery ₹8,500, stock ₹15,800 and creditors: Ramesh ₹1,900.

The other transactions are as follows:

3 Deposited cash into bank ₹9,000

8 Purchased goods from Naresh & Co. ₹2,800

12 Sold goods to Vinyl & Bros. ₹3,330

14 Paid cash to Naresh & Co. ₹1,800

15 Goods air conditioner sold for cash ₹7,880

20 Vinyl & Bros. paid by cheque ₹2,280

22 Office equipment purchased ₹1,980 for cash

25 Legal charges paid ₹1,700

29 Trade expenses and Brokerage paid ₹14,000 and ₹5,500 respectively

Solution:

In the books of Sekar

Date	*Particulars*		*L.F.*	*Debit (₹)*	*Credit (₹)*
01.12.2014	Cash A/c	Dr.		45,000	
	Machinery A/c	Dr.		8,500	
	Stock A/c	Dr.		15,800	
	To Ramesh A/c				1,900
	To Sekar's Capital A/c (Bal. fig.)				**67,400**
	[Being all assets and liabilities entered]				
03.12.2014	Bank A/c	Dr.		9,000	
	To Cash A/c				9,000
	[Being cash paid into bank]				
08.12.2014	Purchases A/c	Dr.		2,800	
	To Naresh & Co.				2,800
	[Being goods purchased from Naresh & Co. on credit]				
12.12.2014	Vinyl & Bros. A/c	Dr.		3,330	
	To Sales A/c				3,330
	[Being goods sold to Vinyl & Bros.]				
14.12.2014	Naresh & Co. A/c	Dr.		1,800	
	To Cash A/c				1,800
	[Being cash paid to Naresh & Co.]				
15.12.2014	Cash A/c	Dr.		7,880	
	To Air Conditioner A/c				7,880
	[Being air conditioner sold for cash]				

(Contd.)

20.12.2014	Bank A/c Dr.		2,280	
	To Vinyl & Bros. A/c			2,280
	[Being cheque received from Vinyl & Bros.]			
22.12.2014	Office Equipment A/c Dr.		1,980	
	To Cash A/c			1,980
	[Being office equipment purchased]			
25.12.2014	Legal Charges A/c Dr.		1,700	
	To Cash A/c			1,700
	[Being legal charges paid]			
29.12.2014	Trade Expenses A/c Dr.		14,000	
	Brokerage A/c Dr.		5,500	
	To Cash A/c			19,500
	[Being Trade expenses and Brokerage expenses paid in cash]			

✎ ILLUSTRATION 27:

The business transactions of Rahim for the month of April 2014 are given below:

1 Started business with a cash of ₹8,50,000 and with a Bank balance of ₹4,00,000

2 Purchased Machine for packing ₹3,00,000 by cheque

5 Rakesh sold goods to us ₹1,50,000; ₹25,000 was paid on delivery

8 Sulthan purchased goods from us ₹48,500 and he paid ₹4,850 on delivery of goods

12 Paid General expenses ₹1,450

13 Sold goods for cash ₹11,000

15 Received cash from Sulthan ₹24,000

Solution:

In the books of Rahim

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.04.2014	Cash A/c Dr.		8,50,000	
	Bank A/c Dr.		4,00,000	
	To Rahim's Capital A/c			12,50,000
	[Being cash invested into business]			
02.04.2014	Machine A/c Dr.		3,00,000	
	To Bank A/c			3,00,000
	[Being machine purchased paid by cheque]			
05.04.2014	Purchases A/c Dr.		1,50,000	
	To Rakesh A/c			1,25,000
	To Cash A/c			25,000
	[Being goods purchased from Rakesh and ₹25,000 paid]			
08.04.2014	Sulthan A/c Dr.		48,500	
	To Sales A/c			43,650
	To Cash A/c			4,850
	[Being goods sold to Sulthan and received ₹4,850]			
12.04.2014	General Expenses A/c Dr.		1,450	
	To Cash A/c			1,450
	[Being general expenses paid]			
13.04.2014	Cash A/c Dr.		11,000	
	To Sales A/c			11,000
	[Being goods sold for cash]			
15.04.2014	Cash A/c Dr.		24,000	
	To Sulthan A/c			24,000
	[Being amount received from Sulthan]			

✎ ILLUSTRATION 28:

Journalise the following transactions in the books of Mrs. Sumithra for the month of November 2014.

1 Had the following balances:

Cash	₹1,82,125
Stock	₹30,150
Furniture	₹25,450
Rashik (debtor)	₹45,480
Loan from Jagan	₹12,000
Sundar (creditor)	₹43,125

2 Purchased goods from Simon on Cash: ₹7,500 on Credit: ₹25,000

3 Audit fees paid in cash ₹4,500

8 Computer sold to Ravi ₹12,560

9 Cash received from Ravi ₹2,560

10 Paid commission in cash to Senthil ₹1,450

11 Advertisement expenses paid in cash ₹2,000

14 Received commission in cash from Sanjay ₹1,250

15 Repair charges paid in cash ₹12,000

16 Paid import duty in cash ₹4,500

17 Rashik paid ₹45,000 and settled his account

21 Cash paid to Sundar ₹33,000

22 Sold refrigerator for cash ₹5,000

23 Cash paid to Simon ₹10,000

24 Cash deposited into bank ₹4,500

28 Incentive paid to employees in cash ₹10,000

Solution:

In the books of Mrs. Sumithra

Date	*Particulars*		*L.F.*	*Debit (₹)*	*Credit (₹)*
01.11.2014	Cash A/c	Dr.		1,82,125	
	Stock A/c	Dr.		30,150	
	Furniture A/c	Dr.		25,450	

(Contd.)

	Rashik A/c Dr.		45,480	
	To Loan from Jagan A/c			12,000
	To Sundar A/c			43,125
	To Capital A/c (Bal. fig.)			**2,38,080**
	[Being all assets and liabilities recorded]			
02.11.2014	Purchases A/c Dr.		25,000	
	To Cash A/c			7,500
	To Simon A/c			17,500
	[Being goods purchased from Simon]			
03.11.2014	Audit Fees A/c Dr.		4,500	
	To Cash A/c			4,500
	[Being audit fees paid in cash]			
08.11.2014	Ravi A/c Dr.		12,560	
	To Computer A/c			12,560
	[Being computer sold to Ravi on credit]			
09.11.2014	Cash A/c Dr.		2,560	
	To Ravi A/c			2,560
	[Being cash received from Ravi]			
10.11.2014	Commission A/c Dr.		1,450	
	To Cash A/c			1,450
	[Being commission paid to Senthil]			
11.11.2014	Advertisement A/c Dr.		2,000	
	To Cash A/c			2,000
	[Being advertisement paid in cash]			
14.11.2014	Cash A/c Dr.		1,250	
	To Commission Received A/c			1,250
	[Being commission received from Sanjay]			
15.11.2014	Repair Charges A/c Dr.		12,000	
	To Cash A/c			12,000
	[Being repair charges paid]			
16.11.2014	Import Duty A/c Dr.		4,500	
	To Cash A/c			4,500
	[Being import duty paid in cash]			

(Contd.)

17.11.2014	Cash A/c	Dr.		45,000	
	Discount Allowed A/c	Dr.		480	
	To Rashik A/c				45,480
	[Being cash received from Rashik in full settlement of his account]				
21.11.2014	Sundar A/c	Dr.		33,000	
	To Cash A/c				33,000
	[Being cash paid to Sundar]				
22.11.2014	Cash A/c	Dr.		5,000	
	To Refrigerator A/c				5,000
	[Being refrigerator sold for cash]				
23.11.2014	Simon A/c	Dr.		10,000	
	To Cash A/c				10,000
	[Being cash paid to Simon]				
24.11.2014	Bank A/c	Dr.		4,500	
	To Cash A/c				4,500
	[Being cash paid into bank]				
28.11.2014	Incentive A/c	Dr.		10,000	
	To Cash A/c				10,000
	[Being incentives paid to employees in cash]				

✎ ILLUSTRATION 29:

Mrs. Fathima submits the following transactions in the month of July 2015.

1 Introduced a sum of ₹10,00,000 as capital

2 Purchased a van for office purpose ₹55,000

8 Cash deposited into bank ₹4,50,000

10 Purchased goods by cheque for ₹85,000

15 Sold goods for cash to Ravi ₹34,000

17. Sold investments for cash ₹24,500

19 Khan & Co. sold goods to us ₹75,000

20 Rokesh & Bros. bought goods from us ₹33,300

21 Staff welfare expenses met ₹20,000

22 Stationery purchased ₹7,500

23 Paid by cheque ₹40,000 to Khan & Co. on account

24 Cash received from Rokesh & Bros. ₹25,000

25 Cash deposited into bank ₹85,000

26 Philip sold goods worth ₹24,500

27 Returned goods worth ₹4,000 to Philip

28 Rokesh & Bros. returned goods worth ₹3,300

29 Miscellaneous expenses paid in cash ₹24,100

30 Employee salaries ₹64,000 and Telephone charges ₹4,500 paid in cash

31 Received a royalty ₹16,500

Journalise the above transactions in the books of Fathima.

Solution:

In the books of Mrs. Fathima

Date	*Particulars*	*L.F.*	*Debit (₹)*	*Credit (₹)*
01.07.2015	Cash A/c Dr.		10,00,000	
	To Mrs. Fathima's Capital A/c			10,00,000
	[Being capital introduced into business]			
02.07.2015	Van A/c Dr.		55,000	
	To Cash A/c			55,000
	[Being van purchased for cash]			
08.07.2015	Bank A/c Dr.		4,50,000	
	To Cash A/c			4,50,000
	[Being cash deposited into bank]			
10.07.2015	Purchases A/c Dr.		85,000	
	To Bank A/c			85,000
	[Being purchased for cash]			
15.07.2015	Cash A/c Dr.		34,000	
	To Sales A/c			34,000
	[Being cash sales made]			

(Contd.)

17.07.2015	Cash A/c Dr.		24,500	
	To Investment A/c			24,500
	[Being investments sold for cash]			
19.07.2015	Purchases A/c Dr.		75,000	
	To Khan & Co. A/c			75,000
	[Being goods purchased on credit]			
20.07.2015	Rokesh & Bros. A/c Dr.		33,300	
	To Sales A/c			33,300
	[Being goods sold on credit]			
21.07.2015	Staff Welfare Expenses A/c Dr.		20,000	
	To Cash A/c			20,000
	[Being staff welfare expenses paid]			
22.07.2015	Stationery A/c Dr.		7,500	
	To Cash A/c			7,500
	[Being stationery purchased]			
23.07.2015	Khan & Co. A/c Dr.		40,000	
	To Bank A/c			40,000
	[Being amount paid by cheque]			
24.07.2015	Cash A/c Dr.		25,000	
	To Rokesh & Bros. A/c			25,000
	[Being cash received from Rokesh]			
25.07.2015	Bank A/c Dr.		85,000	
	To Cash A/c			85,000
	[Being cash deposited into bank]			
26.07.2015	Purchases A/c Dr.		24,500	
	To Philip A/c			24,500
	[Being goods purchased from Philip]			
27.07.2015	Philip A/c Dr.		4,000	
	To Purchases Returns A/c			4,000
	[Being goods returned to Philip]			
28.07.2015	Sales Returns A/c Dr.		3,300	
	To Rokesh & Bros. A/c			3,300
	[Being Rokesh returned goods]			

(Contd.)

29.07.2015	Miscellaneous Expenses A/c	Dr.		24,100	
	To Cash A/c				24,100
	[Being miscellaneous expenses paid in cash]				
30.07.2015	Employees' Salaries A/c	Dr.		64,000	
	Telephone Charges A/c	Dr.		4,500	
	To Cash A/c				68,500
	[Being salaries and telephone expenses paid in cash]				
31.07.2015	Cash A/c	Dr.		16,500	
	To Royalty A/c				16,500
	[Being Royalty received in cash]				

✎ ILLUSTRATION 30:

On 1st October 2004, Mr. Rakesh commenced a business with cash ₹20,000, machinery ₹4,500, stock ₹17,800 and creditors: Mukesh ₹1,100. The other transactions are as follows:

3 Deposited cash in to bank ₹3,000

9 Purchased goods from Nathan & Co. ₹1,800

13 Sold goods to Vignesh & Bros. ₹1,330

16 Paid cash to Nathan & Co. ₹800

17 Goods sold for cash ₹5,880

23 Vignesh & Bros. paid by cheque ₹1,280 and settled their account

24 Stationery purchased for cash ₹785

29 Law charges paid ₹500

30 Insurance premium paid for stock ₹4,000

Solution:

In the books of Mr. Rakesh

Date	*Particulars*		*L.F.*	*Debit (₹)*	*Credit (₹)*
01.10.2004	Cash A/c	Dr.		20,000	
	Machinery A/c	Dr.		4,500	
	Stock A/c	Dr.		17,800	

(Contd.)

	To Mukesh A/c			1,100
	To Rakesh's Capital A/c (Bal. fig.)			**41,200**
	[Being all assets and liabilities entered]			
03.10.2004	Bank A/c Dr.		3,000	
	To Cash A/c			3,000
	[Being cash deposited into bank]			
09.10.2004	Purchases A/c Dr.		1,800	
	To Nathan & Co.			1,800
	[Being goods purchased from Nathan & Co. on credit]			
13.10.2004	Vignesh & Bros. A/c Dr.		1,330	
	To Sales A/c			1,330
	[Being goods sold to Vignesh & Bros. on credit]			
16.10.2004	Nathan & Co. A/c Dr.		800	
	To Cash A/c			800
	[Being cash paid to Nathan & Co.]			
17.10.2004	Cash A/c Dr.		5,880	
	To Sales A/c			5,880
	[Being goods sold for cash]			
23.10.2004	Bank A/c Dr.		1,280	
	Discount Allowed A/c Dr.		50	
	To Vignesh & Bros. A/c			1,330
	[Being cheque received from Vignesh & Bros. and their account settled]			
24.10.2004	Stationery A/c Dr.		785	
	To Cash A/c			785
	[Being stationery purchased for cash]			
29.10.2004	Law Charges A/c Dr.		500	
	To Cash A/c			500
	[Being law charges paid]			
30.10.2004	Insurance Premium A/c Dr.		4,000	
	To Cash A/c			4,000
	[Being insurance premium paid in cash]			

(Contd.)

■ Theory Questions ■

Short-Answer Questions

1. What is a Journal?
2. What is Journalising?
3. What is the meaning of Ledger Folio?
4. What are the different types of accounts?
5. State the rule for Personal Accounts.
6. How will you record Assets and Liabilities?
7. What is the rule to record Incomes and Expenses?
8. Under what concept are the entries made in a journal?
9. What is Narration?
10. What do you mean by Compound Journal Entry?
11. What is called as Opening Entry?

Long-Answer Questions

1. State the Golden Rules of Accounting.
2. State the importance of a journal.
3. Explain the different types of accounts with suitable examples.

■ Exercise Problems ■

1. From the following transactions, identify the aspects and mention the accounting aspects for the month of October 2000.

1	Mahesh commenced business with a capital of ₹10,00,000.
3	Cash deposited with Indian Bank ₹6,50,000
6	Purchased goods for cash ₹75,500
9	Goods bought from Sohan ₹85,200
12	Cash sales made ₹52,000
15	Sold goods to Kumaran ₹35,500
18	Paid salesman salaries ₹400
24	Purchased a computer for office use ₹2,500

26 Amount withdrawn from bank for office use ₹2,40,000
28 Cash paid to Sohan ₹55,000
30 Received cash from Kumaran ₹25,500

2. The following are the transactions of Mr. Amuthan, during the month of December 2013.

1	Capital introduced	₹4,00,000
2	Billing machine purchased for cash	₹4,500
9	Purchased loose tools for cash	₹70,000
12	Sold goods to Raman for cash	₹55,500
18	Paid conveyance charges	₹1,500

Journalise the above transactions.

3. Ms. Kavitha gives the following information for May 2014. You are required to journalise them in her books.

1	Commenced a business with a capital of	₹2,00,000
6	Cash deposited in bank	₹15,000
10	Purchased goods worth	₹35,000
13	Purchased furniture for cash	₹10,500
18	Sold goods for cash	₹22,000
20	Sold goods to Sukumar	₹8,000

4. Mr. Surya Prakash gives the following transactions during the month of February 2015.

1 Cash invested into business ₹2,45,000
8 Ramesh sold goods to us ₹24,000
10 Daniel bought goods from us ₹13,000
13 Ramesh's account was settled with ₹23,500
24 Received cash from Daniel ₹12,000 and settled the account

Journalise the above transactions.

5. Lakshman furnishes the following information relating to his business in November 2011. Pass necessary journal entries.

4	Purchased plant and machinery	₹3,00,000
8	Purchased goods on credit from Kader & Sons	₹4,20,000
9	Sold goods on credit to Eashwari and Co.	₹65,000
10	Cash paid to Kader & Sons	₹1,75,000
15	Commission received in cash	₹2,000
20	Rent paid in cash	₹12,000

6. Mr. Gambeeran disclosed the following items on 1st August 2009:

Cash in hand	₹40,000
Cash at bank	₹45,050
Stock of goods	₹75,000
Machinery	₹40,000

Debtors:

Kughan	₹18,500
Ilango	₹18,500

Creditors:

Mala	₹22,500
Murugan	₹45,200
Loan from Suraj	₹5,780

Pass an opening entry for the above details.

7. Mr. Rashik started his business on 1st September 2012 with a cash of ₹85,000 stock of ₹20,000, furniture of ₹12,000, Yacoob (debtor) ₹14,500 and creditors ₹13,500. Give an opening entry.

8. Journalise the following transactions in the books of Kumaran, for May 2010.

01	Commenced business with a capital of ₹1,00,000
05	Cash deposited into bank ₹15,000
10	Purchased goods from Asfar ₹20,000
13	Sold motor car for cash ₹5,000
15	Paid cheque to Asfar ₹7,500
20	Sold goods to Prince ₹8,500
24	Paid import duty ₹500
29	Prince paid ₹3,250 and settled the account
30	Paid ₹12,000 to Asfar and settled his account
31	Paid salaries ₹9,000 and rent ₹1,500

9. Pass journal entries in the books of Sarath for the following transactions for the month of November 2017.

3	Goods bought for cash	₹10,000
9	Audit fees paid	₹800
12	Purchased office machinery for	₹20,000.
15	Sold goods for cash	₹5,000
17	Dinesh sold goods to us	₹25,000
19	Goods returned to Dinesh	₹2,500

22	Sailesh bought goods from us	₹13,500
24	Travelling expenses paid	₹800
30	Sailesh returned goods worth	₹500

10. The following transactions occur during the month of March 2010.

2 Purchased electrical fittings for ₹12,500
5 Spent ₹5,500 for general expenses
10 Received cash from Chandar ₹14,000 as loan
15 Purchased goods worth ₹25,600 from Aruna
20 Sold goods to Anil for cash ₹18,600
22 Cash Paid to Aruna ₹12,600 on account

Journalise the above transactions in the books of Sekar.

11. Balan submits the following records of his business during the month May 2011. You are required to journalise the transactions.

1 Balan introduced a capital of ₹1,50,000
8 Deposited cash into bank ₹10,000
12 Loan from Murali ₹13,000
15 Purchased goods worth ₹7,500 from XYZ & Co.
18 Office stationery purchased for office use ₹500
20 Sold an office equipment for ₹1,500
22 Withdrew ₹4,000 from bank for personal use

12. Dr. Dinakaran submits the following details of his business transactions in the month of November 2013.

1 Bought surgical equipment from Get Well Equipment ₹14,000 on credit
6 Office equipment purchased for ₹14,000
7 Electricity charges paid in cash ₹120
8 Repairs to building paid in cash ₹1,500
11 Rent received in cash ₹4,000
12 Consultation fees paid ₹12,500
20 Municipal Taxes paid ₹11,500
21 Salaries paid to nurses ₹15,000
22 Cleaning expenses paid in cash ₹1,600 towards

Journalise the above transactions in his books of accounts.

13. Rakesh is a small merchant and had the following business transactions during the month of January 2010. Pass Journal Entries.

2 Purchased machinery from Ramesh & Co for ₹1,40,000.
6 Sold typewriter for cash ₹30,000

12 Goods worth ₹2,500 were returned to Ramesh
14 Purchased goods from Ramesh for ₹2,50,000
20 Cash paid to Ramesh ₹85,000
23 Sold goods to Vinoth Kumar ₹1,00,000
25 Audit fees paid in cash ₹45,000
30 Goods returned by Vinoth Kumar ₹7,500
31 Salaries paid in cash ₹40,000
31 Vinoth Kumar paid ₹91,000 and settled his account

14. Anand gives the following data relating to the month of April 2015. Pass Journal Entries.

2 Started business with cash ₹1,40,000; bank balance ₹40,250; stock ₹30,400; machinery ₹14,500; debtors ₹4,000; and creditors ₹10,000
6 Withdrew cash from bank for private use ₹20,500
11 Purchased goods from Keerthilal & Co. ₹40,600
14 Returned goods to Keerthilal & Co. ₹1,600
18 Sold goods for cash ₹29,400
19 Paid general expenses in cash ₹14,000
21 Cash paid to Keerthilal ₹15,400
24 Sold goods to Ram ₹4,500
27 Goods returned by Ram ₹75
30 Paid carriage outwards ₹180
30 Paid telephone expenses ₹200 and wages ₹4,000

15. Aftab Ansari is a cloth merchant and gives the following list of transactions for July 2014. Pass Journal Entries.

1 Commenced his business with a cash of ₹5,00,000; stock of ₹1,00,000; furniture of ₹45,550; and creditors ₹25,550
10 Opened an account in Canara Bank and deposited ₹50,000
11 Withdrew money from bank ₹13,500 for personal bank
13 Purchased goods for ₹1,25,000 on credit from Sangam & Co.
16 Paid ₹45,000 to Sangam & Co. through cheque
21 Sold goods for cash ₹75,000
22 Paid freight charges ₹4,500 by cheque
24 Paid sales commission ₹4,000
28 Withdrew from bank ₹15,550 for office use
29 Goods withdrawn for personal use worth ₹2,250
31 Paid salaries ₹12,500
31 Paid rent ₹5,000

16. Shri Kothari gives the following details of his business transactions for January 2014. You are required to journalise the transactions.

1	Introduced a sum of ₹1,00,000 as capital
2	Deposited cash into bank ₹20,000
5	Goods purchased for cash ₹18,000
8	Sold goods to Rahim on credit ₹1,000
13	Withdrew cash from bank for office use ₹4,500
18	Received cash from Rahim ₹500
25	Purchased goods from Kannan ₹14,200 and paid salaries ₹1,500

17. Journalise the following transactions in the books of Kannan for July 2004.

1	Commenced business with a capital of ₹50,000
4	Cash deposited into bank ₹4,000
8	Purchased goods worth ₹5,000 for cash
10	Sold goods for cash ₹2,500
15	Purchased from Mohan ₹10,000
20	Sold to Ramesh ₹3,500
31	Paid salaries ₹1,500
	Paid rent ₹1,000

18. Journalise the following transactions in the books of Kannan, for the month of June 2009.

1	Commenced business with a capital of ₹1,50,000
3	Cash deposited into bank ₹34,000
9	Purchased goods for cash ₹25,000
17	Sold goods for cash ₹7,500
19	Purchased goods from Asmath ₹60,000
28	Sold computer to Kamesh ₹23,500
30	Paid insurance premium ₹2,500
30	Paid godown rent ₹4,000
30	Paid electricity charges ₹200

19. Journalise the following transactions in the books of Suresh for January 2010.

1	Started a business with a capital of ₹8,50,000
3	Purchased furniture for office worth ₹30,000
8	Opened an account and deposited into bank ₹1,50,000
10	Purchased goods ₹1,25,000 for cash

13 Withdrew cash from bank ₹25,000
15 Electricity charges paid ₹1,500
17 Deposited cash into bank ₹20,000
18 Sold goods for cash ₹17,500
19 Purchased from Prem ₹80,000
28 Sold goods to Karthick ₹83,500
30 Paid salaries ₹12,500; Rent ₹24,000; and Travelling charges ₹2,200

20. Journalise the following transactions in the books of Saurav for June 2013.

1 Commenced business with a capital of ₹1,50,000; out of which, ₹50,000 was borrowed from his wife
4 Purchased goods from Sri Venkat for Cash: ₹5,000 for Credit: ₹45,000
7 Cash purchases ₹41,500
11 Sold goods to Renuka: Cash sales 5,000, Credit sales: 25,000
16 Deposited cash into bank ₹7,500
20 Uninsured goods caught in fire worth ₹400
22 Paid cash to Venkat ₹43,500 in full settlement of account
25 Cash received from Renuka in full settlement of her account ₹19,800
30 Interest received in cash ₹1,200

21. Journalise the following transactions for the year 2000.

(a) June 5th purchased goods for cash ₹15,000.
(b) June 7th sold goods to James for cash ₹25,000.

(April 2011/21601/ZZ1G/ZZ1E/PK3B/SY1C/SDEM)

22. Journalise the following transactions.

Date	
2010 Oct 1	Commenced business with ₹4,00,000.
3	Purchased goods for cash ₹1,00,000 at 5% trade discount
4	Paid carriage ₹1,000
8	Purchased machinery for ₹20,000
10	Sold goods to Madan on Account for ₹15,000

(April 2011/21601/ZZ1G/ZZ1E/PK3B/SY1C/SDEM)

23. Journalise the following transactions during the month of November 2013:

5 Purchased goods on credit from Anbu ₹5,000
10 Goods returned by Babu ₹500
15 Sale of typewriter for ₹1,000
20 Withdrew for domestic use ₹250
24 Goods returned to Sujatha ₹1,000

(April 2014/60101/BPZ1A/BPW1A/BPF1A/MAM1A/ SBAMK/BPC1A/BPG1A)

24. Give journal entries for the following:

Date	*Particulars*
2015 Jan. 1	Started business with cash ₹10,000
2	Paid into bank ₹5,000
5	Purchased goods from Ram for cash ₹1,000

(November 2005/21601/ZZ1G/ZZ1E/SY1C/PK3B/SDEM)

25. Pass journal entries for the following transactions for the month of May 2017.

2 Rama started business with ₹1,00,000
8 Purchase furniture for cash ₹40,000
12 Paid rent ₹500
15 Purchased goods on credit ₹10,000 from Raj

(May 2010/U/IP 22201/UCZA/UCWA/UCYA/ UCXB/URMA/UCVB)

CHAPTER

4

Ledger and Trial Balance

Learning Objectives

After reading this chapter, you will be able to:

- Understand the meaning of Ledger and its purpose
- Know the different types of Ledger
- Balance the ledger accounts
- Identify the differences between Journal and Ledger
- Understand the meaning of Trial Balance
- Recognise Personal, Real and Nominal Accounts
- Understand the methods of preparation of Trial Balance
- Prepare Suspense Account
- Know how to Prepare Ledger Accounts and Trial Balance

4.1 LEDGER

Ledger is also an important book of Account**.** Ledger is a book in which personal, real and nominal accounts are maintained in a summarized and classified form. In other words, it is a book containing accounts to which debits and credits are posted from books of original entry. Ledger is a combination of all accounts and is a permanent record. Ledger is also known as the **principal book of accounts** as well as the **book of final entry**. The purpose of preparing the ledger is to:

- Summarise the transactions for each account at one place
- Determine the debit or credit balance of each account

- Help in reconciling balances with third parties
- Know the assets and liabilities

Ledger helps in the preparation of Trial Balance which acts as a base for the preparation of financial statements.

4.2 Proforma of Ledger Account

Type I

Date	*Particulars*	*J.F*	₹	*Date*	*Particulars*	*J.F*	₹
	To name of the account to be debited				By name of the account to be credited		

Type II

Date	*Particulars*	*J.F*	₹	*Date*	*Particulars*	*J.F*	₹

Type I is usually followed in almost all the business concerns,
Type II is followed normally in banking institutions.

4.3 Sub-division of Ledger

In a big organisation, numerous transactions take place and it will be very difficult to enter all the transactions in one book. There is a possibility of committing errors if all the transactions are entered in a single book. It will also be difficult to trace out a particular transaction in future. In order to ease out, the following ledger accounts will be maintained:

- Debtors' Ledger
- Creditors' Ledger
- General Ledger

› 4.3.1 Debtors' Ledger

Debtors' Ledger is also known as Sales Ledger. Debtors' Ledger contains information relating to customers to whom the goods are sold on credit. Entries are made in the ledger from Sales Day book, Sales Returns book and Cash book.

› 4.3.2 Creditors' Ledger

Creditors' Ledger is also known as Purchase Ledger. Creditors Ledger contains information relating to suppliers from whom the goods have been bought on credit. Entries are made in the ledger from Purchase Day Book, Purchase Return Book and Cash Book.

› 4.3.3 General Ledger

General Ledger is also known as Impersonal Ledger or Nominal Ledger. It records all the transactions relating to real and nominal nature.

4.4 Posting of Accounts

Transferring the debit and credit balances from the journal to the ledger is known as Posting of Accounts. The amount recorded in the debit column of the journal is posted to the debit side of an account in the ledger. Amount recorded in the credit column of the journal is posted to the credit side of an account in the ledger. A separate ledger account will be opened in order to post transactions relating to personal, real and nominal accounts.

› 4.4.1 Balancing of Ledger Accounts

All ledger accounts are usually closed and balanced at the end of an accounting period. Once the transactions for a period are recorded, it is necessary to find out the balance in the ledger account. The debit balances and credit balances of the accounts will be totalled in order to ascertain the net balance of the accounts. This process is known as Balancing of Ledger accounts. An account is said to have a debit balance where the total of the debit side exceeds that of the credit side. On the other hand, an account is said to have a credit balance where the total of the credit side exceeds that of the debit side.

Distinction between Journal and Ledger

Journal	*Ledger*
Journal is known as the primary book of accounting *or* the book of original/first entry	Ledger is known as the principal book of accounting *or* the book of final entry.
Journal is prepared out of transaction proofs such as vouchers, receipts, bills, etc.	Ledger is prepared with the help of a journal itself. It is the immediate step after recording a journal.
A journal is not balanced.	All ledger accounts (Except Nominal) are balanced to find the net result.

(Contd.)

Journal is a book of accounting where daily records of business transactions are first recorded in a chronological order i.e. in the order of dates.	A ledger is an accounting book in which all similar transactions related to a particular person or thing are maintained in a summarized form.
Journal may be subdivided into a cash book, a sales day book, sales return day book, purchases day book, purchases return day book, B/R Book, B/P Book, Petty Cash Book.	Ledger may be sub-divided into general ledger, debtors/sales ledger, creditors/ purchases ledger.

4.5 Trial Balance

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

› 4.5.1 Definition

"Trial Balance is a statement, prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy of ledger postings."

– **J.R. Batliboi**

› 4.5.2 Format

Trial Balance of ABC Ltd. as on.....

S. No.	*Name of Account*	*L.F*	*Debit (₹)*	*Credit (₹)*

✎ **ILLUSTRATION 1:**

Classify the following items into Personal, Real and Nominal Accounts.

(a) Capital

(b) Sales

(c) Drawings

(d) Outstanding Salary

(e) Cash

(f) Rent

(g) Interest paid

(h) Indian Bank

(i) Discount Received

(j) Building

Solution:

(a) Personal Account

(b) Real Account

(c) Personal Account

(d) Personal (Representative) Account

(e) Real Account

(f) Nominal Account

(g) Nominal Account

(h) Personal (Legal Body) Account

(i) Nominal Account

(j) Real Account

✎ ILLUSTRATION 2:

State whether the balances in the following accounts should be placed in Debit column or Credit column of the Trial Balance.

(a) Cash

(b) Creditors

(c) Sales

(d) Furniture

(e) Commission Received

(f) Debtors

(g) Purchases

(h) Capital

(i) Salaries Paid

(j) Computer

Solution:

(a) Debit Balance

(b) Credit Balance

(c) Credit Balance

(d) Debit Balance

(e) Credit Balance

(f) Debit Balance

(g) Debit Balance

(h) Credit Balance

(i) Debit Balance

(j) Debit Balance

✎ ILLUSTRATION 3:

The following balances were extracted from the ledger of Ravi on 31st March 2009. You are requested to prepare a Trial Balance as on that date in the proper form.

	(₹)		*(₹)*
Salaries	36,320	Purchases	1,44,670
Sales	1,73,500	Sundry Debtors	4,860
Plant & Machinery	34,300	Travelling Expenses	2,630
Commission Paid	1,880	Carriage Inward	240
Stock on 01.04.2008	11,100	Capital on 01.04.2008	62,500

Solution:

Trial Balance of Ravi as on 31.03.2009

S.No.	*Name of the Account*	*L. F.*	*Debit (₹)*	*Credit (₹)*	*Nature of Balance (Why Dr. or Cr.)*
1	Salaries		36,320	—	Nominal A/c - expense
2	Sales		—	1,73,500	Real A/c - goods
3	Plant and Machinery		34,300	—	Real A/c - asset

(Contd.)

4	Commission Paid		1,880	—	Nominal A/c - expense
5	Stock on 01.04.2008		11,100	—	Real A/c - goods
6	Purchases		1,44,670	—	Real A/c - goods
7	Sundry Debtors		4,860	—	Personal A/c - customers
8	Travelling Expenses		2,630	—	Nominal A/c - expense
9	Carriage Inward		240	—	Nominal A/c - expense
10	Capital 01.04.2008		—	62,500	Personal A/c - owner
			2,36,000	**2,36,000**	

✎ ILLUSTRATION 4:

The following balances were extracted from the ledger of Suman on 31st March 2012. You are requested to prepare a Trial Balance as on that date in the proper form.

	(₹)		(₹)
Sundry Creditors	18,260	Repairs	1,670
Sundry Expenses	1,370	Drawings	3,500
Returns Inward	1,000	Cash at Bank	1,090
Discount Allowed	1,150	Returns Outward	740
Rent and Rates	3,220	Investments	6,000

Solution:

Trial Balance of Suman as on 31.03.2012

S.No.	*Name of the Account*	*L. F.*	*Debit (₹)*	*Credit (₹)*	*Nature of Balance (Why Dr. or Cr.)*
1	Sundry Creditors		—	18,260	Personal A/c - suppliers
2	Sundry Expenses		1,370	—	Nominal A/c - expense
3	Returns Inward		1,000	—	Real A/c - goods
4	Discount Allowed		1,150	—	Nominal A/c - loss
5	Rent & Rates		3,220	—	Nominal A/c - expense
6	Repairs		1,670	—	Nominal A/c - expense
7	Drawings		3,500	—	Personal A/c - owner
8	Cash at Bank		1,090	—	Real A/c - asset
9	Returns Outward		—	740	Real A/c - goods
10	Investments		6,000	—	Real A/c - asset
			19,000	**19,000**	

✎ ILLUSTRATION 5:

Prepare a Trial Balance as on 31st December 2012, from the following balances of Mr. Balachandiran.

	(₹)		(₹)
Capital	14,260	Creditors	1670
Drawings	2,550	Salaries	3,500
Bill Receivable	1,000	Bills Payable	1,090
Debtors	1,150	Commission Received	400
Insurance	3,220	Land	6,000

Solution:

Trial Balance of Balachandiran as on 31.12.2012

Name of the Account	*L. F.*	*Debit* (₹)	*Credit* (₹)
Capital		—	14,260
Drawings		2,550	—
Bill Receivable		1,000	—
Debtors		1,150	—
Insurance		3,220	—
Creditors		—	1670
Salaries		3,500	—
Bills Payable		—	1,090
Commission Received		—	400
Land		6,000	—
Total		**17,420**	**17,420**

✎ ILLUSTRATION 6:

Prepare a Trial Balance as on 31st October 2012 from the following balances of Mr. Senthil.

	(₹)		(₹)
Sales	1,87,300	Purchases	94,000
Sales Returns	3,400	Purchases Return	2,700
Carriage Inwards	1,400	Printing & Stationery	5,000
Stock	29,900	Machinery	50,000
Wages	5,000	Rent	1,600
Interest Received	2,700	Electricity Charges	2,400

Solution:

Trial Balance of Senthil as on 31.10.2012

Name of the Account	*L. F.*	*Debit (₹)*	*Credit (₹)*
Sales		—	1,87,300
Sales Returns		3,400	—
Carriage Inwards		1,400	—
Stock		29,900	—
Wages		5,000	—
Interest Received		—	2,700
Purchases		94,000	—
Purchases Return		—	2,700
Printing & Stationery		5,000	—
Machinery		50,000	—
Rent		1,600	—
Electricity Charges		2,400	—
Total		**1,92,700**	**1,92,700**

✎ ILLUSTRATION 7:

Prepare a Trial Balance as on 31st March 2010, from the books of Mrs. Chandini.

	(₹)		*(₹)*
Capital	2,49,000	Drawings	24,000
General Expenses	97,000	Buildings	78,000
Machinery	1,18,680	Opening Stock	1,32,400
Wages	14,400	Insurance	2,610
Bad Debts	1,100	Creditors	5,000
Sales	3,30,720	Loan (Cr.)	75,000
Commission (Dr.)	5,500	Purchases	2,10,800
Bills Payable	7,700	Reserve Fund	15,000
Bank Overdraft	28,600	Cash in Hand	25,320
Discount Allowed	1,210		

Solution:

Trial Balance of Chandini as on 31.03.2010

Name of the Account	*L. F.*	*Debit* (₹)	*Credit* (₹)
Capital		—	2,49,000
General Expenses		97,000	—
Machinery		1,18,680	—
Wages		14,400	—
Bad Debts		1,100	—
Sales		—	3,30,720
Commission (Dr)		5,500	—
Bills Payable		—	7,700
Bank Overdraft		—	28,600
Discount Allowed		1,210	—
Drawings		24,000	—
Buildings		78,000	—
Opening Stock		1,32,400	—
Insurance		2,610	—
Creditors		—	5,000
Loan (Cr.)		—	75,000
Purchases		2,10,800	—
Reserve Fund		—	15,000
Cash in Hand		25,320	—
Total		**7,11,020**	**7,11,020**

✎ ILLUSTRATION 8:

Prepare a Trial Balance as on 31st March 2011, from the books of Mrs. Sandiyaa.

	(₹)		(₹)
Purchases	2,95,700	Machinery	2,15,400
Discount Received	1,000	Income Tax	9,500
Discount Allowed	950	Freight	3,500
Sales	3,35,350	Bank Loan	1,20,000

(Contd.)

Rent	72,500	Printing Charges	1,500
Sundry Expenses	21,000	Sundry Creditors	75,000
Bills Receivable	52,500	Furniture	33,000
Carriage Outwards	1,500	Capital	2,50,000
Insurance	2,800	Stock	30,000
Bills Payable	33,300	Drawings	74,800

Solution:

Trial Balance of Sandiyaa as on 31.03.2011

Name of the Account	*L. F.*	*Debit (₹)*	*Credit (₹)*
Purchases		2,95,700	—
Machinery		2,15,400	—
Discount Received		—	1,000
Income Tax		9,500	—
Discount Allowed		950	—
Freight		3,500	—
Sales		—	3,35,350
Bank Loan		—	1,20,000
Rent		72,500	—
Printing Charges		1,500	—
Sundry Expenses		21,000	—
Sundry Creditors		—	75,000
Bills Receivable		52,500	—
Furniture		33,000	—
Carriage Outwards		1,500	—
Capital		—	2,50,000
Insurance		2,800	—
Stock		30,000	—
Bills Payable		—	33,300
Drawings		74,800	—
Total		**8,14,650**	**8,14,650**

✎ ILLUSTRATION 9:

Prepare a Trial Balance as on 31st December 2013, from the books of Mrs Fathima.

	(₹)		(₹)
Cash in Hand	7,500	Opening Stock	18,500
Discount Earned	8,700	Furniture & Fittings	5,700
Commission Paid	1,500	Loan from Shameem	20,000
Travelling Expenses	8,000	Bills Receivable	10,000
Purchases Return	1,500	Sundry Debtors	9,500
Sales Return	750	Bills Payable	10,000
Salaries	15,000	Sundry Creditors	20,700
Sales	25,050	Capital	18,000
Purchases	22,000	Drawings	5,000
Cash at Bank	3,500	Reserve for Doubtful Debts	3,000

Solution:

Trial Balance of Fathima as on 31.12.2013

Name of the Account	*L. F.*	*Debit* (₹)	*Credit* (₹)
Cash in Hand		7,500	—
Discount Earned		—	8,700
Commission Paid		1,500	—
Travelling Expenses		8,000	—
Purchases Return		—	1,500
Sales Return		750	—
Salaries		15,000	—
Sales		—	25,050
Purchases		22,000	—
Cash at Bank		3,500	—
Opening Stock		18,500	—
Furniture & Fittings		5,700	—
Loan from Shameem		—	20,000
Bills Receivable		10,000	—

(Contd.)

Sundry Debtors		9,500	—
Bills Payable		—	10,000
Sundry Creditors		—	20,700
Capital		—	18,000
Drawings		5,000	—
Reserve for Doubtful Debts		—	3,000
Total		**1,06,950**	**1,06,950**

✎ ILLUSTRATION 10:

From the following balances extracted from the ledger, you are required to prepare a Trial Balance as on 31st March 2015.

	(₹)
Drawings Account	11,600
Capital Account	48,000
Sundry Creditors	86,000
Bills Payable	8,000
Sundry Debtors	1,02,000
Bills Receivable	10,400
Loan from Sai & Co.	20,000
Fixtures & Fittings	9,000
Stock at Commencement	94,000
Cash in Office	1,800
Cash at Indian Bank	25,000
Cash with State Bank	12,000
Purchases	1,00,000
Duty and Clearing Charges	7,000
Sales	2,56,000
Staff Salaries	19,000
Goods Returned by Customers	2,000
Goods Returned to Suppliers	2,200
Commission and Travelling Expenses	9,400
Trade Expenses	5,000
Rent Paid	4,000
Advertisement	8,000

Solution:

Trial Balance as on 31.03.2015

Name of the Account	*L. F.*	*Debit (₹)*	*Credit (₹)*
Drawing Account		11,600	—
Capital Account		—	48,000
Sundry Creditors		—	86,000
Bills Payable		—	8,000
Sundry Debtors		1,02,000	—
Bills Receivable		10,400	—
Loan from Sai & Co.		—	20,000
Fixtures & Fittings		9,000	—
Stock at Commencement		94,000	—
Cash in Office		1,800	—
Cash at Indian Bank		25,000	—
Cash with State Bank		12,000	—
Purchases		1,00,000	—
Duty and Clearing Charges		7,000	—
Sales		—	2,56,000
Staff Salaries		19,000	—
Goods Returned by Customers		2,000	—
Goods Returned to Suppliers		—	2,200
Commission and Travelling Expenses		9,400	—
Trade Expenses		5,000	—
Rent Paid		4,000	—
Advertisement		8,000	—
Total		**4,20,200**	**4,20,200**

Suspense Account

When it is difficult to locate the mistakes before preparing the final accounts, the difference in the Trial Balance is transferred to a newly opened imaginary and temporary account called 'Suspense Account'. Suspense account is prepared to avoid the delay in the preparation of final accounts. If the total

debit balances of the Trial Balance exceed the total credit balances, the difference is transferred to the credit side of the suspense account. On the other hand, if the total credit balances of the Trial Balance exceed the total debit balances, the difference is transferred to the debit side of the suspense account.

✎ ILLUSTRATION 11:

Prepare a Trial Balance as on 31st March 2015 from the books of Mrs. Betsy.

	(₹)		(₹)
Sales	10,80,000	Trading Expenses	25,000
Purchases	7,08,000	Cash at Bank	25,000
Bank Overdraft	60,000	Commission Paid	1,000
Rent Paid	20,000	Plant & Machinery	45,000
Discount Earned	5,000	Purchases Return	11,000
Drawings	60,000	Bills Receivable	52,000
Capital	2,40,000	Sales Return	10,000
Sundry Creditors	4,30,000	Opening Stock	3,70,000
Bills Payable	40,000	Salaries	95,000
Sundry Debtors	4,00,000	Cash in Hand	13,000

Solution:

Trial Balance of Betsy as on 31.03.2015

Name of the Account	*L. F.*	*Debit* (₹)	*Credit* (₹)
Sales		—	10,80,000
Purchases		7,08,000	—
Bank Overdraft		—	60,000
Rent Paid		20,000	—
Discount Earned		—	5,000
Drawings		60,000	—
Capital		—	2,40,000
Sundry Creditors		—	4,30,000
Bills Payable		—	40,000
Sundry Debtors		4,00,000	—

(Contd.)

Trading Expenses		25,000	—
Cash at Bank		25,000	—
Commission Paid		1,000	—
Plant & Machinery		45,000	—
Purchases Return		—	11,000
Bills Receivable		52,000	—
Sales Return		10,000	—
Opening Stock		3,70,000	—
Salaries		95,000	—
Cash in Hand		13,000	—
Suspense A/c (Bal. fig.)		**42,000**	—
Total		**18,66,000**	**18,66,000**

Note: The difference in the Trial Balance is transferred to suspense account to avoid delay in the preparation of final accounts.

✎ ILLUSTRATION 12:

Prepare a Trial Balance from the following balances of Mr. Karthick as on 31st December 2016.

	(₹)		(₹)
Cash in Hand	50,000	Capital	8,40,000
Cash at Bank	1,69,400	Building	2,30,000
Salaries	1,88,000	Machinery	1,20,000
Rent	96,000	Furniture	22,000
Commission Paid	2,800	Motor Car	1,36,000
Rates and Taxes	5,200	Purchases	1,88,000
Bad Debts	6,400	Sales	3,92,000
Insurance	4,800	Sundry Debtors	32,400
General Expenses	1,600	Reserve for Doubtful Debts	14,600
Sundry Creditors	1,36,000	Opening Stock	1,72,000

Solution:

Trial Balance of Karthick as on 31.12.2016

Name of the Account	*L. F.*	*Debit* (₹)	*Credit* (₹)
Cash in Hand		50,000	—
Cash at Bank		1,69,400	—
Salaries		1,88,000	—
Rent		96,000	—
Commission Paid		2,800	—
Rates and Taxes		5,200	—
Bad Debts		6,400	—
Insurance		4,800	—
General Expenses		1,600	—
Sundry Creditors		—	1,36,000
Capital		—	8,40,000
Building		2,30,000	—
Machinery		1,20,000	—
Furniture		22,000	—
Motor Car		1,36,000	—
Purchases		1,88,000	—
Sales		—	3,92,000
Sundry Debtors		32,400	—
Reserve for Doubtful Debts		—	14,600
Opening Stock		1,72,000	—
Suspense A/c (Bal. fig.)		—	**42,000**
Total		**14,24,600**	**14,24,600**

✎ ILLUSTRATION 13:

Shaam of Karachi is not an expert in accounting. He prepared the following Trial Balance. You are requested to correct it and prepare a corrected Trial Balance.

S.No.	*Name of the Account*	*L. F.*	*Debit (₹)*	*Credit (₹)*
1	Capital		—	31,120
2	Sales		—	55,120
3	Sales Return		—	1,960
4	Drawings		11,280	—
5	Sundry Debtors		—	10,600
6	Freehold Premises		14,820	—
7	Purchases		25,360	—
8	Return Outwards		5,280	—
9	Loan from Sharma		—	5,000
10	Sundry Creditors		10,560	—
11	Administration Expenses		15,680	—
12	Cash in Hand		2,840	—
13	Bills Payable		2,000	—
14	Wages		11,960	—
15	Opening Stock		—	5,280
16	Factory Expenses		9,300	—
			1,09,080	**1,09,080**

Solution:

Corrected Trial Balance

Name of the Account	*L. F.*	*Debit (₹)*	*Credit (₹)*
Capital		—	31,120
Sales		—	55,120
Sales Return		1,960	—
Drawings		11,280	—
Sundry Debtors		10,600	—
Freehold Premises		14,820	—
Purchases		25,360	—
Return Outwards		—	5,280
Loan from Sharma		—	5,000

(Contd.)

Sundry Creditors		—	10,560
Administration Expenses		15,680	—
Cash in Hand		2,840	—
Bills Payable		—	2,000
Wages		11,960	—
Opening Stock		5,280	—
Factory Expenses		9,300	—
Total		**1,09,080**	**1,09,080**

✎ ILLUSTRATION 14:

Bharath Babu of Thiruvallur is not an expert in accounting. He prepared the following Trial Balance. You are requested to corrected it and prepare a corrected Trial Balance.

S.No.	*Name of the Account*	*L. F.*	*Debit (₹)*	*Credit (₹)*
1	Interest on Investments		—	2,000
2	Carriage Inward		2,000	—
3	Loan from Ashok		28,000	—
4	Manufacturing Expenses		—	28,000
5	Bank Overdraft		28,000	—
6	Purchases		56,000	—
7	Sales		—	88,000
8	Creditors		—	24,000
9	Debtors		16,000	—
10	Stock		—	20,000
11	Machinery		—	40,000
12	Commission Earned		1,600	—
13	Discount Received		2,400	—
14	Carriage Outwards		—	4,000
15	Capital		44,000	—
16	Sales Returns		—	16,000
17	Establishment Expenses		24,000	—

(Contd.)

18	Wages		16,000	—
19	Purchase Return		8,000	—
20	Cash in Hand		—	4,000
			2,26,000	**2,26,000**

Solution:

Corrected Trial Balance

Name of the Account	*L. F.*	*Debit* (₹)	*Credit* (₹)
Interest on Investments		—	2,000
Carriage Inward		2,000	—
Loan from Ashok		—	28,000
Manufacturing Expenses		28,000	—
Bank Overdraft		—	28,000
Purchases		56,000	—
Sales		—	88,000
Creditors		—	24,000
Debtors		16,000	—
Stock		20,000	—
Machinery		40,000	—
Commission Earned		—	1,600
Discount Received		—	2,400
Carriage Outwards		4,000	—
Capital		—	44,000
Sales Returns		16,000	—
Establishment Expenses		24,000	—
Wages		16,000	—
Purchase Return		—	8,000
Cash in Hand		4,000	—
Total		**2,26,000**	**2,26,000**

Preparation of Journal, Ledger and Trial Balance

✎ ILLUSTRATION 15:

Journalise the following transactions and post them into Ledger accounts and prepare the Trial Balance as on 31.01.2008 in the books of Karthik.

Date	*Particulars*	*Amount (₹)*
01.01.2008	Karthik commenced business with a capital	1,00,000
05.01.2008	Goods sold for cash	80,000
07.01.2008	Commission received	14,000
10.01.2008	Interest received	6,000
12.01.2008	Purchased goods for cash	70,000
15.01.2008	Rent paid	30,000
20.01.2008	Salaries paid	40,000
22.01.2008	Karthik withdrew cash for personal use	30,000
25.01.2008	Purchased furniture for cash	20,000
27.01.2008	Printing and stationery expenses paid	10,000

Solution:

Journal Entries in the Books of Mr. Karthik

Dr. **Commenced the Business** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.01.2008	Cash A/c	Dr.	1,00,000	
	To Karthik's Capital A/c			1,00,000
	(Being capital introduced by Karthik)			

Dr. **Goods Sold For Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
05.01.2008	Cash A/c	Dr.	80,000	
	To Sales A/c			80,000
	(Being goods sold for cash)			

Dr. **Commission Received** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
07.01.2008	Cash A/c	Dr.	14,000	
	To Commission A/c			14,000
	(Being commission received in cash)			

Dr. **Interest Received** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
10.01.2008	Cash A/c	Dr.	6,000	
	To Interest Received A/c			6,000
	(Being interest received in cash)			

Dr. **Goods Purchased for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
12.01.2008	Purchase A/c	Dr.	70,000	
	To Cash A/c			70,000
	(Being goods purchased for cash)			

Dr. **Rent Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
15.01.2008	Rent A/c	Dr.	30,000	
	To Cash A/c			30,000
	(Being rent paid in cash)			

Dr. **Salaries Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
20.01.2008	Salaries A/c	Dr.	40,000	
	To Cash A/c			40,000
	(Being salaries paid in cash)			

Dr. **Drawings for Personal Use** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
22.01.2008	Drawings A/c	Dr.	30,000	
	To Cash A/c			30,000
	(Being cash withdrawn for personal use)			

Dr. **Purchased Furniture For Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
25.01.2008	Furniture A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being furniture purchased for cash)			

Dr. **Printing & Stationery Expenses Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
27.01.2008	Printing & Stationery A/c	Dr.	10,000	
	To Cash A/c			10,000
	(Being printing & stationery expenses paid)			

Ledger Accounts

Dr. **Karthik's Capital Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.01.2008	**To Balance c/d (Bal. fig.)**	**1,00,000**	01.01.2008	By Cash A/c	1,00,000
		1,00,000			**1,00,000**
				By Balance b/d	**1,00,000**

Dr. **Sales Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.01.2008	**To Balance c/d (Bal. fig.)**	**80,000**	05.01.2008	By Cash A/c	80,000
		80,000			**80,000**
				By Balance b/d	**80,000**

Dr. **Commission Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.01.2008	**To Balance c/d (Bal. fig.)**	**14,000**	07.01.2008	By Cash A/c	14,000
		14,000			**14,000**
				By Balance b/d	**14,000**

Dr. **Interest Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.01.2008	**To Balance c/d (Bal. fig.)**	**6,000**	10.01.2008	By Cash A/c	6,000
		6,000			**6,000**
				By Balance b/d	**6,000**

Dr. **Cash Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
1.1.2008	To Karthik's Capital	1,00,000	12.1.2008	By Purchase	70,000
5.1.2008	To Sales	80,000	15.1.2008	By Rent	30,000
7.1.2008	To Commission Received	14,000	20.1.2008	By Salaries	40,000
10.1.2008	To Interest Received	6,000	22.1.2008	By Drawings	30,000
			25.1.2008	By Furniture	20,000
			27.1.2008	By Printing and Stationery	10,000
		2,00,000			**2,00,000**

Dr. **Purchase Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
12.1.2008	To Cash A/c	70,000	31.1.2008	**By Balance c/d (Bal. fig.)**	**70,000**
		70,000			**70,000**
	To Balance b/d	**70,000**			

Dr. **Rent Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
15.1.2008	To Cash A/c	30,000	31.1.2008	**By Balance c/d (Bal. fig.)**	**30,000**
		30,000			**30,000**
	To Balance b/d	**30,000**			

Dr. **Salaries Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
20.1.2008	To Cash A/c	40,000	31.1.2008	**By Balance c/d (Bal. fig.)**	**40,000**
		40,000			**40,000**
	To Balance b/d	**40,000**			

Dr. **Drawings Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
22.1.2008	To Cash A/c	30,000	31.1.2008	**By Balance c/d (Bal. fig.)**	**30,000**
		30,000			**30,000**
	To Balance b/d	**30,000**			

Dr. **Furniture Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
25.1.2008	To Cash A/c	20,000	31.1.2008	**By Balance c/d (Bal. fig.)**	**20,000**
		20,000			**20,000**
	To Balance b/d	**20,000**			

Dr. **Printing and Stationery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
27.1.2008	To Cash A/c	10,000	31.1.2008	**By Balance c/d (Bal. fig.)**	**10,000**
		10,000			**10,000**
	To Balance b/d	**10,000**			

Trial Balance of Mr. Karthik as on 31.1.2008

Particulars	*Debit (₹)*	*Credit (₹)*
Capital		1,00,000
Sales		80,000
Commission Received		14,000
Interest Received		6,000
Purchases	70,000	
Rent	30,000	
Salaries	40,000	
Drawings	30,000	
Furniture	20,000	
Printing & Stationery	10,000	
Total	**2,00,000**	**2,00,000**

✎ ILLUSTRATION 16:

Journalise the following transactions and prepare the ledger accounts and also prepare a Trial Balance in the books of Mr. X.

Date	*Particulars*	*Amount (₹)*
01.01.2009	X's commencement of business with cash	1,20,000
04.01.2009	Sold goods to Ram for cash	40,000
08.01.2009	Purchased goods for cash	30,000
10.01.2009	Rent paid	20,000
12.01.2009	Furniture purchased for cash	40,000
14.01.2009	Commission received	10,000
18.01.2009	Salaries paid	30,000
24.01.2009	Telephone charges paid	10,000
25.01.2009	Travelling expenses paid	10,000

Solution:

Journal Entries in the Books of Mr. X

Dr. **Commenced the Business** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.01.2009	Cash A/c	Dr.	1,20,000	
	To X's Capital A/c			1,20,000
	(Being capital introduced by X)			

Dr. **Goods Sold for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
04.01.2009	Cash A/c	Dr.	40,000	
	To Sales A/c			40,000
	(Being goods sold for cash)			

Dr. **Goods Purchased for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
08.01.2009	Purchase A/c	Dr.	30,000	
	To Cash A/c			30,000
	(Being goods purchased for cash)			

Dr. **Rent Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
10.01.2009	Rent A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being rent paid)			

Dr. **Purchased Furniture for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
12.01.2009	Furniture A/c	Dr.	40,000	
	To Cash A/c			40,000
	(Being furniture purchased)			

Dr. **Commission Received** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
14.01.2009	Cash A/c	Dr.	10,000	
	To Commission A/c			10,000
	(Being commission received)			

Dr. **Salaries Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
18.01.2009	Salaries A/c	Dr.	30,000	
	To Cash A/c			30,000
	(Being salaries paid)			

Dr. **Telephone Charges Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
24.01.2009	Telephone Charges A/c	Dr.	10,000	
	To Cash A/c			10,000
	(Being telephone charges paid)			

Dr. **Travelling Expenses Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
25.01.2009	Travelling Expenses A/c	Dr.	10,000	
	To Cash A/c			10,000
	(Being travelling expenses paid)			

Ledger Accounts

Dr. **X's Capital Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.01.2009	**To Balance c/d (Bal. fig.)**	**1,20,000**	01.01.2009	By Cash A/c	1,20,000
		1,20,000			**1,20,000**
				By Balance b/d	**1,20,000**

Dr. **Sales Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.01.2009	**To Balance c/d (Bal. fig.)**	**40,000**	04.01.2009	By Cash A/c	40,000
		40,000			**40,000**
				By Balance b/d	**40,000**

Dr. **Commission Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.01.2009	To Balance c/d	10,000	14.01.2009	By Cash A/c	10,000
		10,000			**10,000**
				By Balance b/d	**10,000**

Dr. **Cash Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
1.1.2009	To X's Capital	1,20,000	8.1.2009	By Purchase	30,000
4.1.2009	To Sales	40,000	10.1.2009	By Rent	20,000
14.1.2009	To Commission Received	10,000	12.1.2009	By Furniture	40,000
			18.1.2009	By Salaries	30,000
			24.1.2009	By Telephone Charges	10,000
			25.1.2009	By Travelling Expenses	10,000
			31.1.2009	**By Balance c/d (Bal. fig.)**	**30,000**
		1,70,000			**1,70,000**
	To Balance b/d	**30,000**			

Dr. **Purchase Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
8.1.2009	To Cash A/c	30,000	31.1.2009	**By Balance c/d (Bal. fig.)**	**30,000**
		30,000			**30,000**
	To Balance b/d	**30,000**			

Dr. **Rent Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
10.1.2009	To Cash A/c	20,000	31.1.2009	**By Balance c/d (Bal. fig.)**	**20,000**
		20,000			**20,000**
	To Balance b/d	**20,000**			

Dr. **Furniture Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
12.1.2009	To Cash A/c	40,000	31.1.2009	**By Balance c/d (Bal. fig.)**	**40,000**
		40,000			**40,000**
	To Balance b/d	**40,000**			

Dr. **Salaries Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
18.1.2009	To Cash A/c	30,000	31.1.2009	**By Balance c/d (Bal. fig.)**	**30,000**
		30,000			**30,000**
	To Balance b/d	**30,000**			

Dr. **Telephone Charges Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
24.1.2009	To Cash A/c	10,000	31.1.2009	**By Balance c/d (Bal. fig.)**	**10,000**
		10,000			**10,000**
	To Balance b/d	**10,000**			

Dr. **Travelling Expenses Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
25.1.2009	To Cash A/c	10,000	31.1.2009	**By Balance c/d (Bal. fig.)**	**10,000**
		10,000			**10,000**
	To Balance b/d	**10,000**			

Trial Balance of Mr. X as on 31.1.2009

Particulars	*Debit (₹)*	*Credit (₹)*
Capital		1,20,000
Sales		40,000
Purchases	30,000	

(Contd.)

Rent	20,000	
Furniture	40,000	
Commission Received		10,000
Salaries	30,000	
Telephone Charges	10,000	
Travelling Expenses	10,000	
Cash	30,000	
Total	**1,70,000**	**1,70,000**

✎ ILLUSTRATION 17:

Mr. Ram furnishes the following particulars. Pass Journal Entries and prepare the necessary ledger accounts and also prepare a Trial Balance as on 31st January 2005.

Date	*Particulars*	*Amount (₹)*
01.01.2005	Ram started the business with cash	80,000
04.01.2005	Loan borrowed from Ramesh	20,000
05.01.2005	Sold goods to Ramya for cash	50,000
07.01.2005	Purchase goods for cash	40,000
08.01.2005	Rent paid	20,000
10.01.2005	Salaries paid	30,000
15.01.2005	Loan repaid to Ramesh	20,000
20.01.2005	Machinery purchased for cash	20,000
25.01.2005	Advertisement expenses paid	10,000
27.01.2005	Postage expenses paid	10,000

Solution:

Journal Entries in the Books of Mr. Ram

Dr. **Started the Business** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.01.2005	Cash A/c	Dr.	80,000	
	To Ram's Capital A/c			80,000
	(Being capital introduced by Ram)			

Dr. **Loan Borrowed from Ramesh** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
04.01.2005	Cash A/c	Dr.	20,000	
	To Ramesh Loan A/c			20,000
	(Being loan borrowed from Ramesh)			

Dr. **Goods Sold for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
05.01.2005	Cash A/c	Dr.	50,000	
	To Sales A/c			50,000
	(Being cash sales made)			

Dr. **Goods Purchased for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
07.01.2005	Purchase A/c	Dr.	40,000	
	To Cash A/c			40,000
	(Being goods purchased for cash)			

Dr. **Rent Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
08.01.2005	Rent A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being rent paid in cash)			

Dr. **Salaries Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
10.01.2005	Salaries A/c	Dr.	30,000	
	To Cash A/c			30,000
	(Being salaries paid in cash)			

Dr. **Loan Repaid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
15.01.2005	Ramesh Loan A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being loan repaid)			

Dr. **Purchased Machinery for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
20.01.2005	Machinery A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being machinery purchased)			

Dr. **Advertisement Expenses Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
25.01.2005	Advertisement Expenses A/c	Dr.	10,000	
	To Cash A/c			10,000
	(Being advertisement expenses paid)			

Dr. **Postage Expenses Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
27.01.2005	Postage Expenses A/c	Dr.	10,000	
	To Cash A/c			10,000
	(Being postage expenses paid)			

Ledger Accounts

Dr. **Ram's Capital Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.01.2005	**To Balance c/d (Bal. fig.)**	**80,000**	01.01.2005	By Cash A/c	80,000
		80,000			**80,000**
				By Balance b/d	**80,000**

Dr. **Sales Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.1.2005	**To Balance c/d (Bal. fig.)**	**50,000**	5.1.2005	By Cash A/c	50,000
		50,000			**50,000**
				By Balance b/d	**50,000**

Dr. **Cash Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
1.1.2005	To Ram's Capital A/c	80,000	7.1.2005	By Purchase A/c	40,000
4.1.2005	To Ramesh Loan A/c	20,000	8.1.2005	By Rent A/c	20,000
5.1.2005	To Sales A/c	50,000	10.12005	By Salaries A/c	30,000
			15.1.2005	By Ramesh Loan A/c	20,000
			20.1.2005	By Machinery A/c	20,000
			25.1.2005	By Advertisement Expenses A/c	10,000
			27.1.2005	By Postage Expenses A/c	10,000
		1,50,000			**1,50,000**

Dr. **Purchase Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
7.1.2005	To Cash A/c	40,000	31.1.2005	By Balance c/d	40,000
		40,000			**40,000**
	To Balance b/d	**40,000**			

Dr. **Rent Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
8.1.2005	To Cash A/c	20,000	31.1.2005	By Balance c/d	20,000
		20,000			**20,000**
	To Balance b/d	**20,000**			

Dr. Salaries Account Cr.

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
10.1.2005	To Cash A/c	30,000	31.1.2005	By Balance c/d	30,000
		30,000			**30,000**
	To Balance b/d	**30,000**			

Dr Ramesh Loan A/c Cr.

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
15.1.2005	To Cash	20,000	04.1.2005	By Cash	20,000
		20,000			**20,000**

Dr. Machinery Account Cr.

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
20.1.2005	To Cash A/c	20,000	31.1.2005	By Balance c/d	20,000
		20,000			**20,000**
	To Balance b/d	**20,000**			

Dr. Advertisement Expenses Account Cr.

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
25.1.2005	To Cash A/c	10,000	31.1.2005	By Balance c/d	10,000
		10,000			**10,000**
	To Balance b/d	**10,000**			

Dr. Postage Expenses Account Cr.

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
27.1.2005	To Cash A/c	10,000	31.1.2005	By Balance c/d	10,000
		10,000			**10,000**
	To Balance b/d	**10,000**			

Trial Balance of Mr. Ram as on 31st January 2005

Particulars	*Debit (₹)*	*Credit (₹)*
Capital		80,000
Sales		50,000
Purchases	40,000	
Rent	20,000	
Salaries	30,000	
Machinery	20,000	
Advertisement Expenses	10,000	
Postage Expenses	10,000	
Total	**1,30,000**	**1,30,000**

✎ ILLUSTRATION 18:

Mr. Kumar furnishes the following particulars. Pass Journal Entries and prepare the necessary ledger accounts and also prepare a Trial Balance as on 31st January 2007.

Date	*Particulars*	*Amount (₹)*
01.01.2007	Kumar started the business with capital	1,40,000
05.01.2007	Goods sold for cash	20,000
06.01.2007	Interest received	20,000
08.01.2007	Purchased goods for cash	80,000
15.01.2007	Rent paid	30,000
20.01.2007	Commission paid	20,000
22.01.2007	Salaries paid	20,000
25.01.2007	Withdrawn cash for personal use	10,000
27.01.2007	Selling expenses paid	20,000

Solution:

Journal Entries in the Books of Mr. Kumar

Dr. **Commenced the Business** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.01.2007	Cash A/c	Dr.	1,40,000	
	To Kumar's Capital A/c			1,40,000
	(Being capital introduced by Kumar)			

Dr. **Goods Sold for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
05.01.2007	Cash A/c	Dr.	20,000	
	To Sales A/c			20,000
	(Being goods sold for cash)			

Dr. **Interest Received** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
06.01.2007	Cash A/c	Dr.	20,000	
	To Interest Received A/c			20,000
	(Being interest received)			

Dr. **Goods Purchased for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
08.01.2007	Purchase A/c	Dr.	80,000	
	To Cash A/c			80,000
	(Being goods purchased for cash)			

Dr. **Rent Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
15.01.2007	Rent A/c	Dr.	30,000	
	To Cash A/c			30,000
	(Being rent paid)			

Dr. **Commission Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
20.01.2007	Commission Paid A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being commission paid)			

Dr. **Salaries Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
22.01.2007	Salaries A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being salaries paid)			

Dr. **Drawing for Personal Use** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
25.01.2007	Drawings A/c	Dr.	10,000	
	To Cash A/c			10,000
	(Being drawing for personal use)			

Dr. **Selling Expenses Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
27.01.2007	Selling Expenses A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being selling expenses paid)			

Ledger Accounts

Dr. **Kumar's Capital Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.1.2007	To Balance c/d	1,40,000	1.1.2007	By Cash A/c	1,40,000
		1,40,000			**1,40,000**
				By Balance b/d	**1,40,000**

Dr. **Sales Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.1.2007	To Balance c/d	20,000	5.1.2007	By Cash A/c	20,000
		20,000			**20,000**
				By Balance b/d	**20,000**

Dr. **Interest Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.1.2007	To Balance c/d	20,000	6.1.2007	By Cash A/c	20,000
		20,000			**20,000**
				By Balance b/d	**20,000**

Dr. **Cash Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
1.1.2007	To Kumar's Capital A/c	1,40,000	8.1.2007	By Purchase A/c	80,000
5.1.2007	To Sales A/c	20,000	15.1.2007	By Rent A/c	30,000
6.1.2007	To Interest Received A/c	20,000	20.1.2007	By Commission A/c	20,000
			22.1.2007	By Salaries A/c	20,000
			25.1.2007	By Drawings A/c	10,000
			27.1.2007	By Selling Expenses	20,000
		1,80,000			**1,80,000**

Dr. **Purchase Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
8.1.2007	To Cash A/c	80,000	31.1.2007	By Balance c/d	80,000
		80,000			**80,000**
	To Balance b/d	**80,000**			

Dr. **Rent Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
15.1.2007	To Cash A/c	30,000	31.1.2007	By Balance c/d	30,000
		30,000			**30,000**
	To Balance b/d	**30,000**			

Dr. **Commission Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
20.1.2007	To Cash A/c	20,000	31.1.2007	By Balance c/d	20,000
		20,000			**20,000**
	To Balance b/d	**20,000**			

Dr. **Salaries Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
22.1.2007	To Cash A/c	20,000	31.1.2007	By Balance c/d	20,000
		20,000			**20,000**
	To Balance b/d	**20,000**			

Dr. **Drawings Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
25.1.2007	To Cash A/c	10,000	31.1.2007	By Balance c/d	10,000
		10,000			**10,000**
	To Balance b/d	**10,000**			

Dr. **Selling Expenses Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
27.1.2007	To Cash A/c	20,000	31.1.2007	By Balance c/d	20,000
		20,000			**20,000**
	To Balance b/d	**20,000**			

Trial Balance of Mr. Kumar

Particulars	*Debit (₹)*	*Credit (₹)*
Capital		1,40,000
Sales		20,000
Interest Received		20,000
Purchases	80,000	

(Contd.)

Rent	30,000	
Commission	20,000	
Salaries	20,000	
Drawings	10,000	
Selling Expenses	20,000	
Total	**1,80,000**	**1,80,000**

✎ ILLUSTRATION 19:

Mr. Y furnishes the following particulars.

Date	*Particulars*	**Amount (₹)**
01.01.2005	Y started the business with cash	1,20,000
05.01.2005	Purchased goods for cash	60,000
07.01.2005	Goods sold for cash	30,000
10.01.2005	Drawings for personal use	20,000
15.01.2005	Rent paid	10,000
20.01.2005	Salaries paid	15,000
25.01.2005	Electricity charges	15,000
27.01.2005	Wages paid	5,000
29.01.2005	Insurance premium paid	5,000

Pass Journal Entries and prepare the necessary ledger accounts and also prepare a Trial Balance as on 31st January 2005.

Solution:

Journal Entries in the Books of Mr. Y

Dr. **Commenced Business** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.01.2005	Cash A/c	Dr.	1,20,000	
	To Y's Capital A/c			1,20,000
	(Being started business with cash)			

Dr. **Goods Purchased for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
05.01.2005	Purchases A/c	Dr.	60,000	
	To Cash A/c			60,000
	(Being cash purchases made)			

Dr. **Goods Sold for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
07.01.2005	Cash A/c	Dr.	30,000	
	To Sales A/c			30,000
	(Being goods sold for cash)			

Dr. **Drawing for Personal Use** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
10.01.2005	Drawings A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being drawing for personal use)			

Dr. **Rent Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
15.01.2005	Rent A/c	Dr.	10,000	
	To Cash A/c			10,000
	(Being rent paid)			

Dr. **Salaries Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
20.01.2005	Salaries A/c	Dr.	15,000	
	To Cash A/c			15,000
	(Being salaries paid)			

Dr. **Electricity Charges Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
25.01.2005	Electricity Charges A/c	Dr.	15,000	
	To Cash A/c			15,000
	(Being electricity charges paid)			

Dr. **Wages Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
27.01.2005	Wages A/c	Dr.	5,000	
	To Cash A/c			5,000
	(Being wages paid)			

Dr. **Insurance Premium Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
29.01.2005	Insurance A/c	Dr.	5,000	
	To Cash A/c			5,000
	(Being insurance paid)			

Ledger Accounts

Dr. **Y's Capital Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.1.2005	To Balance c/d	1,20,000	1.1.2005	By Cash A/c	1,20,000
		1,20,000			**1,20,000**
				By Balance b/d	**1,20,000**

Dr. **Purchases Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
5.1.2005	To Cash A/c	60,000	31.1.2005	By Balance c/d	60,000
		60,000			**60,000**
	To Balance b/d	**60,000**			

Dr. **Sales Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.1.2005	To Balance c/d	30,000	7.1.2005	By Cash A/c	30,000
		30,000			**30,000**
				By Balance b/d	**30,000**

Dr. **Cash Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
1.1.2005	To Y's Capital A/c	1,20,000	5.1.2005	By Purchases A/c	60,000
7.1.2005	To Sales A/c	30,000	10.1.2005	By Drawings A/c	20,000
			15.1.2005	By Rent A/c	10,000
			20.1.2005	By Salaries A/c	15,000
			25.1.2005	By Electricity A/c	15,000
			27.1.2005	By Wages A/c	5,000
			29.1.2005	By Insurance A/c	5,000
			31.1.2005	**By Balance c/d (Bal. fig.)**	**20,000**
		1,50,000			**1,50,000**
	To Balance b/d	**20,000**			

Dr. **Drawings Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
10.1.2005	To Cash A/c	20,000	31.1.2005	By Balance c/d	20,000
		20,000			**20,000**
	To Balance b/d	**20,000**			

Dr. **Rent Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
15.1.2005	To Cash A/c	10,000	31.1.2005	By Balance c/d	10,000
		10,000			**10,000**
	To Balance b/d	**10,000**			

Dr. **Salaries Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
20.1.2005	To Cash A/c	15,000	31.1.2005	By Balance c/d	15,000
		15,000			**15,000**
	To Balance b/d	**15,000**			

Dr. **Electricity Charges Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
25.1.2005	To Cash A/c	5,000	31.1.2005	By Balance c/d	5,000
		5,000			**5,000**
	To Balance b/d	**5,000**			

Dr. **Wages Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
27.1.2005	To Cash A/c	15,000	31.1.2005	By Balance c/d	15,000
		15,000			**15,000**
	To Balance b/d	**15,000**			

Dr. **Insurance Premium Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
29.1.2005	To Cash A/c	5,000	31.1.2005	By Balance c/d	5,000
		5,000			**5,000**
	To Balance b/d	**5,000**			

Trial Balance of Mr. Y as on 31st January 2005

Particulars	*Debit (₹)*	*Credit (₹)*
Capital		1,20,000
Purchases	60,000	
Sales		30,000
Rent	10,000	
Salaries	15,000	

(Contd.)

Drawings	20,000	
Wages	5,000	
Electricity charges	15,000	
Insurance premium	5,000	
Cash	20,000	
Total	**1,50,000**	**1,50,000**

✎ ILLUSTRATION 20:

Mr. Ravi furnishes the following particulars relating to his business. Pass Journal Entries and prepare the ledger accounts and also prepare the Trial Balance.

Date	*Particulars*	*Amount (₹)*
01.01.2004	Ravi started the business with capital	1,00,000
05.01.2004	Goods sold for cash	80,000
07.01.2004	Commission received	70,000
10.01.2004	Purchased goods for cash	50,000
15.01.2004	Rent paid	80,000
18.01.2004	Salaries paid	50,000
20.01.2004	Withdrew cash for personal use	20,000
22.01.2004	Telephone charges	20,000
24.01.2004	Advertisement expenses paid	20,000

Solution:

Journal Entries in the Books of Mr. Ravi

Dr. **Commenced Business with Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.01.2004	Cash A/c	Dr.	1,00,000	
	To Ravi's Capital A/c			1,00,000
	(Being capital introduced by Ravi)			

Dr. **Goods Sold for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
05.01.2004	Cash A/c	Dr.	80,000	
	To Sales A/c			80,000
	(Being goods sold for cash)			

Dr. **Commission Received** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
07.01.2004	Cash A/c	Dr.	70,000	
	To Commission A/c			70,000
	(Being commission received)			

Dr. **Goods Purchased for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
10.01.2004	Purchases A/c	Dr.	50,000	
	To Cash A/c			50,000
	(Being goods purchased for cash)			

Dr. **Rent Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
15.01.2004	Rent A/c	Dr.	80,000	
	To Cash A/c			80,000
	(Being rent paid)			

Dr. **Salaries Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
18.01.2004	Salaries A/c	Dr.	50,000	
	To Cash A/c			50,000
	(Being salaries paid)			

Dr. **Drawing for Personal Use** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
20.01.2004	Drawings A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being drawing for personal use)			

Dr. **Telephone Charges Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
22.01.2004	Telephone Charges A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being telephone charges paid in cash)			

Dr. **Advertisement Expenses Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
24.01.2004	Advertisement Expenses A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being advertisement expenses paid)			

Ledger Accounts

Dr. **Ravi's Capital Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.1.2004	To Balance c/d	1,00,000	1.1.2004	By Cash A/c	1,00,000
		1,00,000			**1,00,000**
				By Balance b/d	**1,00,000**

Dr. **Sales Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.1.2004	To Balance c/d	80,000	5.1.2004	By Cash A/c	80,000
		80,000			**80,000**
				By Balance b/d	**80,000**

Dr. **Commission Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.1.2004	To Balance c/d	70,000	7.1.2004	By Cash A/c	70,000
		70,000			**70,000**
				By Balance b/d	**70,000**

Dr. **Purchases Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
10.1.2004	To Cash A/c	50,000	31.1.2004	By Balance c/d	50,000
		50,000			**50,000**
	To Balance b/d	**50,000**			

Dr. **Cash Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
1.1.2004	To Ravi's Capital A/c	1,00,000	10.1.2004	By Purchases A/c	50,000
5.1.2004	To Sales A/c	80,000	15.1.2004	By Rent A/c	80,000
7.1.2004	To Commission A/c	70,000	18.1.2004	By Salaries A/c	50,000
			20.1.2004	By Drawings A/c	20,000
			22.1.2004	By Telephone A/c	20,000
			24.1.2004	By Advertisement A/c	20,000
			31.1.2004	**By Balance c/d (Bal. fig.)**	**10,000**
		2,50,000			**2,50,000**
	To Balance b/d	**10,000**			

Dr. **Rent Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
15.1.2004	To Cash A/c	80,000	31.1.2004	By Balance c/d	80,000
		80,000			**80,000**
	To Balance b/d	**80,000**			

Dr. **Salaries Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
18.1.2004	To Cash A/c	50,000	31.1.2004	By Balance c/d	50,000
		50,000			**50,000**
	To Balance b/d	**50,000**			

Dr. **Drawings Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
20.1.2004	To Cash A/c	20,000	31.1.2004	By Balance c/d	20,000
		20,000			**20,000**
	To Balance b/d	**20,000**			

Dr. **Telephone Charges Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
22.1.2004	To Cash A/c	20,000	31.1.2004	By Balance c/d	20,000
		20,000			**20,000**
	To Balance b/d	**20,000**			

Dr. **Advertisement Expenses Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
24.1.2004	To Cash A/c	20,000	31.1.2004	By Balance c/d	20,000
		20,000			**20,000**
	To Balance b/d	**20,000**			

Trial Balance of Mr. Ravi as on 31st January 2004

Particulars	*Debit (₹)*	*Credit (₹)*
Capital		1,00,000
Sales		80,000
Commission Received		70,000
Purchases	50,000	
Cash	10,000	

(Contd.)

Rent	80,000	
Salaries	50,000	
Drawings	20,000	
Telephone Charges	20,000	
Advertisement Expenses	20,000	
Total	**2,50,000**	**2,50,000**

✎ ILLUSTRATION 21:

Journalise the following transactions of Mr. Suresh's books. Also prepare the Ledger account and Trial Balance as on 30th October 2011.

Date	*Particulars*	*Amount (₹)*
01.10.2011	Suresh started the business with cash	90,000
09.10.2011	Goods sold for cash to Raman	40,000
10.10.2011	Interest received	20,000
12.10.2011	Purchased goods for cash from Subraja	50,000
14.10.2011	Withdrew cash for personal use	30,000
16.10.2011	Rent paid	20,000
17.10.2011	Salaries paid	10,000
19.10.2011	Wages	5,000
22.10.2011	Selling expenses paid	15,000

Solution:

Journal Entries in the Books of Mr. Suresh

Dr. **Started the Business** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.10.2011	Cash A/c	Dr.	90,000	
	To Suresh's Capital A/c			90,000
	(Being capital introduced by Suresh)			

Dr. **Goods Sold for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
09.10.2011	Cash A/c	Dr.	40,000	
	To Sales A/c			40,000
	(Being goods sold for cash)			

Dr. **Interest Received** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
10.10.2011	Cash A/c	Dr.	20,000	
	To Interest Received A/c			20,000
	(Being interest received)			

Dr. **Goods Purchased for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
12.10.2011	Purchases A/c	Dr.	50,000	
	To Cash A/c			50,000
	(Being goods purchased for cash)			

Dr. **Drawing for Personal Use** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
14.10.2011	Drawings A/c	Dr.	30,000	
	To Cash A/c			30,000
	(Being cash withdrawn for personal use)			

Dr. **Rent Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
16.10.2011	Rent A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being rent paid)			

Dr. **Salaries Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
17.10.2011	Salaries A/c	Dr.	10,000	
	To Cash A/c			10,000
	(Being salaries paid)			

Dr. **Wages Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
19.10.2011	Wages A/c	Dr.	5,000	
	To Cash A/c			5,000
	(Being wages paid)			

Dr. **Selling Expenses Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
22.10.2011	Selling Expenses A/c	Dr.	15,000	
	To Cash A/c			15,000
	(Being selling expenses paid)			

Ledger Accounts

Dr. **Suresh's Capital Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.10.2011	To Balance c/d	90,000	1.10.2011	By Cash A/c	90,000
		90,000			**90,000**
				By Balance b/d	**90,000**

Dr. **Sales Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.10.2011	To Balance c/d	40,000	9.10.2011	By Cash A/c	40,000
		40,000			**40,000**
				By Balance b/d	**40,000**

Dr. **Interest Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.10.2011	To Balance c/d	20,000	10.10.2011	By Cash A/c	20,000
		20,000			**20,000**
				By Balance b/d	**20,000**

Dr. **Purchases Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
12.10.2011	To Cash A/c	50,000	31.10.2011	By Balance c/d	50,000
		50,000			**50,000**
	To Balance b/d	**50,000**			

Dr. **Cash Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
1.10.2011	To Suresh's Capital A/c	90,000	12.10.2011	By Purchases A/c	50,000
9.10.2011	To Sales A/c	40,000	14.10.2011	By Drawings A/c	30,000
10.10.2011	To Interest Received A/c	20,000	16.10.2011	By Rent A/c	20,000
			17.10.2011	By Salaries A/c	10,000
			19.10.2011	By Wages	5,000
			22.10.2011	By Selling Expenses A/c	15,000
			31.10.2011	**By Balance c/d (Bal. fig.)**	**20,000**
		1,50,000			**1,50,000**
	To Balance b/d	**20,000**			

Dr. **Drawings Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
14.10.2011	To Cash A/c	30,000	31.10.2011	By Balance c/d	30,000
		30,000			**30,000**
	To Balance b/d	**30,000**			

Dr. **Rent Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
16.10.2011	To Cash A/c	20,000	31.10.2011	By Balance c/d	20,000
		20,000			**20,000**
	To Balance b/d	**20,000**			

Dr. **Salaries Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
17.10.2011	To Cash A/c	10,000	31.10.2011	By Balance c/d	10,000
		10,000			**10,000**
	To Balance b/d	**10,000**			

Dr. **Wages Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
19.10.2011	To Cash A/c	5,000	31.10.2011	By Balance c/d	5,000
		5,000			**5,000**
	To Balance b/d	**5,000**			

Dr. **Selling Expenses Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
22.10.2011	To Cash A/c	15,000	31.10.2011	By Balance c/d	15,000
		15,000			**15,000**
	To Balance b/d	**15,000**			

Trial Balance of Mr. Suresh as on 30th October 2011

Particulars	*Debit (₹)*	*Credit (₹)*
Capital		90,000
Sales		40,000
Interest Received		20,000
Purchases	50,000	
Rent	20,000	
Drawings	30,000	
Cash	20,000	
Salaries	10,000	
Wages	5,000	
Selling Expenses	15,000	
Total	**1,50,000**	**1,50,000**

✎ ILLUSTRATION 22:

Mr. Kannan furnishes the following particulars relating to his business. You are required to:

(a) Pass Journal Entries

(b) Prepare Ledger accounts and

(c) Prepare a Trial Balance as on 31st October 2011.

Date	*Particulars*	*Amount (₹)*
01.10.2011	Kannan started the business with cash	50,000
09.10.2011	Paid cash into bank	20,000
10.10.2011	Purchased goods for cash	4,000
12.10.2011	Goods sold for cash	3,000
14.10.2011	Withdrawn from bank for office use	3,000
16.10.2011	Purchased goods from Ram	4,000

Solution:

Journal Entries in the Books of Mr. Kannan

Dr. Commenced Business with Cash Cr.

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.10.2011	Cash A/c	Dr.	50,000	
	To Kannan's Capital A/c			50,000
	(Being capital introduced by Kannan)			

Dr. Cash Paid into Bank Cr.

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
09.10.2011	Bank A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being cash paid into bank)			

Dr. Goods Purchased for Cash Cr.

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
10.10.2011	Purchases A/c	Dr.	4,000	
	To Cash A/c			4,000
	(Being goods purchased for cash)			

Dr. **Goods Sold for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
12.10.2011	Cash A/c	Dr.	3,000	
	To Sales A/c			3,000
	(Being goods sold for cash)			

Dr. **Withdrawn from Bank** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
14.10.2011	Cash A/c	Dr.	3,000	
	To Bank A/c			3,000
	(Being withdrawn from bank)			

Dr. **Goods Purchased from Ram** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
16.10.2011	Purchases A/c	Dr.	4,000	
	To Ram A/c			4,000
	(Being goods purchased from Ram)			

Ledger Accounts

Dr. **Kannan's Capital Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.10.2011	To Balance c/d	50,000	1.10.2011	By Cash A/c	50,000
		50,000			**50,000**
				By Balance b/d	**50,000**

Dr. **Sales Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.10.2011	To Balance c/d	3,000	12.10.2011	By Cash A/c	3,000
		3,000			**3,000**
				By Balance b/d	**3,000**

Dr. **Purchases Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
10.10.2011	To Cash A/c	4,000	31.10.2011	By Balance c/d	8,000
16.10.2011	To Ram A/c	4,000			
		8,000			**8,000**
	To Balance b/d	**8,000**			

Dr. **Cash Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
1.10.2011	To Kannan's Capital A/c	50,000	9.10.2011	By Bank A/c	20,000
12.10.2011	To Sales A/c	3,000	10.10.2011	By Purchase A/c	4,000
14.10.2011	To Bank A/c	3,000	31.10.2011	By Balance c/d	32,000
		56,000			**56,000**
	To Balance b/d	**32,000**			

Dr. **Bank Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
9.10.2011	To Cash A/c	20,000	14.10.2011	By Cash A/c	3,000
			31.10.2011	By Balance c/d	17,000
		20,000			**20,000**
	To Balance b/d	**17,000**			

Dr. **Ram's Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.10.2011	To Balance c/d	4,000	16.10.2011	By Cash	4,000
		4,000			**4,000**
				By Balance b/d	**4,000**

Trial Balance of Mr. Kannan as on 31.10.2011

Particulars	*Debit (₹)*	*Credit (₹)*
Capital		50,000
Sales		3,000
Purchases	8,000	
Cash	32,000	
Bank	17,000	
Ram (Creditor)		4,000
Total	**57,000**	**57,000**

✎ ILLUSTRATION 23:

Mr. J furnishes the following particulars relating to his business. You are required to:

(a) Pass Journal Entries

(b) Prepare Ledger accounts and

(c) Prepare a Trial Balance as on 31st October 2010

Date	*Particulars*	*Amount (₹)*
01.10.2010	J started the business with cash	4,00,000
03.10.2010	Purchased goods for cash @5% trade discount	1,00,000
04.10.2010	Paid electricity charges	1,000
08.10.2010	Purchased machinery for cash	20,000
10.10.2010	Sold goods to Mohan on credit	15,000

Solution:

Journal Entries in the Books of Mr. J

Dr. **Started the Business** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.10.2010	Cash A/c	Dr.	4,00,000	
	To J's Capital A/c			4,00,000
	(Being capital introduced by J)			

Dr. **Goods Purchased for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
03.10.2010	Purchase A/c	Dr.	1,00,000	
	To Cash A/c			95,000
	To Discount A/c			5,000
	(Being goods purchased for cash)			

Dr. **Electricity Charges Paid** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
04.10.2010	Electricity Charges A/c	Dr.	1,000	
	To Cash A/c			1,000
	(Being electricity charges paid)			

Dr. **Purchased Machinery for Cash** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
08.10.2010	Machinery A/c	Dr.	20,000	
	To Cash A/c			20,000
	(Being machinery purchased for cash)			

Dr. **Sold Goods to Mohan** **Cr.**

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
10.10.2010	Mohan A/c	Dr.	15,000	
	To Sales A/c			15,000
	(Being goods sold to Mohan on credit)			

Ledger Accounts

Dr. **J's Capital Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.10.2010	To Balance c/d	4,00,000	1.10.2010	By Cash A/c	4,00,000
		4,00,000			**4,00,000**
				By Balance b/d	**4,00,000**

Dr. **Purchases Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
3.10.2010	To Cash A/c	95,000	31.10.2010	By Balance c/d	1,00,000
3.10.2010	To Discount A/c	5,000			
		1,00,000			**1,00,000**
	To Balance b/d	**1,00,000**			

Dr. **Discount Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.10.2010	To Balance c/d	5,000	3.10.2010	By Purchases A/c	5,000
		5,000			**5,000**
				By Balance b/d	**5,000**

Dr. **Electricity Charges Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
4.10.2010	To Cash A/c	1,000	31.10.2010	By Balance c/d	1,000
		1,000			**1,000**
	To Balance b/d	**1,000**			

Dr. **Cash Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
1.10.2010	To J's Capital A/c	4,00,000	3.10.2010	By Purchases A/c	95,000
			4.10.2010	By Electricity Charges A/c	1,000
			8.10.2010	By Machinery A/c	20,000
			31.10.2010	By Balance c/d	2,84,000
		4,00,000			**4,00,000**
	To Balance b/d	**2,84,000**			

Dr. **Sales Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.10.2010	To Balance c/d	15,000	10.10.2010	By Mohan A/c	15,000
		15,000			**15,000**
				By Balance b/d	**15,000**

Dr. **Mohan's Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
10.10.2010	To Sales A/c	15,000	31.10.2010	By Balance c/d	15,000
		15,000			**15,000**
	To Balance b/d	**15,000**			

Trial Balance of Mr. J

Particulars	*Debit (₹)*	*Credit (₹)*
Capital		4,00,000
Purchases	1,00,000	
Discount Received		5,000
Electricity Charges	1,000	
Machinery	20,000	
Cash	2,84,000	
Sales		15,000
Mohan (Debtor)	15,000	
Total	**4,20,000**	**4,20,000**

✎ ILLUSTRATION 24:

Mr. Issac started their business on 1st April 2015 with ₹1,00,000 as capital. Following were the transactions for one month:

Date	*Particulars*	*Amount (₹)*
01.04.2015	Paid cash into bank	40,000
02.04.2015	Purchased furniture from Modern Furniture Ltd., on credit	6,000
05.04.2015	Purchased goods from Ram	17,600

(Contd.)

06.04.2015	Sold goods on credit to Sivakumar	7,000
08.04.2015	Cash paid to Modern Furniture Ltd.,	4,000
15.04.2015	Paid wages in cash	400
16.04.2015	Issued cheque to Ram	14,000
20.04.2015	Received cash from Sivakumar	3,000
21.04.2015	Cash paid into bank	3,000
23.04.2015	Goods sold for cash	7,000
25.04.2015	Goods purchased for cash	3,600
27.04.2015	Goods withdrawn for personal use	1,000
28.04.2015	Cash withdrawn for personal use	1,500
29.04.2015	Stationery purchased for cash	200
30.04.2015	Salaries paid by cheque	2,000

Give Journal Entries and Prepare Ledger accounts and Trial Balance as on 30th April 2015.

Solution:

In the book of Issac
Journal Entries

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.04.2015	Cash A/c	Dr.	1,00,000	
	To Issac Capital A/c			1,00,000
	(Being capital introduced by Issac)			
01.04.2015	Bank A/c	Dr.	40,000	
	To Cash A/c			40,000
	(Being cash deposited into bank)			
02.04.2015	Furniture A/c	Dr.	6,000	
	To Modern Furniture A/c			6,000
	(Being furniture brought on credit from Modern Furniture)			
05.04.2015	Purchases A/c	Dr.	17,600	
	To Ram A/c			17,600
	(Being goods purchased from Ram on credit)			

(Contd.)

06.04.2015	Sivakumar A/c To Sales A/c (Being goods sold to Sivakumar on credit)	Dr.	7,000	7,000
08.04.2015	Modern Furniture A/c To Cash A/c (Being part payment made to Modern Furniture Ltd.)	Dr.	4,000	4,000
15.04.2015	Wages A/c To Cash A/c (Being wages paid in cash)	Dr.	400	400
16.04.2015	Ram A/c To Bank A/c (Being payment made to Ram by cheque)	Dr.	14,000	14,000
20.04.2015	Cash A/c To Sivakumar A/c (Being cash received from Sivakumar)	Dr.	3,000	3,000
21.04.2015	Bank A/c To Cash A/c (Being cash deposited into bank)	Dr.	3,000	3,000
23.04.2015	Cash A/c To Sales A/c (Being cash sales made)	Dr.	7,000	7,000
25-04-2015	Purchases A/c To Cash A/c (Being goods purchased for cash)	Dr.	3,600	3,600
27.04.2015	Drawings A/c To Purchases A/c (Being goods taken for personal use)	Dr.	1,000	1,000
28.04.2015	Drawings A/c To Cash A/c (Being cash taken for personal use)	Dr.	1,500	1,500
29.04.2015	Stationery A/c To Cash A/c (Being stationery purchased for cash)	Dr.	200	200
30.04.2015	Salaries A/c To Bank A/c (Being salary paid by cheque)	Dr.	2,000	2,000

Ledger Accounts

Dr. **Cash Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.04.2015	To Issac	1,00,000	01.04.2015	By Bank A/c	40,000
20.04.2015	To Sivakumar A/c	3,000	08.04.2015	By Modern Furniture Ltd.	4,000
23.04.2015	To Sales A/c	7,000	15.04.2015	By Wages A/c	400
			21.04.2015	By Bank A/c	3,000
			25.04.2015	By Purchases A/c	3,600
			28.04.2015	By Drawing A/c	1,500
			29.04.2015	By Stationery A/c	200
			30.04.2015	**By Balance c/d (Bal. fig.)**	**57,300**
		1,10,000			1,10,000
01.05.2015	To Balance b/d	57,300			

Dr. **Issac Capital Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
30.04.2015	To Balance c/d	1,00,000	01.04.2015	By Cash A/c	1,00,000
		1,00,000			1,00,000
			01.05.2015	By Balance b/d	1,00,000

Dr. **Bank Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.04.2015	To Cash A/c	40,000	16.04.2015	By Ram A/c	14,000
21.04.2015	To Cash A/c	3,000	30.04.2015	By Salary A/c	2,000
			30.04.2015	**By Balance c/d (Bal. fig.)**	**27,000**
		43,000			43,000
01.05.2015	To Balance b/d	27,000			

Dr. **Furniture Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
02.04.2015	To Modern Furniture A/c	6,000	30.04.2015	**By Balance c/d (Bal. fig.)**	**6,000**
		6,000			6,000
01.05.2015	To Balance b/d	6,000			

Dr. **Modern Furniture Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
08.04.2015	To Cash A/c	4,000	02.04.2015	By Furniture A/c	6,000
30.04.2015	**To Balance c/d (Bal. fig.)**	**2,000**			
		6,000			6,000
			01.05.2015	By Balance b/d	2,000

Dr. **Ram Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
16.04.2015	To Bank A/c	14,000	05.04.2015	By Purchases A/c	17,600
30.04.2015	**To Balance c/d (Bal. fig.)**	**3,600**			
		17,600			17,600
			01.05.2015	By Balance b/d	3,600

Dr. **Sivakumar Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
06.04.2015	To Sales A/c	7,000	20.04.2015	By Cash A/c	3,000
			30.04.2015	**By Balance c/d (Bal. fig.)**	**4,000**
		7,000			7,000
01.05.2015	To Balance b/d	4,000			

Dr. **Sales Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
30.04.2015	**To Balance c/d (Bal. fig.)**	**14,000**	06.04.2015	By Sivakumar A/c	7,000
			23.04.2015	By Cash A/c	7,000
		14,000			14,000
			01.05.2015	By Balance b/d	14,000

Dr. **Purchases Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
05.04.2015	To Ram A/c	17,600	27.04.2015	By Drawing A/c	1,000
22.04.2015	To Cash A/c	3,600	30.04.2015	**By Balance c/d (Bal. fig.)**	**20,200**
		21,200			21,200
01.05.2015	To Balance b/d	20,200			

Dr. **Wages Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
15.04.2015	To Cash A/c	400	30.04.2015	**By Balance c/d (Bal. fig.)**	**400**
		400			400
01.05.2015	To Balance b/d	400			

Dr. **Drawings Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
27.04.2015	To Purchases A/c	1,000	30.04.2015	**By Balance c/d (Bal. fig.)**	**2,500**
28.04.2015	To Cash A/c	1,500			
		2,500			2,500
01.05.2015	To Balance b/d	2,500			

Dr. **Stationery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
29.04.2015	To Cash A/c	200	30.04.2015	**By Balance c/d (Bal. fig.)**	**200**
		200			200
01.05.2015	To Balance b/d	200			

Dr. **Salaries Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
30.04.2015	To Bank A/c	2,000	30.04.2015	**By Balance c/d (Bal. fig.)**	**2,000**
		2,000			2,000
01.05.2015	To Balance b/d	2,000			

Schedule of Debtors

Sivakumar	4,000
Sundry Debtors	**4,000**

Schedule of Creditors

Modern Furniture Ltd.	2,000
Ram	3,600
Sundry Creditors	**5,600**

Trial Balance of Issac as on 30.04.2015

Name of the Account	*L. F.*	*Debit (₹)*	*Credit (₹)*
Cash A/c		57,300	—
Issac Capital A/c		—	1,00,000
Bank A/c		27,000	—
Furniture A/c		6,000	—
Sundry Creditors		—	5,600
Sundry Debtors		4,000	—
Sales A/c		—	14,000
Purchases A/c		20,200	—
Wages A/c		400	—
Drawings A/c		2,500	—
Stationery A/c		200	—
Salaries A/c		2,000	—
Total		**1,19,600**	**1,19,600**

■ Theory Questions ■

Short-Answer Questions

1. What is Ledger?
2. What is Debtor's Ledger?
3. What is Creditor's Ledger
4. What is General Ledger?
5. What do you understand by Posting of Accounts?
6. Write a note on Balancing of Ledger Accounts
7. Define Trial Balance

Long-Answer Questions

8. State the purpose of Preparing Ledger Accounts
9. Distinguish between Journal and Ledger

■ Exercise Problems ■

1. Classify the following items into Personal, Real and Nominal accounts.
   (a) Bank
   (b) Gowtham
   (c) Sathish Lending Library
   (d) Advertisement
   (e) Purchases
   (f) Sales
   (g) Goodwill
   (h) Dividend
   (i) Electricity Charges
   (j) Copyright

   [Ans: Personal A/c: (b), (c); Real A/c: (a), (e), (f), (g), (j)
   Nominal A/c: (d), (h), (i)]

2. State whether the balances in the following accounts should be placed in Debit column or Credit column of Trial Balance.
   (a) Bills Receivable
   (b) Sundry Debtors

(c) Drawings
(d) Sabana's Capital
(e) Carriage Inward
(f) Furniture
(g) Bank
(h) Insurance
(i) Wages
(j) Bank Overdraft

[Ans: Debit balance: (a), (b), (c), (e), (f), (g), (h), (i)
Credit balance: (d), (j)]

3. The following balances were extracted from the ledger of Dhanush on 31st March 2015. You are requested to prepare a Trial Balance as on that date in the proper form.

Accounts	*(₹)*	*Accounts*	*(₹)*
Cash at Bank	4,360	Returns Inward	4,000
Repairs	6,680	Discount Allowed	4,600
Drawings	14,000	Rent and Rates	12,880
Returns Outward	1,600	Sundry Creditors	70,760
Investments	24,000	Sundry Expenses	1,840

[Ans: Trial Balance: ₹72,360]

4. The following balances were extracted from the ledger of Raj Kumar on 31st March 2012. You are requested to prepare a Trial Balance as on that date in the proper form.

Accounts	*(₹)*	*Accounts*	*(₹)*
Stock on 01.04.2011	9,080	Carriage Inward	36,168
Sales	43,375	Salaries	1,215
Plant & Machinery	8,575	Travelling Expenses	657
Purchases	470	Commission Paid	60
Sundry Debtors	2,775	Capital	15,625

[Ans: Trial Balance: ₹59,000]

5. Prepare Trial Balance as on 31st December 2016 from the following balances of Mr. Ahmed.

Accounts	*(₹)*	*Accounts*	*(₹)*
Salaries	14,080	Purchases Return	13,360
Debtors	3,680	Sales	28,000
Land	8,000	Sales Returns	2,720
Insurance	8,440	Wages	3,200
Creditors	25,760	Electricity Charges	27,000

[Ans: Trial Balance: ₹67,120]

6. Prepare a Trial Balance as on 31st October 2010 from the following balances of Mr. Antony

Accounts	*(₹)*	*Accounts*	*(₹)*
Bill Receivable	19,420	Rent	18,800
Bills Payable	5,680	Capital	49,400
Commission Received	1,280	Drawings	1,200
Carriage Inwards	5,980	Stock	10,000
Machinery	1,000	Bad Debts	320
Interest Received	840	Printing & Stationery	480

[Ans: Trial Balance: ₹57,200]

7. Prepare a Trial Balance of M/s Multiplying Enterprise as on 31st December 2016.

Accounts	*(₹)*	*Accounts*	*(₹)*
Cash in Hand	2,500	Furniture	12,000
Cash at Bank	14,500	Debtors	18,200
Capital	70,000	Creditors	16,600
Drawings	9,000	Opening Stock	8,700
Purchases	60,000	Wages	6,700
Sales	82,000	Salary	10,400
Machinery	35,000	Bills Payable	8,400

[Ans: Trial Balance: ₹1,77,000]

8. Prepare a Trial Balance as on 31st December 2014 from the following balances of Mr. Rocky.

Accounts	*(₹)*	*Accounts*	*(₹)*
Capital	1,70,000	Purchases	47,000
Creditors	6,500	Sales Returns	1,700
Drawings	2,000	Purchases Return	1,200
Salaries	19,100	Carriage Inwards	700
Bill Receivable	2,900	Printing & Stationery	2,500
Bills Payable	3,500	Stock	14,950
Debtors	8,000	Machinery	25,000
Sales	72,000	Wages	2,500
Insurance	1,100	Rent	800
Land	1,25,000	Interest Received	850
Commission Received	400	Electricity Charges	1,200

[Ans: Trial Balance: ₹2,54,450]

9. Prepare a Trial Balance as on 31st August 2016 from the following balances of Mr. Zee.

Accounts	*(₹)*	*Accounts*	*(₹)*
Debtors	2,50,000	Capital	3,60,000
Sales	32,500	Creditors	8,500
Insurance	10,000	Drawings	6,000
Land	95,500	Salaries	3,500
Commission Received	14,500	Bill Receivable	12,500
Stock	17,500	Bills Payable	74,750
Machinery	40,000	Purchases	1,25,000
Wages	5,500	Sales Returns	12,500
Rent	1,25,000	Purchases Return	4,000
Interest Received	2,21,000	Carriage Inwards	4,250
Electricity Charges	2,000	Printing & Stationery	6,000

[Ans: Trial Balance: ₹7,15,250]

10. From the following balances extracted from the ledger, you are required to prepare a Trial Balance as on 31st March 2010.

Accounts	*(₹)*
Cash in Office	92,800
Cash with City Bank	84,000
Cash with ICICI Bank	2,88,000

(Contd.)

Trade Expenses	64,000
Rent Paid	1,16,000
Staff Salaries	83,200
Return from Customers	1,60,000
Bills Payable	1,72,000
Loan from Siva & Co.	9,52,000
Fixtures & Fittings	14,400
Drawing Account	2,00,000
Capital Account	2,96,000
Sundry Debtors	2,00,000
Bills Receivable	56,000
Stock at Commencement	48,000
Purchases	1,52,000
Duty and Clearing Charges	16,000
Sales	1,31,200
Sundry Creditors	75,200
Advertisement	20,000
Return to Creditors	32,000
Commission and Travelling Expenses	64,000

[Ans: Trial Balance: ₹16,58,400]

Suspense Account

11. Prepare Trial Balance as on 31st December 2012 from the books of Mr. John.

Accounts	*(₹)*	*Accounts*	*(₹)*
Trading Expenses	20,000	Discount Earned	2,778
Cash in Hand	48,667	Drawings	2,778
Bills Payable	6,667	Sales Return	111
Bank Overdraft	2,222	Bills Receivable	5,000
Purchases Return	556	Sundry Debtors	1,222
Cash at Bank	6,667	Opening Stock	1,222
Sales	1,26,667	Salaries	1,111
Purchases	47,778	Capital	1,09,775
Commission Paid	4,444	Sundry Creditors	10,555
Plant & Machinery	34,444	Rent	1,444

[Ans: Trial Balance: ₹2 ,59,220,
Suspense Account: ₹84,332]

12. Prepare Trial Balance from the following balances of Mr. Abdulla as on 31st March 2015.

Accounts	*(₹)*	*Accounts*	*(₹)*
Bills Receivable	3,50,000	Sales	58,80,000
Cash in Hand	11,85,800	Purchases	16,10,000
General Expenses	13,16,000	Machinery	8,40,000
Salaries	6,72,000	Commission	1,54,000
Wages	19,600	Car	9,52,000
Repair	36,400	Building	13,16,000
Stock	44,800	Capital	27,44,000
Furniture	33,600	Reserve for Doubtful Debts	2,26,800
Sundry Debtors	11,200	Bad Debts	1,02,200
Sundry Creditors	9,52,000	Advertisement	12,04,000

[Ans: Trial Balance: ₹98,47,600, Suspense Account: ₹44,800]

13. Kaleem of Pune is not an expert in accounting. He prepared the following Trial Balance. You are requested to correct it and prepare a corrected Trial Balance.

S.No.	*Name of the Account*	*L.F.*	*Debit (₹)*	*Credit (₹)*
1	Drawings		—	1,24,480
2	Sundry Debtors		2,20,480	—
3	Freehold Premises		—	7,840
4	Factory Expenses		—	45,120
5	Administration Expenses		42,400	—
6	Cash in Hand		—	59,280
7	Bills Payable		1,01,440	—
8	Sales Return		—	21,120
9	Purchases		22,240	—
10	Return Outwards		—	42,240
11	Capital		—	1,62,720
12	Sales		2,13,600	—

(Contd.)

13	Loan from Sharma		—	53,440
14	Sundry Creditors		—	47,840
15	Wages		21,120	—
16	Opening Stock		—	47,200
17	Repair		—	10,000
			6,21,280	**6,21,280**

14. Prepare the following Trial Balance of Ms Lakshmi. You are requested to correct it and prepare a corrected Trial Balance.

S.No.	*Name of the Account*	*L.F.*	*Debit (₹)*	*Credit (₹)*
1	Commission Earned		—	12,000
2	Manufacturing Expenses		12,000	—
3	Purchase Return		1,68,000	—
4	Carriage Inward		—	1,68,000
5	Loan from Ashok		1,68,000	—
6	Establishment Expenses		3,36,000	—
7	Creditors		—	5,28,000
8	Sales		—	1,.44,000
9	Debtors		96,000	—
10	Cash in Hand		—	1,20,000
11	Sales Returns		—	2,40,000
12	Interest in Investments		9,600	—
13	Bank Overdraft		14,400	—
14	Carriage Outwards		—	24,000
15	Capital		2,64,000	—
16	Wages		—	96,000
17	Purchases		1,44,000	—
18	Stock		96,000	—
19	Discount Received		48,000	—
20	Machinery		—	24,000
			13,56,000	**13,56,000**

15. Pass Journal entry and post them into Ledger and prepare the Trial Balance.

(i) 1st April 2017 — Javith introduced a capital of ₹50,000
(ii) 15th April 2017 — Deposited cash into bank ₹25,000
(ii) 28th April 2017 — Purchased goods from Ram ₹15,000

[Ans: Trial Balance: ₹65,000]

16. Pass Journal Entries and Prepare Ledger account and prepare a Trial Balance.

Jan. 1 Started business with cash ₹10,000.
2 Paid into bank ₹5,000.
5 Purchased goods from Ram for cash ₹1,000.

(November 2005 21601/ZZ1G/ZZ1E/SY1C/PK3B/SDEM)

[Ans: Trial Balance: ₹10,000]

17. Pass Journal Entries and Ledger account and prepare a Trial Balance as on 31.1.2016

		₹
1.1.2016	Business started with ₹2,50,000 and cash deposited with bank	1,50,000
3.1.2016	Purchased machinery on credit from Rajesh	50,000
21.1.2016	Goods sold to Jasmine	2,500
25.1.2016	Cash withdrawn from bank	50,000

(November 2017 62101/BPH1A/BPK1A)

[Ans: Trial Balance: ₹3,02,500]

18. Pass Jounral Entries and post them into Ledger and prepare a Trial Balance.

01.08.2014	Madhavan commenced business with a capital of ₹2,00,000
03.08.2014	Purchased computer for cash ₹40,000
05.08.2014	Distribution expenses paid in cash – ₹5,000
08.08.2014	Travelling expenses paid in cash – ₹2,000
15.08.2014	Purchased fax machine for cash – ₹10,000
22.08.2014	Sold old refrigerator for cash – ₹25,000
26.08.2014	Income tax paid – ₹5,000
20.08.2014	Received dividend in cash – ₹3,000

[Ans: Trial Balance: ₹2,28,000]

19. Pass Journal Entries and Ledger account and prepare a Trial Balance.

2010		₹
Jan. 1	Business started with	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 to Yesodha ...	22,500

(November 2010/AF-2298 /BCS1C1)

[Ans: Trial Balance: ₹3,22,500]

20. Mr. Ramesh furnishes the following information. Pass Journal Entries and post them into Ledger accounts and prepare a Trial Balance as on 30.6.2015.

(a)	01.06. 2015	Ramesh introduced a capital of ₹50,000 into business
(b)	06.06.2015	Purchased goods for cash ₹10,000
(c)	15.06.2015	Machinery purchased for cash ₹20,000
(d)	25.06.2015	Sold goods to Madan ₹15,000
(e)	30.06.2015	Rent paid ₹5,000

[Ans: Trial Balance: ₹65,000]

21. Pass Journal Entries, post them into Ledger and prepare a Trial Balance from the following transactions:

(a)	01.09.2016	Purchased goods from Ramya for cash ₹10,000
(b)	09.09.2016	Purchased computer for cash ₹40,000
(c)	19.09.2016	Sold goods to Radha for cash ₹31,500
(d)	25.09.2016	Received rent ₹12,000
(e)	29.09.2016	Paid salaries ₹24,000

[Ans: Trial Balance: ₹74,000]

22. From the following information prepare Journal, Ledger and Trial Balance in the books of Kannan & Co.

01.11.2017	Started business with a capital of ₹50,000
07.11.2017	Paid cash into bank ₹20,000
14.11.2017	Purchased goods for cash ₹4,000
21.11.2017	Cash sales ₹3,000
28.11.2017	Withdrawn cash from bank for office use ₹3,000
30.11.2017	Purchased goods from Ram ₹4,000

(November 2005/21401/MW1A)

[Ans: Trial Balance: ₹57,000]

23. Pass Journal Entries and post them into Ledger Accounts and prepare a Trial Balance.

Date		₹
2017 Jan 1	Ms. Hema commenced business with a capital of	80,000
2	Bought machinery	10,000
4	Bought goods for cash from Vani	4,000
5	Sold goods for cash to Anbu	11,000
7	Purchased goods from Jawahar	4,000
8	Cash sales	7,000
11	Received interest from Muthu	2,000
13	Deposited cash into bank	6,000
17	Paid cash to Jawahar ₹3,500 in full settlement of his account	4,000
19	Paid rent by cheque	3,000

(April 2011/21601/ZZ1G/ZZ1E/PK3B/SY1C/SDEM)

[Ans: Trial Balance: ₹1,00,500]

24. Journalise the following transactions of M/s. Radha & Sons.

M/s. Radha & Sons

2000		₹
Jan 1	Business started with ₹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 to Yesodha	22,000
13	Goods returned by Yesodha	2,500
15	Goods sold for cash	1,50,000
17	Bought goods for cash	25,000
20	Cash received from Yesodha	10,000
21	Cash paid to Ramya	20,000
25	Cash withdrawn from bank for official use	50,000
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	Salaries paid	15,000
31	Rent paid	2,500

[Ans: Trial Balance: ₹4,72,000]

25. Vasanth & Co. started their business on 1st January 2016 with ₹3,00,000 as their capital. Following were the transactions for one month:

Date	*Particulars*	*Amount (₹)*
01.01.2016	Paid cash into bank	1,20,000
02.01.2016	Purchased furniture from Saravana Furniture Ltd., on credit	18,000
05.01.2016	Purchased goods from Gopal	52,800
06.01.2016	Sold goods on credit to Niresh	21,000
08.01.2016	Cash paid to Saravana Furniture Ltd.	12,000
15.01.2016	Paid wages in cash	1,200
16.01.2016	Issued cheque to Gopal	42,000
20.01.2016	Received cash from Niresh	9,000
21.01.2016	Paid cash into bank	9,000
23.01.2016	Cash sales	21,000
25.01.2016	Cash purchases	10,800
27.01.2016	Goods withdrawn for personal use	3,000
28.01.2016	Cash withdrawn for personal use	4,500
29.01.2016	Stationery purchased	600
31.01.2016	Paid salaries by cheque	6,000

Give Journal Entries and Prepare Ledger accounts and Trial Balance as on 31st January 2016.

[Ans: Trial Balance: ₹3,58,800]

CHAPTER

5

Subsidiary Books

Learning Objectives

After studying this chapter, you will be able to understand the:

- Meaning of Cash Book and its kinds
- Meaning of Subsidiary Books
- Process of recording the transactions in various Cash Books and Subsidiary Books

5.1 Cash Book

Business transactions can be classified into cash transactions and credit transactions. All cash transactions are recorded in the Cash Book. A credit transaction will become a cash transaction when payment is made to creditors or received from debtors. It is the usual practice of the business to keep a separate book to record only the cash transactions.

A Cash Book is a special journal, which is used to record all cash receipts and cash payments. The Cash Book is a book of original entry. Transactions are recorded chronologically in the Cash Book. A Cash Book plays a dual role of a journal as well as ledger. It records cash receipts on the debit side and cash payments on the credit side. A Cash Book will always show a debit balance, as cash payments can never exceed cash available. It helps to ascertain the cash balance at any point of time.

5.2 Kinds of Cash Book

The various kinds of Cash Book are as follows:

- Single-Column Cash Book

- Two-Column Cash Book, with cash and discount columns
- Three-Column Cash Book, with cash, bank and discount columns
- Pettty Cash Book

5.3 Single-Column Cash Book

Single-Column Cash Book is the simplest form of Cash Book. Under this, all cash receipts are recorded on the debit side and all cash payments are recorded on the credit side. In fact, this book is nothing but a Cash Account. Hence, there is no need to open cash account in the ledger. The proforma of a Single-Column Cash Book is given below.

Debit Side **Single-Column Cash Book** Credit Side

Date	*Particulars*	*R.N.*	*L.F.*	*Amount (₹)*	*Date*	*Particulars*	*V.N.*	*L.F.*	*Amount (₹)*

Date column appears in the debit and credit side of the Cash Book. It records the transactions date wise.

Particulars column records the names of parties (personal account), heads (nominal account) and items (real account) from whom payment has been received and to whom payment has been made.

Receipt Number refers to the serial number of the cash receipt.

Voucher Number refers to the serial number of the voucher for which payment is made.

Ledger Folio column is used in both sides of the Cash Book. The ledger page (folio) of every account in the Cash Book is recorded against it.

Amount column appears on both sides of the Cash Book. All cash receipts will be entered on the debit side and all cash payments will be entered on the credit side.

› 5.3.1 Balancing of Cash Book

After all the transactions are recorded in the Cash Book, the closing cash balance of the Cash Book has to be ascertained. Normally, the total of the receipt column will always be greater than the total of the payment column. The excess of receipts over payments is known as closing cash balance.

✎ ILLUSTRATION 1:

Enter the following transactions in a Single-Column Cash Book of Mr. Shahul.

Date		*(₹)*
01.01.2006	Started business with cash	1,500
03.01.2006	Purchased goods for cash	750
04.01.2006	Sold goods	2,550
05.01.2006	Cash received from Suman	300
12.01.2006	Paid Babu	225
14.01.2006	Bought machinery	300
15.01.2006	Purchased goods from Kavi on credit	3,000
20.01.2006	Paid electricity bill	338
24.01.2006	Paid salaries	375
28.01.2006	Received commission	112

Solution:

Dr. **Cash Book of Mr. Shahul** **Cr.**

Date	*Particulars*	*R. N.*	*L. F.*	*Amount (₹)*	*Date*	*Particulars*	*V. N.*	*L. F.*	*Amount (₹)*
01.01.2006	To Capital A/c			1,500	03.01.2006	By Purchases A/c			750
04.01.2006	To Sales A/c			2,550	12.01.2006	By Babu A/c			225
05.01.2006	To Suman A/c			300	14.01.2006	By Machinery A/c			300
28.01.2006	To Commission A/c			112	20.01.2006	By Electricity Bill A/c			338
					24.01.2006	By Salary A/c			375
					31.01.2006	**By Balance c/d (Bal. fig.)**			**2,474**
				4,462					**4,462**
01.02.2006	**To Balance b/d**			**2,474**					

Note: Only Cash transactions will be recorded. Credit transactions will never appear in the Cash Book.

✎ ILLUSTRATION 2:

Enter the following transactions in a simple Cash Book of Shri Madhavan.

Date	*Particulars*	*(₹)*
01.04.2000	Commenced business with cash	25,000
05.04.2000	Bought goods for cash	6,000
10.04.2000	Sold goods for cash	11,200
13.04.2000	Paid into bank	2,500
15.04.2000	Paid telephone charges	300

Solution:

Simple Cash Book

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.04.2000	To Capital	25,000	05.04.2000	By Purchases	6,000
10.04.2000	To Sales	11,200	13.04.2000	By Bank	2,500
			15.04.2000	By Telephone Charges	300
			30.04.2000	By Balance c/d	27,400
		36,200			36,200
01.05.2000	To Balance b/d	27,400			

✎ ILLUSTRATION 3:

Enter the following transactions in Simple Cash Book of Shri Subramanian.

		(₹)
01.04.1999	Commenced business with cash	24,000
05.04.1999	Bought goods sold for cash	6,000
10.04.1999	Goods sold for cash	11,200
13.04.1999	Paid into bank	2,500
14.04.1999	Sold goods to Ganesan on credit	9,000
15.04.1999	Bought goods from Mohan on credit	13,600
20.04.1999	Purchased furniture	9,600
21.04.1999	Purchased stationery	160
23.04.1999	Received cheque from Ganesan	9,000
25.04.1999	Paid Mohan	13,600
26.04.1999	Received commission	740
27.04.1999	Paid telephone charges	300
30.04.1999	Drawn from bank	3,800

Solution:

Simple Cash Book

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.04.1999	To Capital	24,000	05.04.1999	By Purchases	6,000
10.04.1999	To Sales	11,200	13.04.1999	By Bank	2,500
23.04.1999	To Ganesan	9,000	20.04.1999	By Furniture	9,600
26.04.1999	To Commission	740	21.04.1999	By Stationery	160
30.04.1999	To Bank	3,800	25.04.1999	By Mohan	13,600
			27.04.1999	By Telephone Charges	300
			30.04.1999	By Balance c/d	16,580
		48,740			**48,740**
01.05.1999	**To Balance c/d**	**16,580**			

5.4 Two-Column Cash Book

Two-Column Cash Book can also we termed as Double-Column Cash Book. The Double-Column Cash Books can be:

- Cash Book with discount and cash columns
- Cash Book with cash and bank columns

› 5.4.1 Cash Book with Discount and Cash Columns

In a Two-Column Cash Book, one additional column is provided on both sides of the Cash Book. The debit side of the column is to record the discount allowed and the credit side of the column is to record the discount received. The proforma of a Double-Column Cash Book is given below.

Format

Double-Column Cash Book

Debit **(Cash Book with Discount and Cash Column)** **Credit**

Date	*Particulars*	*R. N.*	*L. F.*	*Discount Allowed* ₹	*Amount (₹)*	*Date*	*Particulars*	*V. N.*	*L. F.*	*Discount Received* ₹	*Amount (₹)*

It should be noted that in the Double-Column Cash Book, cash column is balanced like any other ledger account. But the discount column on each side is merely totalled. The debit side of the discount column shows the total

discount allowed to customers. The credit side of the discount column shows the total discount received.

✎ ILLUSTRATION 4:

Prepare a Double-Column Cash Book from the following transactions of Mr. Ganesh.

Date	*Particulars*	*(₹)*
01.01.2006	Cash in hand	10,000
06.01.2006	Cash purchases	5,000
10.01.2006	Wages paid	100
11.01.2006	Cash sales	15,000
12.01.2006	Cash received from Subash and allowed him discount	4,950 50
19.01.2006	Cash paid to Meeran and discount received	6,175 75
27.01.2006	Cash paid to Raja	1,000
28.01.2006	Purchased goods for cash	5,175

Solution:

Double-Column Cash Book of Mr. Ganesh

Dr. **(Cash Book with Discount Column)** **Cr.**

Date	*Particulars*	*R. N.*	*L. F.*	*Discount Allowed (₹)*	*Amount (₹)*	*Date*	*Particulars*	*V. N.*	*L. F.*	*Discount Received (₹)*	*Amount (₹)*
01.01.2006	To Balance b/d				10,000	06.01.2006	By Purchases A/c				5,000
11.01.2006	To Sales A/c				15,000	10.01.2006	By Wages A/c				100
12.01.2006	To Subash A/c			50	4,950	19.01.2006	By Meeran A/c			75	6,175
						27.01.2006	By Raja A/c				1,000
						28.01.2006	By Purchases A/c				5,175
						31.01.2006	**By Balance c/d (Bal. fig.)**				**12,500**
				50	**29,950**					**75**	**29,950**
01.02.2006	**To Balance b/d**				**12,500**						

✎ ILLUSTRATION 5:

Enter the following transactions in Rehan's Cash Book with Discount and Cash Columns.

		(₹)
01.01.1999	Cash balance	18,500
03.01.1999	Cash sales	33,000
07.01.1999	Paid Dravid	15,580
	Discount allowed by him	150
13.01.1999	Sold goods to Manohar on credit	19,200
15.01.1999	Cash withdrawn for personal expenses	2,400
16.01.1999	Purchased goods from Charles on credit	14,300
22.01.1999	Paid cash into bank	22,750
25.01.1999	Cash received from Manohar	19,000
	Discount allowed	200
28.01.1999	Paid cash to Charles less discount	14,200
29.01.1999	Cash purchases	13,500
30.01.1999	Paid for advertising	600
31.01.1999	Paid salaries	12,000

Solution:

Cash Book of Mr. Rehan (Double-column)

Date	*Particulars*	*Discount Allowed (₹)*	*Cash (₹)*	*Date*	*Particulars*	*Discount Received (₹)*	*Cash (₹)*
01.01.1999	To Balance b/d		18,500	07.01.1999	By Dravid	150	15,580
03.01.1999	To Sales		33,000	15.01.1999	By Drawings		2,400
25.01.1999	To Manohar	200	19,000	22.01.1999	By Bank		22,750
26.01.1999	To Bank		17,500	28.01.1999	By Charles	100	14,200
				29.01.1999	By Purchases		13,500
				30.01.1999	By Advertising		600
				31.01.1999	By Salaries		12,000
				31.01.1999	**By Balance c/d (Bal. fig.)**		**6,970**
		200	88,000			250	88,000
01.02.1999	To Balance b/d		**6,970**				

› 5.4.2 Cash Book with Cash and Bank Columns

Instead of opening a separate bank account, a column will be added on both sides of the Cash Book. All the transactions related to bank are recorded in bank column. It is a combination of Cash Account and Bank Account. The proforma of this Cash Book is given below.

Double-Column Cash Book

Debit Side (Cash Book with Cash and Bank Columns) Credit Side

Date	*Particulars*	*R. N.*	*L. F.*	*Cash (₹)*	*Bank (₹)*	*Date*	*Particulars*	*V. N.*	*L. F.*	*Cash (₹)*	*Bank (₹)*

5.5 Contra Entry

Contra in Latin means opposite. When a transaction affects both cash and bank accounts, it is called a contra entry. In contra entries, both the debit and credit aspects of a transaction are recorded in the Cash Book itself.

Example 1: Cash paid into bank

Bank A/c	Dr.	xxx	
To Cash A/c			xxx
(Being cash paid into bank)			

This is a contra entry.

As the Cash Book is a combination of both cash and bank account, both the aspects of the transaction will be entered in the same book. In the debit side, 'To Cash A/c' will be entered in the particulars column and the amount will be entered in the bank column. In the credit side, 'By Bank A/c' will be entered in the particulars column and the amount will be entered in the cash column.

Such contra entries are denoted by writing the letter 'C' in the L.F. column, on both sides of the Cash Book. They indicate that no posting in respect thereof is necessary in the ledger.

Example 2: Cash withdrawn from bank for office use.

Cash A/c	Dr.	xxx	
To Bank A/c			xxx
(Being cash withdrawn for office use)			

This is also a contra entry. In the debit side, 'To Bank A/c' will be entered in the particulars column and the amount will be entered in the cash column. In the credit side, 'By Cash A/c' will be entered in the particulars column and the amount will be entered in the bank column. Such contra entries are denoted by writing the letter 'C' in the L.F. column, on both sides of the Cash Book. They indicate that no posting in respect thereof is necessary in the ledger.

✎ ILLUSTRATION 6:

Enter the following transactions in the Double-Column Cash Book of Mr. Ram and Balance it.

Date	*Particulars*	*(₹)*
01.08.2013	Opening Balance: Cash in Hand	8,500
	Cash at Bank	27,500
02.08.2013	Paid to petty cashier	5,000
02.08.2013	Cash sales	3.500
03.08.2013	Paid to Azar by cheque	7,500
03.08.2013	Received a cheque from Mr. Rafiq paid into bank	9,000
05.08.2013	Received cheque from Mr. Javith paid into bank	12,000
08.08.2013	Cash purchases	5,000
08.08.2013	Paid rent by cheque	5,000
09.08.2013	Cash withdrawn from bank for office use	5,000
10.08.2013	Cash sales	7,500
14.08.2013	Stationery purchased	2,000
20.08.2013	Cash sales	13,500
21.08.2013	Paid into bank	20,000
23.08.2013	Withdrew cash from bank for personal use	2,000
25.08.2013	Salaries paid by cheque	18,000

Solution:

Double-Column Cash Book of Mr. Ram

Dr. **(Cash Book with Bank Column)** **Cr.**

Date	*Particulars*	*R. N.*	*L. F.*	*Cash (₹)*	*Bank (₹)*	*Date*	*Particulars*	*V. N.*	*L. F.*	*Cash (₹)*	*Bank (₹)*
01.08.2013	To Balance b/d			8,500	27,500	02.08.2013	By Petty Cash A/c			5,000	
02.08.2013	To Sales A/c			3,500		03.08.2013	By Azar A/c				7,500
03.08.2013	To Rafiq A/c				9,000	08.08.2013	By Purchase A/c			5,000	
05.08.2013	To Javith A/c				12,000	08.08.2013	By Rent A/c				5,000
09.08.2013	To Bank A/c		C	5,000		09.08.2013	By Cash A/c		C		5,000
10.08.2013	To Sales A/c			7,500		14.08.2013	By Stationary A/c			2,000	
20.08.2013	To Sales A/c			13,500		21.08.2013	By Bank A/c		C	20,000	
21.08.2013	To Cash A/c		C		20,000	23.08.2013	By Drawings A/c				2,000
						25.08.2013	By Salary A/c				18,000
						31.08.2013	**By Balance c/d (Bal. fig.)**			**6,000**	**31,000**
				38,000	**68,500**					**38,000**	**68,500**
01.09.2013	**To Balance b/d**			**6,000**	**31,000**						

Triple-Column Cash Book

Large business concerns receive and make payments in cash and by cheques. Where cash discount is a regular feature, a Triple-Column Cash Book is more advantageous. This Cash Book has three amount columns (cash, bank and discount) on each side. All cash receipts, deposits into bank and discounts allowed are recorded on debit side and all cash payments, withdrawals from bank and discount received are recorded on credit side.

Format

Triple-Column Cash Book of Mr. .....

Dr. (Cash Book with Discount, Cash and Bank Columns) **Cr.**

Date	*Particulars*	*R. N.*	*L. F.*	*Discount Allowed (₹)*	*Cash (₹)*	*Bank (₹)*	*Date*	*Particulars*	*V. N.*	*L. F.*	*Discount Received (₹)*	*Cash (₹)*	*Bank (₹)*

✎ ILLUSTRATION 7:

Prepare a Three-Column Cash Book of Mr. Sunil from the following transactions:

Date		*(₹)*
01.08.2012	Sunil started business with cash	10,00,000
02.08.2012	Deposited into bank	2,50,000
04.08.2012	Cash purchases	25,000
05.08.2012	Purchases by cheque	30,000
06.08.2012	Goods sold to Navith on credit	25,000
08.08.2012	Received cheque from Madhan Discount allowed	2,450 50
10.08.2012	Paid carriage	5,000
12.08.2012	Withdrew from bank for office use	50,000
15.08.2012	Paid to Sundar Discount allowed by him	24800 200
20.08.2012	Received a cheque from Navith in full settlement of his account, which is deposited into bank	24,750

Solution:

Three-Column Cash Book of Mr. Sunil

Dr. (Cash Book with Discount, Cash and Bank Columns) **Cr**

Date	*Particulars*	*R. N.*	*L. F.*	*Discount Allowed (₹)*	*Cash (₹)*	*Amount (₹)*	*Date*	*Particulars*	*V. N.*	*L. F.*	*Discount Received (₹)*	*Cash (₹)*	*Amount (₹)*
01.08. 2012	To Capital A/c				10,00,000		02.08. 2012	By Bank A/c		C		2,50,000	
02.08. 2012	To Cash A/c		C			2,50,000	04.08. 2012	By Purchase A/c				25,000	
08.08. 2012	To Madhan A/c			50	2,450		05.08. 2012	By Purchase A/c					30,000
12.08. 2012	To Bank A/c		C		50,000		10.08. 2012	By Carriage A/c				5,000	
20.08. 2012	To Navith A/c			250		24,750	12.08. 2012	By Cash A/c		C			50,000
							15.08. 2012	By Sundar A/c			200	24,800	
							31.08. 2012	**By Balance c/d (Bal. fig.)**				**7,47,650**	**1,94,750**
				300	**10,52,450**	**2,74,750**					**200**	**10,52,450**	**2,74,750**
01.09. 2012	**To Balance b/d**				**7,47,650**	**1,94,750**							

✎ ILLUSTRATION 8:

Enter the following transaction in Three-Column Cash Book of Mr. Suman and Balance the same.

01.08.2014	Cash in hand	₹1,50,000
	Cash at bank	₹80,000
03.08.2014	Purchased machinery by cheque	₹20,000
07.08.2014	Cash paid into bank	₹40 000
09.08.2014	Received from Karthick ₹5,120; Discount allowed	₹80
12.08.2014	Received cheque from Ganesh ₹9,800; Allowed him discount	₹200
13.08.2014	Withdrew cash from bank for personal use	₹10,000
15.08.2014	Paid to Mani by cheque ₹7,940 in full settlement of his account	₹8,000
19.08.2014	Ganesh's cheque deposited into bank	
25.08.2014	Rent paid by cheque	₹6,000
30.08.2014	Dhanush, a customer, has paid directly into our bank account	₹20,000

Solution:

Dr. **Three-Column Cash Book of Mr. Suman** **Cr.**

Date	*Particular*	*L. F.*	*Discount Allowed*	*Cash (₹)*	*Bank (₹)*	*Date*	*Particular*	*L. F.*	*Discount Received*	*Cash (₹)*	*Bank (₹)*
01.08.2014	To Balance b/d			1,50,000	80,000	03.08.2014	By Machinery A/c			—	20,000
07.08.2014	To Cash A/c	C			40,000	07.08.2014	By Bank A/c	C		40,000	
09.08.2014	To Karthick A/c		80	5,120	—	13.08.2014	By Drawings A/c			—	10,000
12.08.2014	To Ganesh A/c		200	9,800	—	15.08.2014	By Mani A/c		60	—	7,940
19.08.2014	To Cash A/c	C		—	9,800	19.08.2014	By Bank A/c	C		9,800	—
30.08.2014	To Dhanush A/c			—	20,000	25.08.2014	By Rent A/c			—	6,000
						31.08.2014	By Balance c/d			1,15,120	1,05,860
			280	**1,64,920**	**1,49,800**				**60**	**1,64,920**	**1,49,800**
01.09.2014	To Balance b/d			1,15,120	1,05,860						

✎ ILLUSTRATION 9:

Enter the following transactions in Suresh's Cash Book with column for Discount, Cash and Bank.

01.04.2015	Cash balance ₹12,000
	Bank overdraft ₹31,500
03.04.2015	Cash sales ₹6,000
07.04.2015	Paid rent by cheque ₹4,500
10.04.2015	Received ₹6,000 from Manoj in cash
	Allowed him discount of ₹300
13.04.2015	Furniture purchased ₹2,400 by cheque
17.04.2015	Cash sales ₹45,000
21.04.2015	Paid ₹7,500 to Karthick half in cash and half by cheque
23.04.2015	Paid Mubarak ₹12,000; Discount allowed by him ₹150
27.04.2015	Paid packing charges ₹1,500
30.04.2015	Paid cash into bank ₹15,000

Solution:

Dr. **Three-Column Cash Book of Mr. Suresh** **Cr.**

Date	*Particular*	*L. F.*	*Discount Allowed*	*Cash (₹)*	*Bank (₹)*	*Date*	*Particular*	*L. F.*	*Discount Received*	*Cash (₹)*	*Bank (₹)*
01.04.2015	To Balance b/d			12,000	—	01.04.2015	By Balance b/d			—	31,500
03.04.2015	To Sales A/c			6,000	—	07.04.2015	By Rent A/c			—	4,500
10.04.2015	To Manoj A/c		300	6,000	—	13.04.2015	By Furniture A/c			—	2,400
17.04.2015	To Sales A/c			45,000	—	21.04.2015	By Karthick A/c			3,750	3,750
30.04.2015	To Cash A/c	C		—	15,000	23.04.2015	By Mubarak A/c		150	12,000	—
						27.04.2015	By Packing A/c			1,500	—
						30.04.2015	By Bank A/c	C		15,000	—
31.04.2015	To Balance c/d			—	27,150	31.04.2015	By Balance c/d			36,750	—
			300	**69,000**	**42,150**				**150**	**69,000**	**42,150**
01.05.2015	To Balance b/d			36,750	—	01.05.2015	By Balance b/d			—	27,150

✎ ILLUSTRATION 10:

Enter the following transactions in a Three-Column Cash Book.

		(₹)
01.01.1999	Cash in hand	410
	Balance at bank	8,920
02.01.1999	Cash sales	4,500
03.01.1999	Paid cash into bank	4,000
05.01.1999	Purchased stationery	100
08.01.1999	Paid Mahesh by cheque	280
	Discount received	20
12.01.1999	Issued a cheque for purchases	1,500
15.01.1999	Drew for personal use	500
18.01.1999	Received from Suresh, a cheque for ₹1,970 in full settlement of account for ₹2,000 and deposited it in bank	
20.01.1999	Drew from bank for office use	1,000
21.01.1999	Paid wages in cash	800
25.01.1999	Bank returned cheque of Suresh (dishonoured)	
31.01.1999	Bank charges as per pass book	10

Solution:

Three-Column Cash Book

Date	*Particulars*	*Discount Allowed (₹)*	*Cash (₹)*	*Bank*	*Date*	*Particulars*	*Discount Received*	*Cash (₹)*	*Bank (₹)*
01.01.1999	To Balance b/d		410	8,920	03.01.1999	By Bank (C)		4,000	
02.01.1999	To Sales		4,500		05.01.1999	By Stationery		100	
03.01.1999	To Cash (C)			4,000	08.01.1999	By Mahesh	20		280
18.01.1999	To Suresh	30		1,970	12.01.1999	By Purchases			1,500
20.01.1999	To Bank (C)		1,000		15.01.1999	By Drawings		500	
					20.01.1999	By Cash (C)			1,000
					21.01.1999	By Wages		800	
					25.01.1999	By Cheque Dishonoured			1,970
					31.01.1999	By Bank Charges			10
					31.01.1999	**By Balance c/d**		**510**	**10,130**
		30	5,910	14,890			20	5,910	14,890
01.02.1999	**To Balance b/d**		**510**	**10,130**					

Petty Cash Book

A petty Cash Book is a Cash Book maintained to record the petty expenses. The person maintaining the petty cash is known as Petty Cashier. All small payments to be made by cash are recorded in the petty Cash Book.

Format of Petty Cash Book

Dr. **Petty Cash Book** **Cr.**

Cash Received	*Date*	*Particulars*	*V. N.*	*Total*	*Stationery & Printing*	*Cartage*	*Conveyance*	*Postage & Telegram*	*Sundry Expense*

✎ ILLUSTRATION 11:

Following are the petty expenses of a business concern for the month of January 2015. Each month starts with an opening cash balance of ₹2,100. Enter the following transactions in an analytical petty Cash Book and balance it:

Date		*(₹)*
01.01.2015	Wages paid to peon	450
03.01.2015	Coolie wages	180
05.01.2015	Stationery	75
06.01.2015	Railway freight	30
07.01.2015	Postage stamps	150
08.01.2015	Ink	30
10.01.2015	Telephone	30
18.01.2015	Unpaid letters	12
25.01.2015	Soap	18
26.01.2015	Sweeper's wages	90
27.01.2015	Sundry expenses	300
28.01.2015	Conveyance to Ram	45
30.01.2015	Printing of price lists	270

Solution:

Petty Cash Book

Cash Received (₹)	*Date*	*Particulars*	*V. N.*	*Total (₹)*	*Postage & Telegram (₹)*	*Stationery & Printing (₹)*	*Conveyance (₹)*	*Wages (₹)*	*Sundry Expenses (₹)*
2,100	01.01.2015	To Balance b/d							
	01.01.2015	By Peon Wages A/c		450				450	
	03.01.2015	By Coolie Wages A/c		180				180	
	05.01.2015	By Stationery A/c		75		75			
	06.01.2015	By Railway Freight A/c		30			30		
	07.01.2015	By Postage Stamps A/c		150	150				
	08.01.2015	By Ink A/c		30		30			
	10.01.2015	By Telephone A/c		30	30				
	18.01.2015	By Unpaid Letters		12	12				
	25.01.2015	By Soap		18					18
	26.01.2015	By Sweeper's Wages		90				90	
	27.01.2015	By Sundry Expenses		300					300
	28.01.2015	By Conveyance		45			45		
	30.01.2015	By Printing of Price Lists		270		270			
				1,680	**192**	**375**	**75**	**720**	**318**
	31.01.2015	**By Balance c/d (Bal. fig.)**		**420**					
2,100				**2,100**					
	01.02.2015	**To Balance b/d**		**420**					

Purchases Book

Purchases book is also known as Bought Day Book. It is used to record all credit purchases of goods, which are meant for resale in the business. Cash purchases of goods, cash and credit purchases of assets are not entered in this book.

Proforma of Purchases Book

Date	*Particulars*	*Inward Invoice*	*L.F.*	*Amount (₹)*		*Remarks*
				Detail	*Total*	

Posting and Balancing

Once transactions are properly recorded in purchases journal, they are posted into the ledger. The procedure for posting is stated as under.

Step 1 Entries will be posted to the credit side of the respective creditors (supplier) account in the ledger by writing "By Purchases A/c" in the particulars column.

Step 2 Periodic total is posted to the debit side of purchases account by writing "To Sundries as per purchases book" in the particulars column.

Trade Discount

Trade discount is a discount given by the seller to the buyer for purchasing goods over and above a certain quantity or above a certain amount. The amount of the purchase made is always arrived at after deducting the trade discount, i.e. only the net amount is considered. For example, if the list price (price prescribed by the manufacturers or wholesalers) of a commodity is ₹100, and trade discount granted by manufacturer to the wholesaler is 20%, then cost price of the commodity to the wholesaler is ₹80. Trade discount is not recorded in the books. They are used for determining the net price.

Cash Discount

Some businesses usually sell goods on credit basis. When goods are sold on credit, the customers will enjoy a credit facility for making payment of the amount due. In order to encourage the customer to make the payment before the expiry of the credit period, a deduction is offered. The deduction so made is known as Cash Discount.

For example, Ram purchases goods worth ₹10,000 on 30 days credit. As per the terms of credit, he has to make payment 30 days after the date of purchase. If he is offered a cash discount of 2 per cent on payment within 10 days and if he does so, he is entitled to deduct ₹200 from the invoice price and pay ₹9,800. In this case, ₹200 is cash discount. But if he does not choose to make payment within 10 days then he will not get any cash discount. In this case, he will pay ₹10,000 after 30 days.

Distinction between Trade Discount and Cash Discount

Trade Discount	*Cash Discount*
It is a reduction granted by a manufacturer/supplier.	It is a reduction granted by a wholesaler (creditor) to the buyer (debtor).
Helps the retailer to earn some profit.	Encourages prompt payment within a stipulated period.
It is allowed on the purchase of goods.	It is allowed when payment is made within the specified period.
It is usually given at the same rate, which is applicable to all customers and will vary with the quantity purchased.	It varies from customer to customer, depending on the time and period of payment.
It is shown by way of deduction in the invoice itself.	It is not shown in the invoice.
A separate account is not opened in the Ledger.	A separate account is opened in the ledger for discount received and discount allowed.

✎ ILLUSTRATION 12:

From the following transactions of Raja for June 2014, prepare the purchases book and ledger accounts connected with this book.

Date	*Particulars*
05.06.2014	Purchased on credit from Kumar & Co. 50 Iron boxes @ ₹500 10 Grinders @ ₹3,000
06.06.2014	Purchased for cash from Siva & Bros. 25 Fans @ ₹1,250
10.06.2014	Purchased from Basheer & Sons on credit 20 Grinders @ ₹2,500 10 Mixie @ ₹3,000
20.06.2014	Purchased, on credit, one computer from Kumar for ₹35,000

Solution:

In the books of Raja
Purchases Book

Date	*Particulars*	*Inward Invoice*	*L.F.*	*Amount (₹)*	
				Detail	*Total*
05.06.2014	Kumar & Co.				
	50 Iron boxes			25,000	
	10 Grinders			30,000	55,000
	Goods purchased vide their bill No. ..... Dated.....				
10.06.2014	Basheer & Sons				
	20 Grinders			50,000	
	10 Mixie			30,000	80,000
	Goods purchased vide their bill No. ..... Dated.....				
	Total				**1,35,000**

Note: Computer is an asset, hence it will not be shown in Purchases Book.

Ledger Accounts

Dr. **Purchases Account** **Cr.**

Date	*Particulars*	*J.F.*	*(₹)*	*Date*	*Particulars*	*J.F.*	*(₹)*
31.06.2014	To Sundries as per Cash Book		1,35,000				

Dr. **Kumar & Co. Account** **Cr.**

Date	*Particulars*	*J.F.*	*(₹)*	*Date*	*Particulars*	*J.F.*	*(₹)*
				05.06.2014	By Purchase A/c		55,000

Dr. **Basheer & Co. Account** **Cr.**

Date	*Particulars*	*J.F.*	*(₹)*	*Date*	*Particulars*	*J.F.*	*(₹)*
				10.06.2014	By Purchase A/c		80,000

Sales Book

The sales book is used to record all credit sales of goods dealt with by the trader. Cash sales, cash and credit sales of assets are not entered in this book.

Proforma of Sales Book

Date	*Particulars*	*Outward Invoice*	*L.F*	*Amount (₹)*		*Remarks*
				Detail	*Total*	

✎ ILLUSTRATION 13:

From the transactions given below, prepare the sales book of Madhavan for June 2003.

Date	*Particulars*
05.06.2009	Sold on credit to J.R. Traders: 10 Chairs @ ₹250 } Discount Less 10% 10 Tables @ ₹850 }
08.06.2009	Sold to Ram for cash: 15 Chairs @ ₹250
20.06.2009	Sold to Mohamed & Co.: 5 Chairs @ ₹2,200 10 Tables @ ₹850
23.06.2009	Sold on credit to Navith: old computer for ₹5,000
28.06.2009	Sold to Kuthup for cash: 15 Chairs @ ₹250

Solution:

In the books of Madhavan
Sales Book

Date	*Particulars*	*Inward Invoice*	*L.F.*	*Amount (₹)*	
				Details	*Total*
05.06.2009	J.R. Traders & Co.				
	10 Chairs @ ₹250			2,500	
	10 Tables @ ₹850			8,500	
				11,000	
	Discount Less 10%			1,100	9,900
20.06.2009	Mohamed & Co.				
	5 Chairs @ ₹2,200			11,000	
	10 Tables @ ₹850			8,500	
	Sales as per invoice no.				19,500
	Total				**29,400**

Ledger Accounts

Dr. **Sales Account** **Cr.**

Date	*Particulars*	*J.F.*	*(₹)*	*Date*	*Particulars*	*J.F.*	*(₹)*
				31.06.2009	By Sundries' as per Sales Book		29,400

Dr. **J.R. Traders & Co. Account** **Cr.**

Date	*Particulars*	*J.F.*	*(₹)*	*Date*	*Particulars*	*J.F.*	*(₹)*
05.06.2009	To Sales A/c		9,900				

Dr. **Mohamed & Co. Account** **Cr.**

Date	*Particulars*	*J.F.*	*(₹)*	*Date*	*Particulars*	*J.F.*	*(₹)*
20.06.2009	To Sales A/c		19,500				

5.6 Returns Books

Returns Books are maintained to record the goods returned to the suppliers and goods returned by the customers. The reasons for the return of goods may be:

- Not according to the order placed
- Not up to the standards
- Due to damaged condition
- Due to difference in the prices quoted
- Undue delay in the delivery of the goods

› 5.6.1 Kinds of Returns Books

The following are the kinds of returns books:

1. Purchases Return or Returns Outward Book
2. Sales Return or Returns Inward Book

When the business concern returns a part of the goods purchased on credit, the returns fall under the category of Purchases Return or Returns Outward.

When the business concern receives a part of the goods sold on credit, the returns fall under the category of Sales Return or Returns Inward.

Purchases Return Book

Purchases Return Book is used to record all returns of goods by the business to the suppliers. The entries in the Purchases Returns Book are usually made on the basis of debit note issued to the suppliers or credit note received from the suppliers.

Proforma of Purchases Return Book

Date	*Particulars*	*Debit Note No.*	*L.F.*	*Amount (₹)*		*Remarks*
				Detail	*Total*	

✎ ILLUSTRATION 14:

Enter the following transactions in the purchases return book of Rafiq and post them into the ledger.

Date	*Particulars*
06.02.2013	Returned goods to Badhrudeen 5 chairs @ ₹500 each, not in accordance with order.
15.02.2013	Returned goods to Mohideen 4 chairs @ ₹100 each and 10 tables @ ₹300 each, due to inferior quality.

Solution:

In the books of Rafiq
Purchases Book

Date	*Particulars*	*Debit Note No.*	*L.F.*	*Amount (₹)*	
				Detail	*Total*
06.02.2013	Badhrudeen				
	5 Chairs @ ₹500				2,500
15.02.2013	Mohideen				
	4 Chair @ ₹100			400	
	10 Tables @ ₹300			3,000	3,400
	Total				**5,900**

Ledger Accounts

Dr. **Purchases Return Account** **Cr.**

Date	*Particulars*	*J.F.*	*(₹)*	*Date*	*Particulars*	*J.F.*	*(₹)*
				28.02.2013	By Sundries as per Purchase Return Book		5,900

Dr. **Badhrudeen & Co. Account** **Cr.**

Date	*Particulars*	*J.F.*	*(₹)*	*Date*	*Particulars*	*J.F.*	*(₹)*
06.02.2013	To Purchase Return A/c		2,500				

Dr. **Mohideen & Co. Account** **Cr.**

Date	*Particulars*	*J.F.*	*(₹)*	*Date*	*Particulars*	*J.F.*	*(₹)*
15.02.2013	To Purchase Return A/c		3,400				

Sales Return Book

Sales Return Book is maintained to record all the goods returned by the customers. The entries in the sales return book are usually on the basis of credit notes issued to the customers or debit notes issued by the customers.

Proforma of Sales Return Book

Date	*Particulars*	*Credit Note No.*	*L.F.*	*Amount (₹)*		*Remarks*
				Detail	*Total*	

✎ ILLUSTRATION 15:

Enter the following transactions in returns inward book:

Date	*Particulars*
12.05.2008	Returned by Sekar: 30 shirts, each costing ₹200, due to inferior quality.
18.05.2008	Ahamed Tailors returned 10 Baba suits, each costing ₹300, on account of being not in accordance with their order.
22.05.2008	Tamil Nadu Stores returned 12 Salwar sets, each costing ₹100, being not in accordance with order.

Solution:

Sales Return Book

Date	*Particulars*	*Credit Note No.*	*L.F.*	*Amount (₹)*	
				Detail	*Total*
12.05.2008	Sekar 30 Shirts @ ₹200			6,000	
18.05.2008	Ahamed 10 Baba Suit @ ₹300			3,000	
22.05.2008	Tamil Nadu Stores 12 Salwar sets @ ₹100			1,200	10,200
	Total				**10,200**

Ledger Accounts

Dr. Sales Return Account Cr.

Date	*Particulars*	*J.F.*	*(₹)*	*Date*	*Particulars*	*J.F.*	*(₹)*
31.05.2008	To Sundries as per Sales Return Book		10,200				

Dr. Sekar Account Cr

Date	*Particulars*	*J.F.*	*(₹)*	*Date*	*Particulars*	*J.F.*	*(₹)*
				12.05.2008	By Sales Return A/c		6,000

Dr. Ahamed Account Cr.

Date	*Particulars*	*J.F.*	*(₹)*	*Date*	*Particulars*	*J.F.*	*(₹)*
				18.05.2008	By Sales Return A/c		3,000

Dr. Tamil Nadu Stores Account Cr.

Date	*Particulars*	*J.F.*	*(₹)*	*Date*	*Particulars*	*J.F.*	*(₹)*
				22.05.2008	By Sales Return A/c		1,200

Debit Note A debit note is prepared when the purchaser returns the goods due to some reason. Two copies of this note are prepared. The original copy is sent to the party to whom goods are returned and the duplicate copy is kept in the office for office records.

Credit Note The seller sends a credit note to the purchaser, for the goods returned by the latter to the former.

Bills Receivable Book Bills Receivable (B/R) Book is used to record the details of bills receivable from customers. The individual accounts of parties from whom bills are received will be credited with the amount in the bills receivable book. The periodic total is posted to the debit of bills receivable account in the ledger by writing, "To Sundries as per Bills Receivable Book".

Proforma of Bills Receivable Book

Date of Receipt	*L.F.*	*Drawer*	*Acceptor*	*Term*	*Due Date*	*(₹)*	*Remark*

✎ ILLUSTRATION 16:

Enter the following transactions in the bills receivable book and post the same in the relevant ledger accounts.

Date	*Particulars*
01.08.2010	Received from Kamal a bill duly accepted for ₹2,000, payable 3 months after date.
09.08.2010	Drew a 2 months bill on Varun for ₹1,500, which was duly accepted and has been discounted.
19.08.2010	Kumar accepted a 3-month bill drawn by, as for ₹1,000 payable at State Bank of India, Theni.

Solution:

Bills Receivable Account

Date of Receipt	*L.F.*	*Drawer*	*Acceptor*	*Term*	*Due Date*	*(₹)*	*Remark*
01.08.2010		Self	Kamal	3 months	04.11.2010	2,000	—
09.08.2010		Self	Varun	2 months	12.10.2010	1,500	Discounted
19.08.2010		Self	Kumar	3 months	22.11.2010	1,000	—
						4,500	

Ledger Account

Dr. **Bills Receivable Account** **Cr.**

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.08.2010	To Sundries A/c	4,500	31.08.2010	**By Balance c/d (Bal. fig.)**	**4,500**
		4,500			**4,500**
01.09.2010	**To Balance b/d**	**4,500**			

Dr. **Kamal Account** **Cr.**

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
			01.08.2010	By Bills Receivable A/c	2,000

Dr. **Varun Account** **Cr.**

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
			09.08.2010	By Bills Receivable A/c	1,500

Dr. **Kumar Account** **Cr.**

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
			19.08.2010	By Bills Receivable A/c	1,000

Bills Payable Book Bills Payable (B/P) Book is used to record the details of bills payable. The individual accounts of the parties to whom the bills are issued will be debited with the corresponding amount in the bills payable book. The periodic total is posted to the credit of bills payable account in the ledger by writing "By Sundries as per Bills Payable Book".

Proforma of Bills Payable Book

Date of Acceptance	*Drawer*	*Payee*	*L.F.*	*Where Payable*	*Date of Bill*	*Term*	*Due Date*	*(₹)*	*Remarks*

✎ ILLUSTRATION 17:

Enter the following in the bills payable book and post them in the ledger.

Date	*Particulars*
01.09.2017	Accepted Sunil & Co. bills for ₹3,000, 2 months duration payable at Canara Bank
21.09.2017	Mohamed & Co. drew on us a 3 months bill for ₹2,000, which we accepted and returned.
28.09.2017	Sundher's bill for ₹1,000 was accepted by us, the bill being due after 3 months.

Solution:

Date of Acceptance	*Drawer*	*Payee*	*L. F.*	*Where Payable*	*Date of Bill*	*Term*	*Due Date*	*(₹)*	*Remarks*
01.09.2017	Sunil & Co.	Sunil & Co.		Canara Bank	01.09.2017	2 months	04.11.2017	3,000	—

(Contd.)

21.09.2017	Mohamed & Co.	Mohamed & Co.		Canara Bank	21.09.2017	3 months	24.12.2017	2,000	Returned
28.09.2017	Sundher	Sundher		Canara Bank	28.09.2017	3 months	31.12.2017	1,000	—
								6,000	

Ledger Account

Dr. **Bills Payable Account** **Cr.**

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
30.09.2017	**To Balance c/d (Bal. fig.)**	**6,000**	30.09.2017	By Sundries A/c	6,000
		6,000			6,000
			01.10.2017	By Balance B/d	6,000

Dr. **Sunil & Co. Account** **Cr.**

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.09.2017	To Bills Payable A/c	3,000			

Dr. **Mohamed & Co. Account** **Cr.**

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
21.09.2017	To Bills Payable A/c	2,000			

Dr. **Sundher's Account** **Cr.**

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
28.09.2017	To Bills Payable A/c	1,000			

■ *Theory Questions* ■

Short-Answer Questions

1. What is a Cash Book?
2. What is a Petty Cash Book?
3. What is Contra Entry?
4. What is Purchase Book?

5. What is Sales Book?
6. What is a Debit Note?
7. What is a Credit Note?
8. What is Trade Discount?
9. What is Purchase Return Book?
10. What is Sales Return Book?
11. What do you understand by Bills Receivable Book?
12. What do you understand by Bills Payable Book?
13. Give two examples of Contra Entry.

Long-Answer Questions

1. What are the different types of Cash Books?
2. Explain the method of posting in Petty Cash Book.
3. Distinguish between Trade Discount and Cash Discount.

■ *Exercise Problems* ■

1. Enter the following transactions in a Single-Column Cash Book.

Date	*Particulars*	*(₹)*
01.05.2011	Cash in hand	3,400
06.05.2011	Paid cash to Raja	600
	Discount allowed by him	20
07.05.2011	Purchased goods from Ibrahim & Co. for cash	800
11.05.2011	Received cash from Kabeer	1,960
	Discount allowed	40
15.05.2011	Sold goods to Anand & Co. for cash	800
22.05.2011	Paid cash to Ansari	590
	Discount received	10
26.05.2011	Paid wages	100
31.05.2011	Paid cash to J & Co. in full settlement of his account, which shows a credit balance of ₹800	780
31.05.2011	Purchased machinery for cash	400

[Ans: Cash Balance: ₹2,890
Total of Cash Book: ₹6,160]

2. Enter the following transactions in Single-Column Cash Book.

Date	*Particulars*	*(₹)*
01.06.2017	Balance of cash in hand	10,000
08.06.2017	Purchased goods for cash from Rafiq	3,000
15.06.2017	Sold goods for cash to Javith	4,000
20.06.2017	Received commission	600
22.06.2017	Commission paid	500
28.06.2017	Paid cash to Imran	7,000
31.06.2017	Paid wages for workers	2,000
31.06.2017	Office rent	700

[Ans: Cash Balance: ₹1,400
Total of Cash Book: ₹14,600]

3. Write up Single-Column Cash Book from the following transactions.

Date		₹
1990 March 1	Cash in hand	1,500
2	Purchased goods for cash	200
3	Paid cartage	20
4	Cash sales	100
5	Wages paid	500
6	Cash purchases	100
8	Received cash from Gopal	500
10	Sold old furniture	200
12	Cash sales	300
14	Goods purchased on credit	500
16	Goods sold on credit to Madhu	200
18	Stationery purchased	100
19	Loan to Narayanan	50
20	Received cash from Lal	100
21	Withdrew cash for private use	100
22	Electricity bill paid	50
24	Office rent paid	100
29	Narayanan repaid the loan	50
31	Cash sales	100

(November 2005: 21401/MW1A)

[Ans: Closing Cash Balance: ₹1,630
Total of the Cash Book: ₹2,850]

4. Prepare a Two-Column Cash Book from the following transactions of J.R. & Co.

Date	*Particulars*	*(₹)*
01.03.2012	Cash in hand	6,000
06.03.2012	Cash purchases	4,000
10.03.2012	Rent paid	800
11.03.2012	Cash sales	4,000
12.03.2012	Cash received from Sathik	2,980
	Allowed him discount	20
19.03.2012	Cash paid to Mohamed	3,470
	Discount received	30
27.03.2012	Cash paid to Rabeek	500
28.03.2012	Purchased goods for cash	1,070

[Ans: Cash Balance: ₹3,140
Total of Cash Book: ₹12,980]

5. Enter the following transactions in Two-Column Cash Book.

Date	*Particulars*	*(₹)*
01.11.2016	Cash in hand	80,000
03.11.2016	Bought goods for cash	40,000
05.11.2016	Paid salaries for December 2015	10,000
07.11.2016	Withdrew from bank for office use	9,000
08.11.2016	Cash paid to Yasar	8,990
	Discount received from him	10
10.11.2016	Cash sales	1,30,000
15.11.2016	Purchased plant from RJ Enterprise on credit	40,000
16.11.2016	Paid for courier	1,000
18.11.2016	Amount introduced as additional capital	40,000
19.11.2016	Received cash from Rajesh	7,450
	Discount allowed	50
20.11.2016	Paid advertisement expenses	4,000
24.11.2016	Amount deposited into bank	1,40,000
31.11.2016	Credit purchases from Jana	1,00,000

[Ans: Cash Balance: ₹62,460; Total of Cash Book: ₹2,66,450
Discount received ₹10; Discount allowed ₹50]

6. Enter the following in the Cash Book with Discount and Cash Column Only

Date	*Particulars*
1st March 2005	Balance of cash in hand – ₹5,000
2nd March 2005	Received from Ram ₹600 and allowed him discount ₹15
4th March 2005	Purchased goods for cash ₹1,800
7th March 2005	Paid Kumar ₹200 and was allowed a discount of ₹20
9th March 2005	Purchased stationery for ₹40
11th March 2005	Received for cash sales ₹1,300
14th March 2005	Bought furniture for ₹2,500
17th March 2005	Paid for advertising ₹175

(November 2006/21601/ZZ1G/ZZ1E/PK3B/SY1C/SDEM)

[Ans: Closing Balance of Cash: ₹2,185
Discount Allowed: ₹15
Discount Received: ₹20]

7. Prepare a Three-Column Cash Book from the following transactions.

Date	*Particulars*	*(₹)*
01.04.2012	Introduced capital	10,000
01.04.2012	Deposited cash into bank	8,000
04.04.2012	Purchased machinery – payment made by cheque	6,000
10.04.2012	Purchased furniture through cheque	2,000
15.04.2012	Purchased goods through cheque	900
18.04.2012	Withdrew from bank for office use	200
20.04.2012	Sold goods to Suresh on credit	1,600
22.04.2012	Deposited cash into bank	600
25.04.2012	Purchased goods from Mathan on credit	2,000
26.04.2012	Sold goods – payment received in cheque, cheque being deposited on the same day	2,000
27.04.2012	Paid Mathan by cheque in full settlement of an account	960
	Discount	40
30.04.2012	Received from Suresh in settlement of his account	2,450
	Discount	50
31.04.2012	Withdrew cash from bank for personal use	200

[Ans: Balance – Cash: ₹4,050, Bank: ₹340
Total of Cash: ₹12,650, Bank: ₹10,600]

8. From the following information, prepare a Three-Column Cash Book.

Date	*Particulars*	*(₹)*
01.06.2014	Cash in hand:	150
	Bank overdraft	2,000
02.06.2014	Saran, our customer, has paid directly into our bank account	4,000
03.06.2014	Paid rent by cheque	3,000
05.06.2014	Paid water tax	200
10.06.2014	Cheque issued in favour of Arun Steel Company for purchase of machinery	1,500
15.06.2014	Received from Sarath	1,700
20.06.2014	Paid cash into bank	50
25.06.2014	Paid for Ram	1,150
	Discount received	50
30.06.2014	Arun Steel Company, to whom we have issued a cheque has reported that our cheque is dishonoured	1,500

[Ans: Balance Cash: ₹500(Cr.), Bank: ₹950 (Dr.),
Total of Cash: ₹1,850, Bank: ₹6,500]

9. Write the analytical petty Cash Book from the following transactions:

Date	*Particulars*	*(₹)*
01.11.2012	Received from bank as imprest cash balance	200
07.11.2012	Purchased postage stamp	40
10.11.2012	Paid for stationery	60
15.11.2012	Paid for cartage	8
20.11.2012	Paid taxi hire	10
22.11.2012	Paid tips to office peons	20
23.11.2012	Paid to J against his account	25
27.11.2012	Paid for stationery purchased	20
31.11.2012	Paid for tea to travel agent	6

[Ans: Balance: ₹11,
Total Petty Expenses: ₹189]

10. Prepare petty Cash Book on imprest system from the following transactions:

Date	*Particulars*	*(₹)*
01.06.2015	Received for petty cash payments	2,000
02.06.2015	Paid for postage	160
05.06.2015	Paid for stationery	100
08.06.2015	Paid for advertisement	200
12.06.2015	Paid for wages	80
16.06.2015	Paid for carriage	60
20.06.2015	Paid for conveyance	88
25.06.2015	Paid for travelling expenses	320
27.06.2015	Paid for postage	200
28.06.2015	Wages to office cleaner	40
30.06.2015	Paid for telegrams	80
30.06.2015	Sent registered notice to landlord	12

[Ans: Balance: ₹660,
Total Petty Expenses: ₹1,340]

11. From the following transactions, prepare Purchase Book of Javith & Co. and post the transactions recorded in Purchases Book to the ledger.

Date	*Particulars*
05.01.2011	Purchased on credit from Gowtham Mills Surat – 100 Polyester Sarees @ ₹200. Less: Trade discount @ 10%
09.01.2011	Purchased for cash from Rafiq Mills, Kota – 100 Kota Sarees @ ₹50
12.01.2011	Purchased on credit from Mohamed Mills, Bangalore – 20 Silk Sarees @ ₹300. Less: Trade discount @ 10%
29.01.2011	Purchased on credit from Mohideen & Co. – 4 typewriters @ ₹4,000

[Ans: Total of Purchase Book: ₹23,400]
Hint: Typewriter is an asset.

12. From the following transactions, prepare Purchase Book of Mr. Rafiq & Co.

Date	*Particulars*	*(₹)*
03.03.2011	Purchased from J	5,240
08.03.2011	Purchased goods for cash	8,000
15.03.2011	Purchased goods from Balu	3,160
30.03.2011	Purchased goods from Chaaru	1,200

[Ans: Total of Purchases Book: ₹9,600]

13. Write up sales book from the following transactions and post them to ledger.

Date	*Particulars*
10.01.2012	Sold goods to Siva, Chennai 60 meters Cotton @ ₹50 per meter 50 meters Silk @ ₹80 per meter Less: 10% trade discount
12.01.2012	Sold goods to Raja, Theni 30 meters Cotton @ ₹55 per meter 20 meters Velvet @ ₹80 per meter Less: Trade discount @ 10%
18.01.2012	Raja & Sons purchased from us 10 meters Cotton @ ₹60 per meter 5 meters Velvet @ ₹90 per meter Less: 10% trade discount
23.01.2012	Sold to Balaji & Bros., Madurai. Shirt cloths ₹700 Sarees ₹2,500

[Ans: Total of Purchase Book: ₹13,370]

14. Enter the following in the Sales Book:

Date	*Particulars*
02.07.2005	Sold goods to Mani for ₹800
14.07.2005	Krishnan bought goods from us on credit for ₹1,000
29.07.2005	David made purchases from us for ₹700

(November 2006/21601/ZZ1G/ZZ1E/PK3B/SY1C/SDEM)

[Ans: Total of Sales Book: ₹2,500]

15. Enter the following transactions in sales and Sales returns books:

(a) Sales to Saleem ₹6,000

(b) Sales to Ravi ₹4,000

(c) Saleem returns goods ₹1,000

(d) Ravi returns goods ₹2,000

(April 2011 21601/ZZ1G/ZZ1E/PK3B/SY1C/SDEM\)

[Ans: Total of Sales Book: ₹10,000
Total of Sales Return Book: ₹3,000]

16. From the following transactions prepare Sales Book and post to ledger.

Date	*Particulars*
01.05.2011	Sold on credit to Ganesh & Co., Rohtak: 20 Cotton Sarees @ ₹125. Less: Trade discount @ 10%
10.05.2011	Sold for cash to Gowtham & Co., Bhiwani: 20 Kota Sarees @ ₹50.
15.05.2011	Sold on credit to Mohamed & Co., Hissar: 5 Velvet Sarees @ ₹325. Less: Trade discount @ 20%
25.05.2011	Sold on credit to Mathan: 2 old machines @ ₹500.

[Ans: Total of Sales Book: ₹3,550]
Hint: Machine is an asset.

17. From the following transactions, prepare the purchase return book of Mr. Rafiq and post to ledger.

Date	*Particulars*
04.05.2013	Returned to Aravind Mills: 5 Polyester Sarees @ ₹100 Less: Trade discount @ 10%
09.05.2013	Vignesh Mills, Kota accepted the returns of goods purchased. Cash from 5 Kota Sarees @ ₹40
16.05.2013	Returned to Prithivi Mills, Chennai: 5 Cotton Sarees @ ₹260 Less: Discount @ 10%
30.05.2013	Typewriter returned to Balaji @ ₹3,500

[Ans: Total of Purchase Return Book: ₹1,620]
Hint: Typewriter is an asset.

18. The following transactions are to be entered into proper subsidiary books. These books are to be closed on November 30th and posted into ledger account.

Date	*Particulars*	*(₹)*
01.10.2010	Purchased goods from Mathan of the list price Less: Trade discount @ 10%	40,000
05.10.2010	Sold goods to Mohi	10,000
06.10.2010	Return goods to Mathan at list price	5,000
07.10.2010	Sam sold goods	30,000
08.10.2010	Sold goods to Hari	12,000
10.10.2010	Goods returned by Hari	2,000
19.10.2010	Sold goods to Mohi	6,000
27.10.2010	Sold goods to Magesh	8,000

[Ans: Total Purchases: ₹66,000, Total Sales: ₹36,000,
Total of Purchase Return Book: ₹4,500
Total of Sales Return Book: ₹2,000]

19. From the following particulars, prepare the Sales Return Book

Date	*Particulars*
05.05.2011	Ganesh & Co., Rohtak, returned to us: 2 Cotton Shirt @ ₹125 Less: Trade discount @ 10%
10.05.2011	Accepted return of goods sold for cash from Aravind & Co., Bhiwani: 2 Kota Pants @ ₹50.
17.05.2011	Sahul & Co., Hissar, returned to us: 2 Cotton Sarees @ ₹325 Less: Trade discount @ 20%
31.05.2011	Mohan returned to us: 1 old machine @ ₹500

[Ans: Total of Sales Returns Book: ₹745]
Hint: Machine is an asset.

20. From the following transactions taken from the books of Santhosh & Co., prepare bills receivable book and bills payable book and post them into ledger:

Date	*Particulars*
01.05.2016	Acceptance received from Raj, payable three months after date for ₹6,500
05.05.2016	Acceptance of Sudha's draft for ₹4,000 for 2 months
12.05.2016	Drew a bill on Yasar for ₹2,500 for 3 months
20.05.2016	Sent Raja our acceptance for ₹5,000 payable 4 months after date

(Contd.)

22.05.2016	Raj's acceptance for ₹6,500 was discounted under a rebate of ₹100
25.05.2016	Received a bill from Naresh for ₹1,000 for 1 month
28.05.2016	Acceptance bill to Peter for ₹4,500 for 2 months
30.05.2016	Acceptance Sudha's draft for ₹2,000 for 1 month
30.05.2016	Drew a bill on Yasar for ₹2,000 for 2 months and acceptance by him payable at Bank of Baroda, Chennai

[Ans: Total of Bills Receivable Book: ₹12,000
Total of Bills Payable Book: ₹15,500]

CHAPTER

6

Rectification of Errors

Learning Objectives

After studying this chapter, you will be able to:

- Understand the Types of Errors
- Identity the Errors disclosed by Trial Balance
- Identify the Errors not disclosed by Trial Balance
- Understand the Procedure for Rectification of Errors

6.1 Errors

In an accounting process, errors can be committed at any stage. However, through audit these errors can be rectified before the finalisation of accounts. Accounting errors will be found out through internal audit or external audit. Errors can be minimised through routine internal check.

6.2 Types of Errors

The errors committed in the accounting process can be classified as:

1. Errors of Principle
2. Clerical Errors

› 6.2.1 Errors of Principle

The transactions recorded in the books of account follow the accounting principles or standards prescribed by the Accounting Standards Board. If any of these accounting rules are violated and errors arising from such violation are known as Errors of Principle.

Example: Purchase of assets is recorded in the purchases book. It is an error of principle, because the purchases book is meant only for recording credit purchases of goods. These types of errors will not be disclosed in the Trial Balance.

› 6.2.2 Clerical Errors

Clerical errors are those errors, which are committed by the person in the ordinary course of work. These can be further classified into three types, as follows.

1. Errors of Omission

When a transaction is completely or partially omitted in the books of accounts, it is known as Errors of Omission. The errors of omission may be classified as below.

(i) Error of Complete Omission When a transaction is completely omitted in the books of accounts, it is known as Complete Omission.

Example Goods purchased from Rahim not at all recorded in the books of accounts. This type of error does not affect the Trial Balance.

(ii) Error of Partial Omission Only one aspect of the transaction (either debit or credit) is recorded in the books of account.

Example: Sold Goods to Shankar recorded only in sales book, but omitted to be posted in Shankar's Account. This type of error will affect the Trial Balance.

2. Errors of Commission

Error of Commission may arise due to

(i) Wrong recording

(ii) Wrong posting

(iii) Wrong casting

(iv) Wrong balancing

(v) Wrong carrying forward, etc.

(i) Error of Recording This error arises when a transaction is wrongly recorded in the books of original entry.

Example Purchased Goods on credit from Vinay ₹5,000, is recorded in the book as ₹5,500. This type of error does not affect the Trial Balance.

(ii) Error of Posting Error of posting may be due to any one of the following:

- Correct amount in the correct side of wrong account
- Correct amount in the wrong side of correct account
- Wrong amount in the correct side of correct account
- Wrong amount in the wrong side of correct account
- Wrong amount in the wrong side of wrong account
- Wrong amount in the correct side of wrong account

These errors may or may not affect the Trial Balance.

(iii) Error of Casting (Totalling) This type of error arises when a mistake is committed while totalling the subsidiary book. The casting may be overcasting or undercasting.

Example The total cash sale of ₹12,000 may be wrongly totalled as ₹13,000. This is called **overcasting**. If it is wrongly totalled as ₹11,000, it is called **undercasting**.

(iv) Error of Carrying Forward This type of error arises when a mistake is committed in carrying forward a total from one page another.

Example Total of purchase book in page 264 of the ledger ₹10,686, while carrying forward the balance to the next page it was recorded as ₹10,866.

3. Compensating Errors

Compensating Errors are those errors, which neutralise each other. The errors in one direction are compensated by errors in another direction. The arithmetical accuracy of the Trial Balance is not at all affected in compensating errors.

Example If the purchases book and sales book are both overcast (excess totalling) by ₹10,000, the errors usually compensate each other. This error will not affect the total of Trial Balance.

6.3 Disclosure and Non-disclosure of Errors by Trial Balance

The following chart provides a bird's eye view of the errors disclosed by Trial Balance and not disclosed by Trial Balance.

ERRORS	
Errors disclosed by Trial Balance	*Errors not disclosed by Trial Balance*
Errors of partial omission	Errors of complete omission
Errors of casting	Errors of recording
Errors of carrying forward	Errors of principle
Errors of posting in the wrong side of the correct account	Errors of posting to wrong account in the right side with the correct amount
Errors of posting to correct account with wrong amount	Compensating errors
Double posting in the same account	

6.4 SUSPENSE ACCOUNT

Identifying and locating the errors is a herculean task. It requires time and patience. However, when it is difficult to locate the errors before finalising the accounts, the difference in the Trial Balance will be transferred to a temporary account called 'Suspense Account'. In order to avoid the delay in preparation of accounts, a suspense account is prepared. If the total debit balances of the Trial Balance exceed the total credit balances, the difference is transferred to the credit side of the suspense account. On the other hand, if the total credit balances of the Trial Balance exceed the total debit balances the difference is transferred to the debit side of the suspense account.

Suspense account will be continued in the books till the errors are located and rectified. Such balance will be shown in the balance sheet. When the errors affecting the suspense account are located, they are rectified with suspense account. Debit balance of a suspense account will be shown on the asset side of the balance sheet and the credit balance of the suspense account will be shown on the liability side of the balance sheet. When all the errors affecting the Trial Balance are located and rectified, the suspense account automatically gets closed.

✎ ILLUSTRATION 1:

Rectify the following errors:

(a) Purchases book overcast by ₹1,300

(b) Sales book undercast by ₹2,500

(c) Purchases return book overcast by ₹750

(d) Sales return book undercast by ₹600

Solution:

Rectification:

(a) Credit the Purchases A/c with ₹1,300

(b) Credit the Sales A/c with ₹2,500.

(c) Debit the Purchases Return A/c with ₹750

(d) Debit the Sales Return A/c with ₹600

✎ ILLUSTRATION 2:

Rectify the following errors:

(a) Purchases book is carried forward ₹850 less.

(b) Sales book total is carried forward ₹2,500 more.

(c) A total of ₹7,580 in the purchases book has been carried forward as ₹8,570.

(d) The total of the sales book ₹7,550 on page 20 was carried forward to page 21 as ₹5,570.

(e) Purchases return book was carried forward as ₹1,520 instead of ₹5,120.

Solution:

(a) Debit the Purchases A/c with ₹850

(b) Debit the Sales A/c with ₹2,500

(c) Credit the Purchases A/c with ₹990

(d) Credit the Sales A/c with ₹1,980

(e) Credit the Purchases Return A/c with ₹3,600

✎ ILLUSTRATION 3:

Rectify the following errors:

(a) Purchases from Bagavathi for ₹4,500 have been posted to the debit side of her account.

(b) Sales to Vijay for ₹1,520 has been posted to his credit as ₹1,250.

(c) Purchases from Shakila for ₹750 has been omitted to be posted to the personal account.

(d) Sales to Khader for ₹780 have been posted to his account as ₹870.

Solution:

(a) Purchases from Bagavathi should have been posted to the credit of Bagavathi's A/c., but it has been debited. Hence, credit Bagavathi's A/c with double the amount, i.e., ₹9,000.

(b) Sales to Vijay have to be debited in Vijay's account but his account is credited with ₹1,250. Hence, debit Vijay's A/c with ₹1,250 + ₹1,520, i.e., ₹2,770.

(c) This is an error of omission. Posting must be to the credit of Shakila's A/c. Hence, post ₹750 to the credit of Shakila's A/c.

(d) Here, Khader's A/c has been debited with a wrong amount, i.e., with excess amount. To rectify this error, the excess amount must be credited to his account. Hence, credit Khader's A/c with ₹90.

✎ ILLUSTRATION 4:

Rectify the following errors:

(a) Sales to X ₹6,250 were recorded as ₹5,125.

(b) Sales to X ₹5,100 were recorded as ₹6,000.

(c) Rent paid ₹6,375 was recorded in the cash book as ₹6,260.

(d) Sales to X ₹10,000 posted to Y's account.

(e) Sales to A ₹10,000 debited to B's account.

Solution:

		Debit (₹)	*Credit (₹)*
X A/c	Dr.	1,125	
To Sales A/c			1,125
(Being the shortage in sales rectified through further credit with difference amount)			

		Debit (₹)	*Credit (₹)*
Sales A/c	Dr.	900	
To X A/c			900
(Being reverse entry passed to rectify the excess credit)			

		Debit (₹)	*Credit (₹)*
Rent A/c	Dr.	115	
To Cash A/c			115
(Being entry as needed for recording the payment of rent has been passed because the recording has been done with the amount, which is less than the correct amount)			

		Debit (₹)	*Credit (₹)*
X A/c	Dr.	10,000	
To Y A/c			10,000
(Being the cancellation of wrong debit to Y's account)			

		Debit (₹)	*Credit (₹)*
A A/c	Dr.	10,000	
To B A/c			10,000
(Being the cancellation of wrong debit to B's account and installation of correct debit to A's account)			

✎ ILLUSTRATION 5:

Rectify the following errors:

(a) Sold old machinery for ₹825 passed through Day Book.

(b) ₹1,100 paid as salary to manager has been debited to his personal account.

(c) ₹2,750 spent for repairs of machinery has been posted to machinery account.

(d) Stock worth ₹1,375 purchased from Azar have been omitted to be recorded in the books.

(e) A machinery costing ₹14,300 has been debited to purchases account.

Solution:

		Debit (₹)	*Credit (₹)*
Sales A/c	Dr.	825	
To Machinery A/c			825
(Being sale of old machinery wrongly recorded in Sales Book, now rectified)			

		Debit (₹)	*Credit (₹)*
Salary A/c	Dr.	1,100	
To Manager's Personal A/c			1,100
(Being salary paid wrongly debited to manager's personal account, now rectified)			

		Debit (₹)	*Credit (₹)*
Repairs A/c	Dr.	2,750	
To Machinery A/c			2,750
(Being amount spent for repairs wrongly debited to building, now rectified)			

		Debit (₹)	*Credit (₹)*
Purchase A/c	Dr.	1,375	
To Azar A/c			1,375
(Being purchase omitted to be recorded)			

		Debit (₹)	*Credit (₹)*
Machinery A/c	Dr.	14,300	
To Purchase A/c			14,300
(Being machinery purchased wrongly passed through purchases now rectified)			

✎ ILLUSTRATION 6:

Rectify the following errors:

(a) ₹7,500 paid to Mani against our acceptance was debited to Mani account.

(b) ₹15,000 salary paid to Mr. Mohan stands debited to his personal account.

(c) Sold old machinery for ₹6,000 but wrongly credited to sales account.

(d) Purchased furniture for ₹4,000 wrongly debited to purchase account.

(e) Salary received ₹2,250 was credited to commission account.

Solution:

		Debit (₹)	*Credit (₹)*
Bills Receivable A/c	Dr.	7,500	
To Mani A/c			7,500
(Being amount paid to Mani against our acceptance wrongly credited to his account, now rectified)			

		Debit (₹)	*Credit (₹)*
Salary A/c	Dr.	15,000	
To Mohan A/c			15,000
(Being wrong debit to Personal Account rectified)			

		Debit (₹)	*Credit (₹)*
Sales A/c	Dr.	6,000	
To Machinery A/c			6,000
(Being sale of old machinery wrongly credited to sales account, now rectified)			

		Debit (₹)	*Credit (₹)*
Furniture A/c	Dr.	4,000	
To Purchases A/c			4,000
(Being furniture purchased wrongly debited to purchases account, now rectified)			

		Debit (₹)	*Credit (₹)*
Commission A/c	Dr.	2,250	
To Salary A/c			2,250
(Being wrong credit to Commission Account rectified)			

✎ ILLUSTRATION 7:

Rectify the following errors:

(a) A cheque for ₹750 received from Laxman was credited to the account of Ram and debited incorrectly to cash account.

(b) A sum of ₹1,000 drawn by proprietor for personal use was debited to travelling expenses account.

(c) A sale for old land for ₹7,000 had been credited to sales account.

(d) ₹10,000 paid as rent to the landlord was debited to landlord's personal account.

(e) Stock worth ₹2,500 taken away by the proprietor had been omitted to be recorded in the books.

Solution:

		Debit (₹)	*Credit (₹)*
Bank A/c	Dr.	750	
Ram A/c	Dr.	750	
To Laxman A/c			750
To Cash A/c			750
(Being cheque received from Laxman credited to Tamil and debited incorrectly to cash account, now rectified)			

		Debit (₹)	*Credit (₹)*
Drawings A/c	Dr.	1,000	
To Travelling Expenses A/c			1,000
(Being drawings by proprietor debited to travelling expenses, now rectified)			

		Debit (₹)	*Credit (₹)*
Sales A/c	Dr.	7,000	
To Land A/c			7,000
(Being sale of old land recorded in sales book, now rectified)			

		Debit (₹)	*Credit (₹)*
Rent A/c	Dr.	10,000	
To Landlord Personal A/c			10,000
(Being rent paid to landlord debited to his personal account, now rectified)			

		Debit (₹)	*Credit (₹)*
Drawings A/c	Dr.	2,500	
To Purchases A/c			2,500
(Being goods taken away by proprietor for personal use, now rectified)			

✎ ILLUSTRATION 8:

Rectify the following errors:

(a) A customer's bill for ₹3,500 for the erection of a store room was debited to repairs account.

(b) A cheque for ₹4,500 received from Sathik was dishonoured and debited to allowance account.

(c) Salaries paid for the firm's workers for making certain additions to machinery amounting to ₹7,500 were posted to salaries account.

(d) Goods value of ₹3,500 returned by Sheik were included in stock but not entered in the books.

(e) A sum of ₹5,000 drawn by the proprietor was debited to travelling expenses account.

Solution

		Debit (₹)	*Credit (₹)*
Buildings A/c	Dr.	3,500	
To Repairs A/c			3,500
(Being a contractor's bill for the erection of a store room wrongly debited to repairs account, now rectified)			

		Debit (₹)	*Credit (₹)*
Sathik A/c	Dr.	4,500	
To Allowances A/c			4,500
(Being a cheque received from Sathik dishonoured was wrongly debited to allowances account is now rectified)			

		Debit (₹)	*Credit (₹)*
Machinery A/c	Dr.	7,500	
To Salaries A/c			7,500
(Being salaries paid for making certain additions to machinery wrongly debit to salaries account is now rectified)			

		Debit (₹)	*Credit (₹)*
Return Inwards A/c	Dr.	3,500	
To Sheik A/c			3,500
(Being goods return by Sheik omitted to be entered is now rectified)			

		Debit (₹)	*Credit (₹)*
Drawings A/c	Dr.	5,000	
To Travelling Expenses A/c			5,000
(Being amount drawn by the proprietor wrongly debited to travelling expenses, now rectified)			

› 6.4.1 Suspense Account

✎ ILLUSTRATION 9:

Rectify the following errors:

(a) ₹8,100 received from Mr. Rajesh was posted to the debit of his account.

(b) ₹1,500 being purchase returns were posted to the debit of purchases account.

(c) Discount of ₹3,000 received was posted to the debit of discount account.

(d) ₹4,110 paid for repairs to motor car was debited to motor car account as ₹2,610.

(e) ₹6,000 paid to A. Sathik was debited to R. Sathik account.

Give journal entries to rectify the above errors and ascertain the amount transferred to suspense account, on 31st March 2006 by showing the suspense account, assuming that it is balanced after the above corrections.

Solution:

		Debit (₹)	*Credit (₹)*
Suspense A/c	Dr.	16,200	
To Rajesh A/c			16,200
(Being the amount received from Mr. Rajesh wrongly debited instead of being credited, now rectified)			

		Debit (₹)	*Credit (₹)*
Suspense A/c	Dr.	3,000	
To Purchase A/c			1,500
To Purchases Return A/c			1,500
(Being the amount purchases returns wrongly debited to purchases account, now rectified)			

		Debit (₹)	*Credit (₹)*
Suspense A/c	Dr.	6,000	
To Discount A/c			6,000
(Being discount received wrongly debited to discount account, now rectified)			

		Debit (₹)	*Credit (₹)*
Repair to Motor Car A/c	Dr.	4,110	
To Motor Car A/c			2,610
To Suspense A/c			1,500
(Being repairs to Motor Car of ₹4,110 wrongly debited to Motor Car account as ₹2,610, now rectified)			

		Debit (₹)	*Credit (₹)*
A. Sathik A/c	Dr.	6,000	
To R. Sathik A/c			6,000
(Being amount paid to A. Sathik wrongly debited to R. Sathik, now rectified)			

Suspense Account

	(₹)		*(₹)*
To Rajesh A/c	16,200	**By Difference in Trial Balance (Bal. fig.)**	**23,700**
To Purchases A/c	1,500	By Repairs to Motor Car A/c	1,500
To Purchases Return A/c	1,500		
To Discount A/c	6,000		
	25,200		25,200

✎ ILLUSTRATION 10:

The following errors were found in the books of Prabhu. Give the necessary entries to correct them:

(a) Salary of ₹10,000 paid to Murali has been debited to his personal account.

(b) ₹3,500 paid for a typewriter was charged to office expenses account.

(c) ₹8,000 paid for furniture purchased has been charged to purchases account.

(d) Repairs made were debited to building account for ₹500.

(e) An amount of ₹5,000 withdrawn by the proprietor for his personal use has been debited to trade expenses account.

(f) ₹2,000 received from Shanthi & Co. has been wrongly entered as from Shakila & Co.

Solution:

In the books of Prabhu Rectifying Journal Entries

		Debit (₹)	*Credit (₹)*
Salaries A/c	Dr.	10,000	
To Murali A/c			10,000
(Being correction of wrong debit to Murali's personal account for salaries paid)			

		Debit (₹)	*Credit (₹)*
Typewriter A/c	Dr.	3,500	
To Office Expenses A/c			3,500
(Being correction of wrong debit to office expenses account for purchase of typewriter)			

		Debit (₹)	*Credit (₹)*
Furniture A/c	Dr.	8,000	
To Purchase A/c			8,000
(Being correction of wrong debit to purchases account for furniture purchased)			

		Debit (₹)	*Credit (₹)*
Repairs A/c	Dr.	500	
To Building A/c			500
(Being correction of wrong debit to building account for repairs made)			

		Debit (₹)	*Credit (₹)*
Drawings A/c	Dr.	5,000	
To Trade Expenses A/c			5,000
(Being correction of wrong debit to trade expenses account for cash withdrawn by the proprietor for his personal use)			

		Debit (₹)	*Credit (₹)*
Shakila & Co. A/c	Dr.	2,000	
To Shanthi & Co. A/c			2,000
(Being correction of wrong credit to Shakila & Co. instead of Shanthi & Co.)			

✎ ILLUSTRATION 11:

Give journal entries to rectify the following errors:

(a) Purchase of goods from Devi amounting to ₹25,000 has been wrongly passed through the sales book.

(b) Credit sale of goods ₹30,000 to Rajan has been wrongly passed through the purchases book.

(c) Sold old furniture for ₹3,500 passed through the sales book.

(d) Paid wages for the construction of building debited to wages account ₹1,00,000.

(e) Paid ₹10,000 for the installation of machinery debited to wages account.

(f) On 31st December 2003, goods worth ₹5,000 were returned by Manjula and were taken into stock on the same date, but no entry was passed in the books.

Solution:

Rectifying Journal Entries

		Debit (₹)	*Credit (₹)*
Purchase A/c	Dr.	25,000	
Sales A/c	Dr.	25,000	
To Devi A/c			50,000
(Being correction of wrong entry in sales book for a credit purchase from Devi)			

		Debit (₹)	*Credit (₹)*
Rajan A/c	Dr.	60,000	
To Purchase A/c			30,000
To Sales A/c			30,000
(Being correction of wrong entry in purchases book for credit sale to Rajan)			

		Debit (₹)	*Credit (₹)*
Sales A/c	Dr.	3,500	
To Furniture A/c			3,500
(Being correction of wrong credit to sales account for sale of old furniture)			

		Debit (₹)	*Credit (₹)*
Building A/c	Dr.	1,00,000	
To Wages A/c			1,00,000
(Being correction of wrong debit to wages account for wages paid for construction of building)			

		Debit (₹)	*Credit (₹)*
Machinery A/c	Dr.	10,000	
To Wages A/c			10,000
(Being correction of wrong debit to wages account for wages paid for installation of machinery)			

		Debit (₹)	*Credit (₹)*
Sales Return A/c	Dr.	5,000	
To Manjula A/c			5,000
(Being entry for goods returned and taken into stock)			

✎ ILLUSTRATION 12:

Rectify the following errors and prepare the suspense account:

(a) Sales book was overcast by ₹40.

(b) Purchased furniture ₹600 was passed through purchases book and from there, furniture account was posted as ₹60.

(c) Sold goods to Raja ₹11, was posted as ₹110;

(d) Purchases book overcast by ₹16.

(e) Purchases return book was carried forward as ₹24 instead of ₹22.

(f) Sold goods ₹40, entered in the sales book as ₹400.

You are required to find out the difference in the Trial Balance. Show suspense account. Pass necessary journal entries also.

Solution:

		Debit (₹)	*Credit (₹)*
Sales A/c	Dr.	40	
To Suspense A/c			40
(Being the errors in totalling of sales book now rectified)			

		Debit (₹)	*Credit (₹)*
Furniture A/c	Dr.	600	
To Purchases A/c			600
(Being wrong recording of furniture in purchases book now rectified)			

		Debit (₹)	*Credit (₹)*
Suspense A/c	Dr.	540	
To Furniture A/c			540
(Being under-posting to supplier account by (600 – 60) i.e., ₹540 now rectified)			

		Debit (₹)	*Credit (₹)*
Suspense A/c	Dr.	99	
To Raja A/c			99
(Being sale of goods wrongly over-debited to customer now rectified)			

		Debit (₹)	*Credit (₹)*
Suspense A/c	Dr.	16	
To Purchases A/c			16
(Being overcasting of purchases book now rectified)			

		Debit (₹)	*Credit (₹)*
Purchases Return A/c	Dr.	2	
To Suspense A/c			2
(Being error in carrying forward of total of purchases return book now rectified)			

		Debit (₹)	*Credit (₹)*
Sales A/c	Dr.	360	
To Customer A/c			360
(Being error in entry in sales book by excess amount now rectified)			

Suspense Account

	(₹)		*(₹)*
To Furniture House A/c	540	By Balance Difference in the Trial Balance	613
To Raja A/c	99	By Sales A/c	40
To Purchase A/c	16	By Purchase Return A/c	2
	655		**655**

✎ ILLUSTRATION 13:

Rectify the following errors by using suspense account:

(a) Goods sold to Raja ₹12,500 were not posted to his account.

(b) Purchase book was overcast by ₹5,000.

(c) Sales book was undercast by ₹665.

(d) Purchase return book was undercast by ₹200.

(e) Cash received from Raja ₹500 was posted to his account as ₹5,500.

(f) Cash paid to Mohamed ₹9,625 was posted to his account as ₹2,125.

Solution:

Rectifying Journal Entries

		Debit (₹)	*Credit (₹)*
Raja A/c	Dr.	12,500	
To Suspense A/c			12,500
(Being goods sold to Raja not posted in his account now rectified)			

		Debit (₹)	*Credit (₹)*
Suspense A/c	Dr.	5,000	
To Purchase A/c			5,000
(Being overcasting of purchase book now rectified)			

		Debit (₹)	*Credit (₹)*
Suspense A/c	Dr.	665	
To Sales A/c			665
(Being undercasting of sales book now rectified)			

		Debit (₹)	*Credit (₹)*
Suspense A/c	Dr.	200	
To Purchase Returns A/c			200
(Being undercasting of purchase return book now rectified)			

		Debit (₹)	*Credit (₹)*
Raja A/c	Dr.	5,000	
To Suspense A/c			5,000
(Being cash received from Raja posted to his account as ₹5,500 instead of ₹500 now rectified)			

		Debit (₹)	*Credit (₹)*
Mohamed A/c	Dr.	7,500	
To Suspense A/c			7,500
(Being cash paid to Mohamed ₹9,625 posted to his account as ₹2,125 now rectified)			

Suspense Account

	(₹)		*(₹)*
To Balance b/d (Bal. fig.)	**26,635**	By Been A/c	12,500
To Purchase A/c	5,000	By Raja A/c	12,500
To Sales A/c	665	To Mohamed A/c	7,500
To Purchase Return A/c	200		
	32,500		**32,500**

✎ ILLUSTRATION 14:

The following errors were found in the books of Mr. Dhanapal. The Trial Balance was out by ₹2,958, excess credit. The difference has been posted to a suspense account. Pass necessary journal entries to rectify.

(a) A sale of ₹1,200 to Babu was wrongly credited to his account.

(b) A purchase of ₹402 had been posted to the creditor's account as ₹360.

(c) The total of returns inward book for December had been cast ₹600 short.

(d) A cheque for ₹1,200 received from Satish had been dishonoured and was posted to the debit of "Allowance Account".

Solution:

In the books of Dhanapal

		Debit (₹)	*Credit (₹)*
Babu A/c	Dr.	2,400	
To Suspense A/c			2,400
(Being the correction of mistake by which the account of Babu was credited by ₹1,200 instead of being debited)			

		Debit (₹)	*Credit (₹)*
Suspense A/c	Dr.	42	
To Creditor's A/c (personal A/c)			42
(Being the mistake in crediting the creditors account less by ₹42 now corrected)			

		Debit (₹)	*Credit (₹)*
Return Inward A/c	Dr.	600	
To Suspense A/c			600
(Being the mistake of totalling in the return inwards book corrected)			

		Debit (₹)	*Credit (₹)*
Satish A/c	Dr.	1,200	
To Allowances A/c			1,200
(Being the mistake of totalling in the return inwards book corrected)			

Suspense Account

		(₹)			*(₹)*
31.12.1996	To diff. in Trial Balance	2,958	31.12.1996	By Babu A/c	2,400
	To Creditors A/c	42		By Returns Inward A/c	600
		3,000			**3,000**

✎ ILLUSTRATION 15:

Rectify the following errors:

(a) ₹12,150 received from Rajesh was posted to the debit of his account.

(b) ₹2,250 being purchase returns were posted to the debit of purchases account.

(c) Discount of ₹4,500 received was posted to the debit of discount account.

(d) ₹6,165 paid for repairs to car was debited to machinery account as ₹3,915.

(e) ₹9,000 paid to J. Sathish was debited to R. Sathish account.

Give journal entries to rectify the above errors and ascertain the amount transferred to Suspense Account on 31st May 2016 by showing the Suspense Account, assuming that it is balanced after the above corrections.

Solution:

		Debit (₹)	*Credit (₹)*
Suspense A/c	Dr.	24,300	
To Rajesh A/c			24,300
(Being the amount received from Rajesh wrongly debited instead of being credited, now rectified)			

		Debit (₹)	*Credit (₹)*
Suspense A/c	Dr.	4,500	
To Purchase A/c			2,250
To Purchases Return A/c			2,250
(Being the amount purchases returns wrongly debited to purchases account, now rectified)			

		Debit (₹)	*Credit (₹)*
Suspense A/c	Dr.	9,000	
To Discount A/c			9,000
(Being discount received wrongly debited to discount account, now rectified)			

		Debit (₹)	*Credit (₹)*
Repair to Motor Car A/c	Dr.	6,165	
To Motor Car A/c			3,915
To Suspense A/c			2,250
(Being repairs to machinery of ₹6,165 wrongly debited to machinery account as ₹3,915, now rectified)			

		Debit (₹)	*Credit (₹)*
J. Sathish A/c	Dr.	9,000	
To R. Sathish A/c			9,000
(Being amount paid to J. Sathish wrongly debited to R. Sathish, now rectified)			

Suspense Account

	(₹)		*(₹)*
To Rathesh A/c	24,300	**By Difference in Trial Balance (Bal. fig.)**	**35,550**
To Purchases A/c	2,250	By Repairs to Machinery A/c	2,250
To Purchases Return A/c	2,250		
To Discount A/c	9,000		
	37,800		**37,800**

■ *Theory Questions* ■

Short-Answer Questions

1. What do you understand by rectification of errors?
2. State the types of errors.
3. What do you understand by errors of principle?
4. What do you understand by clerical errors?
5. What is error of omission?
6. What is error of commission?

7. What do you understand by error of casting?
8. Give examples for error of posting.
9. What are compensating errors?
10. What is a suspense account?

Long-Answer Questions

1. How do you classify errors?
2. What are the errors disclosed by Trial Balance?
3. What are the errors not disclosed by Trial Balance?
4. What is the need for preparing a suspense account?
5. Explain the errors disclosed and not disclosed by Trial Balance.

■ *Exercise Problems* ■

1. How would you rectify the following errors?
   (a) ₹1,000 spent for repairs on buildings has been posted to Building account.
   (b) Goods worth ₹400 purchased from Y has not been entered in the books of accounts.
   (c) Office furniture purchased for ₹1,800 has been passed through purchases book.

   (November 2005: 21601/ZZ1G/ZZ1E/SY1C/PK3B/SDEM)
2. Pass necessary entries to rectify the following errors:
   (a) Purchase of goods from Ram amounting to ₹400 has been wrongly passed through the Sales Book.
   (b) A credit sales of ₹300 to Rahim has been wrongly passed through the Purchases Book.
   (c) Sold old furniture for ₹1,500 passed through the Sales Book.

   (April 2011/21601/ZZ1G/ZZ1E/PK3B/SY1C/SDEM)
3. Rectify the following errors:
   - Sold old furniture for ₹7350 passed through the Sales Book.
   - Paid wages for the construction of building debited to wages account ₹5,755.

- A purchase of goods from Mahalakshmi amounting to ₹1,500 has been wrongly passed through Sales Book.

4. Rectify the following errors discovered after the preparation of Trial Balance:

(i) A sale of ₹60 posted to the credit of customer's account.

(ii) Sales Book was undercast by ₹200.

(iii) ₹125 received from X posted to the credit of Y.

(Alagappa University/November 2010/AF-2258/BCCI1C1)

5. Rectify the following errors:

(a) Purchases Book is overcast by ₹300.

(b) Sales to Sridhar ₹152 posted to his account as ₹125.

(c) Purchased furniture ₹200 was not posted.

(December 2016: U/ID 22201/UCZA/UCWA/UCYA/ UCXB/URMA/UCVB)

6. Rectify the following errors:

(a) Sold old typewriter for ₹3,000 passed through the Sales Book.

(b) A credit sale of goods ₹300 to Raja has been wrongly passed through the Purchases Book.

(c) Paid wages for the construction of building debited to wages account ₹15,000.

(d) A purchase of goods from Manoj amounting to ₹7,500 has been wrongly passed through Sales Book.

7. Rectify the following errors:

(a) Purchase Book is overcast by ₹300 (for the month of March).

(b) Sales Book has been undercast ₹200.

(c) Purchase Return Book has been overcast by ₹75.

(d) Sales Return Book has been undercast by ₹50.

(April 2016: 60101/BPZ1A/BPW1A/BPF1A/MAM1A/ SBAMK/BPC1A/BPG1A/BPM1A)

8. Rectify the following errors:

(a) Sales Book overcast by ₹700

(b) Purchase Book overcast by ₹500

(c) Sales Return Book overcast by ₹300

(d) Purchase Returns Book overcast by ₹200

(e) Return Inward Book overcast by ₹2000

(Periyar University May 2016/BCCA)

9. The following errors were found in the books of R & Co. Give the necessary entries to correct them:

(a) Salary of ₹1,000 paid to K due to him, has been debited to his personal account.

(b) ₹1,500 paid in cash for a typewriter was charged to office expenses account.

(c) ₹5,000 paid for furniture purchased has been charged to purchases account.

(d) An amount of ₹500 withdrawn by proprietor for his personal use has been debited to trade expenses account.

(e) ₹200 received from M has been wrongly entered as from N.

(November 2013: 60501/BYA1A)

10. Correct the following errors from the following particulars.

(a) A machine purchased for ₹15,600 from Rama Co. Ltd., has been entered in purchase day book.

(b) A sale of ₹1,175 to M/s. Guptha has been entered in Sales Book as ₹1,157.

(c) License fee for proprietor's vehicle, ₹300 has been debited to General Expenses A/c.

(d) A sale of ₹860 of old furniture has been passed through Sales Book.

(November 2005: 21401/MW1A)

11. Rectify the following errors:

(a) ₹1,200 received from Devanathan has been credited to Devanand's account in the ledger.

(b) Goods bought on credit from Sankar for ₹200 has been wrongly entered in the Sales Book.

(c) A typewriter for ₹5,000 bought for cash has been wrongly passed through the Cash Book as purchase of goods.

(November 2006/21601/ZZ1G/ZZ1E/PK3B/SY1C/SDEM)

12. Rectify the following errors:

(a) A purchase of goods from Devi amounting to ₹250 has been wrongly passed through Sales Book.

(b) Sold old furniture for ₹1,500 passed through the Sales Book.

(c) Paid wages for the construction of building debited to wages account ₹10,000.

(d) ₹1,000 received from Sakthi & Co. has been wrongly entered as from Shaw & Co.

(e) ₹1,500, paid in cash for a typewriter, was charged to office expenses account.

13. Rectify the following errors:

(a) Machinery purchased on credit from Nizam for ₹7,500 posted as ₹750.

(b) Machinery purchased on credit from Nizam for ₹7,500 posted to Hari's account.

(c) Machinery purchased on credit from Nizam for ₹7,500 posted to Furniture account.

(d) Builder's bill for ₹5,840 for erection of a small shed was debited to Repairs account.

(e) Repairs to machinery amounting to ₹4,750 have been charged to Machinery account.

14. Rectify the following errors:

(a) Paid wages for the construction of a room, debited to wages account ₹890

(b) Purchased goods for personal use of the proprietor for ₹300 debited to Purchases account

(c) Sold furniture for ₹150 passed through Sales Book

(d) Sales Book undercast by ₹500

(May 2010/U/ID/22201/UCZA/UCWA/UCYA/UCXB/URMA/UCVB)

15. Rectify the following errors:

(a) Salary paid to Ravi ₹1,750 posted to his personal account.

(b) Goods withdrawn by proprietor for personal use posted to advertisement account, amounted ₹3,500.

(c) Goods sold to Kavin ₹5,000 are posted through Purchases book.

(d) Goods bought from Jana on credit for ₹1,800 were not passed through the subsidiary book.

(e) A bills receivable for ₹1,750 received from Jana was passed through the bills payable book.

16. Rectify the following errors:

(a) Purchase of goods for consumption of the proprietor was debited to purchase account for ₹1,600.

(b) A credit sale of ₹800 was posted from sales book to PQ & Co., instead of AB & Co.

(c) Plant worth ₹4,000 purchased for cash was debited to repair account.

(d) Goods to the value of ₹300 returned by Chaaru were included in stock but no entry was made in the books.

(e) Repair of machinery amounting to ₹1,134 had been charged to furniture account.

17. Rectify the following errors:

(a) A cheque for ₹7,500 received from Prem was credited to the account of Thameem and debited incorrectly to cash account.

(b) A sum of ₹500 drawn by proprietor for personal use was debited to travelling expenses account.

(c) A sale for old machinery for ₹6,500 had been credited to sales account.

(d) ₹1,000, paid as rent to the landlord, was debited to landlord's personal account.

(e) Stock worth ₹2,000 taken away by the proprietor had been omitted to be recorded in the books.

18. Rectify the following errors:

(a) A customer's bill for ₹300 for the erection of a store room was debited to repairs account.

(b) A cheque for ₹500 received from Sathish was dishonoured and debited to allowance account.

(c) ₹130 paid for purchase of new office furniture charged to office expenses account.

(d) Stock value of ₹3,500 returned by Shali was included in goods but not entered in the books.

(e) A sum of ₹100 drawn by the proprietor was debited to preliminary expenses account.

19. The following errors were found in the books of Prabhakaran & Sons. Give the necessary entries to rectify them:

(a) Salary of ₹7,000 paid to a Mohan, due to him, has been debited to his personal account.

(b) ₹10,500 paid in cash for a typewriter was charged to office expenses account.

(c) ₹10,500 paid for furniture purchased has been charged to purchases account.

(d) Repairs made were debited to building account for ₹1,750.

(e) An amount of ₹3,500 withdrawn by the proprietor for his personal use has been debited to trade expenses account.

(f) ₹1,400 received from Shanthy & Co., has been wrongly entered as from Shajahan & Co.

Preparation of Suspense Account

20. Rectify the following errors:

(a) ₹28,700 received from Mr. Raja was posted to the debit of his account.

(b) ₹5,250 being purchase returns were posted to the debit of purchases account.

(c) Discount of ₹10,500 received was posted to the debit of discount account.

(d) ₹14,385 paid for repairs to machinery was debited to machinery account as ₹9,135.

(e) ₹21,000 paid to A. Mohideen was debited to R. Mohideen account.

Give journal entries to rectify the above errors and ascertain the amount transferred to suspense account, on 31st December 2012, by showing the suspense account, assuming that it is balanced after the above corrections.

[Ans: Difference in Trial Balance: ₹83,650
Suspense A/c Total: ₹88,900]

21. Rectify the following errors by using suspense account:

(a) Goods sold to Raja ₹2,500 were not posted to his account.

(b) Purchase book was overcast by ₹1,000.

(c) Sales book was undercast by ₹133.

(d) Purchase return book was undercast by ₹40.

(e) Cash received from Javith ₹100 was posted to his account as ₹1,100.

(f) Cash paid to Rafiq ₹1,925 was posted to his account as ₹425.

[Ans: Difference in Trial Balance: ₹3,827
Suspense A/c Total: ₹5,000]

22. A shopkeeper finds that the Trial Balance is out by excess debit ₹200. He puts the difference to a newly opened suspense account. Later on, he detects the following errors:

(a) Goods worth ₹6,000 purchased from Raju, but entered in the sales book.

(b) Received a promissory note for ₹10,000 from Arjun, but entered in the bills payable book.

(c) An item of ₹1,400 relating to prepaid rent account was omitted to be brought forward.

(d) An item of ₹800 in request of purchase return to Ramu had been wrongly entered in the purchase book.

(e) ₹2,000 paid to Harish against acceptance was debited to Hari.

(f) A bill was received for repairs of furniture for ₹1,000. The amount was debited to furniture account.

Pass journal entries to rectify the above errors and prepare the suspense account.

[Ans: Difference in Trial Balance: ₹200
Suspense A/c Total: ₹1,600]

23. A seller finds that the Trial Balance is out by excess debit ₹900. He puts the difference to a newly opened suspense account. Later on, he detects the following errors:

(a) Goods worth ₹27,000 purchased from Raman, but entered in the sales book.

(b) Received a promissory note for ₹45,000 from Azhagar, but entered in the bills payable book.

(c) An item of ₹6,300 relating to prepaid rent account was omitted to be brought forward.

(d) An item of ₹3,600 in request of purchase return to Rajan had been wrongly entered in the purchase book.

(e) ₹9,000 paid to Hari against acceptance was debited to Harsha.

(f) A bill was received for repairs of machinery for ₹4,500. The amount was debited to machinery account.

Pass journal entries to rectify the above errors and prepare the suspense account.

[Ans: Difference in Trial Balance: ₹900
Suspense A/c Total: ₹7,200]

24. Pass journal entries to rectify the following errors, assuming that there exists a suspense account.

(a) The total of sales book was undercast by ₹2,000

(b) Purchase of machinery ₹3,000 was entered in the purchase book

(c) A sale of ₹45 to Sangeetha was posted in her account as ₹54

(d) The total of Purchase Return book was overcast by ₹200

(e) The total of sales book ₹1,122 was wrongly posted in the ledger as 1,222.

[Ans: Opening Balance of Suspense A/c: ₹1,709 (Cr.)]

25. A bookkeeper of a firm found that his Trial Balance was out by ₹824 excess credit. He placed the amount in the suspense account and subsequently found the following errors:

(a) The total of purchase book was short by ₹500.

(b) A sale of ₹400 to Ram was entered in the sales book as ₹40.

(c) The total of the discount column on the credit side of the cash-book ₹58 was not posted to the ledger.

(d) A sale to Gopi of ₹400 has been entered in the purchase book.

Prepare the suspense account.

[Ans: Suspense A/c: ₹382 (Dr.)]

26. The following errors were found while examining the books of accounts of Mr. Ram. It was found that the debit is in excess by ₹150. This was credited to suspense account.

(a) The total of debit side of an expense account has been cast in excess by ₹50.

(b) The sales account has been totalled short by ₹100.

(c) A machinery purchased for ₹2,000 is debited to general expenses account.

(d) A typewriter purchased for ₹4,000 has been debited to purchase account.

Pass journal entries and prepare the suspense account.

[Ans: Suspense A/c: ₹150]

27. Correct the following errors found in the books of Mr. Dhandapani. The Trial Balance was out by ₹986, excess credit. The difference has been posted to a suspense account.

(a) A sale of ₹400 to Bobby & Co. was wrongly credited to their account.

(b) A purchase of ₹134 had been posted to the creditor's account as ₹120.

(c) The total of returns inward book for December had been cast ₹200 short.

(d) A cheque for ₹400 received from Sandhya had been dishonoured and was posted to the debit of 'Allowance Account'.

(October 2012 U/ID 1884/JAB/CAA)
[Ans: Suspense A/c Total: ₹1,000]

28. The difference in the Trial Balance of a trader of ₹1,118 has been transferred to suspense account. Later on, the following errors were discovered. Pass the necessary rectifying entries. Open suspense account and show the effect of rectifying entries on profit or loss.

(a) Depreciation of ₹200 was charged on machinery but it was not recorded in depreciation account

(b) A discount of ₹82 was allowed to Rajesh but in his account only ₹28 was recorded

(c) A sale of ₹344 was recorded in sales account as ₹434

(d) A machinery of ₹4,000 was purchased, but was recorded in purchases book

(e) Instead of crediting ₹1,024 in Madan's account, ₹430 was debited in his account.

(f) Total of sales return book was undercast by ₹100

(December 2016 U/ID 22212/UGRMA)

[Ans: Suspense A/c Total: ₹1,508]

29. In taking out a Trial Balance, a book keeper finds that debit total exceeds the credit total by ₹352. The amount is placed to the credit of newly opened Suspense Account. Subsequently the following mistakes were discovered. You are required to pass the necessary journal entries for rectifying the mistakes and show the suspense account.

(a) Sales day book was overcast by ₹100

(b) A sale of ₹50 to Ram was wrongly debited to Krishna

(c) General expenses ₹18 was posted as ₹80

(d) Cash received from Govind was debited to his account ₹150

(e) While carrying forward the total one of page of the purchases book to the next, the amount of ₹1,235 was entered as ₹1,325.

(November 2005/21601/ZZIG/ZZ1E/SY1C/PK3B/SDEM)

30. Pass Journal entries to rectify the following errors and prepare Suspense A/c:

(i) The total of sales book was undercast by ₹2,000.

(ii) The purchase of machinery ₹3,000 was entered in the purchases book.

(iii) A sale of ₹45 to Selvan was posted in his account as ₹54.

(iv) The total of purchase return was overcast by ₹2,000.

(v) The total of sales book 1,122 was wrongly posted in the ledger as 1,222.

(Alagappa University/November 2010/AF-2258/BCCIC1)

[Ans: Difference in Trial Balance ₹91 (Dr.),
Trial Balance Total ₹2,100]

CHAPTER

7

Final Accounts

Learning Objectives

After studying this chapter, you will be able to:

- Understand the Meaning of Trading Account, Profit & Loss Account and Balance Sheet
- Pass Adjustment Entries
- Prepare Trading Account and Profit & Loss Account
- Work out Problems Independently on Final Accounts with Adjustment

7.1 Final Accounts

A sole trader needs to ascertain the profit earned or loss suffered during the year. In order to find out the trading results as well as the financial position of his business, final accounts are prepared. The components of final accounts include: (a) Trading Account; (b) Profit and Loss Account; and (c) Balance Sheet. The objective of preparing the final accounts is to find out the financial performance of a business organisation. Trading Account reveals the gross profit or loss earned during the period. Profit and loss account discloses the net profit or loss earned during the period. Balance Sheet discloses the financial position of the sole trader on a particular date.

7.2 Trading Account

Trading Account is prepared to ascertain the gross profit or gross loss for the given period. A Trading Account is prepared at the end of the accounting year to ascertain the trading results. The difference between the sales and the cost of goods sold is gross profit or gross loss. Trading Account is a

nominal account, which records all direct expenses relating to purchase or manufacturing of goods on the debit side of account.

Proforma of Trading Account for the year ended ……

	(₹)	(₹)		(₹)	(₹)
To Opening Stock		xxx	By Sales	xxx	
To Purchases	xxx		Less: Sales Returns	xxx	xxx
Less: Purchase Returns	xxx	xxx	By Closing Stock		xxx
To Direct Expenses:			By Gross Loss c/d		xxx
To Carriage Inward		xxx			
To Wages		xxx			
To Freight		xxx			
To Import Duty		xxx			
To Gas & Fuel		xxx			
To Royalty on Production		xxx			
To Factory Expenses		xxx			
To Gross Profit c/d Transferred to Profit & Loss A/c		xxx			
		xxxx			xxxx

7.3 Profit and Loss Account

"Profit and Loss Account is an account into which all gains and losses are collected in order to ascertain the excess of gains over the losses or vice versa."

—Prof. Carter

The aim of preparing the profit and loss account is to ascertain the net profit or net loss of the business. In Profit and Loss Account, gross profit, carried down from Trading Account, will appear on the credit side of the account. All incomes will be credited to the account. Expenses and losses related to the business is debited in profit and loss account. If the total of the credit side of the profit and loss account exceeds the total of the debit side, the difference is termed as net profit. On the other hand, the total of the debit side exceeds over the credit side, it is termed as net loss. Net profit is to be added to the capital account. Net loss is to be deducted from capital account.

Proforma of Profit & Loss Account for the year ended .....

	(₹)		*(₹)*
To Gross Loss b/d	xxx	By Gross Profit b/d	xxx
To Management Expenses	xxx	By Interest Received	xxx
To Office Salaries	xxx	By Discount Received	xxx
To Rent	xxx	By Commission Received	xxx
To Rate and Taxes	xxx	By Rent from Tenants	xxx
To Printing and Stationary	xxx	By Income from Investments	xxx
To Postage and Telegrams	xxx	By Apprenticeship Premium	xxx
To Telephone Charges	xxx	By Interest on Debentures	xxx
To Legal Charges	xxx	By Miscellaneous Revenue Receipts	xxx
To Audit Charges	xxx	By Net Loss transferred to Capital A/c	xxx
To Insurance	xxx		
To General Expenses	xxx		
To Office Lighting	xxx		
To Financial Expenses	xxx		
To Interest on Capital	xxx		
To Interest on Loans	xxx		
To Discount Allowed	xxx		
To Discount on Bills	xxx		
To Selling & Distribution Expenses	xxx		
To Advertising	xxx		
To Traveller's Salaries	xxx		
To Expenses and Commission	xxx		
To Bad Debts	xxx		
To Godown Rent	xxx		
To Carriage Outwards	xxx		
To Agent's Commission	xxx		
To Upkeep of Motor Vans	xxx		
To Export Expenses	xxx		
To Depreciation and Maintenance	xxx		

(Contd.)

To Repairs & Maintenance	xxx		
To Extraordinary Expenses	xxx		
To Loss by fire (not covered by insurance)	xxx		
To Cash Defalcations	xxx		
To Net Profit transferred to Capital A/c	xxx		
	xxxx		**xxxx**

7.4 Balance Sheet

"The Balance Sheet is a statement at a particular date showing on one side the trader's property and possessions and on the other hand the liabilities."

—A. Palmer

Balance Sheet is a statement, which contains the assets and liabilities of a sole trader as on a particular date. It reveals the true and fair view of the state of affairs of a concern on a particular date. It also helps to ascertain the nature and cost of various assets to the business.

Proforma of Balance Sheet of…… as on….

Liabilities		*(₹)*	*Assets*		*(₹)*
Capital:			**Fixed Assets:**		
Add: Net Profit	xxx		Goodwill		xxx
Add: Interest on Capital	xxx		Land & Buildings		xxx
Less: Drawings	xxx		Loose Tools		xxx
Less: Interest on Drawings	xxx		Furniture & Fixtures		xxx
Less: Loss, if any	xxx	xxx	Vehicles		xxx
Long-term Liabilities:			Patents		xxx
Loan on Mortgage		xxx	Trademarks		xxx
Bank Loan		xxx	Long-term Loans (Advances)		xxx
Current Liabilities:			Investments		xxx
Sundry Creditors		xxx	**Current Assets:**		
Bills Payable		xxx	Closing Stock		xxx
Bank Overdraft		xxx	Sundry Debtors		xxx

(Contd.)

Outstanding Expenses		xxx	Bills Receivable		xxx
Income Received in Advance		xxx	Prepaid Expenses		xxx
			Accrued Incomes		xxx
			Cash at Bank		xxx
			Cash in Hand		xxx
			Fictitious Assets:		
			Preliminary Expenses		xxx
			Advertising Expenses		xxx
			Understanding Commission		xxx
			Discount on Issue of Shares		xxx
			Discount on Issue of Debentures		xxx
		xxxx			**xxxx**

7.5 Adjustment Entries

› 7.1.1 Closing Stock

			(₹)
Closing Stock A/c	Dr.	xxx	
To Trading A/c			xxx

› 7.1.2 Outstanding Expenses

			(₹)
Expenses A/c	Dr.	xxx	
To Expenses Outstanding A/c			xxx

› 7.1.3 Prepaid Expenses

			(₹)
Prepaid Expenses A/c	Dr.	xxx	
To Expenses A/c			xxx

› 7.1.4 Accrued Income

			(₹)
Accrued Income A/c	Dr.	xxx	
To Income A/c			xxx

› 7.1.5 Income Received in Advance

			(₹)
Income A/c	Dr.	xxx	
To Income Received in Advance A/c			xxx

› 7.1.6 Depreciation of Assets

			(₹)
Depreciation A/c	Dr.	xxx	
To Assets A/c			xxx

› 7.1.7 Interest on Capital

			(₹)
Interest on Capital A/c	Dr.	xxx	
To Capital A/c			xxx

› 7.1.8 Interest on Drawings

			(₹)
Capital A/c	Dr.	xxx	
To Interest on Drawings A/c			xxx

› 7.1.9 Bad Debts

			(₹)
Bad Debts A/c	Dr.	xxx	
To Debtors A/c			xxx

› 7.1.10 Provision for Bad and Doubtful Debts

			(₹)
Profit & Loss A/c	Dr.	xxx	
To Provision for Doubtful Debts A/c			xxx

› 7.1.11 Provision for Discount on Debtors

			(₹)
Profit & Loss A/c	Dr.	xxx	
To Provision for Discount Debtors A/c			xxx

› 7.1.12 Provision for Discount on Creditors

			(₹)
Provision for Discount Creditors A/c	Dr	xxx	
To Profit &Loss A/c			xxx

› 7.1.13 Loss of Stock by Accident, Fire, etc.

			(₹)
Abnormal Loss A/c	Dr	xxx	
To Trading A/c			xxx

Since there will be no recovery, the abnormal loss has to be closed.

			(₹)
Profit & Loss A/c	Dr	xxx	
To Abnormal Loss A/c			xxx

If there is insurance, amount recoverable from insurance company has to be debited to insurance company and the balance of abnormal loss is written off to profit and loss account.

			(₹)
Profit & Loss A/c	Dr	xxx	
Insurance Company A/c	Dr	xxx	
To Abnormal Loss A/c			xxx

✎ ILLUSTRATION 1:

Pass necessary adjustment entries for the following adjustments.

(a) Depreciation at 10% is to be charged on machinery standing in the books at ₹1,00,000.

(b) Salaries outstanding is ₹200

(c) Closing stock ₹55,000

Solution:

Adjustment Entries

Particulars		*Debit (₹)*	*Credit (₹)*
Depreciation A/c	Dr.	10,000	
To Machinery A/c			10,000
(For depreciation on machinery)			
Salaries A/c	Dr.	10,000	
To Outstanding Salaries A/c			10,000
(For salaries outstanding)			
Closing Stock A/c	Dr.	55,000	
To Trading A/c			55,000
(For bringing stock into account)			

✎ ILLUSTRATION 2:

Pass necessary adjustment entries for the following adjustments.

(a) Interest accrued on investments ₹500

(b) To provide 10% interest on capital of ₹2,50,000

(c) The proprietor has withdrawn goods worth ₹200 from stock

Solution:

Adjustment Entries

Particulars		*Debit (₹)*	*Credit (₹)*
Accrued Interest A/c	Dr.	500	
To Interest A/c			500
(For interest accrued on investment)			
Interest on Capital A/c	Dr.	25,000	
To Capital A/c			25,000
(For interest on capital)			

(Contd.)

Drawings A/c	Dr.	200	
To Purchases A/c			200
(For goods taken from business for personal use)			

✎ ILLUSTRATION 3:

Pass necessary adjustment entries for the following adjustments.

(a) Goods in stock worth ₹8,000 are destroyed by fire. Insurance company accepts the claims of ₹6,000.

(b) ₹2,000 to be transferred to reserve fund.

(c) Goods worth ₹2,000 distributed as free samples to customers.

Solution:

Adjustment Entries

Particulars		*Debit (₹)*	*Credit (₹)*
Insurance Company A/c	Dr.	6,000	
Profit & Loss A/c	Dr.	2,000	
To Abnormal Loss A/c			8,000
(For stock destroyed admitted by insurance company to the extent of ₹6,000)			
Profit & Loss A/c	Dr.	2,000	
To Reserve Fund A/c			2,000
(For transferring to reserve fund)			
Advertising A/c	Dr.	2,000	
To Purchases A/c			2,000
(For goods distributed as free sample)			

✎ ILLUSTRATION 4:

Pass necessary adjustment entries for the following adjustments.

(a) Pre paid insurance ₹200

(b) Commission received in advance ₹1000

(c) Interest charged on drawings ₹520

(d) To provide provision for doubtful debts at 2% on sundry debtors ₹20,000

Solution:

Adjustment Entries

Particulars		*Debit (₹)*	*Credit (₹)*
Prepaid Insurance A/c	Dr.	200	
To Insurance A/c			200
(For insurance prepaid)			
Commission A/c	Dr.	1,000	
To Commission Received in Advance A/c			1,000
(For commission received in advance)			
Capital A/c	Dr.	520	
To Interest on Drawings A/c			520
(For interest charged on drawings)			
Profit & Loss A/c	Dr.	400	
To Provision for Doubtful Debts A/c			400
(For creating provision for doubtful debts)			

✎ ILLUSTRATION 5:

Pass necessary adjustment entries for the following adjustments.

(a) Salaries outstanding ₹15,000

(b) Prepaid insurance ₹300

(c) Interest accrued on investments ₹2,000

(d) Commission received in advance ₹2,100

(e) To provide 10% interest on capital of ₹6,00,000

(f) Closing stock ₹3,00,000

Solution:

Adjustment Entries

Particulars		*Debit (₹)*	*Credit (₹)*
Salaries A/c	Dr.	15,000	
To Salaries Outstanding A/c			15,000
(Being salaries outstanding)			

(Contd.)

Prepaid Insurance A/c	Dr.	300	
To Insurance A/c			300
(Being insurance prepaid)			
Accrued Interest A/c	Dr.	2,000	
To Interest A/c			2,000
(Being interest accrued on investments)			
Commission Received A/c	Dr.	2,100	
To Commission Received in Advance A/c			2,100
(Being commission received in advance)			
Interest on Capital A/c	Dr.	60,000	
To Capital A/c			60,000
(Being 10% interest on capital)			
Closing Stock A/c	Dr.	3,00,000	
To Trading A/c			3,00,000
(Being closing stock recorded)			

✎ ILLUSTRATION 6:

Pass necessary adjusting entries for the following adjustments.

(a) Interest charged on drawings ₹5,250

(b) Interest on loan outstanding ₹3,200

(c) Depreciation at 10% is to be charged on machinery ₹5,00,000

(d) Write off bad debts ₹2,220

(e) Create provision for bad & doubtful debts at 2% on sundry debtors ₹60,000.

(f) Provide provision for discount on creditors at 2% on sundry creditors ₹2,00,000.

Solution:

Adjustment Entries

Particulars		*Debit (₹)*	*Credit (₹)*
Capital A/c	Dr.	5,250	
To Interest on Drawings A/c			5,250
(Being interest charged on drawings)			

(Contd.)

Interest on Loan A/c	Dr.	3,200	
To Interest Outstanding A/c			3,200
(Being interest due on loan)			
Depreciation A/c	Dr.	50,000	
To Machinery A/c			50,000
(Being depreciation on machinery)			
Bad Debts A/c	Dr.	2,000	
To Sundry Debtors A/c			2,000
(Being bad debts written off)			
Profit & Loss A/c	Dr.	2,220	
To Provision for Bad & Doubtful Debts A/c			2,220
(Being provision for bad & doubtful debts)			
Provision for Discount on Creditors A/c	Dr.	4,000	
To Profit & Loss A/c			4,000
(Being provision for discount on creditors)			

✎ ILLUSTRATION 7:

Show how it will appear in the profit and loss account and Balance Sheet.

Preliminary Expenses: ₹50,000
One-fifth of the preliminary expenses to be written off

Solution:

Profit & Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Preliminary Expenses 50,000 × 1/5	10,000		

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*	*(₹)*
		Preliminary Expenses	50,000	
		Less: Written off	10,000	40,000

✎ ILLUSTRATION 8:

Calculate managing director's commission from the following information.

Net Profit = ₹9,500
Managing Director's Commission = 5% of net profit before charging such commission

Solution:

Managing Director's Commission = 9500 × 5/100 = ₹475

✎ ILLUSTRATION 9:

Calculate managing director's commission from the following details.

Net Profit = ₹9,408
Managing Director's Commission = 5% of net profits after charging such commission

Solution:

Managing Director's Commission = ₹9408 × 5/105	₹448

✎ ILLUSTRATION 10:

How will you show the following in Trading Account, profit and loss account and Balance Sheet?

Stock Destroyed by fire	₹20,000
Claims Admitted by Insurance Company	₹16,000

Solution:

Trading Account and Profit & Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Loss of Stock by fire (20,000 – 16,000)	4,000	By Stock Destroyed by fire	20,000

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*
		Insurance Claims	16,000

✎ ILLUSTRATION 11:

How will you deal the following in Trading Account, Profit and Loss Account and Balance Sheet?

Machinery	₹94,000
Wages	₹20,000
Wages include ₹6,000 accrued for the erection of machinery	
Depreciation on Machinery	10%

Solution:

Trading Account and Profit & Loss Account

Particulars	*(₹)*	*(₹)*	*Particulars*		*(₹)*
To Wages	20,000				
Less: Erection of Machinery	6,000	14,000			
To Depreciation on Machinery (1,00,000 × 10/100)		10,000			

Balance Sheet

Liabilities		*(₹)*	*Assets*	*(₹)*	*(₹)*
			Machinery	94,000	
			Add: Erection Charges	6,000	
			Less: Depreciation	10,000	90,000

✎ ILLUSTRATION 12:

How will you show the following in the Balance Sheet?

Capital	₹1,00,000
Interest on Capital	10%
Drawings	₹30,000
Interest on Drawings	5%
Net Profit for the year	₹50,000

Solution:

Balance Sheet

Liabilities		*(₹)*	*Assets*		*(₹)*
Capital	1,00,000				
Add: Net Profit	50,000				
Add: Interest on Capital	10,000				
Less: Drawings	30,000				
Less: Interest on Drawings (30,000 × 5/100)	1,500	1,28,500			

✎ ILLUSTRATION 13:

How will you show the following in Profit and Loss account and Balance Sheet?

Bank Loan @ 6%	₹5,00,000
Interest paid for 6 Months	₹15,000

Solution:

Profit & Loss Account

Particulars	*(₹)*	*(₹)*	*Particulars*		*(₹)*
To Interest on Loan	15,000				
Add: Outstanding Interest on Loan (5,00,000 × 6/100 × 6/12)	15,000	30,000			

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*
6% Bank Loan	5,00,000		
Outstanding Interest on Loan	15,000		

✎ ILLUSTRATION 14:

How will you show the following in the Profit and Loss account and Balance Sheet?

Creditors	₹3,00,000
Discount on Creditors	2%

Solution

Profit & Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
		By Discount on Creditors	
		3,00,000 × 2/100	6,000

Balance Sheet

Liabilities		*(₹)*	*Assets*		*(₹)*
Creditors	3,00,000				
Less: Discount on Creditors	6,000	2,94,000			

✎ ILLUSTRATION 15:

Classify the following under suitable heads:

(a) Furniture

(b) Plant & Machinery

(c) Land & Buildings

(d) Cash in Hand

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*
		Fixed Assets:	
		Furniture	
		Plant & Machinery	
		Land & Buildings	
		Current Assets:	
		Cash in Hand	

✎ ILLUSTRATION 16:

How will you classify the following?

(a) Short-term Investments

(b) Bills Receivable

(c) Prepaid Expenses

(d) Work-in-progress

(e) Bank Overdraft

Solution:

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*
Current Liabilities:		**Current Assets:**	
Bank Overdraft		Short-term Investments	
		Bills Receivable	
		Prepaid Expenses	
		Work-in-progress	

✎ ILLUSTRATION 17:

Show how it will appear in the Balance Sheet, under which head?

(a) Sundry Creditors

(b) Bills Payable

(c) Outstanding Expenses

(d) Cash at Bank

(e) Income Received in advance

(f) Accrued Income

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*
Current Liabilities:		**Current Assets:**	
Sundry Creditors		Cash at Bank	
Bills Payable		Accrued Income	
Outstanding Expenses			
Income Received in advance			

✎ ILLUSTRATION 18:

How will you show the following in the Balance Sheet?

(a) Loan to Employees

(b) Bank Loan

(c) Closing Inventory

(d) Motor Car

(e) Computer

Solution:

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*
Current Liabilities:		**Fixed Assets:**	
Bank Loan		Motor Car	
		Computer	
		Current Assets:	
		Loan to Employees	
		Closing Inventory	

Bad Debts, Provision for Bad and Doubtful Debts

✎ ILLUSTRATION 19:

How will you show the following?

Old Provision for Doubtful Debts (Trial Balance)	₹1,500
New Provision for Doubtful Debts (Adjustments)	₹1,000

Solution:

Profit & Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
New Provision Doubtful Debts	1,000	Bad Debts Recovered (1,000 – 1,500)	500
Less: Old Provision Doubtful Debts	1,500		

✎ ILLUSTRATION 20:

How will you show the following?

Bad Debts (Trial Balance)	₹1,500
New Provision for Doubtful Debts	₹1,000

Solution:

Profit & Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
Bad Debts	1,500		
Add: New Provision for Doubtful Debts	1,000		
	2,500		

✎ ILLUSTRATION 21:

How will you show the following in the Profit and Loss Account?

Bad Debts (Trial Balance)	₹900
New Bad Debts (Adjustments)	₹500
New Provision for Doubtful Debts (Adjustments)	₹200
Old Provision for Doubtful Debts	₹100

Solution:

Profit & Loss Account

Particulars	*(₹)*		*Particulars*		*(₹)*
To Bad Debts	900				
Add: New Bad Debts	500				
Add: New Provision for Doubtful Debts	200				
Less: Old Provision for Doubtful Debts	100	1,500			

Amount to be shown on the debit side of Profit and Loss A/c is ₹1,500.

✎ ILLUSTRATION 22:

How will you show the following in Profit and Loss Account and Balance Sheet?

	(₹)
Bad Debts (Trial Balance)	10,000
Sundry Debtors	50,000
Old Provision for Doubtful Debts (Trial Balance)	2,000

Adjustments:

New Bad Debts	₹5,000
Create a provision of 5% on debtors for Doubtful Debts	

Solution:

Profit & Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Bad Debts (Trial Balance)	10,000		
New Bad Debts	5,000		
Add: New Provision for Doubtful Debts	2,250		
Less: Old Provision for Doubtful Debts	2,000		
	15,250		

Balance Sheet

Liabilities	*(₹)*	*Assets*		*(₹)*
		Sundry Debtors	50,000	
		Less: New Bad Debts	5,000	
		Less: Provision for Bad & Doubtful Debts at 5%	2,250	42,750

✎ ILLUSTRATION 23:

Show how it will appear in the Profit and Loss Account and Balance Sheet?

Sundry Debtors: ₹70,000

Create a provision of 10% on debtors for doubtful debts

Create a reserve for discount on debtors at 5% on sundry debtors

Solution:

Profit & Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Provision for Doubtful Debts 70,000 × 10/100	7,000		
To Discount on Debtors 63,000 × 5/100	3,150		

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*	*(₹)*
		Sundry Debtors	70,000	
		Less: Provision for Doubtful Debts	7,000	
		Less: Discount on Debtors	3,150	**59,850**

✎ ILLUSTRATION 24:

The sundry debtors on 31st December 1995 amount to ₹40,000. On analysis, it is found that debtors for ₹36,000 are good. The debtors for 3,000 are doubtful and are estimated to realise two-thirds of the amount and the debtors for ₹1,000 are bad. Make a provision for doubtful debts.

Solution:

Journal

Date	*Particulars*	*(₹)*	*(₹)*
31.12.1995	Profit & Loss A/c Dr.	2,000	
	To Provision for Bad and Doubtful Debts		2,000
	(Being amount of provision for Bad and Doubtful Debts – 1/3rd of ₹3,000, i.e. ₹1,000 doubtful and ₹1,000 bad)		

Ledger

Dr. Provision for Bad & Doubtful Debts Account Cr.

Date	*Particulars*	*(₹)*	*Date*	*Particular*	*(₹)*
31.12.1995	To Balance c/d	2,000	31.12.1995	By Profit & Loss A/c	2,000
		2,000			**2,000**
			01.01.1996	By Balance b/d	2,000

Balance Sheet as on 31.12.1995

Liabilities	*(₹)*	*Assets*		*(₹)*
		Sundry Debtors	40,000	
		Less: Provision for Bad & Doubtful Debts	2,000	38,000

✎ ILLUSTRATION 25:

The provision for bad and doubtful debts account shows a balance of ₹2,000 on 1 January 1994. The bad debts during the year 1994 amount to ₹1,600. The

sundry debtors on 31st December 1994 are ₹32,000. Create a new provision for bad debts at 5%. Show the journal, ledger, profit and loss account and Balance Sheet.

Solution:

Journal

Date	*Particulars*		*(₹)*	*(₹)*
31.12.1994	Provision for Bad and Doubtful Debts A/c	Dr.	1,600	
	To Bad Debts A/c			1,600
	(Being transfer of bad debts)			
31.12.1994	Profit & Loss A/c	Dr.	1,200	
	To Provision for Bad & Doubtful Debts A/c			1,200
	(Being amount of additional reserve required to raise it to ₹1,600)			

Ledger

Dr. Bad Debts Account Cr.

Date	*Particulars*	*(₹)*	*Date*	*Particular*	*(₹)*
31.12.1994	To Balance c/d	1,600	31.12.1994	By Provision for Bad & Doubtful Debts A/c (transfer)	1,600
		1,600			**1,600**

Dr. Provision for Bad & Doubtful Debts Account Cr.

Date	*Particulars*	*(₹)*	*Date*	*Particular*	*(₹)*
31.12.1994	To Bad Debts	1,600	31.12.1994	By Balance b/d	2,000
31.12.1994	To Balance c/d	1,600		By Profit & Loss A/c	1,200
		3,200			**3,200**
				By Balance b/d	1,600

Dr. Profit & Loss A/c for the year ended 31.12.94 Cr.

	(₹)	*(₹)*		*(₹)*	*(₹)*
To Bad debts	1,600				
Add: New Provision for Bad debts	1,600				
	3,200				
Less: Existing Provision for Bad debts	2,000				
		1,200			

Balance Sheet as on 31.12.1994

Liabilities	*(₹)*	*Assets*		*(₹)*
		Sundry Debtors	32,000	
		Less: Provision for Bad & Doubtful Debts	1,600	30,400

✎ ILLUSTRATION 26:

Prepare a Trading Account from the following information.

Particulars	*(₹)*	*Particulars*	*(₹)*
Opening Stock	1,80,000	Purchases	3,00,000
Sales	6,00,000	Sales Return	50,000
Carriage Inwards	50,000	Closing Stock	2,00,000
Wages	60,000		

Solution:

Trading Account

Particulars	*(₹)*	*Particulars*		*(₹)*
To Opening Stock	1,80,000	By Sales	6,00,000	
To Purchases	3,00,000	Less: Sales Return	50,000	5,50,000
To Carriage Inwards	50,000	By Closing Stock		2,00,000
To Wages	60,000			
To Gross Profit (Bal. fig.)	**1,60,000**			
	7,50,000			**7,50,000**

✎ ILLUSTRATION 27:

Prepare a Trading Account from the following information.

Particulars	*(₹)*	*Particulars*	*(₹)*
Opening Stock	1,00,000	Purchases	3,00,000
Sales	8,00,000	Sales Return	50,000
Coal & Fuel	50,000	Import Duty	50,000
Carriage Inwards	50,000	Closing Stock	3,00,000
Wages	1,50,000		

Solution:

Trading Account

Particulars	*(₹)*	*Particulars*		*(₹)*
To Opening Stock	1,00,000	By Sales	8,00,000	
To Purchases	3,00,000	Less: Sales Return	50,000	7,50,000
To Coal & Fuel	50,000	By Closing Stock		3,00,000
To Carriage Inwards	50,000			
To Wages	1,50,000			
To Import Duty	50,000			
To Gross Profit (Bal. fig.)	**3,50,000**			
	10,50,000			**10,50,000**

✎ ILLUSTRATION 28:

From the following information, prepare a Trading Account for the year ending 31st December 2009.

Particulars	*(₹)*	*Particulars*	*(₹)*
Opening Stock	50,000	Purchases	1,50,000
Sales	4,00,000	Sales Return	25,000
Carriage Inwards	25,000	Purchase Return	30,000
Wages	50,000	Closing Stock	1,50,000

Solution:

Trading Account

Particulars		*(₹)*	*Particulars*		*(₹)*
To Opening Stock		50,000	By Sales	4,00,000	
To Purchases	1,50,000		Less: Sales Return	25,000	3,75,000
Less: Purchase Return	30,000	1,20,000	By Closing Stock		1,50,000
To Carriage Inwards		25,000			
To Wages		50,000			
To Gross Profit (Bal. fig.)		**2,80,000**			
		5,25,000			**5,25,000**

✎ ILLUSTRATION 29:

Prepare a Trading Account from the following information.

Particulars	*(₹)*	*Particulars*	*(₹)*
Opening Stock	3,00,000	Purchases	3,00,000
Sales	6,00,000	Sales Return	50,000
Coal & Fuel	50,000	Import Duty	50,000
Carriage Inwards	60,000	Closing Stock	3,80,000
Wages	1,30,000		

Solution:

Trading Account

Particulars	*(₹)*	*Particulars*		*(₹)*
To Opening Stock	3,00,000	By Sales	6,00,000	
To Purchases	3,00,000	Less: Sales Return	50,000	5,50,000
To Coal & Fuel	50,000	By Closing Stock		3,80,000
To Carriage Inwards	60,000			
To Wages	1,30,000			
To Import Duty	50,000			
To Gross Profit (Bal. fig.)	**40,000**			
	9,30,000			**9,30,000**

✎ ILLUSTRATION 30:

Calculate Gross Profit from the following data.

Particulars	*(₹)*
Sales	6,60,000
Return Inwards	10,000
Return Outwards	20,000
Purchases	2,00,000
Closing Stock	50,000
Opening Stock	40,000
Wages	1,00,000

(April 2011/PK3B/SY1C/SDEM)

Solution:

Trading Account

Particulars		*(₹)*	*Particulars*		*(₹)*
To Opening Stock		40,000	By Sales	6,60,000	
To Purchases	2,00,000		Less: Return Inwards	10,000	6,50,000
Less: Return Outward	20,000	1,80,000			
To Wages		1,00,000	By Closing Stock		50,000
To Gross Profit (Bal. fig.)		**3,80,000**			
		7,00,000			**7,00,000**

✎ ILLUSTRATION 31:

Prepare Trading Account of Archana for the year ending 31st December 1996, from the following information.

Particulars	*(₹)*	*Particulars*	*(₹)*
Opening Stock	80,000	Wages	24,000
Purchases	8,60,000	Sales	14,40,000
Freight Inwards	52,000	Purchase Returns	10,000
Sales Return	3,16,000	Closing Stock	1,00,000
Import Duty	30,000		

(November 2015/60521/BYA1C/CYA1A)

Solution:

Trading Account

Particulars		*(₹)*	*Particulars*		*(₹)*
To Opening Stock		80,000	By Sales	14,40,000	
To Purchases	8,60,000		Less: Sales Return	3,16,000	11,24,000
Less: Purchase Return	10,000	8,50,000	By Closing Stock		1,00,000
To Freight Inwards		52,000			
To Wages		24,000			
To Import Duty		30,000			
To Gross Profit (Bal. fig.)		**1,88,000**			
		12,24,000			**12,24,000**

✎ ILLUSTRATION 32:

From the following information, find out the Net Profit of the organisation.

Particulars	*(₹)*	*Particulars*	*(₹)*
Wages	15,000	Rent	11,500
Salaries	22,000	Postage	4,300
Gross Profit	74,000	Commission Received	6,000
Interest	4,350	Buildings	1,50,000

(Nov. 2017 60521/BYA1C/CYA1A)

Solution:

Profit & Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Salaries	22,000	By Gross Profit	74,000
To Rent	11,500	By Commission Received	6,000
To Postage	4,300		
To Interest	4,350		
To Net Profit (Bal. fig.)	**37,850**		
	80,000		**80,000**

✎ ILLUSTRATION 33:

Prepare a Profit and Loss Account from the following information.

Particulars	*(₹)*	*Particulars*	*(₹)*
Gross Profit	1,00,000	Repairs	400
Carriage Outwards	1,000	Telephone Expenses	1,000
Office Rent	2,000	Loan Interest paid to Bank	800
General Expenses	1,000	Bad Debts	5,400
Interest from Bank	2000	Postage & Printing	5,000
Travelling Expenses	1,800	Trade Expenses	6000
Salaries	3,800	Commission paid	4000

Solution:

Profit & Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Carriage Outwards	1,000	**By Gross Profit b/d**	**1,00,000**
To Office Rent	2,000	By Interest from Bank	2,000
To General Expenses	1,000		
To Travelling Expenses	1,800		
To Salaries	3,800		
To Commission	4,000		
To Repairs	400		
To Telephone Expenses	1,000		
To Loan Interest paid to Bank	800		
To Bad Debts	5,400		
To Postage and Printing	5,000		
To Trade Expenses	6000		
To Net Profit (Bal. fig.)	**69,800**		
	1,02,000		**1,02,000**

✎ ILLUSTRATION 34:

Prepare Profit and Loss Account from the following information for the year ending 31st December 2017.

Particulars	*(₹)*	*Particulars*	*(₹)*
Gross Profit	55,000	Repairs and Renewals	500
Carriage on Sales	500	Office Expenses	520
Miscellaneous Expenses	900	Insurance Premium paid for Stock	900
Discount to Customer	360	Bad Debts	2,100
Interest from Bank	200	Apprentice Premium (Cr.)	1,500
Other Expenses	700	Printing Expenses	2,500
Salaries	1400	Telephone Charges	1,040
Commission paid to Raju	300		

Solution:

Profit & Loss Account for the year ending 31.12.2017

Particulars	*(₹)*	*Particulars*	*(₹)*
To Carriage on Sales	500	By Gross Profit b/d	55,000
To Office Expenses	520	By Interest from Bank	200
To Miscellaneous Expenses	900	By Apprentice Premium	1,500
To Discount to Customer	360		
To Other Expenses	700		
To Salaries	1,400		
To Commission paid to Raju	300		
To Repairs & Renewals	500		
To Telephone Charges	1,040		
To Insurance Premium paid for Stock	900		
To Bad Debts	2,100		
To Printing Expenses	2,500		
To Net Profit (Bal. fig.)	**44,980**		
	56,700		**56,700**

✎ ILLUSTRATION 35:

Prepare Profit and Loss account from the following information.

Particulars	*(₹)*	*Particulars*	*(₹)*
Gross Profit	2,00,000	Repairs	1,000
Carriage on Sales	1,000	Electricity Charges	1,000
Rent, Rates and Taxes	1,000	Interest paid	900
General Expenses	1,000	Fire Insurance Premium on Stock	1,000
Discount to Customer	7,000	Bad debts	4,200
Income from Investments	4,000	Apprentice Premium (Cr.)	3,000
Travelling Expenses	1,400	Printing & Stationery	5,000
Salaries to Staff	1,800	Trade Expenses	6,000
Commission paid	4,000		

Solution:

Profit & Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Carriage on Sales	1,000	By Gross Profit b/d	2,00,000
To Rent, Rates and Taxes	1,000	By Income from Investments	4,000
To General Expenses	1,000	By Apprentice Premium	3,000
To Discount to Customer	7,000		
To Travelling Expenses	1,400		
To Salaries to Staff	1,800		
To Commission Paid	4,000		
To Repairs	1,000		
To Electricity Charges	1,000		
To Interest Paid	900		
To Fire Insurance Premium on Stock	1,000		
To Bad Debts	4,200		
To Printing and Stationery	5,000		
To Trade Expenses	6000		
To Net Profit (Bal. fig.)	**1,70,700**		
	2,07,000		**2,07,000**

✎ ILLUSTRATION 36:

Prepare a Balance Sheet of Mr. Narayan as on 31st December 2011 from the following information.

Particulars	*(₹)*	*Particulars*	*(₹)*
Capital	2,00,000	Plant & Machinery	50,000
Salaries Outstanding	15,000	Furniture & Fixtures	40,000
Wages Outstanding	15,000	Stock	80,000
Net Profit	50,000	Cash in Hand	55,000
Bills Payable	40,000	Cash at Bank	55,000
Sundry Creditors	60,000	Sundry Debtors	50,000
Bills Receivable	20,000	Land & Building	30,000

Solution:

Balance Sheet of Mr. Narayan as on 31.12.2011

Liabilities		*(₹)*	*Assets*	*(₹)*
Capital	2,00,000		Bills Receivable	20,000
Add: Net Profit	50,000	2,50,000	Land and Building	30,000
Salaries Outstanding		15,000	Plant and Machinery	50,000
Wages Outstanding		15,000	Furniture and Fixtures	40,000
Bills Payable		40,000	Stock	80,000
Sundry Creditors		60,000	Cash in Hand	55,000
			Cash at Bank	55,000
			Sundry Debtors	50,000
		3,80,000		**3,80,000**

✎ ILLUSTRATION 37:

Prepare a Balance Sheet from the information given below.

Particulars	*(₹)*	*Particulars*	*(₹)*
Capital	2,00,000	Bills Receivable	20,000
Bank Overdraft	1,20,000	Land and Building	60,000
Salaries Outstanding	70,000	Plant and Machinery	80,000
Wages Outstanding	50,000	Furniture and Fixtures	1,00,000
Net Profit	1,00,000	Stock	1,20,000
Drawings	40,000	Cash in Hand	1,10,000
Bills Payable	80,000	Cash at Bank	90,000
Sundry Creditors	1,00,000	Sundry Debtors	1,00,000

Solution:

Balance Sheet

Liabilities		*(₹)*	*Assets*	*(₹)*
Capital	2,00,000		Bills Receivable	20,000
Add: Net Profit	1,00,000			
Less: Drawings	40,000	2,60,000		
Bank Overdraft		1,20,000	Land and Building	60,000
Salaries Outstanding		70,000	Plant and Machinery	80,000
Wages Outstanding		50,000	Furniture and Fixtures	1,00,000
Bills Payable		80,000	Stock	1,20,000

(Contd.)

Sundry Creditors		1,00,000	Cash in Hand	1,10,000
			Cash at Bank	90,000
			Sundry Debtors	1,00,000
		6,80,000		**6,80,000**

✎ ILLUSTRATION 38:

Prepare a Trading and Profit and Loss Account of Mr. Sundaram for the year ending 31st December 2000 from the following information.

Particulars	*Debit (₹)*	*Credit (₹)*
Opening Stock (01.01.2000)	12,500	
Purchases	1,00,000	
Sales		1,50,000
Sales Return	10,000	
Purchase Return		5,000
Salary	4,400	
Freight	7,500	
Rent	2,750	
Carriage Inwards	2,500	
Carriage Outwards	750	
Fuel & Coal	1,000	

Closing stock on 31st December 2000 was ₹14,000.

(Nov. 2016, 60521/BYA1C/CYA1A)

Solution:

Trading and Profit & Loss Account for the year ending 31.12.2000

Particulars		*(₹)*	*Particulars*		*(₹)*
To Opening Stock		12,500	By Sales	1,50,000	
To Purchases	1,00,000		Less: Sales Return	10,000	1,40,000
Less: To Purchase Return	5,000	95,000	By Closing Stock		14,000
To Freight		7,500			
To Carriage Inwards		2,500			
To Fuel & Coal		1,000			
To Gross Profit		**35,500**			
		1,54,000			**1,54,000**

To Salary		4,400	**By Gross Profit**		**35,500**
To Rent		2,750			
To Carriage Outwards		750			
To Net Profit		**27,600**			
		35,500			**35,500**

✎ ILLUSTRATION 39:

Prepare a Trading and Profit and Loss Account from the information given below.

Particulars	*(₹)*	*Particulars*	*(₹)*
Opening Stock	3,600	Rent (Factory)	400
Purchase	18,260	Rent (Office)	500
Wages	3,620	Sales Return	700
Closing Stock	4,420	Purchase Return	900
Sales	32,000	General Expenses	900
Carriage on Purchases	500	Discount Allowed	360
Carriage on Sales	400	Interest from Bank	200

(Nov 2011/60521/BYA1C)

Solution:

Trading and Profit & Loss Account

Particulars		*(₹)*	*Particulars*	*(₹)*	
To Opening Stock		3,600	By Sales	32,000	
To Purchase	18,260		Less: Sales Return	700	31,300
Less: Purchase Return	900	17,360	By Closing Stock		4,420
To Wages		3,620			
To Carriage on Purchases		500			
To Rent (Factory)		400			
To Gross Profit c/d		**10,240**			
		35,720			**35,720**

To Carriage on Sales		400	**By Gross Profit**		**10,240**
To Discount Allowed		360	By Interest from Bank		200
To Rent (Office)		500			
To General Expenses		900			
To Net Profit (Bal. fig.)		**8,280**			
		10,440			**10,440**

✎ ILLUSTRATION 40:

Prepare a Trading and Profit and Loss Account from the information given below.

Particulars	*(₹)*	*Particulars*	*(₹)*
Opening Stock	2,000	Rent (Factory)	4,000
Purchases	20,000	Rent (Office)	2,000
Wages	3,620	Sales Returns	700
Closing Stock	10,000	Purchase Return	900
Sales	40,000	General Expenses	**900**
Carriage on Purchases	500	Discount to Customers	**360**
Carriage on Sales	400	Interest from Bank	**1,000**

(April 2011/21601/PK3B/SY1C/SDEM)

Solution:

Trading and Profit & Loss Account

Particulars		*(₹)*	*Particulars*		*(₹)*
To Opening Stock		2,000	By Sales	40,000	
To Purchases	20,000		Less: Sales Return	700	39,300
Less: Purchase Return	900	19,100	By Closing Stock		10,000
To Wages		3,620			
To Carriage on Purchases		**500**			
To Rent - Factory		**4,000**			
To Gross Profit (Bal. fig.)		**20,080**			
		49,300			**49,300**

To Carriage on Sales		400	By Gross Profit		20,080
To Rent (Office)		2,000	By Interest from Bank		1,000
To General Expenses		900			
To Discount to Customers		**360**			
To Net Profit (Bal. fig.)		**17,420**			
		21,080			**21,080**

✎ ILLUSTRATION 41:

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

Particulars	*(₹)*	*Particulars*	*(₹)*
Opening Stock	30,000	Purchases less Returns	20,000
Sales	50,000	Capital	1,00,000
Salary	8,000	Bills Payable	5,000
Printing & Stationery	7,000	Closing Stock	40,000
Bills Receivable	40,000	Buildings	50,000

Solution:

Trading and Profit & Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	30,000	By Sales	50,000
To Purchases Less Returns	20,000	By Closing Stock	40,000
To Gross Profit (Bal. fig.)	**40,000**		
	90,000		**90,000**
Salary	8,000	**By Gross Profit**	**40,000**
Printing and Stationery	7,000		
To Net Profit (Bal. fig.)	**25,000**		
	40,000		**40,000**

Balance Sheet

Liabilities		*(₹)*	*Assets*	*(₹)*
Capital	1,00,000		Bills Receivable	40,000
Add: Net Profit	25,000	1,25,000	Buildings	50,000
Bills Payable		5,000	Closing Stock	40,000
		1,30,000		**1,30,000**

✎ ILLUSTRATION 42:

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

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

Solution:

Trading and Profit & Loss Account

Particulars		*(₹)*	*Particulars*		*(₹)*
To Opening Stock		50,000	By Sales	3,00,000	
To Purchases	80,000		By Sales Return	25,000	2,75,000
To Purchase Return	30,000	50,000	By Closing Stock		40,000
To Wages		20,000			
To Gross Profit (Bal. fig.)		**1,95,000**			
		3,15,000			**3,15,000**
To Rent		6,000	**By Gross Profit (Bal. fig.)**		**1,95,000**
To Printing & Stationery		7,000			
To Salaries		75,000			
To Net Profit (Bal. fig.)		**1,07,000**			
		1,95,000			**1,95,000**

Balance Sheet

Liabilities		*(₹)*	*Assets*	*(₹)*
Capital	4,00,000		Bills Receivable	1,68,000
Add: Net Profit	1,07,000	5,07,000	Machinery	2,00,000
Bills Payable		38,000	Closing Stock	40,000
			Furniture	1,37,000
		5,45,000		**5,45,000**

✎ ILLUSTRATION 43:

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

Particulars	*(₹)*	*Particulars*	*(₹)*
Opening Stock	5,00,000	Purchases	1,30,000
Sales	7,00,000	Capital	4,00,000
General Expenses	40,000	Bills Payable	11,000
Salaries	35,000	Closing Stock	1,25,000
Sundry Creditors	50,000	Purchase Return	18,000
Sales Return	40,000	Cash in Hand	2,10,000
Wages	9, 000	Sundry Debtors	1,85,000
		Bills Receivable	30,000

Solution:

Trading and Profit & Loss Account

Particulars		*(₹)*	*Particulars*		*(₹)*
To Opening Stock		5,00,000	By Sales	7,00,000	
To Purchases	1,30,000		Sales Return	40,000	6,60,000
To Purchase Return	18,000	1,12,000	By Closing Stock		1,25,000
To Wages		9,000			
To Gross Profit (Bal. fig.)		**1,64,000**			
		7,85,000			**7,85,000**
To General Expenses		40,000	**By Gross Profit**		**1,64,000**
To Salaries		35,000			
To Net Profit (Bal. fig.)		**89,000**			
		1,64,000			**1,64,000**

Balance Sheet

Liabilities		*(₹)*	*Assets*	*(₹)*
Capital	4,00,000		Bills Receivable	30,000
Add: Net Profit	89,000	4,89,000	Cash in Hand	2,10,000
Bills Payable		11,000	Closing Stock	1,25,000
Sundry Creditors		50,000	Sundry debtors	1,85,000
		5,50,000		**5,50,000**

✎ ILLUSTRATION 44:

Ms Supraja provides the following information. Prepare a Trading and Profit and Loss Account and a Balance Sheet as on 31st December 2016.

Particulars	*(₹)*
Opening Stock	30,000
Sales	60,000
Salaries	8,000
Wages	4,000
Creditors	3,000
Sales Return	5,000
Purchase Return	3,000
Computer	49,000
Purchases	20,000
Capital	50,000

Additional Information:

(a) Closing stock ₹20,000

(b) Outstanding wages ₹500

Solution:

Trading and Profit & Loss Account for the year ending 31.12.2016

Particulars		*(₹)*	*Particulars*		*(₹)*
To Opening Stock		30,000	By Sales	60,000	
To Purchases	20,000		By Sales Return	5,000	55,000
Less: Purchase Return	3,000	17,000	By Closing Stock		20,000
To Wages	4,000				
Add: Outstanding Wages	500	4,500			
To Gross Profit (Bal. fig.)		**23,500**			

(Contd.)

		75,000		**75,000**
To Salaries		8,000	**By Gross Profit**	**23,500**
To Net Profit (Bal. fig.)		**15,500**		
		23,500		**23,500**

Balance Sheet as on 31.12.2016

Liabilities		*(₹)*	*Assets*	*(₹)*
Capital	50,000		Computer	49,000
Add: Net Profit	15,500	65,500	Closing Stock	20,000
Creditors		3,000		
Outstanding Wages		500		
		69,000		**69,000**

✎ ILLUSTRATION 45:

From the following Trial Balance extracted from the books of Mr. Ramesh, prepare the Trading and Profit & Loss Account and Balance Sheet as on 31st December 2008.

Particulars	*Debit (₹)*	*Credit (₹)*
Sundry Debtors	43,000	
Stock (01.01.2008)	23,000	
Cash in Hand	1,850	
Bank Overdraft		9,500
Plant & Machinery	18,500	
Sundry Creditors		11,750
Trade Expenses	375	
Sales		1,35,000
Salaries	2,250	
Carriage Outwards	350	
Rent	950	
Bills Payable		18,700
Purchases	1,19,670	
Insurance	1,400	
Business Premises	35,000	
Discount		600
Capital		72,795
Carriage Inwards	2,000	
	2,48,345	**2,48,345**

Adjustments:

(a) Closing stock as on 31st December 2004: ₹20,000

(b) Rent ₹200 per month for the last quarter unpaid

(c) Depreciate 10% on plant and machinery and business premises

(d) Commission earned but not received amount to ₹500

(e) ₹400 carry forward for unexpired Insurance

(April 2011/21601/PK3B/SY1C/SDEM)

Solution:

Trading and Profit & Loss Account for the year ended 31.12.2008

Particulars		*(₹)*	*Particulars*	*(₹)*
To Opening Stock		23,000	By Sales	1,35,000
To Purchases		1,19,670	By Closing Stock	20,000
To Carriage Inwards		2,000		
To Gross Profit (Bal. fig.)		**10,330**		
		1,55,000		**1,55,000**
To Depreciation on Plant & Machinery		1,850	**By Gross Profit**	**10,330**
To Depreciation on Business Premises		3,500	By Discount	600
To Trade Expenses		375	By Commission Earned but not received	500
To Salaries		2,250		
To Carriage Outwards		350		
To Rent	950			
Add: Outstanding	600	1,550		
To Insurance	1,400			
Less: Prepaid Insurance	400	**1,000**		
To Net Profit (Bal. fig.)		**555**		
		11,430		**11,430**

Balance Sheet of Mr. Ramesh as on 31.12.2008

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital	72,795		Sundry Debtors		43,000
Add: Net Profit	555	73,350	Cash at Bank		1,850
Sundry Creditors		11,750	Plant & Machinery	18,500	
			Less: Depreciation @ 10%	1,850	16,650
Bank Overdraft		9,500	Business Premises	35,000	
Bills Payable		18,700	Less: Depreciation @ 10%	3,500	31,500
Outstanding Rent		600	Commission Earned but not received		500
			Closing Stock		20,000
			Prepaid Insurance		400
		1,13,900			**1,13,900**

✎ ILLUSTRATION 46:

Prepare a Trading and Profit and Loss Account for the year ending 31st March 2001 and a Balance Sheet as on that date.

Particulars	*(₹)*
Capital	52,000
Sales	1,01,000
Purchases Returns	1,900
Opening Stock	22,000
Furniture & Fittings	5,500
Sundry Creditors	6,200
Investments	16,700
Salaries	1,800
Sales Returns	5,200
Printing & Stationery	240
Sundry Debtors	31,000

(Contd.)

Purchases	72,000
Rent	560
Carriage Inwards	390
Bad Debts	160
Postage & Telegram	210
Travelling Expenses	550
Cash at Bank	3,270
Wages	1,300
Insurance	220

Adjustments:

(a) Salaries outstanding ₹150

(b) The closing stock was ₹18,500

(c) Insurance was prepaid ₹30

(d) Charge 10% depreciation on furniture

(November 2006/21601/PK3B/SY1C/SDEM)

Solution:

Trading and Profit & Loss Account for the year ended 31.03.2001

Particulars		*(₹)*	*Particulars*		*(₹)*
To Opening Stock		22,000	By Sales	1,01,000	
			Less: Sales Return	5,200	95,800
To Purchases	72,000		By Closing Stock		18,500
Less: Purchase Return	1,900	70,100			
To Carriage Inwards		390			
To Wages		1,300			
To Gross Profit (Bal. fig.)		**20,510**			
		1,14,300			**1,14,300**
To Salaries	1,800		**By Gross Profit**		**20,510**
Add: Outstanding Salaries	150	1,950			

(Contd.)

To Printing and Stationery		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 depreciation on Furniture		550			
To Net Profit (Bal. fig.)		**16,100**			
		20,510			**20,510**

Balance Sheet as on 31.03. 2001

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital	52,000		Furniture	5,500	
Add: Net Profit	16,100	68,100	Less: Depreciation	550	4,950
Sundry Creditors		6,200	Investments		16,700
Outstanding Salaries		150	Sundry Debtors		31,000
			Cash at Bank		3,270
			Closing Stock		18,500
			Prepaid Insurance		30
		74,450			**74,450**

✎ ILLUSTRATION 47:

Mr Ganesh provides the following information as on 31st December 2005. Prepare Trading and Profit and Loss Account, for the year ending 31st December 2005 and a Balance Sheet as on that date.

Trial Balance as on 31.12.2005

Debit	*(₹)*	*Credit*	*(₹)*
Drawings	4,000	Capital	20,000
Sundry Debtors	4,400	Sundry Creditors	5,500
Bills Receivable	2,900	Sales	16,000
Machinery	500		
Opening Stock	6,000		
Cash in Hand	9,200		
Purchases	2,000		
Commission	250		
General Expenses	800		
Buildings	10,000		
Wages	1,000		
Rent	450		
Total	**41,500**		**41,500**

Adjustments:

(a) Closing stock as on 31st December 2005 is ₹4000

(b) Interest on capital @ 6%

(c) Interest on drawings @ 5%

(d) Wages outstanding ₹100

(e) Prepaid rent ₹150

Solution:

Trading and Profit & Loss Account for the year ended 31.12.2005

Particulars		*(₹)*	*Particulars*	*(₹)*
To Opening Stock		6,000	By Sales	16,000
To Purchases		2,000	By Closing Stock	4,000
To Wages	1,000			
Add: Outstanding Wages	100	1,100		
To Gross Profit c/d		**10,900**		
		20,000		**20,000**
To Rent	450		**By Gross Profit**	**10,900**
Less: Prepaid Rent	150	300		
To Commission		250	By Interest on Drawings	200

(Contd.)

To General Expenses		800		
To Interest on Capital		1,200		
To Net Profit (Bal. Fig)		**8,550**		
		11,100		**11,100**

Balance Sheet as on 31.12.99

Liabilities		*(₹)*	*Assets*	*(₹)*
Capital	20,000		Sundry Debtors	4,400
Add: Net Profit	8,550		Closing Stock	4,000
Add: Interest on Capital	1,200		Cash in Hand	9,200
Less: Drawings	4,000		Prepaid Rent	150
Less: Interest on Drawings	200	25,550	Buildings	10,000
Sundry Creditors		5,500	Bills Receivable	2,900
Outstanding Wages		100	Machinery	500
		31,150		**31,150**

✎ ILLUSTRATION 48:

The following is the Trial Balance of Mrs. Sugna as on 31st March 2004. Prepare Trading and Profit and Loss Account and a Balance Sheet as on that date.

Debit Balances	*(₹)*	*Credit Balances*	*(₹)*
Drawings	40,000	Capital	2,00,000
Cash at Bank	17,000	Sales	1,60,000
Cash in Hand	60,000	Sundry Creditors	45,000
Wages	10,000		
Purchases	20,000		
Opening Stock	60,000		
Land & Buildings	1,00,000		
Sundry Debtors	44,000		
Bills Receivable	29,000		
Rent	4,500		
Commission	2,500		
General Expenses	8,000		
Furniture & Fixtures	5,000		
Suspense A/c	5,000		
	4,05,000		**4,05,000**

Adjustments:

(a) Closing stock ₹40,000

(b) Provide interest on capital at 6%

(c) Interest on drawings at 5% to be provided

(d) Depreciate buildings at the rate of 10% per annum

(e) Write off bad debts ₹1,000

(f) Wages outstanding ₹500

(November 2016/60521/BYA1C/CYA1A)

Solution:

Trading and Profit & Loss Account for the year ending 31.03.2004

Particulars		*(₹)*	*Particulars*	*(₹)*
To Opening Stock		60,000	By Sales	1,60,000
To Purchases		20,000	By Closing Stock	40,000
To Wages	10,000			
Add: Wages Outstanding	500	10,500		
To Gross Profit (Bal. fig.)		**1,09,500**		
		2,00,000		**2,00,000**
To Bad Debts		1,000	**By Gross Profit**	**1,09,500**
To Interest on Capital		12,000	By Interest on Drawings @ 5%	2,000
To Depreciation on Buildings		10,000		
To Rent		4,500		
To Commission		2,500		
To General Expenses		8,000		
To Net Profit (Bal. fig.)		**73,500**		
		1,11,500		**1,11,500**

Balance Sheet of Mrs. Sugna

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital	2,00,000		Cash at Bank		17,000
Add: Net Profit	73,500		Cash in Hand		60,000

(Contd.)

Add: Interest on Capital	12,000		Land & Buildings	1,00,000	
			Less: Depreciation	10,000	90,000
Less: Drawings	40,000		Sundry Debtors	44,000	
			Less: Bad Debts	1,000	43,000
Less: Int. on Drawings	2,000	2,43,500	Bills Receivable		29,000
			Closing Stock		40,000
Sundry Creditors		45,000	Furniture & Fixtures		5,000
Outstanding Wages		500	Suspense A/c		5,000
		2,89,000			**2,89,000**

✎ ILLUSTRATION 49:

Mr. Suraj submits the following information. Prepare a Trading Account, Profit and Loss Account and Balance Sheet as on 31st December 2016.

Debit Balances	*(₹)*	*Credit Balances*	*(₹)*
Drawings	40,000	Capital	2,00,000
Cash at Bank	17,000	Sales	1,60,000
Computer	60,000	Sundry Creditors	35,000
Wages	10,000		
Purchases	20,000		
Opening Stock	60,000		
Premises	1,00,000		
Sundry Debtors	44,000		
Bills Receivable	19,000		
Rent, Rates and Insurance	4,500		
Commission paid to Agents	2,500		
Travelling Expenses	8,000		
Loans & Advances	5,000		
Motor Car	5,000		
	3,95,000		**3,95,000**

Adjustments:

(a) Provide interest on capital @6%

(b) Interest on drawings @5%

(c) Depreciation on premises @10%

(d) Write off bad debts 1,000

(e) Wages outstanding ₹500

(f) Closing stock ₹40,000

Solution:

Trading and Profit & Loss Account for the year ending 31.12.2016

Particulars		*(₹)*	*Particulars*	*(₹)*
To Opening Stock		60,000	By Sales	1,60,000
To Purchases		20,000	By Closing Stock	40,000
To Wages	10,000			
Add: Outstanding	500	10,500		
To Gross Profit (Bal. fig.)		**1,09,500**		
		2,00,000		**2,00,000**
To Rent, Rates and Insurance		4,500	**By Gross Profit b/d**	**1,09,500**
To Commission Paid to Agents		2,500	By Interest on Drawings	2,000
To Travelling Expenses		8,000		
To Interest on Capital		12,000		
To Depreciation on Premises		10,000		
To Bad Debts written off		1,000		
To Net Profit (Bal. fig.)		**73,500**		
		1,11,500		**1,11,500**

Balance Sheet as on 31.12.2016

Liabilities		*(₹)*	*Assets*		*(₹)*
Capital	2,00,000		Computer		60,000
Add: Net Profit	73,500		Cash at Bank		17,000
Add: Interest on Capital	12,000		Bills Receivable		19,000
Less: Drawings	40,000		Sundry Debtors	44,000	
Less: Interest on Drawings	2,000	2,43,500	Less: Bad Debts written off	1,000	43000
Sundry Creditors		35,000	Closing Stock		40,000
Outstanding Wages		500	Premises	1,00,000	
			Less: Depreciation	10,000	90,000
			Loans & Advances		5,000
			Motor Car		5,000
		2,79,000			**2,79,000**

✎ ILLUSTRATION 50:

The following is the Trial Balance of Raji Agencies as on 31st March 1995. Prepare Trading and Profit and Loss Account Balance Sheet for year ended 1995.

Particulars	*(₹)*	*(₹)*
Capital	—	1,00,000
Building	15,000	—
Drawings	18,000	—
Furniture	7,500	—
Motor Van	25,000	—
Loan from Hari @ 12% interest	—	15,000
Interest paid on the above	900	—
Sales	—	1,00,000
Purchases	75,000	—
Opening Stock	25,000	—
Establishment Expenses	15,000	—
Wages	2,000	—
Insurance	1,000	—
Commission Received	—	7,500
Sundry Debtors	28,100	—
Bank Balance	20,000	—
Sundry Creditors	—	10,000
	2,32,500	**2,32,500**

Adjustments:

(a) The value of stock on 31st March 1995 was ₹32,000.

(b) Outstanding wages ₹500

(c) Prepaid insurance ₹300

(d) Commission received in advance ₹800

(e) Allow interest on capital 10%

(f) Depreciation on Building 2½ %, Furniture 10%, Motor van 10%

(g) Interest on drawings ₹500

(November 2005, 21401/MW1A)

Solution:

Trading and Profit & Loss Account for the year ending 31.03.1995

Particulars	*(₹)*	*(₹)*	*Particulars*		*(₹)*
To Opening Stock		25,000	By Sales		1,00,000
To Purchases		75,000	By Closing Stock		32,000
To Wages	2,000				
Add: Outstanding Wages	500	2,500			
To Gross Profit (Bal. fig.)		**29,500**			
		1,32,000			**1,32,000**
To Interest on Capital		10,000	By Gross Profit		29,500
To Depreciation on Buildings		375	By Interest on Drawings		500
To Depreciation on Furniture		750	By Commission Received	7,500	
To Interest on Loan	900		Less: Commission		
Add: Outstanding Interest	900	1,800	Received in Advance	800	6,700
To Establishment Expenses		15,000			
To Insurance	1,000				
Less: Prepaid Insurance	300	700			
To Depreciation on Motor Van		2,500			
To Net Profit (Bal. fig.)		**5,575**			
		36,700			**36,700**

Balance Sheet as on 31.03.1995

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital	1,00,000		Building	15,000	
Add: Net Profit	5,575		Less: Depreciation		
Less: Drawings	18,000		@ 2.5%	375	14,625
Less: Interest on			Furniture	7,500	
Drawings	500		Less: Depreciation		
Add: Interest on			@ 10%	750	6,750
capital	10,000	97,075			

(Contd.)

Loan		15,000	Motor Van	25,000	
Outstanding Interest		900	Less: Depreciation @ 10%	2,500	22,500
Outstanding Wages		500	Prepaid Insurance		300
Commission received in Advance		800	Sundry Debtors		28,100
Sundry Creditors		10,000	Bank		20,000
			Closing Stock		32,000
		1,24,275			**1,24,275**

✎ ILLUSTRATION 51:

The following is the Trial Balance of Ms Brinda. Prepare the Trading and Profit and Loss Account for the year ended 31st December 2013 and the Balance Sheet as on that date after making the following adjustments.

(a) Stock on hand on 31st December 2013 was ₹1,25,600.

(b) ₹300 were outstanding for wages

(c) Insurance prepaid amounted to ₹80

(d) Commission accrued but not received ₹250

(e) Depreciate plant & machinery by 10%

Trial Balance as on 31.12.2013

Particulars	*Debit (₹)*	*Credit (₹)*
Capital Account		1,29,440
Drawings Account	11,550	
Bills Receivable	9,500	
Plant & Machinery	28,800	
Sundry Debtors	62,000	
Return Outwards		3,000
Loan from Bank		20,000
Wages	40,970	
Return Inwards	2,780	
Purchases	2,69,590	

(Contd.)

Sales		3,50,430
Commission Received		5,640
Rent and Tax	5,620	
Stock (01.01.2013)	89,680	
Salaries	11,000	
Travelling Expenses	1,880	
Insurance	400	
Cash in Hand	500	
Cash at Bank	19,000	
Repairs	3,370	
Interest on Loan	5,860	
Bad Debts	3,400	
Sundry Creditors		66,190
Furniture & Fittings	8,800	
	5,74,700	**5,74,700**

Solution:

Trading and Profit & Loss Account for the Year Ending 31.12.2013

Particulars	*(₹)*	*(₹)*	*Particulars*	*(₹)*	*(₹)*
To Opening Stock		89,680	By Sales	3,50,430	
To Purchase	2,69,590		(–) Return Inwards	2,780	3,47,650
(–) Return Outwards	3,000	2,66,590	By Closing Stock		1,25,600
To Wages	40,970				
Add: Outstanding Wages	300	41,270			
To Gross Profit (Bal. fig.)		**75,710**			
		4,73,250			**4,73,250**
To Rent and Taxes		5,620	By Gross Profit		75,710
To Salaries		11,000	By Commission Received	5,640	
To Travelling Expenses		1,880	Add: Commission Accrued but not Received	250	5,890

(Contd.)

To Insurance	400				
Less: Insurance Prepaid Amount	80	320			
To Depreciation on Plant & Machinery		2,880			
To Repairs		3,370			
To Interest on Loan		5,860			
To Bad Debts		3,400			
To Net Profit (Bal. fig.)		**47,270**			
		81,600			**81,600**

Balance Sheet as on 31.12.2013

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital	1,29,440		Closing Stock		1,25,600
Add: Net Profit	47,270		Furniture & Fittings		8,800
Less: Drawings	11,550	1,65,160	Plant & Machinery	28,800	
Loan		20,000	(–) Depreciation @ 10%	2,880	25,920
Outstanding Wages		300	Bills Receivable		9,500
Sundry Creditors		66,190	Sundry Debtors		62,000
			Commission Accrued but not Received		250
			Prepaid Insurance		80
			Cash in Hand		500
			Cash at Bank		19,000
		2,51,650			**2,51,650**

✎ ILLUSTRATION 52:

The following is the Trial Balance of Ms. Vimala as on 31st March 2000. Prepare a Trading and Profit and Loss Account and Balance Sheet as on 31st March 2000.

Trial Balance of Ms. Vimala as on 31.03.2000

Particulars	*(₹)*	*(₹)*
Sales		4,20,000
Purchases	1,05,000	
Printing & Stationery Charges	2,500	
Wages	77,500	
Salaries	12,500	
Opening Stock	2,25,000	
Carriage on Purchases	8,800	
General Expenses	26,250	
Patents	5,000	
Rates and Taxes	2,500	
Capital		1,74,800
Discount Received		1,250
Loan from Canara Bank		1,75,000
Land & Buildings	2,00,000	
Furniture & Fittings	25,000	
Plant & Machinery	50,000	
Cash in Hand	31,000	
	7,71,050	**7,71,050**

Adjustments:

(a) Closing stock was valued at ₹3,20,000

(b) Salaries outstanding ₹10,000

(c) Prepaid rates and taxes ₹500

Solution:

Trading and Profit & Loss Account for the year ending 31.03. 2000

Particulars	*(₹)*	*(₹)*	*Particulars*	*(₹)*
To Opening Stock		2,25,000	By Sales	4,20,000
To Purchases		1,05,000	By Closing Stock	3,20,000
To Wages		77,500		
To Carriage on Purchases		8,800		
To Gross Profit (Bal. fig.)		**3,23,700**		
		7,40,000		**7,40,000**

To Printing & Stationery Charges		2,500	By Gross Profit	3,23,700
To Salaries	12,500		By Discount	1,250
Add: Outstanding	10,000	22,500		
To General Expenses		26,250		
To Rates and Taxes	2,500			
Less: Prepaid Rates and Taxes	500	2000		
To Net Profit (Bal. fig.)		**2,71,700**		
		3,24,950		**3,24,950**

Balance Sheet as on 31.03.2000

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*
Capital	1,74,800		Plant & Machinery	50,000
Add: Net Profit	2,71,700	4,46,500	Land & Building	2,00,000
Outstanding Salary		10,000	Furniture & Fittings	25,000
Loan from Canara Bank		1,75,000	Prepaid Rates & Taxes	500
			Patents	5,000
			Cash	31,000
			Closing Stock	3,20,000
		6,31,500		**6,31,500**

✎ ILLUSTRATION 53:

Mr. Bhaskar provides the following information as on 31st March 2003.

Particulars	*(₹)*	*(₹)*
Air Conditioner	40,000	
Cash at Bank	15,000	
Wages	10,000	
Purchases	80,000	
Stock (01.04.2002)	60,000	
Sundry Debtors	40,000	
Bills Receivable	29,000	
Rent	4,000	
Interest on Bank Loan	500	
Commission Received		3,000

(Contd.)

General Expenses	12,000	
Salaries to Employees	7,500	
Discount Received		4,000
Capital		90,000
Sales		1,20,000
Bank Loan		40,000
Sundry Creditors		40,000
Purchase Outwards		5,000
Return Inwards	4,000	
	3,02,000	**3,02,000**

Adjustments:

(a) Closing stock ₹80,000

(b) Interest on bank loan not yet paid ₹400

(c) Commission received in advance ₹1,000

Prepare Trading and Profit and Loss Account for the year ended 31st March 2003 and Balance Sheet as on that date.

Solution:

Trading and Profit & Loss Account of Mr. Bhaskar for the year ending 31.03.2003

Particulars	*(₹)*	*(₹)*	*Particulars*	*(₹)*	*(₹)*
To Opening Stock		60,000	By Sales	1,20,000	
To Purchases	80,000		Less: Return Inwards	4,000	1,16,000
Less: Return Outwards	5,000	75,000	By Closing Stock		80,000
To Wages		10,000			
To Gross Profit (Bal. fig.)		**51,000**			
		1,96,000			**1,96,000**
To Rent		4,000	By Gross Profit		51,000
To Interest on Bank Loan	500		By Discount Received		4,000
Add: Outstanding Interest	400	900	By Commission Received	3,000	

(Contd.)

To General Expenses		12,000	Less: Received in Advance	1,000	2000
To Salaries to Employees		7,500			
To Net Profit (Bal. fig.)		**32,600**			
		57,000			**57,000**

Balance Sheet as on 31.03.2003

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*
Capital	90,000		Cash at Bank	15,000
Add: Net Profit	32,600	1,22,600	Bills Receivable	29,000
Bank Loan		40,000	Sundry Debtors	40,000
Outstanding Interest on Loan		400	Closing Stock	80,000
Commission received in Advance		1,000	Air Conditioner	40,000
Sundry Creditors		40,000		
		2,04,000		**2,04,000**

✎ ILLUSTRATION 54:

Mr. Senthil's book shows the following balances. Prepare his Trading and Profit and Loss Account for the year ended 31st March 2005 and Balance Sheet as on that date.

Particulars	*(₹)*	*(₹)*
Stock on 01.04.2004	1,50,000	
Purchases	1,30,000	
Sales		3,00,000
Carriage Inwards	2,000	
Salaries	50,000	
Printing and Stationery	8,000	
Drawings	17,000	
Sundry Creditors		20,000
Sundry Debtors	1,80,000	
Furniture	10,000	
Capital		2,50,000

(Contd.)

Postage & Telephone	7,500	
Interest on Loan paid to Sangeetha	4,000	
Machinery	41,500	
Loan from Sangeetha		25,000
Suspense A/c		5,000
	6,00,000	**6,00,000**

Adjustments:

(a) Closing stock ₹1,20,000

(b) Provide 5% for bad & doubtful debts on debtors

(c) Depreciate machinery & furniture by 5%

(d) Allow interest on capital at 5%

(e) Prepaid printing charges ₹2,000

Solution:

Trading and Profit & Loss Account of Mr. Senthil for the year ending 31.03.2005

Particulars	*(₹)*	*(₹)*	*Particulars*	*(₹)*
To Opening Stock		1,50,000	By Sales	3,00,000
To Purchases		1,30,000	By Closing Stock	1,20,000
To Carriage Inwards		2,000		
To Gross Profit (Bal. fig.)		**1,38,000**		
		4,20,000		**4,20,000**
To Salaries		50,000	By Gross Profit	1,38,000
To Printing & Stationery	8,000			
Less: Prepaid	2,000	6,000		
To Interest on Loan Paid		4,000		
To Provision for Bad & Doubtful Debts		9,000		
To Postage & Telephone		7,500		
To Depreciation on:				
Machinery	2,075			
Furniture	500	2,575		
To Interest on Capital		12,500		
To Net Profit (Bal. fig.)		**46,425**		
		1,38,000		**1,38,000**

Balance Sheet of Mr. Senthil as on 31.03.2005

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital	2,50,000		Sundry Debtors	1,80,000	
Add: Net Profit	46,425		Less: Provision for Bad & Doubtful Debts	9,000	1,71,000
Add: Interest on Capital	12,500				
Less: Drawings	17,000	2,91,925	Closing Stock		1,20,000
Sundry Creditors		20,000	Prepaid Printing Charges		2,000
Loan From Sangeetha		25,000	Furniture	10,000	
Suspense Account		5,000	Less: Depreciation	500	9,500
			Machinery	41,500	
			Less: Depreciation	2,075	39,425
		3,41,925			**3,41,925**

✎ ILLUSTRATION 55:

From the Trial Balance of Mr. Raghuraman as on 31st March 2003, prepare Trading Account, Profit and Loss Account and a Balance Sheet.

Particulars	*(₹)*	*(₹)*
Capital		3,60,000
Drawings	6,400	
Stock (01.4.2002)	18,000	
Purchases	1,29,000	
Sales		2,38,000
Sales Returns	4,000	
Wages	32,000	
Insurance Premium	3,000	
Factory Rent	4,000	
Postage	200	
Advertisement	2,000	
Carriage Outwards	16,000	
Bad Debts	600	
Commission Received		1,000

(Contd.)

Bills Payable		18,000
Bank Overdraft		6,000
Land & Buildings	2,61,000	
Plant & Machinery	1,80,000	
Sundry Debtors	50,800	
Sundry Creditors		84,000
	7,07,000	**7,07,000**

Adjustments:

(a) Closing stock on 31st March 2003: ₹15,000.

(b) Write off bad debts ₹800 and make provision for Bad & Doubtful Debts @ 5% on sundry debtors.

(c) Commission accrued but not received ₹2,000.

Solution:

Trading and Profit & Loss Account of Raghuraman for the Year Ending 31.03.2003

Particulars	*(₹)*	*(₹)*	*Particulars*	*(₹)*	*(₹)*
To Opening Stock		18,000	By Sales	2,38,000	
To Purchases		1,29,000	Less: Sales Returns	4,000	2,34,000
To Wages		32,000	By Closing Stock		15,000
To Factory Rent		4,000			
To Gross Profit (Bal. fig.)		**66,000**			
		2,49,000			**2,49,000**
To Insurance		3,000	By Gross Profit		66,000
To Postage		200	By Commission Received	1,000	
To Advertisement		2,000	Add: Commission accrued	2,000	3,000
To Carriage outwards		16,000			
To Bad Debts	600				
Add: Bad debts written off	800				
Add: To Provision for Bad & Doubtful Debts	2500	3,900			
To Net Profit (Bal. fig.)		**43,900**			
		69,000			**69,000**

Balance Sheet of Raghuraman as on 31. 03. 2003

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital	3,60,000		Sundry Debtors	50,800	
Add: Net Profit	43,900		Less: Bad Debts written off	800	
Less: Drawings	6,400	3,97,500	Less: Provision for Bad & Doubtful Debts	2,500	47,500
Sundry Creditors		84,000	Closing Stock		15,000
Bills Payable		18,000	Accrued Commission		2,000
Bank Overdraft		6,000	Land & Buildings		2,61,000
			Plant & Machinery		1,80,000
		5,05,500			**5,05,500**

✎ ILLUSTRATION 56:

From the following particulars of Mrs. Sulochana, prepare Trading and Profit and Loss Account and Balance Sheet for the year ending 31st March 2004.

Particulars	*(₹)*	*(₹)*
Capital		7,50,000
Cash	40,000	
Buildings	4,00,000	
Salary	1,10,000	
Rent & Taxes	21,000	
Opening Stock	1,20,000	
Machinery	1,20,000	
Drawings	40,000	
Purchases	5,00,000	
Sales		7,50,000
Carriage Inwards	5,000	
Fuel, Gas	37,000	
Sundry Debtors	2,50,000	
Sundry Creditors		1,20,000
Bills Receivable	53,000	
Dividend		28,000
Loan		60,000
Bad Debts	2,000	
Advertisement	16,000	
Provision for Bad & Doubtful Debts		6,000
	17,14,000	**17,14,000**

Adjustments:

(a) Closing stock ₹1,40,000

(b) Write off ₹10,000 as bad debts; Provide 5% for bad and doubtful debts.

(c) Make provision for discount on debtors at 2%

(d) Provision for discount on creditors at 2%

Solution:

Trading and Profit & Loss Account of Mrs. Sulochana for the year ending 31.03.2004

Particulars	*(₹)*	*(₹)*	*Particulars*	*(₹)*
To Opening Stock		1,20,000	By Sales	7,50,000
To Purchases		5,00,000	By Closing Stock	1,40,000
To Carriage Inwards		5,000		
To Fuel, Gas		37,000		
To Gross Profit (Bal. fig.)		**2,28,000**		
		8,90,000		**8,90,000**
To Salary		1,10,000	By Gross Profit	2,28,000
To Rent & Taxes		21,000	By Dividend	28,000
To Advertisement		16,000	By Provision for Discount on Creditors	2,400
To Bad Debts	2,000			
Add: New bad debts	10,000			
	12,000			
Add: New Provision	12,000			
	24,000			
Less: Old Provision	6,000	18,000		
To Provision for Discount on Debtors		4,560		
To Net Profit (Bal. fig.)		**88,840**		
		2,58,400		**2,58,400**

Balance Sheet of Mrs. Sulochana as on 31.03.2004

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital	7,50,000		Sundry Debtors	2,50,000	
Add: Net Profit	88,840		Less: Bad Debts written off	10,000	
Less: Drawings	40,000	7,98,840		**2,40,000**	
Sundry Creditors	1,20,000		Less: New Provision for Bad & Doubtful debts	12,000	
Less: Provision for Discount on Creditors	2,400	1,17,600		**2,28,000**	
Loan		60,000	Less: Discount on Debtors	4,560	2,23,440
			Buildings		4,00,000
			Machinery		1,20,000
			Closing Stock		1,40,000
			Cash		40,000
			Bills Receivable		53,000
		9,76,440			**9,76,440**

✎ ILLUSTRATION 57:

Prepare Trading, Profit and Loss Account and Balance Sheet as on 31st March 2005 from the following Trial Balance of Mr. Javith.

Particulars	*(₹)*	*(₹)*
Capital		1,50,000
Bank Overdraft		25,200
Sales		9,03,000
Furniture	30,600	
Business Premises	1,20,000	
Creditors		79,800
Opening Stock	1,32,000	
Debtors	1,08,000	
Rent		6,000
Purchases	6,60,000	
Discount		2,400
Insurance	16,000	

(Contd.)

Wages	24,000	
Salaries	54,000	
Advertisement	13,200	
Carriage on Purchases	10,800	
Provision for Bad and Doubtful Debts		7,000
Bad Debts	800	
Drawings	4,000	
	11,73,400	**11,73,400**

Adjustments:

(a) Closing stock on 31st December 2005 was ₹1,20,000

(b) Make a provision of 5% on sundry debtors for bad and doubtful debts.

(c) Rent received in advance ₹2,000

(d) Provide 10% depreciation on furniture and business premises.

Solution:

Trading and Profit & Loss Account of Mr. Javith
for the year ending 31.03.2005

Particulars	*(₹)*	*(₹)*	*Particulars*	*(₹)*	*(₹)*
To Opening Stock		1,32,000	By Sales		9,03,000
To Purchases		6,60,000	By Closing Stock		1,20,000
To Wages		24,000			
To Carriage on Purchase		10,800			
To Gross Profit (Bal. fig.)		**1,96,200**			
		10,23,000			**10,23,000**
To Insurance		16,000	By Gross Profit		1,96,200
To Salaries		54,000	By Rent	6,000	
To Advertisement		13,200	Less: Received in Advance	2,000	4,000
To Depreciation on Furniture		3,060	By Discount		2,400
To Depreciation on Business Premises		12,000	Bad Debts Recovered (6,200 – 7,000)		800
To Bad Debts	800	—			
Add: New Provision @ 5%	5,400				
Less: Old Provision	7,000				
To Net Profit (Bal. fig.)		**1,05,140**			
		2,03,400			**2,03,400**

Balance Sheet of Mr. Javith as on 31.03.2005

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital	1,50,000		Sundry Debtors	1,08,000	
Add: Net Profit	1,05,140		Less: New Provision for Bad & Doubtful debts	5,400	1,02,600
Less: Drawings	4,000	2,51,140	Closing Stock		1,20,000
Sundry Creditors		79,800	Furniture	30,600	
Bank Overdraft		25,200	Less: Depreciation	3,060	27,540
Rent received in Advance		2,000	Business Premises	1,20,000	
			Less: Depreciation	12,000	1,08,000
		3,58,140			**3,58,140**

✎ ILLUSTRATION 58:

From the following Trial Balance as on 31st December 2000, prepare Trading and Profit and Loss Account and a Balance Sheet as on date.

Particulars	*(₹)*	*(₹)*
Stock as on 1.1.2000	5,840	
Cash in Hand	192	
Drawings	2,840	
Rent	480	
Machinery	3,800	
Tax	600	
Provision for Bad Debts		420
Bad Debts	888	
Capital		17,000
Interest		320
General Expenses	1,760	
Band Overdraft		960
Purchases	41,448	
Debtors	16,800	
Sales		47,624
Creditors		8,000
Sales Return	840	
Purchase Return		1,164
	75,488	**75,488**

Adjustments:

(a) Depreciation on machinery at 10% p.a.

(b) Rent outstanding ₹500

(c) Tax prepaid ₹100

(d) Provision for bad debts is to be increased to 5% of debtors

(e) Closing stock ₹3,500

(November 2015, 60521/BYA1C/CYA1A)

Solution:

Trading and Profit & Loss Account for the year ended 31.12. 2000

Particulars	*(₹)*	*(₹)*	*Particulars*	*(₹)*	*(₹)*
To Opening Stock		5,840	By Sales	47,624	
To Purchase	41,448		By Sales Return	840	46,784
Less: Purchase Return	1,164	40,284	By Closing Stock		3,500
By Gross Profit (Bal. fig.)		**4,160**			
		50,284			**50,284**
To Rent	480		By Gross Profit b/d		4,160
Add: Rent Outstanding	500	980			
To Depreciation on Machinery		380	By Interest		320
To Tax	600				
Less: Prepaid Tax Paid	100	500			
To Bad Debts	888				
Add: New Bad Debts	—				
Add: New Provision	840				
Less: Old Provision	420	1,308			
To General Expenses		1,760	**By Net Loss (Bal. fig.)**		**448**
		4,928			**4,928**

Balance Sheet as on 31.12.2000

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital	17,000		Cash in Hand		192
Less: Net Loss	448		Machinery	3,800	
Less: Drawings	2,840	13,712	Less: Depreciation @10%	380	3,420
Rent Outstanding		500	Prepaid Tax		100
Bank Overdraft		960	Debtors	16,800	
Creditors		8,000	Less: Provision for Bad Debts	840	15,960
			Closing Stock		3,500
		23,172			**23,172**

✎ ILLUSTRATION 59:

Prepare Trading, Profit and Loss Account and Balance Sheet from the following Trial Balance of Mr. Madan.

Particulars	*(₹)*	*Particulars*	*(₹)*
Sundry Debtors	92,000	Madan's Capital	70,000
Plant and Machinery	20,000	Purchase Return	2,600
Interest	430	Sales	2,50,000
Rent, Rates, Taxes and Insurance	5,600	Sundry Creditors	60,000
Conveyance Charges	1,320	Bank Overdraft	20,000
Wages	7,000		
Sales Return	5,400		
Purchases	1,50,000		
Opening Stock	60,000		
Madan's Drawings	22,000		
Trade Expenses	1,350		
Salaries	11,200		
Advertising	840		
Discount	600		
Bad Debts	800		
Business Premises	12,000		
Furniture and Fixtures	10,000		
Cash in Hand	2,060		
	4,02,600		**4,02,600**

Adjustments:

(a) Stock on hand on 31st December 1996: ₹90,000

(b) Provide depreciation on premises @ 2,5%, plant and machinery @ 7.5%, and furniture and fixtures @ 10%.

(c) Write off ₹800 as further bad debts

(d) Provide for doubtful debts @ 5% on sundry debtors

(e) Outstanding rent was ₹500 and outstanding wages ₹500

(f) Prepaid insurance ₹300 and prepaid salaries ₹700

(November 2017/60521/BYA1C/CYA1A)

Solution:

Trading Account and Profit & Loss Account

Particulars		*(₹)*	*Particulars*		*(₹)*
To Opening Stock		60,000	By Sales	2,50,000	
To Wages	7,000		Less: Sales Return	5,400	2,44,600
Add: Outstanding Wages	500	7,500	By Closing Stock		90,000
To Purchases	1,50,000				
Less: Purchase Return	2,600	1,47,400			
To Gross Profit (Bal. fig.)		**1,19,700**			
		3,34,600			**3,34,600**
To Interest		430	**By Gross Profit (Bal. fig.)**		**1,19,700**
To Rent, Rates, Taxes, Insurance	5,600				
Add: Outstanding Rent	500				
Less: Prepaid Insurance	300	5,800			
To Conveyance Charges		1,320			
To Trade Expenses		1,350			
To Salaries	11,200				
Less: Prepaid Salaries	700	10,500			
To Advertising		840			
To Discount		600			

(Contd.)

To Bad Debts (Trial Balance)	800				
Add: New Bad Debts (Adjustment)	800				
Add: New Provision (Adjustment)	4,560				
Less: Old Provision (Trial Balance)	—	6,160			
To Depreciation on Premises		300			
To Depreciation on Plant & Machinery		1,500			
To Depreciation on Furniture		1,000			
To Net Profit (Bal. fig.)		**89,900**			
		1,19,700			**1,19,700**

Balance Sheet

Liabilities		*(₹)*	*Assets*		*(₹)*
Capital	70,000		Sundry Debtors	92,000	
Add: Net Profit	89,900		Less: Bad Debts	800	
Less: Drawings	22,000	1,37,900		91,200	
Sundry Creditors		60,000	Less: New Provision @5%	4,560	86,640
Bank Overdraft		20,000	Plant & Machinery	20,000	
Outstanding Wages		500	Less:Depreciation@7.5%	1,500	18,500
Outstanding Rent		500	Business Premises	12,000	
			Less:Depreciation@2.5%	300	11,700
			Furniture Fixtures	10,000	
			Less: Depreciation @10%	1,000	9,000
			Cash in Hand		2,060
			Closing Stock		90,000
			Prepaid Salaries		700
			Prepaid Insurance		300
		2,18,900			**2,18,900**

■ Theory Questions ■

Short-Answer Questions

1. What is a Trading Account?
2. What is a Profit and Loss Account?
3. What is a Balance Sheet?
4. How do you calculate Gross Profit?
5. What are the components of Final Accounts?

Long Answer Questions

1. What is the need for preparing Final Accounts?
2. Write a Proforma of Trading Account.
3. Write a Proforma of Profit and Loss Account.
4. Draft a Balance Sheet with Imaginary figures.
5. Explain the procedure for preparing the Trading, Profit and Loss Account.

■ Exercise Problems ■

1. Pass necessary adjustment entries for the following adjustments:
   (a) Depreciation at 10% is to be charged on machinery standing in the books at ₹3,00,000
   (b) Salaries outstanding is ₹2,500
   (c) Closing stock ₹95,000

   [Ans: Debit Depreciation A/c: ₹30,000
   Credit Machinery: ₹30,000
   Debit Salaries A/c: ₹2,500
   Credit Outstanding Salaries A/c: ₹2,500
   Debit Closing Stock A/c: ₹95,000
   Credit Trading A/c: ₹95,000]

2. Pass necessary adjustment entries for the following adjustments:
   (a) Interest has accrued on investments ₹1,750
   (b) To provide 10% interest on capital of ₹50,000
   (c) The proprietor has withdrawn goods worth ₹2,100 from stock

[Ans: Debit Accrued Interest A/c: ₹1,750
Credit Interest A/c: ₹1,750
Debit Interest on Capital A/c: ₹5,000
Credit Capital A/c: ₹5,000
Debit Drawings A/c: ₹2,100
Credit Purchases A/c: ₹2,100]

3. Pass necessary adjustment entries for the following adjustments:
(a) Goods in stock worth ₹18,000 are destroyed by fire. Insurance company accepts the claims of ₹12,000.
(b) ₹4,000 to be transferred to reserve fund
(c) Goods worth ₹8,500 distributed as free samples to customers

[Ans: Debit Insurance Company A/c: ₹12,000
Debit Profit & Loss A/c: ₹6,000
Credit Abnormal Loss A/c: ₹18,000
Debit Profit & Loss A/c: ₹4,000
Credit Reserve Fund A/c: ₹4,000
Debit Advertising A/c: ₹8,500
Credit Purchases A/c: ₹8,500]

4. Pass necessary adjustment entries for the following adjustments:
(a) Insurance unexpired is ₹45,200
(b) Commission received in advance ₹12,000
(c) Interest charged on drawings ₹5,200
(d) To provide provision for doubtful debts at 2% on sundry debtors ₹80,000

[Ans: Debit Prepaid Insurance A/c: ₹45,200
Credit Insurance A/c: ₹45,200
Debit Commission A/c: ₹12,000
Credit Commission received in Advance A/c: ₹12,000
Debit Capital A/c: ₹5,200
Credit Interest on Drawings A/c: ₹5,200
Debit Profit & Loss A/c: ₹1,600
Credit Provision for Doubtful Debts A/c: ₹1,600]

5. Pass necessary adjustment entries for the following adjustments:
(a) Salaries outstanding ₹30,000
(b) Prepaid insurance ₹1,600
(c) Interest accrued on investments ₹4,000
(d) Commission received in advance ₹6,500.
(e) To provide 10% interest on capital of ₹1,50,000
(f) Closing stock ₹2,00,000

[Ans: Debit Salaries A/c: ₹30,000
Credit Salaries Outstanding A/c: ₹30,000
Debit Prepaid Insurance A/c: ₹1,600
Credit Insurance A/c: ₹1,600
Debit Accrued Interest A/c: ₹4,000
Credit Interest A/c: ₹4,000
Debit Commission Received A/c: ₹6,500
Credit Commission Received in Advance A/c: ₹6,500
Debit Interest on Drawing A/c: ₹15,000
Credit Capital A/c: ₹15,000
Debit Closing Stock A/c: ₹2,00,000
Credit Trading A/c: ₹2,00,000]

6. Show how it will appear in the Profit and Loss Account and the Balance Sheet?

Preliminary Expenses: ₹1,50,000 One-tenth of the preliminary expenses to be written off

[Ans: Preliminary Expenses Written off: ₹15,000
Amount to be shown in Balance Sheet: ₹1,35,000]

7. Calculate managing director's commission from the following:

Net Profit: ₹28,500 Managing Director's Commission: 5% of net profit before charging such commission

[Ans: Managing Director's Commission: ₹1,425]

8. Calculate managing director's commission from the following:

Net Profit: ₹65,856 Managing Director's Commission: 5% of net profits after charging such commission

[Ans: Managing Director's Commission: ₹3,136]

9. How will you show the following in Trading Account, profit and loss account and Balance Sheet?

Stock Destroyed by Fire	₹40,000
Claims Admitted by Insurance Company	₹22,000

[Ans: Amount to be debited in Profit & Loss A/c: ₹18,000
Amount to be shown in Asset Side of the
Balance Sheet: ₹22,000]

10. How will you deal with the following?

Machinery	₹2,82,000
Wages	₹60,000
Wages include ₹10,000 accrued for the erection of machinery	
Depreciation on Machinery	10%

[Ans: Wages to be shown in Trading A/c: ₹50,000
Depreciation on Machinery to be shown in
Profit & Loss A/c: ₹29,200
Machinery to be shown in Balance Sheet: ₹2,62,800]

11. How will you show the following in the Balance Sheet?

Capital	₹5,00,000
Interest on Capital	8%
Drawings	₹50,000
Interest on Drawings	10%
Net Profit for the Year	₹50,000

[Ans: Amount to be shown in Balance Sheet
Liabilities side: ₹5,35,000]

12. How will you show the following in the Profit and Loss account and the Balance Sheet?

Bank Loan @ 8%	₹8,00,000
Interest Paid for 6 months	₹32,000

[Ans: Amount to be shown in Profit & Loss A/c: ₹64,000
Outstanding Interest on Loan to be shown in
Balance Sheet: ₹32,000
Loan to be shown in Balance Sheet: ₹8,00,000]

13. How will you show the following in the Profit and Loss account and the Balance Sheet?

Creditors	₹7,00,000
Discount on Creditors	4%

[Ans: Discount on Creditors: ₹28,000
Amount to be shown in Balance Sheet: ₹6,72,000]

14. Classify the following under suitable heads.

(a) Loose Tools
(b) Inventory
(c) Land and Buildings
(d) Prepaid Expenses

15. How will you classify the following?

(a) Short-term Investments (b) Bills Payable
(c) Income received in Advance (d) Work-in-progress
(e) Outstanding Wages

16. Show how it will appear in the Balance Sheet, under which head?

(a) Loan from Bank (b) Advances given to employees
(c) Outstanding Income (d) Cash in Hand
(e) Provision for Tax

Bad Debts Aprovision for Bad and Doubtful Debts

17. How will you show the following?

Old Provision for Doubtful Debts (Trial Balance)	₹2,500
New Provision for Doubtful Debts (Adjustments)	₹3,000

[Ans: Bad debts to be shown in Profit & Loss A/c: ₹500]

18. How will you show the following?

Bad Debts (Trial Balance)	₹2,500
New Provision for Doubtful Debts	₹1,250

[Ans: Amount to be shown in Profit & Loss A/c: ₹3,750]

19. How will you show the following in the Profit and Loss Account?

Bad Debts (Trial Balance)	₹1,700
New Bad Debts (Adjustments)	₹1,300
New Provision for Doubtful Debts (Adjustments)	₹1,200
Old Provision for Doubtful Debts	₹500

[Ans: Amount to be shown in Profit & Loss A/c (Dr.): ₹3,700]

20. How will you show the following in the Profit and Loss Account and the Balance Sheet?

Bad Debts (Trial Balance)	₹1.00,000
Sundry Debtors	₹5,00,000
Bad Debts (Adjustments)	₹50,000
New Provision for Doubtful Debts - 10% on debtors	
Old Provision for Doubtful Debts (Trial Balance)	₹20,000

[Ans: New Bad Debs to be shown in Profit & Loss A/c: ₹50,000
New Provision to be shown in Profit & Loss A/c: ₹45,000
Total Bad debts to be shown in Profit & Loss A/c: ₹1,75,000
Sundry Debtors to be shown in Balance Sheet: ₹4,05,000]

21. Show how it will appear in the Profit and Loss Account and the Balance Sheet?

Sundry Debtors: ₹1,90,000
Creative provision of 5% on debtors on doubtful debts
Creative reserve for discount on debtors at 2.5% on sundry debtors

[Ans: Provision for Doubtful Debts: ₹9,500
Reserve for Discount on Debtors: ₹4,512.50
Debtors to be shown in Balance Sheet: ₹1,75,987.5]

22. The sundry debtors on 31st December 1995 are ₹80,000. On analysis, it is found that debtors for ₹72,000 are good. The debtors for 6,000 are doubtful and are estimated to realise two-thirds of the amount and the debtors for ₹2,000 are bad. Make a provision for doubtful debts.

23. The provision for bad and doubtful debts account shows a balance of ₹10,000 on 1st January 1994. The bad debts during the year 1994 amount to ₹8,000. The sundry debtors on 31st December 1994 are ₹1,60,000. Create a new provision for bad debts at 5%. Show the journal, ledger, profit and loss account and Balance Sheet.

24. Find out the Gross Profit, given the following details.

Particulars	*(₹)*
Opening Stock	80,000
Sales	1,80,000
Closing Stock	1,20,000
Purchases	60,000
Wages	20,000

(April 2014 60101/BPZ1A/BPW1A/ BPF1A/MAM1A/ SBAMK/ BPC1A/BPG1A)

[Ans: Gross Profit: ₹1,40,000]

25. Prepare a Trading Account of Anand for the year ended 31st December 2007.

Particulars	*(₹)*
Opening Stock	40,000
Purchases	4,30,000
Carriage Inwards	26,000
Carriage Outwards	5,000
Wages	12,000
Sales	7,20,000
Purchase Returns	5,000
Sales Returns	18,000
Salaries	15,000
Rent	7,500
Closing Stock	50,000

(April 2012/60501/BYA1A)

[Ans: Gross Profit: ₹2,49,000]

26. From the information given below, prepare a Trading Account:

Particulars	*(₹)*
Opening Stock	2,00,000
Direct Expenses	20,000
Purchases	3,00,000
Closing Stock	1,00,000
Carriage Inwards	10,000
Sales	8,00,000
Purchase Returns	50,000

(April 2014 60101/BPZ1A/BPW1A/BPF1A/MAM1A/ SBAMK/BPC1A/BPG1A)

[Ans: Gross Profit: ₹4,20,000]

27. Prepare a Profit and Loss Account from the following information:

Particulars	*(₹)*	*Particulars*	*(₹)*
Gross Profit	1,00,000	Repairs	1,000
Carriage on Sales	1,000	Telephone Expenses	1,040
Office Rent	1,000	Interest (Dr.)	960
General Expenses	1,800	Fire Insurance Premium	1,800
Discount to Customers	720	Bad Debts	4,200
Interest from Bank	400	Apprentice Premium (Cr.)	3,000

(Contd.)

Travelling Expenses	1,400	Printing & Stationery	5,000
Salaries	1,800	Trade Expenses	600
Commission (Dr.)	400		

[Ans: Net Profit: ₹80,680]

28. Prepare a Balance Sheet of Mr. Narayan as on 31st December 2011 from the following information:

Particulars	*(₹)*	*Particulars*	*(₹)*
Capital	2,00,000	Bills Receivable	10,000
Stock	60,000	Land & Building	30,000
Salaries Outstanding	25,000	Plant & Machinery	30,000
Drawings	30,000	Cash in Hand	25,000
Bills Payable	60,000	Cash at Bank	45,000
Sundry Creditors	45,000	Sundry Debtors	30,000
Net Loss	70,000		

[Ans: Balance Sheet Total: ₹2,30,000]

29. From the following information, prepare a Balance Sheet.

Particulars	*(₹)*
Capital	5,00,000
Bank Loan	2,00,000
Assets	7,75,000
Other Liabilities	1,00,000
Sundry Creditors	50,000
Sundry Debtors	1,00,000
Cash at Bank	25,000
Profit	50,000

(November 2012/60101/BPZ1A/BPW1A/BPF1A/MAM1A/ SBAMK/BPC1A/BPG1A)

[Ans: Balance Sheet: ₹9,00,000]

30. Calculate the Gross Profit and Net Profit from the following information:

Particulars	*(₹)*
Opening Stock	25,000
Purchases	2,50,000
Freight and Cartage	10,000

(Contd.)

Sales	4,00,000
Closing Stock	15,000
Operating Expenses	40,000
Other Incomes	20,000

(April 2013 /60101/BPZ1A/BPW1A/BPF1A/MAM1A/ SBAMK/ BPC1A/BPG1A)

[Ans: Gross Profit: ₹1,30,000 Net Profit: ₹1,10,000]

31. Prepare Trading and Profit and Loss Accounts from the following information:

Particulars	*(₹)*
Opening Stock	10,000
Purchases	60,000
Wages	11,500
Closing Stock	13,000
Sales	1,00,000
Carriage Inwards	1,500
Carriage Outwards	1,200
Rent (factory)	1,200
Office Rent	1,500
Sales Returns	2,000

(November 2012/60101/BPZ1A/BPW1A/BPF1A/MAM1A/ SBAMK/BPC1A/BPG1A)

[Ans: Gross Profit: ₹26,800 Net Profit: ₹24,100]

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

Particulars	*(₹)*	*Particulars*	*(₹)*
Opening Stock	50,000	Purchases	90,000
Sales	2,00,000	Capital	3,00,000
Rent	6,000	Bills Payable	15,000
Printing & Stationery	7,000	Closing Stock	40,000
Bills Receivable	2,02,000	Machinery	1,60,000

[Ans: Gross Profit: ₹1,00,000 Net Profit: ₹87,000 Balance Sheet: ₹4,02,000]

33. From the following Trial Balance extracted from the books of VINOTH, prepare the Trading Account, Profit and Loss Account and Balance Sheet as on 31st December 2002.

Particulars	*Debit (₹)*	*Particulars*	*Credit (₹)*
Cash at Bank	2,610	Creditors	4,700
Book Debts	11,070	Discount	150
Salaries	4,950	Outstanding Salary	400
Carriage Inwards	1,450	Return Outwards	2,520
Carriage Outwards	1,590	Sales	80,410
Bad Debts	1,310	Capital	40,000
Office Expenses	5,100		
Purchases	67,350		
Return Inwards	1,590		
Furniture	12,300		
Stock (01.01.2002)	14,360		
Depreciation	4,500		
Total	**1,28,180**	**Total**	**1,28,180**

Adjustments:

(a) Closing stock ₹10,000.

(b) Create 10% on debtors for provision for doubtful debts.

(November 2005, SY1C/PK3B)

[Ans: Gross Profit: ₹8,180
Net Loss: ₹10,227
Balance Sheet: ₹34,873]

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

Particulars	*(₹)*	*Particulars*	*(₹)*
Opening Stock	40,000	Purchases	30,000
Sales	1,50,000	Capital	2,00,000
Rent	6,000	Bills Payable	9,000
Salaries	15,000	Closing Stock	25,000
Bills Receivable	30,000	Purchase Return	10,000
Sales Return	25,000	Furniture	1,30,000
Wages	8,000	Computers	85,000

[Ans: Gross Profit: ₹82,000
Net Profit: ₹61,000
Balance Sheet: ₹2,70,000]

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

Particulars	*(₹)*	*Particulars*	*(₹)*
Opening Stock	50,000	Purchases	20,000
Sales	1,00,000	Capital	60,000
General Expenses	10,000	Bills Payable	2,000
Salaries	15,000	Closing Stock	1,25,000
Sundry Creditors	5,000	Purchase Return	5,000
Sales Return	5,000	Cash in Hand	33,000
Wages	4,000	Sundry Debtors	25,000
Bills Receivable	10,000		

[Ans: Gross Profit: ₹1,51,000
Net Profit: ₹1,26,000
Balance Sheet: ₹1,93,000]

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

Particulars	*(₹)*
Computers	4,00,000
Buildings	5,00,000
Furniture	4,00,000
Opening Stock	8,000
Sales	5,00,000
Rent	8,000
Wages	15,000
Creditors	2,81,000
Salaries	50,000
Purchase Return	30,000
Bad Debts	30,000
Purchases	2,00,000
Capital	8,00,000

Adjustments:

(a) Closing stock ₹80,000

(b) Outstanding wages ₹3,500

[Ans: Gross Profit: ₹3,83,500
Net Profit: ₹2,95,500
Balance Sheet: ₹13,80,000]

37. The following are the balances extracted from the books of Ganesh as on 31st December 2005. Prepare a Trading, Profit and Loss Account for the year ending 31st December 2005 and a Balance Sheet as on that date.

Trial Balance as on 31.12.2005

Debit	*(₹)*	*Credit*	*(₹)*
Drawings	4,000	Capital	20,000
Sundry Debtors	2,400	Sundry Creditors	8,400
Bills Receivable	900	Sales	50,000
Furniture	500		
Opening Stock	40,000		
Cash in Hand	1,500		
Purchases	20,000		
Cash at Bank	700		
Commission	150		
General Expenses	800		
Buildings	4,000		
Wages	3,000		
Rent	450		
Total	**78,400**		**78,400**

Adjustments:

(a) Closing stock as on 31st December 2005 is ₹40,000

(b) Interest on capital at 6% to be provided

(c) Rent prepaid ₹50

[Ans: Gross Profit: ₹27,000
Net Profit: ₹24,450
Balance Sheet: ₹50,050]

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

Particulars	*(₹)*	*Particulars*	*(₹)*
Wages	10,000	Capital	2,00,000
Purchases	30,000	Sales	1,60,000
Opening Stock	40,000	Sundry Creditors	25,000
Buildings	2,00,000		
Sundry Debtors	34,000	Bills payable	30,000
Bills Receivable	39,000		
Rent	2,500		
Commission	4,500		
Factory Expenses	8,000		
Furniture	30,000		
Investment	7,000		
Drawings	10,000		
	4,15,000		**4,15,000**

Adjustments:

(a) Interest on capital @6% to be provided
(b) Interest on drawings @5%
(c) Depreciation on buildings @10%
(d) Write off bad debts ₹1000
(e) Wages yet to be paid ₹600
(f) Closing stock ₹40,000

[Ans: Gross Profit: ₹1,11,400
Net Profit: ₹71,900
Balance Sheet: ₹3,29,000]

39. From the following Trial Balance, prepare a Trading, Profit and Loss Account for the year ended 31st December 2016 and a Balance Sheet as on that date.

Debit Balance	*(₹)*	*Credit Balance*	*(₹)*
Purchases	12,870	Capital	9,000
Debtors	7,580	Bad Debts Recovered	2,250
Return Inwards	450	Creditors	1,250
Bank Deposit	3,450	Return Outwards	350

(Contd.)

Rent	360	Bank Overdraft	570
Salaries	800	Sales	14,690
Travelling Expenses	50	Bills Payable	2,350
Cash	210		
Stock [01.01.2016]	4,050		
Discount Allowed	40		
Drawings	600		
Total	**30,460**	**Total**	**30,460**

Adjustments:

(a) The closing stock on 31st December 2016 was ₹5,200

(b) Write off ₹80 as bad debts and create a reserve for bad debts at 5% on sundry debtors.

(c) Three months' rent is outstanding ₹120

(November 2011/60521/BYA1C)

[Ans: Gross Profit: ₹2,870
Net Profit: ₹3,295
Balance Sheet: ₹15,985]

40. From the following balances as at 31st December 2009 of a trader, prepare a Trading and Profit and Loss Account for the year ending 2009 and a Balance Sheet as on that date.

Particulars	*(₹)*
Salaries	55,000
Rent paid	13,000
Cash in hand	10,000
Debtors	4,00,000
Trade expenses	6,000
Purchases	2,50,000
Fixed assets	25,000
Bank balance	56,000
Creditors	95,000
Sales	3,20,000
Capital	3,00,000
Bank Loan	1,00,000

Adjustments:

(a) Closing stock amounted to ₹90,000
(b) Salaries outstanding ₹5,000
(c) Rent paid in Advance ₹1,000
(d) Depreciate fixed Assets by 10%

(November 2013/60501/BYA1A)
[Ans: Gross Profit: ₹1,60,000
Net Profit: ₹79,500
Balance Sheet: ₹5,79,500]

41. From the following Trial Balance of a trader. Make out a Trading and Profit and Loss Account and Balance Sheet as on 31st March 2007.

Particulars	*Debit (₹)*	*Credit (₹)*
Sales		4,20,000
Purchases	1,05,000	
Printing Charges	2,500	
Wages	77,500	
Salaries	12,500	
Opening Stock	2,25,000	
Carriage Inwards	8,800	
General Expenses	26,250	
Trademark	5,000	
Rate and Taxes	2,500	
Capital		1,74,800
Discount Received		1,250
Loan		1,75,000
Building	2,00,000	
Furniture	25,000	
Machinery	50,000	
Cash	1,000	
Bank	30,000	
	7,71,050	**7,71,050**

Adjustments:

(a) The closing stock was valued at ₹3,20,000
(b) Outstanding salaries ₹10,000
(c) Prepaid rates and taxes ₹500

(April 2012/60501/BYA1A)

[Ans: Gross Profit: ₹3,23,700
Net Profit: ₹2,71,700
Balance Sheet: ₹6,31,500]

42. Prepare final accounts with the help of following Trial Balance:

Trial Balance as on 31.12.2009

Particulars	*Debit (₹)*	*Credit (₹)*
Capital		8,500
Drawings	1,420	
Machinery	1,900	
Opening Stock	2,920	
Purchases and Sales	20,724	23,812
Purchase Returns and Sales Returns	420	582
General Expenses	880	
Rent	240	
Rates	400	
Premium		160
Bank Overdraft		480
Bad Debts	344	
Debtors and Creditors	8,400	4,000
Cash in Hand	96	
Bad Debts Provision		210
	37,744	37,744

Adjustments:

(a) Write off depreciation at 20% on machinery
(b) Closing stock was ₹3,400
(c) Rates prepaid ₹160
(d) Create a provision for bad and doubtful debts on debtors at 10%
(e) Outstanding rent ₹80
(f) Premium received in advance was ₹40

(November 2012/60101 BPC1A/BPG1A)

[Ans: Gross Profit: ₹3,730
Net Profit: ₹1,056
Balance Sheet: ₹12,736]

43. From the following balances, prepare a Trading and Profit and Loss Account and a Balance Sheet.

Particulars	*Debit (₹)*	*Credit (₹)*
Salaries	5,500	
Rent	1,300	
Cash	1,000	
Debtors	40,000	
Trade Expenses	600	
Purchases	25,000	
Advances	2,500	
Bank Balance	5,600	
Creditors		9,500
Sales		32,000
Capital		30,000
Loans		10,000
Total	**81,500**	**81,500**

Adjustments:

(a) Closing stock ₹9,000

(b) One month's salary is outstanding.

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

(d) Provide 5% for doubtful debts.

(April 2014/60101/BPZ1A/BPW1A/BPF1A/MAM1A/ SBAMK/BPC1A/BPG1A)

[Ans: Gross Profit: ₹16,000
Net Profit: ₹6,200
Balance Sheet: ₹56,200]

44. From the Trial Balance given below, prepare final accounts for the year ending on 31st March 1999.

Particulars	*Debit (₹)*	*Credit (₹)*
Opening Stock	9,300	
Bank Interest		200

(Contd.)

Repairs	310	
Purchase Returns		440
Machinery	12,670	
Creditors		12,370
Furniture	1,330	
Sales		20,560
Office Expenses	750	
Capital		24,500
Trade Expenses	310	
Loan		5,000
Land & Building	15,400	
Bank Charges	50	
Purchases	15,450	
Sales Returns	120	
Advertisement	500	
Cash in Hand	160	
Cash at Bank	5,870	
Sundry Expenses	150	
Insurance	500	
Travelling Expenses	200	
Total	**63,070**	**63,070**

Adjustments:

(a) Closing stock on 31st March 1999: ₹7,585

(b) Prepaid insurance ₹250

(c) Depreciation on buildings at 5% and Machinery at 10%.

(April 2016/60101/BPZ1A/BPW1A/BPF1A/MAM1A/SBAMK/BPC1A/BPG1A/BPM1A)

[Ans: Gross Profit: ₹3,715
Net Loss: ₹642
Balance Sheet: ₹41,228]

45. From the following Trial Balance and additional information, prepare Trading and Profit and Loss Account for year ending 31.12.13 and a Balance Sheet.

	Debit	*Credit*
Capital and Drawings	10,000	1,00,000
Bank	24,000	
Short term investments	25,000	
Bills Receivable and Bills Payable	7,500	6,500
Purchases	1,02,500	
Sales		1,75,000
Returns Inwards and Outwards	2,000	2,500
Wages	10,000	
Bad debts	3,000	
Opening Stock	15,000	
Discount	500	1,000
Salaries	15,000	
Carriage inwards	1,000	
Debtors	22,500	
Creditors		25,000
Commission		2,000
Fixed Assets	61,000	
Rent	8,000	
Cash	5,000	
	3,12,000	**3,12,000**

Adjustments:

(a) Closing stock ₹4,000
(b) Wages to be paid ₹1,000
(c) Bad debts written off ₹500
(d) Provide 5% interest on capital
(e) Charge 10% depreciation on fixed assets.

(May 2017 DE-110/12)

[Ans: Gross Profit: ₹50,000
Net Profit: ₹14,900
Balance Sheet Total: ₹1,42,400]

46. The following are the balances extracted from the books of Thiru. Gokulnath as on 31.12.2010. Prepare Trading and Profit and Loss Account for the year ended 31st December, 2010 and a Balance Sheet as on that date.

Debit Balance	₹	*Credit Balance*	₹
Opening Stock	20,000	Capital	1,00,000
Machinery	40,000	Purchases Return	1,000
Purchases	70,000	Sales	90,000
Sales Return	1,000	Creditors	29,000
Wages	2,000		
Salaries	5,000		
Office Rent	2,000		
Insurance	1,000		
Debtors	50,000		
Cash	4,000		
Bank	25,000		
	2,20,000		**2,20,000**

Adjustments:

(a) Closing Stock is valued at ₹20,000.
(b) Outstanding salaries ₹1,000.
(c) Prepaid insurance ₹500.
(d) Bad debts ₹1,000.
(e) Provide 10% depreciation on machinery.

(May 2017 DE-160/15)

[Ans: Gross Profit: ₹18,000
Net Profit: ₹4,500
Balance Sheet: ₹1,34,500]

47. The following Trial Balance has been extracted from the books of Mr. Varun on 31.12.1993.

Trial Balance

Debit Balance	₹	*Credit Balance*	₹
Machinery	4,000	Capital	9,000
Cash at Bank	1,000	Sales	12,000
Cash in Hand	500	Bank Loan	4,000
Wages	1,000	Sundry Creditors	4,500
Purchases	8,000	Dividend Received	300
Stock on 1.1.93	6,000		

(Contd.)

Sundry Debtors	4,400		
Bills Receivable	2,900		
Rent	400		
Interest on Bank Loan	50		
Commission	250		
General Expenses	800		
Salaries	500		
	29,800		**29,800**

Adjustments:

(a) Closing Stock on 31.12.93 ₹8,000
(b) Wages Outstanding ₹100
(c) Salaries unpaid ₹100
(d) Rent Paid ₹150
(e) Commission due ₹50
(f) Interest on bank loan not yet paid ₹400

Prepare Trading and Profit and Loss Account for the year ending 31st December 1993 and a Balance Sheet as on that date.

(May 2014/07DC01/07DCCA01/D1018)

[Ans: Gross Profit: ₹4,900
Net Profit: ₹2,500
Balance Sheet: ₹20,800]

48. From following information, you are required to prepare Final Accounts for the year ended 31.03.2009.

Debit	₹	*Credit*	₹
Salaries	5,500	Creditors	9,500
Rent	1,300	Sales	32,000
Cash	1,000	Capital	30,000
Debtors	40,000	Loans	10,000
Advertisement	600		
Purchases	25,000		
Buildings	2,500		
Bank Balance	5,600		
	81,500		**81,500**

Adjustments:

(a) Closing Stock ₹9,000
(b) Salary Outstanding amounted to ₹1,100
(c) Rent paid in advance ₹100
(d) Provide 5% for doubtful debts against debtors
(e) Provide 10% Depreciation on buildings
(f) Provide for discount on Creditors at 2%

(DE-7927/MAY 2014)

[Ans: Gross Profit: ₹16,000
Net Profit: ₹5,540
Balance Sheet: ₹55,950]

49. The following is the Balance taken from the Books of Shankar as on 31.12.2005.

Particulars	₹	*Particulars*	₹
Capital	20,000	Sales	2,00,000
Drawings	7,500	Return outwards	5,000
Furniture and Fittings	1,000	Return inwards	20,000
Typewriter	750	Salaries	8,500
Cycle	200	Wages	15,000
Motor van	16,500	Rent	3,300
Debtors	20,000	Discount earned	700
Creditors	10,000	Discount allowed	500
Loan borrowed	6,000	Commission allowed	1,000
Purchases	1,20,000	Postage and telegram	180
Opening stock	20,000	Carriage outwards	1,000
Entertainment expenses	600	Carriage inwards	3,000
Miscellaneous	300	Reserve for Bad and doubtful debts	330
Interest (paid upto 30.10.2005)	450	Cash in hand	300
Bad debts	250	Cash at bank	1,700

Adjustments:

(a) Stock as on 31.12.2006 ₹8,000
(b) Provide for the following:

Salaries due ₹500, rent due ₹300, wages due ₹1,000 and interest on loan borrowed due for two months.

(c) Maintain a Reserve for Bad and Doubtful debts at 5% on debtors

(d) Depreciation on: Furniture and fittings 10%, Typewriter 10%, Cycle 15%, Motor van 20%

(e) Interest at 6% to be charged on capital but not on drawings.

Prepare Trading and Profit and Loss A/c and Balance Sheet for the year ending 31.12.2005.

(December 2013/DE-8803/12)

[Ans: Gross Profit: ₹34,000
Net Profit: ₹12,355
Balance Sheet: ₹43,945]

50. From the following Trial Balance as on 31.3.2008, prepare the Trading Profit and Loss Account and Balance Sheet for the financial year ending on that date

	Dr. ₹	*Cr.* ₹
Capital		4,250
Drawings	710	
Machinery	950	
Stock 1.4.2007	1,460	
Purchase, Sales	10,362	11,906
Purchase returns		291
Return inward	210	
General expenses	440	
Rent	120	
Tax	200	
Apprentice premium		80
Bank overdraft		240
Bad debts	172	
Sundry debtors, Sundry creditors	4,200	2,000
Cash in hand	48	
Provision for bad debts		105
	18,872	**18,872**

Adjustments:

(i) Write off depreciation of machinery at 10% p.a.
(ii) Provision for Bad debts on debtors to be created by 5%
(iii) Rent outstanding is ₹40
(iv) Tax paid in advance ₹80
(v) Stock on 31.3.2008 ₹1,700

(October 2011 U/ID 1380/MWP)

[Ans: Gross Profit: ₹1,865
Net Profit: ₹853
Balance Sheet: ₹6673]

CHAPTER

8

Bank Reconciliation Statement

Learning Objectives

After studying this chapter, you will be able to understand the:

- Meaning of Cash Book and Pass Book
- Meaning of Bank Reconciliation Statement
- Need for Preparing the Bank Reconciliation Statement
- Reasons for Differences in Cash Book and Pass Book
- Favourable and Unfavourable Balance of Cash Book and Pass Book

8.1 Cash Book

A business firm usually maintains the cash book for recording both cash and bank transactions. A cash book is a book maintained by the individual/businessman to record the cash and bank transactions. Cash book contains all cash receipts and payments, including bank deposits and withdrawals. Receipts will be entered on the debit side of the cash book and payments will be entered on the credit side of the cash book. Cash transactions will be entered in the cash column and bank transactions will be entered in the bank column. It shows the balance of cash and bank at the end of the period. All the entries in the Cash Book are made by the customer/businessman.

Proforma of Cash Book

Date	*Receipts*	*Cash*	*Bank*	*Date*	*Payments*	*Cash*	*Bank*
01.01.2014	Opening Balance	xxx	xxx	03.01.2014	Purchases	xxx	
19.01.2014	Cash Sales	xxx	xxx	15.01.2014	Vinodh		xxx
25.01.2014	Santhanam	xxx	xxx	30.01.2014	Closing Balance	xxx	xxx
	Total	**xxx**	**xxx**		**Total**	**xxx**	**xxx**

8.2 Pass Book

A pass book is a book issued by a bank to an account holder. Whenever a customer deposits or withdraws money from their account, the banker will record the sums deposited or withdrawn. A Bank Pass Book will also have a debit column and credit column to enter the deposits and withdrawals. Though the account holder physically holds the bank pass book, only the banker has the right to enter the transactions in the pass book. *All entries in the Pass Book are made by the bank.*

Proforma of Bank Pass Book

Date	*Particulars*	*Cheque Number*	*Withdrawals (Debit)*	*Deposits (Credit)*	*Balance*
01.01.2015	Balance b/f				10,000
30.01.2015	Cash deposit			15,000	25,000
02.02.2015	Credit Card Payment (NEFT)		12,000		13,000
20.03.2015	ATM Charges		100		12,900
31.03.2015	SMS Charges		15		12,885
31.03.2015	Quarterly Interest			115	13,000
01.04.2015	Clearing: MMA	25,647	2,000		11,000

8.3 Bank Reconciliation Statement

Bank Reconciliation Statement is a statement prepared to reconcile the difference between the balances as per cash book and pass book as on a particular date.

› 8.3.1 Purpose of Bank Reconciliation Statement

The purpose of preparing the Bank Reconciliation Statement is to identify the differences between the bank pass book balance and cash book balance, in order to process necessary adjustments or corrections. Bank Reconciliation Statement is prepared periodically to check that all transactions relating to the business are properly recorded in the cash book as well as in the pass book. Periodic checking helps to detect the errors relating to transactions and also helps to ascertain the correct balance on a particular date. The balances of Cash Book and the Pass Book must tally. These two balances must agree with each other, because the same transactions are recorded in both the books – cash book and pass book.

› 8.3.2 Favourable Balance

Cash Book When the cash book shows a debit balance, it is a favourable balance.

Debit balance as per cash book is given and the balance as per pass book is to be ascertained.

Pass Book When the pass book shows a credit balance, it is a favourable balance.

Credit balance as per pass book is given and the balance as per cash book is to be ascertained.

Book	*Balance*
Cash Book	Debit Balance
Pass Book	Credit Balance

› 8.3.3 Unfavourable Balance/Overdraft Balance

Cash Book When the cash book shows a credit balance, it is an unfavourable balance.

Credit balance as per cash book (overdraft) is given and the balance as per pass book is to be ascertained.

Pass Book When the pass book shows a debit balance, it is an unfavourable balance.

Debit balance as per pass book (overdraft) is given and the balance as per cash book is to be ascertained.

Book	*Balance*
Cash Book	Credit Balance
Pass Book	Debit Balance

8.4 Reasons for Differences in Cash Book and Pass Book

- Cheques issued but not presented for payment
- Cheques received and deposited into bank but not yet credited in the account
- Bank charges debited in the pass book
- Interest credited by the bank in the pass book
- Direct deposit by a customer into bank
- Cheques deposited in bank but returned dishonoured
- Cheques received but omitted to be banked
- Errors committed in recording the transactions by the firm/individual
- Errors committed in recording the transactions by the bank
- Payments made by the bank, as per the standing instructions

Proforma of Bank Reconciliation Statement
FAVOURABLE BALANCE AS PER CASH BOOK (OR)
OVERDRAFT AS PER PASS BOOK

	Particulars	*(₹)*
	Balance as per Cash Book/Overdraft as per Pass Book	**xxx**
Add	Cheques issued/drawn but not presented for payment	
Add	Income on investments collected by the bankers	
Add	Interest credited in the pass book but not recorded in cash book	
Add	Dividend on shares collected and credited only in the pass book	
Add	Amount directly deposited in the bank account	
Less	Cheques paid or deposited into bank but not credited	
Less	Bank charges debited in pass book	
Less	Cheques deposited into bank but dishonoured not entered in cash book	
Less	Cheques issued but not recorded in cash book	
Less	Payments made by bank as per standing instructions	
	Balance as per Pass Book/Overdraft as per Cash Book	**xxx**

Proforma of Bank Reconciliation Statement
FAVOURABLE BALANCE AS PER PASS BOOK (OR)
OVERDRAFT AS PER CASH BOOK

	Particulars	*(₹)*
	Balance as per Pass Book/Overdraft as per Cash Book	**xxx**
Add	Cheques paid or deposited into bank but not credited	
Add	Bank charges debited in pass book	
Add	Cheques deposited into bank but dishonoured and not entered in cash book	
Add	Cheques issued but not recorded in cash book	
Add	Payments made by bank as per standing instructions	
Less	Cheques issued/drawn but not presented for payment	
Less	Income on investments collected by the bankers	
Less	Interest credited in the pass book but not recorded in cash book	
Less	Dividend on shares collected and credited only in the pass book	
Less	Amount directly deposited in the bank account	
	Balance as per Cash Book/Overdraft as per Pass Book	**xxx**

Favourable Balance as per Cash Book

✎ ILLUSTRATION 1:

Prepare a Bank Reconciliation Statement as on 31st July 2017 from the following particulars:

(a) Balance as per cash book: ₹1,500

(b) Cheques deposited but not cleared: ₹200

(c) Cheques issued but not presented for payment: ₹300

(d) Interest allowed by the bank: ₹40

Solution:

Bank Reconciliation Statement as on 31.07.2017

	Particulars	*(₹)*
	Balance as per Cash Book	**1,500**
Add	Cheques issued but not presented for payment	300
Add	Interest allowed by bank	40
Less	Cheque deposited but not cleared	200
	Balance as per Pass Book	**1,640**

✎ ILLUSTRATION 2:

Prepare a Bank Reconciliation Statement of Mr. Goutham from the following data as on 31st December 2007.

		(₹)
(a)	Balance as per cash book	10,000
(b)	Cheques issued but not presented for payment	500
(c)	Cheques deposited in bank but not collected	1,000
(d)	Insurance premium paid by the bank	750
(e)	Direct deposit by a customer	200
(f)	Interest on investment collected by bank	1,250
(g)	Bank charges debited in pass book	600

Solution:

Bank Reconciliation Statement of Mr. Goutham as on 31.12.2007

	Particulars	*(₹)*
	Balance as per Cash Book	**10,000**
Add	Cheques issued but not presented for payment	500
Add	Direct deposit by a customer	200
Add	Interest on investment collected by bank	1,250
Less	Cheques deposited but not yet collected	1,000
Less	Insurance premium paid by the bank	750
Less	Bank charges debited in pass book	600
	Balance as per Pass Book	**9,600**

✎ ILLUSTRATION 3:

On 31st March 1995, the cash book of Mr. Raju showed a debit balance of ₹7,250. While verifying with pass book, the following facts were noted:

(a) Cheques sent in for collection before 31st March 1995, but not credited by the bank, amounted to ₹945.

(b) Cheques issued before 31st March 1995, but not presented for payment, amounted to ₹900.

(c) The banker had debited a sum of ₹100 towards incidental charges.

(d) Interest credited in the pass book: ₹500.

(e) The banker has given a wrong credit for ₹500.

(f) Mr Mohan, a customer, has directly deposited in bank, a sum of ₹800, on 28th March 1995, which has not been entered in the cash book.

(g) A cheque for ₹400 sent for collection and returned unpaid has not been entered in the cash book.

Prepare a Bank Reconciliation Statement.

Solution:

Bank Reconciliation Statement of Mr. Raju as on 31.03.1995

	Particulars	*(₹)*
	Balance as per Cash Book	**7,250**
Add	Cheques issued but not presented for payment	900
Add	Interest credited in the pass book	500
Add	Mr Mohan directly paid into bank and not entered in cash book	800
Add	Banker has given a wrong credit in pass book	500
Less	Cheques sent for collection and returned unpaid	400
Less	Cheques sent for collection and not credited by the bank	945
Less	Incidental charges debited by the banker	100
	Balance as per Pass Book	**8,505**

✎ ILLUSTRATION 4:

Prepare a Bank Reconciliation Statement as on 31st December 1993.

Particulars	*(₹)*
Balance as per cash book	9,231
Cheque deposited into bank but not collected	418
Cheque issued but not presented for payment	579
Bank charges debited in the pass book	40
Interest credited in the pass book	60

Solution:

Bank Reconciliation Statement as on 31.12.1993

	Particulars	*(₹)*
	Balance as per Cash Book	**9,231**
Add	Cheques issued but not yet presented for payment	579
Add	Interest credited in pass book	60
Less	Cheques deposited but not collected	418
Less	Bank charges debited in the pass book	40
	Balance as per Pass Book	**9,412**

✎ ILLUSTRATION 5:

Prepare a Bank Reconciliation Statement as on 31 December 2000.

(a) Balance as per cash book: ₹8,400

(b) Cheques issued but not presented for payment: ₹615

(c) Cheques deposited into bank but not credited in the pass book: ₹440

(d) Bank charges debited in the pass book: ₹60

(e) Interest credited by the bank but not recorded in the cash book: ₹75

Solution:

Bank Reconciliation Statement as on 31.12.2000

	Particulars	*(₹)*
	Bank balance as per Cash Book	**8,400**
Add	Interest credited but not recorded in the cash book	75
Add	Cheques issued but not presented for payment	615
Less	Bank charges debited in pass book	60
Less	Cheques deposited into bank but not credited	440
	Balance as per Pass Book	**8,590**

✎ ILLUSTRATION 6:

The cash book showed a debit balance of ₹5,000 on 23rd September 1993. The balance of the cash book did not agree with the pass book. From the following particulars, ascertain the balance as per pass book.

(a) Cheque deposited in to bank but not cleared by bank before 23rd September 1993: ₹1000

(b) Cheques issued in favour of customers but not presented prior to 23rd September 1993: ₹875

(c) Commission charged by bank but not entered in cash book: ₹50

(d) Interest on Government securities collected and credited by bank not yet entered in cash book: ₹800

(e) No entry has been made in the cash book relating to a dishonour of a cheque for ₹100

Solution:

Bank Reconciliation Statement as on 23.09.1993

	Particulars	*(₹)*
	Balance as per Cash Book	**5,000**
Add	Cheque issued but not presented for payment	875
Add	Interest on Government Securities collected and credited by the bank	800
Less	Commission charged by bank	50
Less	No record in cash book for dishonour of a cheque	100
Less	Cheque deposited into bank but not cleared	1,000
	Balance as per Pass Book	**5,525**

✎ ILLUSTRATION 7:

On 31st December 1993, Ram's cash book showed a favourable balance of ₹4,400. On examining the entries with the pass book, it was found that:

(a) Out of the cheques issued on 27th December 1993, one for ₹860 and another for ₹580, the cheque for ₹580 was cashed only on 2nd January 1994.

(b) Out of three cheques deposited in the bank for collection on 26th December 1993 for ₹300, ₹400 and ₹500 respectively, the cheque for ₹400 only was collected on 31st December 1993.

(c) There was credit in the pass book for ₹38 towards interest and a debit in the same book for ₹10 towards collection charges, but no corresponding entries were found in the cash book.

(d) A cheque for ₹125 received and entered in the cash book but omitted to be deposited into bank by oversight.

(e) A wrong credit for ₹56 relating to some other account was found in the pass book.

Prepare a Bank Reconciliation Statement as on 31st December 1993.

Solution:

Bank Reconciliation Statement as on 31.12.1993

	Particulars	*(₹)*
	Balance as per Cash Book	**4,400**
Add	Cheques issued but not presented	580
Add	Wrong credit was found in pass book	56

(Contd.)

Add	Interest credited in the pass book	38
Less	Cheques deposited but not collected (₹500 + ₹300)	800
Less	Collection charges debited in the pass book	10
Less	Cheques received and entered in cash book but omitted to be deposited in bank	125
	Balance as per Pass Book	**4,139**

✎ ILLUSTRATION 8:

On 31st December 1987, the cash book of a firm showed a balance of ₹1,929. From the information given below, prepare the Bank Reconciliation Statement showing the balance as per pass book.

(a) Cheques issued for ₹300 had not yet been presented at the bank for payment.

(b) Cheques amounting to ₹375 were deposited into the bank on 29th December but it had not been credited by the bank till 31st December 1987.

(c) A cheque for ₹115 was received and entered in the cash book on 31st December. It was deposited on the same day. But the amount was credited by the bank on 2nd January 1988.

(d) Pass book shows bank charges of ₹15 debited by the bank. It also shows ₹175 collected by the bank interest on securities.

(e) A cheque received from Vikas for ₹100 deposited in to Bank on 27th December 1987. The cheque was dishonoured but dishonour advice was received only on 2nd January 1988.

Solution:

Bank Reconciliation Statement as on 31.12.1987

	Particulars	*(₹)*
	Balance as per Cash Book	**1,929**
Add	Cheques issued not presented for payment at bank	300
Add	Interest collected by bank on securities	175
Less	Cheque entered in cash book but credited by the bank on 02.01.1988	115
Less	Cheques not credited in bank	375
Less	Bank charges debited by the bank	15
Less	Cheque received from Vikas was deposited and it was dishonoured	100
	Balance as per Pass Book	**1,799**

✎ ILLUSTRATION 9:

On 31st December 1997, the cash book of a firm showed a debit balance of ₹3,000. From the following information, prepare a Bank Reconciliation Statement, showing the balance as per pass book.

(a) Cheques have been issued for ₹2,500; out of which, cheques worth ₹2,000 only were presented for payment.

(b) Cheques worth ₹700 were paid on 28th December but had not been credited by the bank.

(c) One cheque for ₹250 was entered in the cash book on 30th December 1997 but was banked on 3rd January 1998.

(d) A cheque from Mohan for ₹200 was deposited into bank on 26 December, but it was dishonoured and the advice was received on 2nd January 1998.

(e) Pass book showed a debit of ₹10 towards bank charges.

(f) Pass book showed a credit of ₹400 collected by the bank as dividend.

(g) One of the debtors deposited a sum of ₹250 in the account of the firm on 20th December. Intimation in this respect was received from the bank on 2nd January 1998.

Solution:

Bank Reconciliation Statement as on 31.12.1997

	Particulars	*(₹)*
	Balance as per Cash Book	**3,000**
Add	Dividend collected by the bank	400
Add	Amount deposited by the customer directly into the bank but not recorded in the cash book	250
Add	Cheques issued but not yet presented for payment (2,500 – 2,000)	500
Less	Cheques paid into bank but not yet credited by the bank	700
Less	Cheque entered in the cash book but was omitted to be banked	250
Less	Cheque paid into bank dishonoured but not yet recorded in the cash book	200
Less	Bank charges as per pass book	10
	Balance as per Pass Book	**2,990**

Favourable Balance as per Pass Book

✎ ILLUSTRATION 10:

Ascertain the balance as per cash book:

(a) Balance as per pass book: ₹15,000

(b) Cheques paid into bank but not cleared: ₹2,000

(c) Cheques issued but not presented for payment: ₹3,000

(d) Bank charges debited in the pass book: ₹400

Solution:

Bank Reconciliation Statement

	Particulars	*(₹)*
	Balance as per Pass Book	**15,000**
Add	Cheques paid into bank but not cleared	2,000
Add	Bank charges debited in pass book	400
Less	Cheques issued but not presented for payment	3,000
	Balance as per Cash Book	**14,400**

✎ ILLUSTRATION 11:

From the following particulars, prepare a statement as on 31st December 2006.

(a) Balance as per pass book is ₹6,100.

(b) Cheques issued but not presented for payment: ₹2,000

(c) Cheques sent for collection but not collected up to 31st December 2005: ₹1,500

(d) The bank had wrongly debited the account of the firm by ₹200, which was rectified by them after 31st December.

Solution:

Bank Reconciliation Statement as on 31.12.2006

	Particulars	*(₹)*
	Balance as per Pass Book	**6,100**
Add	Cheques sent for collection but not yet collected	1,500
Add	Amount wrongly debited by the bank	200
Less	Cheques issued but not presented for payment	2,000
	Balance as per Cash Book	**5,800**

✎ ILLUSTRATION 12:

From the following particulars, ascertain the bank balance as per cash book of Mr. Muthu, prepare a Bank Reconciliation Statement as at 31st March 2003.

(a) Credit balance as per pass book as on 31st March 2003: ₹6,500.

(b) Bank charges of ₹600 had not been entered in the cash book.

(c) Out of the cheques of ₹3,500 paid into the bank, a cheque of ₹1,000 was not yet credited by the banker.

(d) Out of the cheques issued for ₹4,500, cheques of ₹3,800 only were presented for payment.

(e) A dividend of ₹425 was collected by the banker directly but not entered in the cash book.

(f) A cheque of ₹800 had been dishonoured prior to 31st March 2003, but no entry was made in the cash book.

Solution:

Bank Reconciliation Statement of Mr. Muthu as on 31.03.2003

	Particulars	*(₹)*
	Balance as per Pass Book	**6,500**
Add	Bank charges not entered in the cash book	600
Add	Cheques paid but not yet credited by the banker (3,500 – 2,500)	1,000
Add	Cheque dishonoured not entered in cash book	800
Less	Cheques issued but not yet presented for payment (4,500 – 3,800)	700
Less	Dividend collected by the banker but not yet entered in the cash book	425
	Balance as per Cash Book	**7,775**

✎ ILLUSTRATION 13:

On 31st March 1982, the pass book showed credit balance of ₹20,500. The following details were noticed:

(a) Cheques amounting to ₹5,500 were deposited in the bank but cheques of ₹1,500 had not been cleared up to 31st March.

(b) Cheques amounting to ₹7,000 were issued but cheque for ₹2,400 had not been presented for payment in the bank up to 31st March.

(c) Bank had given a debit of ₹70 for sundry charges.

(d) Bank had received directly from customers ₹1,600 and a dividend of ₹260 up to 31st March.

Prepare a Bank Reconciliation Statement as on 31st March 1982.

Solution:

Bank Reconciliation Statement as on 31.03.1982

	Particulars	*(₹)*
	Balance as per Pass Book	**20,500**
Add	Cheques deposited but not cleared	1,500
Add	Bank charges debited	70
Less	Cheques issued but not presented for payment	2,400
Less	Direct deposit by a customer	1,600
Less	Dividend collected by bank	260
	Balance as per Cash Book	**17,810**

✎ ILLUSTRATION 14:

From the following particulars, prepare a Bank Reconciliation Statement on 31st December 1993.

(a) On 31st December 1993, the pass book showed a credit balance of ₹12,400.

(b) The following cheques were deposited into bank in December 1993 but were credited by the bank in January 1994.

Pawan: ₹700
Sameer: ₹500
Ram: ₹400

(c) The following cheques were issued in December 1993 but were presented for payment in January 1994.

Mahesh: ₹800
Rajesh: ₹900

(d) A cheque for ₹200, which was received from a customer, was entered in the bank column of cash book in December 1993, but was omitted to be banked in the month of December.

(e) The pass book shows a credit of ₹200 towards interest and a debit of ₹40 for bank charges.

Solution:

Bank Reconciliation Statement as on 31.12.1993

	Particulars	*(₹)*
	Balance as per Pass Book	**12,400**
Add	Cheques deposited in bank but not credited in January	
	Pawan	700
	Sameer	500
	Ram	400
Add	Cheque received and entered but omitted to be banked	200
Add	Bank charges debited in pass book	40
Less	Cheques issued by firm credited later in Jan 1994	
	Mahesh	800
	Rajesh	900
Less	Interest credited in pass book	200
	Balance as per Cash Book	**12,340**

✎ ILLUSTRATION 15:

From the following particulars, prepare a Bank Reconciliation Statement as on 31st March 1990.

(a) Balance per pass book: ₹7,600

(b) Bank charges debited in pass book: ₹65

(c) Cheques issued but not presented to bank for payment: ₹1,000

(d) Cheques deposited into bank not credited in the pass book: ₹3,500

(e) A cheque entered as deposit in the cash book instead of as payment: ₹110

(f) ₹182 paid into bank had been entered twice in the cash book

(g) The receipt column of the cash book has been overcast by ₹500

(h) A cheque issued for ₹900 had been incorrectly entered in the cash book as ₹990

Solution:

Bank Reconciliation Statement as on 31.03.1990

	Particulars	*(₹)*
	Bank balance as per Pass Book	**7,600**
Add	Bank charges debited in pass book	65

(Contd.)

Add	Cheque entered as deposit instead of payment in cash book (₹110 + ₹110)	220
Add	Cash paid into bank entered twice in cash book	182
Add	Receipt column of cash book has been overcast	500
Add	Cheques deposited in bank not credited in pass book	3,500
Less	Cheque issued but not presented to bank for payment	1,000
Less	Cheque issued wrongly entered in cash book ₹990 (990 – 900)	90
	Balance as per Cash Book	**10,977**

✎ ILLUSTRATION 16:

The pass book of Mr. Aravind showed a credit balance of ₹7,400 on 30th September 1987. On comparison with the cash book, the following omissions were found out. Prepare a Bank Reconciliation Statement with help of the following:

(a) Cheques received from customers for ₹450 and ₹220 were not yet collected.

(b) A cheque for ₹100 received from 'A', though entered in the bank column in the cash book, was not paid into the bank.

(c) The pass book showed a credit of ₹75 being interest on investment collected.

(d) There was a debit of ₹120 in the pass book in respect of a cheque dishonoured.

Solution:

Bank Reconciliation Statement as on 30.09.87

	Particulars	*(₹)*
	Balance as per Pass Book	**7,400**
Add	Cheques received from customers were not yet collected	450
Add	Cheques received from customers were not yet collected	220
Add	Cheques received from 'A,' though entered in bank column of cash book, was not paid in bank	100
Add	Debit in the pass book in respect of cheque dishonoured	120
Less	Credit in pass book for interest on investment collected	75
	Balance as per Cash Book	**8,215**

✎ ILLUSTRATION 17:

From the following particulars, prepare a Bank Reconciliation Statement as on 31st March 2009.

Balance as per pass book (Cr.): ₹30,400

(a) Bank charges debited in pass book: ₹260

(b) Cheques issued but not presented to bank for payment: ₹4,000

(c) Cheques deposited into bank not credited in the pass book: ₹14,000

(d) A cheque entered as deposit in the cash book instead of as payment: ₹440

(e) ₹728 paid into bank had been entered twice in the cash book

(f) The receipt column of the cash book has been overcast by ₹2,000

(g) A cheque drawn for ₹18 had been incorrectly entered in the cash book as ₹198

Solution:

Bank Reconciliation Statement as on 31.03.2009

	Particulars	*(₹)*
	Bank balance as per Pass Book	**30,400**
Add	Bank charges debited	260
Add	Cheque entered as deposit instead of as a payment in cash book (₹440 + ₹440)	880
Add	Cash paid in bank entered twice in cash book	728
Add	Receipt column of cash book has been overcast	2,000
Add	Cheques deposited in bank not credited in pass book	14,000
Less	Cheque issued but not presented to bank for payment	4,000
Less	Cheque drawn for ₹18 has been entered in cash book as ₹198 (198 – 18)	180
	Balance as per Cash Book	**44,088**

✎ ILLUSTRATION 18:

From the following particulars, prepare a Bank Reconciliation Statement as at 31st December 2016.

Balance as per pass book: ₹31,320

(a) Cheques were issued but not presented for payment:

- Raj: ₹2,295

- Kamal: ₹2,980
- Ram: ₹4,790

(b) Cheques deposited into bank but not cleared until after close of the year
- Jagan: ₹2,530
- Balan: ₹4,565

(c) The bankers had wrongly debited the account for ₹1,125. They rectified the error on 4th January of the following year.

Solution:

Bank Reconciliation Statement as on 31st December 2016

	Particulars	*(₹)*
	Balance as per Pass Book	**31,320**
Add	Wrong debit given by the bank	1,125
Add	Cheques deposited but not cleared:	
	Jagan	2,530
	Balan	4,565
Less	Cheques issued but not presented:	
	Raj	2,295
	Kamal	2,980
	Ram	4,790
	Balance as per Cash Book	**29,475**

✎ ILLUSTRATION 19:

On 31st March 2017, the bank pass book of Namrata showed a credit balance of ₹1,50,000. Ascertain the balance as per cash book. On scrutiny of the two books, she ascertained the following causes of difference:

(a) She had issued cheques amounting to ₹80,000; out of which, only ₹32,000 were presented for payment.

(b) She received a cheque of ₹5,000, which she recorded in her cash book but forgot to deposit in the bank.

(c) A cheque of ₹22,000 was deposited by her has not been cleared yet.

(d) Mr Gupta deposited an amount of ₹15,700 in her bank, which has not been recorded by her in cash book yet.

(e) Banker had credited interest in the pass book of ₹1,500.

(f) Bank charges debited in the pass book: ₹250.

Prepare a Bank Reconciliation Statement.

Solution

Bank Reconciliation Statement as on 31.03.2017

	Particulars	*(₹)*
	Balance as per Pass Book (Cr.)	**1,50,000**
Add	Cheque deposited but not yet cleared	22,000
Add	Cheque recorded in cash book but not yet deposited	5,000
Add	Bank charges debited by bank	250
Less	Cheque issued but not yet presented (80,000 – 32,000)	48,000
Less	Amount deposited but not recorded in cash book	15,700
Less	Interest allowed by bank	1,500
	Balance as per Cash Book	**1,12,050**

Overdrawn Balance as per Cash Book

✎ ILLUSTRATION 20:

Ascertain the overdraft balance as per pass book:

(a) Overdraft as per cash book: ₹40,000

(b) Bank charges debited in pass book: ₹500

(c) Interest on investment collected and credited by the bank: ₹1,200

(d) Wrong credit given by the banker: ₹300

Solution:

Bank Reconciliation Statement

	Particulars	*(₹)*
	Overdraft balance as per Cash Book	**40,000**
Add	Bank charges debited in pass book	500
Less	Interest on investment collected and credited	1,200
Less	Wrong credit given by the banker	300
	Overdraft balance as per Pass Book	**39,000**

✎ ILLUSTRATION 21:

From the following particulars, prepare a Bank Reconciliation Statement as on 30th April 1996.

(a) Overdraft as per cash book: ₹1,000

(b) Cheques issued but not presented for payment: ₹675

(c) Cheques deposited but not yet collected by the banker: ₹280

(d) Bank charges of ₹40 made by the bank not yet entered in the cash book

(e) Interest on investment collected by the banker and credited in the pass book amounted to ₹450

Solution:

Bank Reconciliation Statement as on 30.04.1996

	Particulars	*(₹)*
	Overdraft as per Cash Book	**1,000**
Add	Cheques deposited but not collected by the banker	280
Add	Bank charges made by bank not entered in cash book	40
Less	Cheques issued but not presented for payment	675
Less	Interest on investment credited in pass book	450
	Overdraft as per Pass Book	**195**

✎ ILLUSTRATION 22:

Prepare the Bank Reconciliation Statement as on 30th April 1996 from the following particulars.

(a) Overdraft as per cash book: ₹4,000

(b) Cheques issued but not presented for payment: ₹2,700

(c) Cheques deposited but not yet collected by the banker: ₹1,120

(d) Bank charges of ₹160 made by the bank not yet entered in the cash book.

(e) Interest on investment collected by the banker and credited in the pass book amounted to ₹1,810.

Solution:

Bank Reconciliation Statement as on 30.04.1996

	Particulars	*(₹)*
	Overdraft as per Cash Book	**4,000**
Add	Cheques deposited but not collected by the banker	1,120
Add	Bank charges made by bank not entered in cash book	160
Less	Cheques issued but not presented for payment	2,700
Less	Interest on investment collected and credited in pass book	1,810
	Overdraft balance as per Pass Book	**770**

✎ ILLUSTRATION 23:

From the following particulars, ascertain the bank balance as would appear in the pass book as on 31st December 1974.

(a) Overdraft as per cash book: ₹12,000.

(b) Interest on overdraft, for six months ending 31st December 1974, amounting to ₹400, was debited in the pass book.

(c) Bank charges debited in the pass book, which amounted to ₹100.

(d) Cheques issued not presented for payment before 31st December 1974 amounted to ₹3,000.

(e) Cheques paid into bank but not cleared and credited before 31st December 1974 were ₹5,000.

(f) Interest on Government Securities collected by the bank and credited in the pass book amounted to ₹3,600.

Solution:

Bank Reconciliation Statement as on 31.12.1974

	Particulars	*(₹)*
	Bank overdraft as per Cash Book	**12,000**
Add	Interest on overdraft debited in pass book	400
Add	Bank charges debited in the pass book	100
Add	Cheques paid in bank not cleared and credited	5,000
Less	Cheques issued but not presented for payment	3,000
Less	Interest on government securities collected and credited	3,600
	Overdraft as per Pass Book	**10,900**

✎ ILLUSTRATION 24:

From the following particulars, prepare the Bank Reconciliation Statement as on 31st March 1990.

(a) Credit balance as per cash book on 31st March 1990 was ₹3,000.

(b) Interest charged by the bank up to 31st March 1990, ₹100, is recorded in the pass book.

(c) Two cheques of ₹1,500 and ₹3,000 were issued but out of them only one cheque of ₹1,500 was presented for payment up to 31st March.

(d) Cheques paid into bank of ₹5,000 but cheques of ₹3,750 only were cleared and credited by the bankers.

(e) Bank charges of ₹25 made by the bank were also recorded only in the pass book.

(f) Dividend on shares of ₹900 was collected by the bankers directly, for which no entry has been made in the cash book.

Solution:

Bank Reconciliation Statement as on 31.03.1990

	Particulars	*(₹)*
	Bank overdraft as per Cash Book	**3,000**
Add	Interest charged by the bank	100
Add	Bank charges made by bank recorded only in pass book	25
Add	Cheques paid into bank but not credited (5,000 – 3,750)	1,250
Less	Cheque issued but not presented for payment	3,000
Less	Dividend on shares collected by the bank	900
	Overdraft as per Pass Book	**475**

✎ ILLUSTRATION 25:

From the following particulars ascertain the balance by means of a statement that would appear in the pass book of Mr. Ganesh as on 30th June 1992.

Particulars	*(₹)*
Overdraft as per cash book	28,760
Interest on overdraft debited in pass book	640
Bank charges of the above period shown in pass book	280
Cheques issued but not cashed before 30.06.1992	5,080
Cheques paid into bank but not cleared before 30.06.1992	8,840
A bills receivable discounted with bank in May 1992 has been dishonoured, but no entry has been made in cash book.	2,400

Solution:

Bank Reconciliation Statement as on 30.06.1992

	Particulars	*(₹)*
	Overdraft as per Cash Book	**28,760**
Add	Interest on overdraft for six months shown in pass book	640
Add	Bank charges for the above period shown in pass book	280
Add	Cheques paid in bank but not cleared before 30.06.1992	8,840

(Contd.)

Add	A bills receivable discounted with bank dishonoured, but not entered in cash book	2,400
Less	Cheques issued but not cashed before 30.06.1992	5,080
	Overdraft as per Pass Book	**35,840**

✎ ILLUSTRATION 26:

Ms Kavitha's cash book showed an overdraft balance of ₹15,200 on 31st March 1991. From the following particulars, prepare a Bank Reconciliation Statement showing the balance as per pass book as on 31st March 1991.

(a) Out of five cheques totalling ₹8,000 issued on 28th March, only cheque of Ms Sindhu for ₹3,200 had been presented and cashed up to 31st March 1991.

(b) A cheque of ₹5,200 paid into bank for collection on 28th March was credited in pass book on 5th April 1991.

(c) A cheque of ₹800 received from Ms Rohini was entered in the bank column of the cash book but it was omitted to be paid into the bank.

(d) On 26th March 1991, an amount of ₹2,000 was credited by the bank in respect of dividend on shares. No entry was made in the cash book.

(e) On 29th March 1991, the bank had debited a sum of ₹92 on account of collection charges, for which no entry appeared in cash book.

Solution:

Bank Reconciliation Statement as on 31.03.1991

	Particulars	*(₹)*
	Overdraft as per Cash Book	**15,200**
Add	Cheque paid into bank for collection was credited in pass book	5,200
Add	Cheque received from Ms Rohini entered in the cash book but omitted to be paid into bank	800
Add	Bank had debited collection charges	92
Less	Cheques issued but not presented for payment (8000 – 3,200)	4,800
Less	Dividend amount credited by bank but not recorded in cash book	2,000
	Overdraft as per Pass Book	**14,492**

✎ ILLUSTRATION 27:

From the following particulars, prepare the Bank Reconciliation Statement.

(a) Overdraft as per cash book: ₹16,200

(b) A cheque deposited as per bank statement but not recorded in the cash book: ₹700

(c) Debit side of the bank column cast short: ₹100

(d) A cheque for ₹5,000 was deposited but collection as per the bank statement only: ₹4,996

(e) A party's cheque returned dishonoured as per the bank statement only: ₹530

(f) Bills collected directly by the bank: ₹3,500

(g) Bank charges recorded twice in the cash book: ₹25

(h) A bill for ₹8,000 discounted for ₹7,960 returned dishonoured by the bank

(i) Noting charges debited in pass book: ₹15

(j) Cheques deposited but not yet collected by the bank: ₹2,320

(k) Cheques issued but not yet presented for encashment: ₹1,250

Solution:

Bank Reconciliation Statement

	Particulars	*(₹)*
	Overdraft as per Cash Book	**16,200**
Add	Cheque for ₹5,000 deposited but collection as per bank statement ₹4,996	04
Add	Cheque returned dishonoured as per the bank statement only	530
Add	Bill discounted with the bank but returned dishonoured	8,000
Add	Noting charges debited in pass book	15
Add	Cheque deposited but not collected	2,320
Less	Cheque deposited but not recorded in the cash book	700
Less	Debit side of the bank column cast short	100
Less	Bills collected directly by the bank	3,500
Less	Bank charges recorded twice in the cash book	25
Less	Cheques issued but not yet presented for encashment	1,250
	Bank Overdraft as per the Pass Book	**21,494**

✎ ILLUSTRATION 28:

Prepare a Bank Reconciliation Statement as on 30th April 1996 from the following particulars:

(a) Overdraft as per cash book: ₹1,000.

(b) Cheques issued but not presented for payment: ₹675

(c) Cheques deposited but not yet collected by the banker: ₹280

(d) Bank charges of ₹40 made by the bank not yet entered in the cash book

(e) Interest on investment collected by the banker amounted to ₹452

Solution:

Bank Reconciliation Statement as on 30.04.1996

	Particulars	*(₹)*
	Overdraft as per Cash Book	**1,000**
Add	Cheques deposited but not collected by the banker	280
Add	Bank charges made by bank not entered in cash book	40
Less	Cheques issued but not presented for payment	675
Less	Interest on investment collected by the bank	452
	Overdraft as per Pass Book	**193**

✎ ILLUSTRATION 29:

From the following particulars, prepare a Bank Reconciliation Statement as on 31st December 1995. The bank overdraft as per cash book was ₹3000.

(a) Interest on overdraft, for six months ending 31st December 1995 amounting to ₹100 was debited in the pass book.

(b) Bank charges for the above period also debited in the pass book, which amounted to ₹25.

(c) Cheques issued but not presented for payment before 31st December 1995 amounted to ₹750.

(d) Cheques paid into bank but not cleared and credited before 31st December 1995 were ₹1,250.

(e) Interest on government securities collected by the bank and credited in the pass book amounted to ₹900.

Solution:

Bank Reconciliation Statement as on 31.12.1995

	Particulars	*(₹)*
	Bank overdraft as per Cash Book	**3,000**
Add	Interest on overdraft debited in pass book	100
Add	Bank charges debited in the pass book	25
Add	Cheques paid in bank not cleared and credited	1,250
Less	Cheques issued but not presented for payment	750
Less	Interest on government securities collected and credited	900
	Overdraft as per Pass Book	**2,725**

Overdrawn Balance as per Pass Book

✎ **ILLUSTRATION 30:**

Ascertain the overdraft balance as per cash book:

(a) Overdraft as per pass book: ₹25,000

(b) Cheques issued but not presented for payment: ₹5,000

(c) Cheques paid into bank but not cleared: ₹12,000

(d) Direct deposit by a customer in to bank: ₹4,000

Solution:

Bank Reconciliation Statement

	Particulars	*(₹)*
	Overdraft balance as per Pass Book	**25,000**
Add	Cheques issued but not presented for payment	5,000
Add	Direct deposit by a customer into bank	4,000
Less	Cheques paid into bank but not cleared	12,000
	Overdraft balance as per Cash Book	**22,000**

✎ **ILLUSTRATION 31:**

From the following particulars of M/s Anbu Industries, prepare a Bank Reconciliation Statement as on 31st December 2013.

(a) Overdraft balance as per pass book: ₹32,500 .

(b) Cheques deposited into bank but not credited up to 31st December 2013: ₹8,900.

(c) Cheques issued but not presented for payment: ₹12,500.

(d) Banker had credited ₹5,000 for receiving dividend through Electronic Clearing System.

(e) ATM maintenance charges debited by bank: ₹400.

Solution:

Bank Reconciliation Statement as on 31.12.2013

	Particulars	*(₹)*
	Overdraft as per Pass Book	**32,500**
Add	Cheques issued but not presented for payment	12,500
Add	Dividend credited by the banker	5,000
Less	Cheque deposited but not cleared	8,900
Less	ATM maintenance charges debited	400
	Overdraft as per Cash Book	**40,700**

✎ ILLUSTRATION 32:

Prepare a Bank Reconciliation Statement as on 31st December 2015.

(a) Overdraft balance as per pass book: ₹65,000

(b) Cheques deposited into bank but not credited up to 31st December 2015: ₹17,800

(c) Cheques issued but not presented for payment: ₹25,000

(d) Direct deposit by a customer into bank: ₹10,000

(e) Insurance premium paid by the bank as per the standing instructions: ₹800

Solution:

Bank Reconciliation Statement as on 31.12.2015

	Particulars	*(₹)*
	Overdraft as per Pass Book	**65,000**
Add	Cheques issued but not presented for payment	25,000
Add	Direct deposit by a customer	10,000
Less	Cheque deposited but not cleared	17,800
Less	Insurance premium paid by the bank	800
	Overdraft as per Cash Book	**81,400**

✎ ILLUSTRATION 33:

On 31st December 1992, the pass book showed an overdraft balance of ₹12,500. On scrutiny, the following was noticed:

(a) Cheques amounting ₹2,100 were paid into the bank on 29th December; of which, only ₹175 were cleared and credited by the banker.

(b) Cheques for ₹4,000 were issued; out of which, only one cheque for ₹600 was presented for payment.

(c) There is a debit of ₹150 for ATM charges and ₹50 for collection charges in the pass book, which have not been entered in my books.

(d) Interest credited in the pass book: ₹250. No entry has been made in the cash book.

Prepare a Bank Reconciliation Statement as on 31st December 1992.

Solution:

Bank Reconciliation Statement as on 31.12.1992

	Particulars	*(₹)*
	Overdraft as per Pass Book	**12,500**
Add	Cheques issued but not presented for payment (4000 – 600)	3,400
Add	Interest credited only in the pass book	250
Less	Cheques deposited but not credited by the bank (2100 – 175)	1,925
Less	ATM charges debited in pass book	150
Less	Collection charges debited in pass book	50
	Overdraft as per Cash Book	**14,025**

✎ ILLUSTRATION 34:

Prepare a Bank Reconciliation Statement as on 31st December 1999

(a) Balan's overdraft as per pass book: ₹12,000.

(b) On 25th December 1999, cheques had been issued for ₹7,000; of which, cheques worth ₹3,000 only had been encashed up to 31st December 1999.

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

(d) Bank charged ₹500 as interest on overdraft and the intimation of which has been received on 2nd January 2000.

(e) The bank pass book shows a credit for ₹1,000 representing ₹400 paid by a debtor into the bank and ₹600 collected directly by the bank as income from investment. Mr. Balan had no knowledge of these.

Solution:

Bank Reconciliation Statement as on 31.12.99

	Particulars	*(₹)*
	Overdraft as per Pass Book	**12,000**
Add	Cheques issued for ₹7,000 out of which only ₹3,000 was encashed (7000 – 3000)	4,000
Add	Bank pass book shows a credit towards deposit by a customer and Interest on Investments	1,000
Less	Cheques of ₹3,500 paid only ₹500 was credited (3,500 – 500)	3,000
Less	Interest charged on overdraft intimation received later	500
	Overdraft as per Cash Book	**13,500**

✎ ILLUSTRATION 35:

Prepare a Bank Reconciliation Statement as on 30th April 1996 from the following particulars:

(a) P's overdraft as per pass book was ₹12 000.

(b) Cheques have been issued for ₹7,000, out of which cheques worth ₹3,000 only had been presented and encashed up to 30th April.

(c) Cheques amounting to ₹3,500 had been paid into bank for collection; but, of these, only ₹500 had been credited in the bank pass book.

(d) Bank had charged a sum of ₹500 towards interest on overdraft.

(e) Direct deposit by a debtor in to bank: ₹400.

(f) Interest on investment collected and credited by the bank: ₹600.

(g) Bank had debited a sum of ₹1,200 on account of life insurance premium of Mr. P, as per his standing advice, which was not recorded in the cash book.

Solution:

Bank Reconciliation Statement as on 30.04.1996

	Particulars	*(₹)*
	Overdraft as per Pass Book	**12,000**
Add	Cheques issued but not encashed (7,000 – 3,000)	4,000
Add	Direct deposit by a debtor in to bank	400
Add	Interest on investment collected bank and credited by the bank	600
Less	Cheques deposited in bank but not credited (3,500 – 500)	3,000
Less	Bank charged interest on overdraft	500
Less	Life insurance premium paid by the bank as per standing instructions	1,200
	Overdraft as per Cash Book	**12,300**

✎ ILLUSTRATION 36:

Prepare a Bank Reconciliation Statement as on 31st December 2017.

(a) Overdraft balance as per pass book: ₹3,25,000

(b) Cheques deposited into bank but not credited up to 31st December 2017: ₹89,000

(c) Cheques issued but not presented for payment: ₹1,25,000

(d) Direct deposit by a customer into bank: ₹50,000

(e) Insurance premium paid by the bank as per the standing instructions: ₹4,000

Solution:

Bank Reconciliation Statement as on 31.12.2017

	Particulars	*(₹)*
	Overdraft as per Pass Book	**3,25,000**
Add	Cheques issued but not presented for payment	1,25,000
Add	Direct deposit by a customer	50,000
Less	Cheque deposited but not cleared	89,000
Less	ATM maintenance charges debited	4,000
	Overdraft as per Cash Book	**4,07,000**

■ Theory Questions ■

Short-Answer Questions

1. What is a Bank Reconciliation Statement?
2. What is a Cash Book?
3. What is a Pass Book?
4. What do you understand by Favourable Balance as per Cash Book?
5. What do you understand by Favourable Balance as per Pass Book?
6. What do you understand by Unfavourable Balance as per Cash Book?
7. What do you understand by Unfavourable Balance as per Pass Book?

Long-Answer Questions

1. What is the need for preparing a Bank Reconciliation Statement?
2. State the reasons for differences in Cash Book and Pass Book.

■ Exercise Problems ■

Favourable Cash Book Balance

1. Prepare a Bank Reconciliation Statement as on 31st July 2017 from the following particulars:
   (a) Balance as per cash book: ₹7,500
   (b) Cheques deposited but not cleared: ₹1,000
   (c) Cheques issued but not presented for payment: ₹1500
   (d) Interest allowed by the bank: ₹200

   [Ans: Balance as per Pass Book: ₹8,200]

2. Prepare a Bank Reconciliation Statement as on 31st December 2015.

Particulars	*(₹)*
Balance as per cash book	10,000
Cheque deposited into bank but not collected	3,000
Cheque issued but not presented for payment	5,000
Bank charges debited in the pass book	200
Interest credited in the pass book	150

[Ans: Balance as per Cash Book: ₹11,950]

3. From the following particulars prepare Bank Reconciliation Statement as on 30.06.2010 :

Balance as per cash book on 30.06.10: ₹10,000

Cheque issued but not presented into bank before 30.06.10: ₹1,000

Cheque deposited but not credited by the bank: ₹3,000

Interest credited in the pass book: ₹100

(Alagappa University/November 2010/AF-2298 BCS1C1)

[Ans: Balance as per Pass Book: ₹8,100]

4. From the following particulars, prepare a Bank Reconciliation Statement as on 31st December 2014.

(a) Balance as per cash book: ₹16,200

(b) Cheques issued but not presented for payment: ₹1,545

(c) Cheques deposited into bank but not credited in the pass book: ₹720

(d) Bank charges debited in pass book: ₹90

(e) Interest credited by the bank but not recorded in the cash book: ₹75

[Ans: Balance as per Pass Book: ₹17,010]

5. Prepare a Bank Reconciliation Statement as on 31.12.2003, from the following details:

	₹
Balance as per cash book	7,225
Cheque deposited into bank but not collected	675
Cheque issued but not presented for payment	879
Bank charges debited in the pass book	20
Interest credited in the pass book	15

(May 2017 U/ID 22212/UGRMA

[Ans: Balance as per Pass Book: ₹7,424]

6. On 31st March 2015, the cash book of Madhu showed a debit balance of ₹24,250. While verifying with pass book, the following facts were noted:

(a) Cheques sent for collection but not credited by the bank amounted to ₹4,225.

(b) Cheques issued but not presented for payment amounted to ₹4,425.

(c) The banker had debited a sum of ₹500 towards incidental charges in the pass book.

(d) Income on investments collected and credited in the pass book is ₹1,250.

(e) The banker has given a wrong credit for ₹1,250.

(f) A customer had paid a sum of ₹1,500 directly into bank. No entry has been made in the cash book.

(g) A cheque for ₹1,000, sent for collection and returned unpaid, has not been entered in the cash book.

Prepare a Bank Reconciliation Statement.

[Ans: Balance as per Pass Book: ₹26,950]

7. On 30th September 1993, the cash book of Anuradha showed a favourable balance of ₹1,250. The cash book balance did not agree with the pass book. Ascertain the balance as per pass book:

(a) Cheque deposited into bank but not cleared by bank: ₹250

(b) Cheques issued in favour of customers but not presented till 23.09.1993 amounted to ₹337.5

(c) Bank commission debited by bank but not entered in cash book: ₹12.50

(d) Interest on securities collected and credited by bank not entered in cash book: ₹200

(e) Dishonour of a cheque not entered in the cash book for ₹25

[Ans: Balance as per Pass Book: ₹1,500]

8. Rahim's cash book showed a debit balance of ₹88,000 on 31st December 2015. On examining the entries with the pass book, it was found that:

(a) Two cheques were issued to Sriram on 27.12.2015 – one for ₹8,000 and another for ₹6,000. The cheque for ₹6,000 was cashed only on 02.01.2016.

(b) Three cheques amounting to ₹3,000, ₹4,000 and ₹5,000 were deposited into bank for collection on 26.12.2015. On 31.12.2015, the cheque for ₹4,000 was only cleared and credited.

(c) There was credit in the pass book for ₹750 towards interest on investment.

(d) Bank had debited a sum of ₹150 towards ATM charges but no entries were made in the cash book.

(e) A cheque received from Ms Archana for ₹2,500 entered in the cash book but omitted to be deposited into bank for collection.

(f) The banker had wrongly credited a sum of ₹500 relating to some other account was found in the pass book.

Prepare a Bank Reconciliation Statement, as on 31st December 1993, showing the pass book balance.

[Ans: Balance as per Pass Book: ₹84,600]

9. On 31st December 2016, the cash book showed a debit balance of ₹17,290. Prepare the Bank Reconciliation Statement.

(a) Cheques issued to Balu for ₹6,000, which had not been presented so for.

(b) Cheques amounting to ₹7,500 were deposited into bank but had not been credited by the bank.

(c) A cheque for ₹2,300, received from Srijith, was entered in the cash book but the amount was credited by the bank on 2nd January 2017.

(d) Pass book shows a debit of ₹150 towards SMS charges.

(e) Dividend on shares collected by the bank is ₹3,500.

(f) A cheque received from Victor for ₹1,500 was deposited in bank on 27th December 2016. The cheque was dishonoured. But dishonour advice was received only on 2nd January 2017.

[Ans: Balance as per Pass Book: ₹15,340]

10. Prepare a Bank Reconciliation Statement of Mr. Madhavan from the following data, as on 31st December 2007.

	(₹)
(a) Balance as per cash book	50,000
(b) Cheques issued but not presented for payment	2,500
(c) Cheques deposited in bank but not collected	5,000
(d) Insurance premium paid by the bank	3,750
(e) Direct deposit by a customer	1,000
(f) Interest on investment collected by bank	6,250
(g) Bank charges debited in pass book	3,000

[Ans: Balance as per Pass Book: ₹48,000]

11. Prepare a Bank Reconciliation Statement from the following data as on 31.12.2005.

(a) Balance as per Cash Book – ₹12500

(b) Cheques issued but not presented for payment – ₹900

(c) Cheques deposited in bank but not collected – ₹1200

(d) Bank paid insurance premium – ₹500

(e) Direct deposit by a customer into bank – ₹800

(f) Interest on investment collected by bank – ₹200

(g) Bank charges debited in pass book – ₹100

(Alagappa University/December 2016/U/ID 22201/UCZA/UCWA/ UCYA/UCXB/URMA/UCVB)/November 2010/BCC1C1 November 2005/21601/SY1C/PK3B/SDEM)

[Ans: Balance as per Pass Book: ₹12,600]

12. From the following particulars prepare a Bank Reconciliation Statement as on 31st March 2009 of CD Associates.

(a) Balance as per Cash Book – ₹3,000

(b) Cheques issued but not presented for payment up to 31.03.2009 – ₹4,000

(c) Cheques sent for collection but not collected up to 31.03.2009 – ₹3,000

(d) The bank had wrongly credited the firm's account – ₹4,000

(e) Interest on securities collected by the bank directly and credited – ₹800

(Periyar University/May 2016/BCCA)

[Ans: Balance as per Pass Book: ₹8,800]

Favourable Balance as per Pass Book

13. Ascertain the balance as per cash book:

(a) Balance as per pass book: ₹3,000

(b) Cheques paid into bank but not cleared: ₹400

(c) Cheques issued but not presented for payment: ₹600

(d) Bank charges debited in the pass book: ₹80

[Ans: Balance as per Pass Book: ₹2,880]

14. From the following particulars prepare a Bank Reconciliation Statement showing the balance as per cash book on 31.3.2007.

(a) Balance as per pass book ₹8,000

(b) Cheques deposited but not credited by the bank ₹1,000

(c) Cheques issued but not presented for payment ₹500

(d) Bank charges debited in the pass book but not recorded in cash book ₹50

(May 2014 U/ID 22201/UCZA/UCWA/UCYA/ UCXB/URMA/UCVB)

[Ans: Balance as per Cash Book: ₹8,550]

15. The pass book showed a credit balance of ₹21,000. The following details were noticed:

(a) Cheques amounting to ₹5,500 were deposited in the bank but cheques of ₹1,500 had not been cleared up to 31st March.

(b) Cheques amounting to ₹7,000 were issued but cheque for ₹2,400 had not been presented for payment in the bank up to 31st March.

(c) Bank had given debit of ₹70 for sundry charges.

(d) Bank had received directly from customers ₹1,600 and dividend of ₹260 up to 31st March.

Prepare a Bank Reconciliation Statement as on 31st March 2012.

[Ans: Balance as per Cash Book: ₹18,310]

16. Prepare a Bank Reconciliation Statement as on 31st December 2014.

(a) Balance as per pass book was ₹31,000.

(b) The following cheques were received and deposited into bank in December 2014 but the amounts were credited by the bank in January 2015.

(i) Shankar: ₹1,750

(ii) Sharmila: ₹1,250

(iii) Sugumar: ₹1,000

(c) A cheque for ₹500, which was received from a customer, was entered in the bank column of cash book in December 2014 but was omitted to be banked in the month of December.

(d) The pass book shows a credit of ₹500 for interest and debit of ₹100 for SMS charges.

(e) The following cheques were issued in December 2014 but were presented for payment in January 2015.

Suresh: ₹2,000

Ramesh: ₹2,250

[Ans: Balance as per Cash Book: ₹30,850]

17. From the following particulars, prepare a Bank Reconciliation Statement as on 31st March 1990.

(a) Balance as per pass book: ₹15,200

(b) Bank charges debited in pass book: ₹130

(c) Cheques issued but not presented to bank for payment: ₹2,000

(d) Cheques deposited into bank not credited in the pass book: ₹7,000

(e) A cheque entered as deposit in the cash book instead of as payment: ₹220

(f) ₹364, paid into bank, had been entered twice in the cash book

(g) The receipt column of the cash book has been overcast by ₹1,000

(h) A cheque drawn for ₹9 had been incorrectly entered in the cash book as ₹99

[Ans: Balance as per Cash Book: ₹22,044]

18. The pass book of Mr. Aravind showed a credit balance of ₹7,400 on 30th September 1987. On comparison with the cash book, the following omissions were found out. Prepare a Bank Reconciliation Statement with help of the following:

(a) Cheques received from customers, for ₹450 and ₹220, were not yet collected.

(b) A cheque for ₹100 received from 'A', though debited in the bank column in the cash book, was not paid into the bank.

(c) The pass book showed a credit of ₹75 being interest on investment collected.

(d) There was a debit of ₹120 in the pass book in respect of a cheque dishonoured.

[Ans: Balance as per Cash Book: ₹8,215]

19. From the following particulars, prepare a Bank Reconciliation Statement as at 31st December 2016.

(a) Balance as per pass book: ₹62,460

(b) Cheques issued but not presented for payment:

Rajini:	₹4,590
Kamakshi:	₹5,960
Bhavani:	₹9,580

(c) Cheques deposited into bank but not credited till 31st December 2016

John:	₹5,060
Balu:	₹9,130

(d) The bankers had wrongly debited a sum of ₹2,250. The error was rectified by the bank on 4th January 2017.

[Ans: Balance as per Cash Book: ₹58,770]

Overdrawn Balance as per Cash Book

20. From the following particulars, find out the balance as per cash book as on 30th April 1986.

(a) Bank overdraft as per cash book: ₹10,000

(b) Cheques issued but not presented for payment: ₹6,750

(c) Cheques deposited but not yet collected by the banker: ₹2,800

(d) Bank charges of ₹400, made by the bank, not yet entered in the cash book.

(e) Interest on investment collected by the banker and credited in the pass book amounted to ₹4,525.

[Ans: Overdraft as per Pass Book: ₹1,925]

21. From the following particulars, ascertain the bank balance as would appear in the pass book as on 31st December 1974.

(a) Overdraft as per cash book: ₹60,000.

(b) Interest on overdraft, amounting to ₹200, was debited in the pass book.

(c) Bank charges, also debited in the pass book, amounted to ₹50.

(d) Cheques issued but not presented for payment amounted to ₹1,500.

(e) Cheques paid into bank but not cleared before 31st December 1974 were ₹2,500.

(f) Interest on Government securities collected by the bank: ₹1,800.

[Ans: Overdraft as per Pass Book: ₹59,450]

22. From the following particulars, ascertain the bank balance as per pass book, as on 31st March 1990.

(a) Credit balance as per cash book: ₹7,500

(b) Interest charged by the bank, ₹250, is recorded only in the pass book.

(c) Two cheques of ₹3,750 and ₹7,500 were issued but only one of the them – the cheque of ₹3,750 – was presented for payment up to 31st March.

(d) Cheques paid into bank of ₹12,500 but cheques of ₹9,375 only were cleared and credited by the bankers.

(e) Bank charges of ₹62.50 debited only in the pass book.

(f) Dividend on shares ₹2,250 was collected by the bankers directly, for which no entry has been made in the cash book.

[Ans: Overdraft as per Pass Book: ₹1,187.5]

23. Kannan's cash book showed an overdraft balance of ₹15,200 on 31st March 1991. From the following particulars, prepare a Bank Reconciliation Statement showing the balance as per pass book as on 31st March 1991.

(a) Cheques issued for ₹8,000; out of which only ₹3,200 had been presented and cashed up to 31st March 1991.

(b) A cheque of ₹5,200 was paid into bank for collection but was credited in pass book on 5th April 1991.

(c) A cheque of ₹800, received from Ram, was entered in the cash book but it was omitted to be deposited into the bank.

(d) Dividend on shares collected by the bank: ₹2,000. But no entry was made in cash book.

(e) Banker had debited a sum of ₹92 towards bank charges, for which no entry appeared in cash book.

[Ans: Overdraft as per Pass Book: ₹14,492]

Overdrawn Balance as per Pass Book

24. From the following particulars of Reshma Traders, prepare a Bank Reconciliation Statement on 30th June 2012.

(a) Overdraft as per pass book: ₹35,750

(b) Cheques deposited in the bank but not yet credited: ₹7,550

(c) Interest on overdraft charged in the pass book: ₹3,500

(d) Telephone bill paid by the bank as per the standing instructions: ₹250

[Ans: Overdraft as per Cash Book: ₹24,450]

25. Pass book of M/s Jain Industries showed a debit balance of ₹1,36,750 on 31st March 2014. The following differences were found on that date between the cash book and the pass book:

(a) Cheques issued before 31st March 2014, amounting to ₹95,000, had not been presented for payment.

(b) Two cheques of ₹25,000 and ₹17,500 were deposited into bank on 31st March but the bank gives credit for the same in April 2014.

(c) Insurance premium directly paid by bank: ₹25,000

(d) ₹10,000 was wrongly debited to the firm account by the bank.

Prepare a Bank Reconciliation Statement as on 31st March 2014.

[Ans: Overdraft as per Cash Book: ₹1,54,250]

26. From the following particulars of Neetu and Co., prepare a Bank Reconciliation Statement on 31st March 2007.

Particulars	*(₹)*
Overdraft as per pass book	49,500
Cheques deposited but not yet credited	16,500
Cheques issued but not present for payment	18,000
Interest on overdraft	4,800
Insurance premium paid by the bank	2,400
Wrong credit given by the bank	3,000

[Ans: Overdraft as per Cash Book: ₹46,800]

27. From the following particulars, ascertain the balance by means of a statement that would appear in the pass book of Mr. Sridhar as on 30th June 1992.

Particulars	*(₹)*
Overdraft as per pass book	57,520
Interest on overdraft for six months shown in pass book	1,280
Bank charges debited in pass book	560
Cheques drawn but not cashed before 30.06.1992	10,160
Cheques paid into bank but not cleared before 30.06.1992	17,680
A bills receivable discounted with bank dishonoured, but not entered in cash book	4,800

[Ans: Overdraft as per Cash Book: ₹43,360]

28. The Bank Overdraft of Ramesh on 31.12.2006 as per pass book is ₹9,000. From the following particulars, prepare Bank Reconciliation Statement.

	₹
Unpresented cheque	3,000
Uncleared cheque	1,700
Bank interest debited in Pass Book only	500
Bills collected and credited in the Pass Book only	800
Cheque of Rahul dishonoured	500
Cheques issued to Sekar entered in the Cash Book	300

(April 2014/60101/BPZ1Z/BPW1A/BPF1A/MAM1A/ SBAMK/BPC1A/BPG1A)

[Ans: Overdraft as per Cash Book: ₹10,400]

29. From the following particulars prepare a Bank Reconciliation Statement as on 31.3.2010:

(i) Overdraft balance as per pass book ₹8,000.

(ii) Cheques issued but not encashed ₹3,100.

(iii) Cheques deposited into bank but yet collected ₹1,800.

(iv) The debit of ₹950 in pass book for interested is not entered in cash book.

(v) ₹1750 paid into bank by a customer directly is not entered in the cash book.

(vi) Dividend collected by the bank ₹500.

(Alagappa University/November 2010/2239/BCO1C1)

[Ans: Overdraft as per Cash Book: ₹10,600]

30. From the following particulars prepare a Bank Reconciliation Statement as on 31.03.2009.

Overdraft balance as per Pass Book on 31-03-09 was ₹13,095.

(i) Cheque deposited in bank not recorded in cash book ₹105.

(ii) Cheque received and recorded in cash book not sent for collection ₹1,015.

(iii) Cheques issued for ₹15,075, but cheques for ₹9,075 alone were debited in the pass book.

(iv) Cheques paid into bank for ₹9,400 but cheques for ₹3,550 alone not credited in the pass book.

(v) Insurance ₹250 paid by bank but not credited in cash book.

(vi) Bank charges ₹30 was recorded twice in the cash book.

(vii) Interest of ₹1,400 debited in the pass book but not recorded in cash book.

(Alagappa University/November 2010/AF2298/BCS1C1)

[Ans: Overdraft as per Cash Book: ₹13,015]

CHAPTER

9

Depreciation

Learning Objectives

After studying this chapter, you will be able to:

- Understand the Meaning of Depreciation
- Know the Causes of Depreciation
- Understand the Different Methods of Depreciation
- Determine the Profit or Loss on Sale of Asset

9.1 Depreciation

Fixed Assets are those assets, which are acquired for deriving the benefits for a long period of time. All fixed assets (except land) are subject to depreciation. The value of the fixed assets decreases year after year, due to wear and tear, and use. The reduction in value of fixed assets is known as depreciation. In other words, depreciation is a permanent decline in the value of a fixed asset. Depreciation is treated as an expense and debited to the profit and loss account.

"Depreciation is the measure of the exhaustion of the effective life of an asset from any cause during a given period."

—Spicer and Pegler

"Depreciation is the gradual and permanent decrease in the value of an asset from any cause."

—R.N. Carter

"Depreciation is the diminution in intrinsic value of the asset due to use and/or lapse of time."

—ICMA (Institute of Cost and Management Accountants) London Terminology

It is clear from the above definitions that fixed assets are used to generate business income and at the same time, they also lose their production capacity or earning capacity over a period of time. The reduction in the production capacity or earning capacity is termed as depreciation.

9.2 Need for Providing Depreciation

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

1. **To Ascertain Profit/Loss**

   In order to match the cost with revenues, it is necessary to charge depreciation against revenue in each accounting year to ascertain the net profit or loss.

2. **To Present a True and Fair View of the Financial Position**

   Depreciation must be deducted from the value of fixed assets in order to show the real value in the balance sheet. If depreciation is not provided on fixed assets, the balance sheet will not reflect the true and fair financial position of the business.

3. **To Ascertain the Real Cost of Production**

   To ascertain the real cost of production, it is necessary to provide depreciation.

4. **To Comply with Legal Requirements**

   As per the Companies Act, 2013, it is mandatory for the companies to provide depreciation on fixed assets before it declares dividend.

5. **To Replace Assets**

   Depreciation is provided to replace the assets when they become useless.

9.3 Causes of Depreciation

The causes of depreciation can be classified into two categories, namely:

1. Internal, and
2. External

Internal	*External*
1. Wear and Tear	1. Obsolescence
2. Disuse	2. Effluxion of time
3. Maintenance	3. Time factor
4. Depletion	

› 9.3.1 Internal Causes

1. **Wear and Tear**

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

2. **Disuse**

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

3. **Maintenance**

   The value of machine deteriorates rapidly because of lack of proper maintenance.

4. **Depletion**

   It refers to the physical deterioration by the exhaustion of natural resources like mines, quarries, oil wells, etc.

› 9.3.2 External Causes

1. **Obsolescence**

   Due to improved techniques and technological advancements, old assets tend to become obsolete (useless).

2. **Effluxion of Time**

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

3. **Time Factor**

   Lease, copyrights and patents are acquired for a fixed period of time. On the expiry of the fixed period of time, the assets cease to exist.

9.4 Terms Used for Depreciation

1. **Amortisation**

   Amortisation refers to the loss in the value of intangible assets such as goodwill, patents, and preliminary expenses.

2. **Depletion**

   Decrease in the value of mineral wealth such as coal, oil, iron ore, etc., is termed as depletion. Extraction of more mineral wealth will lead to early depletion of assets.

3. **Obsolescence**

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

9.5 Factors Determining the Amount of Depreciation

1. **Original Cost of the Asset**

   While ascertaining the original cost of the assets, the cost of installation charges (if any) should also be added to the asset account.

2. **Estimated Life**

   All fixed assets have an estimated life**.** Estimated life implies the period over which an asset is expected to be used.

3. **Residual Value**

   Residual value is also known as Scrap Value or Turn-in Value. After the expiry of the useful life of the assets, the value expected to be realised on its sale is known as residual value.

9.6 Methods of Calculating Depreciation

The various methods of calculating depreciation are:

1. Straight Line Method or Fixed Instalment Method or Original Cost Method.
2. Written Down Value Method or Diminishing Balance Method or Reducing Balance Method
3. Annuity Method

4. Depreciation Fund or Sinking Fund Method
5. Insurance Policy Method
6. Revaluation Method
7. Depletion or Output Method
8. Machine Hour Rate Method

› 9.6.1 Straight Line Method or Fixed Instalment Method or Original Cost Method

Under Straight Line Method, a fixed amount of depreciation is charged every year throughout the effective life of the asset. The amount and rate of depreciation are calculated as under.

- Amount of Depreciation

$$= \frac{\text{Cost of the Asset + Installation} - \text{Scrap Value}}{\text{Estimated Life of the Asset}}$$

- $\text{Rate of Depreciation} = \dfrac{\text{Amount of Depreciation}}{\text{Original Cost}} \times 100$

Merits

- It is very simple and easy to understand.
- It is easy to calculate the amount and rate of depreciation.
- The book value of the asset becomes zero or equal to its scrap value at the expiry of its useful life.

Demerits

- It does not take into account the effective utilisation of the asset.
- It is difficult to calculate the depreciation on additions made in the asset during the year.

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

Every year, depreciation is charged at a fixed rate on the reducing balance of the asset. Under this method, the amount of depreciation goes on decreasing year by year.

Merits

- It has uniform effect on the profit and loss account of different years.
- This method is recognised by the income tax authorities.
- It is a logical method.

Demerits

- Value of the asset cannot be written down to zero.
- Difficult to determine the rate of depreciation.
- Does note provide any fund for the replacement of the assets.
- Too much emphasis on historical costs.

Distinction Between Straight Line Method and Written Down Value Method

Straight Line Method	*Written Down Value Method*
Amount of depreciation is fixed	Amount of depreciation varies
Original cost is the basis for charging depreciation	Book value is the basis for charging depreciation
Not recognised by Income Tax Laws	Recognised by Income Tax Laws
The value of assets can be written down to zero	The value of assets cannot be written down to zero
It is suitable for assets, which have lower repair charges and scrap value	It is suitable for assets, which have greater repair expenses

› 9.6.3 Annuity Method

Under Annuity method, the asset is credited every year with a fixed amount of depreciation. Depreciation amount will be calculated from the Annuity Tables. The amount of depreciation will vary according to the rate of interest and the life time of the asset. It is also known as Compound Interest Method or Depreciation Fund Method. The amount of annual depreciation is invested in good securities, bearing interest at a specified rate. The aggregate amount of interest and annual provision is invested every year. When the asset is completely written off or is to be replaced, the securities are sold and the amount so realised by selling securities is used to replace the old asset.

The amount spent in acquiring an asset is treated as an investment and interest is charged at a certain rate on the diminishing balance of the asset. Interest is debited to the asset account. This method is used to calculate depreciation amount on lease.

Merits

- This method takes into account the interest on capital invested in the asset.
- This method is considered as a scientific method and the calculations made are exact and precise.

Demerits

- Difficult to understand this method.
- Calculation becomes more complicated when there are frequent additions.
- Suitable mainly for leasehold properties.

› 9.6.4 Insurance Policy Method

Under this method, an insurance policy is taken from an insurance company. The policy is taken for a stipulated period. When the policy matures, the insurance company will pay the agreed sum and the same is used to purchase the new asset. The annual depreciation will be equal to the amount of annual premium. It is debited to the profit and loss account and credited to the depreciation fund account at the end of the accounting year.

Merits

- It provides adequate funds for replacement of assets.
- Insurance company provides a better security.
- Insurance company will pay a stipulated amount with which replacement of asset can be made.

Demerits

- This method is more expensive.
- When policy is surrendered, there will be a greater loss.
- This method is unsuitable when there are additions made to assets.

› 9.6.5 Revaluation Method

At the end of the accounting period, the assets are revalued and compared with the value of the asset at the beginning of the year. The difference is treated as depreciation. The loss on revaluation is debited to the profit and loss account or depreciation account and credited to the asset account. This method is used for small items like livestock, loose tools, packages, etc.

› 9.6.6 Depletion Method

Depletion method of depreciation will be calculated on wasting assets. Natural resources like mines, fuel oil, gas and wood are exhausted with usage. The rate of production is measured by the rate of exhaustion of the asset. Under this method, the total value of assets will be estimated. After ascertaining this, the rate of depreciation per unit will be calculated by dividing the estimated life in term of production of units. The asset is reduced to zero at the end of the total exhaustion. The formula to calculate depreciation under depletion method is as follows:

$$\text{Amount of Depreciation} = \frac{\text{Original Cost} - \text{Scrap Value}}{\text{Estimated Life in Terms of Production Units}}$$

› 9.6.7 Machine Hour Rate Method

Under this method, hourly rate of depreciation is calculated. The cost of the asset (less residual value, if any) is divided by the estimated working hours. The actual depreciation depends upon the working hours during that year. This method is useful for textiles, jute mills, etc.

$$\text{Hourly Depreciation Rate} = \frac{\text{Original Cost} - \text{Scrap Value}}{\text{Total Working Hours}}$$

Annual Depreciation = Working Hours of Machine in a Year × Hourly Depreciation Rate

9.7 Journal Entries for Recording Depreciation

Depreciation is directly charged against the asset by debiting the depreciation account and crediting the asset account. Depreciation account is closed by transferring to profit and loss account, at the end of the year. The entries will be as under:

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

Depreciation A/c….. Dr.	With the amount
To Asset A/c	of depreciation

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

Profit and Loss A/c….. Dr.	With the amount
To Depreciation A/c	of depreciation transferred

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

9.8 Calculation of Profit or Loss on Sale of Asset

Book value of the asset will be ascertained as follows:

Book Value = Cost of the Asset – Depreciation (till date of sale)

Loss on Sale of Asset: If an asset is sold for less than the book value, it is known as Loss on Sale of Asset. It has to be debited to profit and loss account.

Profit on Sale of Asset: If an asset is sold for more than the book value, it is known as Profit on Sale of Asset. It has to be credited to profit and loss account.

9.9 Methods of Recording Depreciation

Depreciation can be recorded in the book of accounts by two different methods, namely:

1. Provision for Depreciation Account is Not Maintained
2. Provision for Depreciation Account is Maintained

› 9.9.1 When provision for Depreciation Account is Not Maintained

Under this method, the amount of depreciation is debited to the depreciation account and credited to the asset account. Depreciation account is closed by transferring the balance to the profit and loss account. Amount of depreciation will be deducted from the value of the asset and the final amount will be shown in the balance sheet. In case the asset is sold, the sale price will be credited to the asset account. Loss on sale (if any) will be credited to asset account and profit on sale (if any) will be debited to asset account.

Journal Entries

(a) For providing depreciation:

Depreciation A/c Dr.

To Asset A/c

(b) For transferring depreciation to the profit and loss account:

Profit & Loss A/c Dr.

To Depreciation A/c

(c) When the asset is sold:

Bank A/c Dr.

To Asset A/c

(d) For the depreciation of the current period:

Depreciation A/c Dr.

To Asset A/c

(e) For loss on sale of asset:

Profit & Loss A/c Dr.

To Asset A/c

› 9.9.2 When a Provision for Depreciation Account is Maintained

Under this method, the asset account appears in the books at original cost. A separate account called provision for depreciation is to be created. The amount of depreciation will be credited to provision for depreciation account and debited to profit and loss account. In case the asset is sold, the provision for depreciation account is transferred to the asset account. Any amount realised on the sale of the asset will also be credited to the asset account.

Journal Entries

(a) For providing depreciation:

Depreciation A/c Dr.

To Provision for Depreciation A/c

(b) For transferring depreciation to profit and loss account:

Profit & Loss A/c Dr.

To Depreciation A/c

9.10 Exchange of Assets with New Assets

When a new fixed asset is purchased in exchange of an old asset, it is called Trade in. Under this, the seller agrees to accept the old assets at a trade-in allowance. The new asset is agreed to be supplied at a specified price. The buyer has to pay the difference between the new asset price and the trade-in allowance to the seller. Under this, the asset account is debited with the actual amount paid and also the trade-in allowance, the total being the actual purchase value of the asset. The asset account is credited with depreciation,

up to the date of exchange and the trade-in allowance. Any loss on trade is credited with asset account and any profit on sale is debited with asset account. Trade-in Allowance is a contra entry appearing on both sides of the asset account.

9.11 Change in Method of Depreciation

According to Accounting Standard (AS)-6, the method of depreciation may be changed in the following circumstances:

1. When the adoption of a new method is required by statute (i.e. law);

or

2. When the adoption of new method is required for compliance with an accounting standard;

or

3. When it is considered that the change would result in a more appropriate preparation or presentation of the financial statements.

If the method of depreciation has been changed, then the change should be applied with retrospective effect, that is, the date when the asset was put to use and not prospectively.

It may, therefore, be noted that

(i) Change in method would be from the date the asset was put to use.

(ii) Change in the method would be applied only to the existing assets and not to the assets, which have been sold, discarded, or destroyed.

(iii) Same conditions apply to the change in the rate also.

A firm may change the method of depreciation. The change in method of depreciation can take place in two ways.

1. Straight Line to Written Down Value Method
2. Written Down Value to Straight Line Method

However, such a change can be done with retrospective effect or without retrospective effect.

Retrospective Effect: In such a case, the amount of depreciation is to be calculated from the original date of purchase. It is also necessary to find out the book value of the asset as on the date on which the depreciation method is changed. Depreciation is to be calculated by both the methods. The difference, if any, has to be adjusted to the asset account by either debiting or crediting the profit and loss account.

Procedure: Following is the procedure to record the change of method and rate of depreciation from the back date.

(i) Calculate the total depreciation on the existing assets from the back date (i.e. when the assets were put to use) at the new method and rate.

(ii) Compare it with the total depreciation already charged on the existing assets.

(iii) In case the change results in deficiency (shortage) in depreciation with respect to past years, the deficiency is debited to the profit and loss account.

(iv) In case the change results in surplus, the surplus is credited to the profit and loss account.

Without Retrospective Effect: Under this method, the depreciation will be charged according to the new method, from the date on which the method is changed.

✎ ILLUSTRATION 1:

From the following information, calculate the amount of depreciation.

Particulars	*Furniture*	*Plant*
Cost (₹)	1,80,000	2,60,000
Scrap Value (₹)	5,000	10,000
Estimated Life	7 Years	8 Years

Solution:

$$\text{Amount of Depreciation} = \frac{\text{Total Cost} - \text{Estimated Scrap Value}}{\text{No. of Years of Excpected Life}}$$

$$\text{Furniture} = \frac{1,80,000 - 5,000}{7} = \frac{1,75,000}{7} = ₹25,000$$

$$\text{Plant} = \frac{2,60,000 - 10,000}{8} = \frac{2,50,000}{8} = ₹31,250$$

✎ ILLUSTRATION 2:

A company purchased a Machinery for ₹50,000. Its installation cost amounted to ₹10,000. Its estimated life is 5 years and the scrap value is ₹5,000. Calculate the Amount of Depreciation and the Rate of Depreciation.

Solution:

$$\text{Total Cost} = \text{Purchase Price} + \text{Installation Charges}$$
$$= ₹50,000 + ₹10,000$$
$$= ₹60,000$$
$$\text{Amount of Depreciation} = \frac{\text{Total Cost} - \text{Estimated Scrap Value}}{\text{No. of Years of Excpected Life}}$$
$$= \frac{60,000 - 5,000}{5}$$
$$= \frac{55,000}{5} = ₹11,000$$
$$\text{Rate of Depreciation} = \frac{\text{Amount of Depreciation}}{\text{Original Cost}} \times 100$$
$$\text{Rate of Depreciation} = \frac{11,000}{60,000} \times 100$$
$$\text{Rate of Depreciation} = 18.33\%$$

✎ ILLUSTRATION 3:

Vasanth & Co. purchased a Motor Car on 1st April 2010 for ₹5,00,000. Depreciation is to be provided at 10% per annum as per Straight Line Method. The books are closed on 31st March every year. Pass the necessary journal entries for the first three years.

Solution:

Amount of Depreciation = $5,00,000 \times \frac{10}{100} = ₹50,000$

Date	*Particulars*	*Debit (₹)*	*Credit (₹)*
01.04.2010	Motor Car A/c Dr. To Bank A/c (Being motor car purchased)	5,00,000	5,00,000
31.03.2011	Depreciation A/c Dr. To Motor Car A/c (Being depreciation provided)	50,000	50,000
31.03.2011	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to profit and loss account)	50,000	50,000

(Contd.)

31.03.2012	Depreciation A/c Dr. To Motor Car A/c (Being depreciation provided)	50,000	50,000
31.03.2012	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to profit and loss account)	50,000	50,000
31.03.2013	Depreciation A/c Dr. To Motor Car A/c (Being depreciation provided)	50,000	50,000
31.03.2013	Profits & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to profit and loss account)	50,000	50,000

✎ ILLUSTRATION 4:

From the following particulars, calculate the amount of depreciation and prepare Machinery Account for three years, under Straight Line Method.

Machinery Purchased on 01.01.2015 = ₹72,000
Freight Charges = ₹2,000
Installation Charges = ₹4,000
Life of the Machine = 5 years
Accounting Year = Calendar Year

Solution:

Total Cost = Machinery Cost + Freight Charges + Installation Charges
= 72,000 + 2,000 + 4,000 = ₹78,000

$$\text{Amount of Depreciation} = \frac{\text{Total Cost} - \text{Estimated Scrap Value}}{\text{No. of Years of Expected Life}}$$

$$= \frac{78,000}{5} = ₹15,600$$

Dr. **Machinery Account – Ledger** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2015	To Bank A/c	78,000	31.12.2015	By Depreciation A/c	15,600
			31,12,2015	By Balance c/d	62,400
		78,000			**78,000**

(Contd.)

01.01.2016	To Balance b/d	62,400	31.12.2016	By Depreciation A/c	15,600
			31.12.2016	By Balance c/d	46,800
		62,400			**62,400**
01.01.2017	To Balance b/d	46,800	31.12.2017	By Depreciation A/c	15,600
			31.12.2017	**By Balance c/d – (Bal. fig.)**	**31,200**
		46,800			**46,800**

Value of Machinery as on 31.12. 2017 = ₹31,200

✎ ILLUSTRATION 5:

Lee Manufacturing Company purchased a Machinery for ₹7,00,000 on 1st April 2007. After being used for three years, it was sold for ₹5,50,000. Depreciation is to be provided at the rate of 10% per annum on fixed instalment method. Books are closed on 31st March every year. Find out the Profit or Loss on sale of Machinery.

Solution:

Working Notes

Particulars	*(₹)*
Cost of Machinery (April 2007)	7,00,000
Less: Depreciation for 2007–08	70,000
Value of Machinery as on 01.04.2008	**6,30,000**
Less: Depreciation for 2008–09	70,000
Value of Machinery as on 01.04.2009	**5,60,000**
Less: Depreciation for 2009–10	70,000
Value of Machinery as on 01.04.2010	**4,90,000**

Calculation of Profit/Loss

Value of Machinery on 01.04.2010	4,90,000
Sale Price	5,50,000
Profit on Sale of Machinery	60,000

✎ ILLUSTRATION 6:

A Machinery was purchased on 1st January 2010 at a cost of ₹28,000 and spent ₹4,000 on its installation. Depreciation is to be provided at 10% on the original cost. The books are closed on 31st December each year. The Machinery was sold for ₹12,000 on 31st March 2013. Prepare the Machinery Account.

Solution:

Working Notes

Particulars	*(₹)*
Cost of Machinery (01.01.2010) (28,000 + 4,000)	**32,000**
Less: Depreciation for the Year 2010	3,200
Value of Machinery as on 01.01.2011	**28,800**
Less: Depreciation for the Year 2011	3,200
Value of Machinery as on 01.01.2012	**25,600**
Less: Depreciation for the Year 2012	3,200
Value of Machinery as on 01.1.2013	**22,400**
Less: Depreciation for 3 Months	800
Value of Machinery as on 31.03.2013	**21,600**

Calculation of Profit/Loss

Value of Machinery on 31.03.2013	**₹21,600**
Sale Price	**₹12,000**
Loss on Sale of Machinery	**₹9,600**

Solution:

Dr. **Machinery Account – Ledger** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2010	To Bank A/c (28,000 + 4,000)	32,000	31.12.2010	By Depreciation A/c	3,200
			31.12.2010	By Balance c/d	28,800
		32,000			**32,000**
01.01.2011	To Balance b/d	28,800	31.12.2011	By Depreciation A/c	3,200
			31.12.2011	By Balance c/d	25,600
		28,800			**28,800**

(Contd.)

01.01.2012	To Balance b/d	25,600	31.12.2012	By Depreciation A/c	3,200
			31.12.2012	By Balance c/d	22,400
		25,600			**25,600**
01.01.2013	To Balance b/d	22,400	31.03.2013	By Depreciation A/c (3,200 × 3/12)	800
			31.03.2013	By Bank (Sale)	12,000
			31.03.2013	**By Profit & Loss A/c – Loss – (Bal. fig.)**	**9,600**
		22,400			**22,400**

✎ ILLUSTRATION 7:

Vimal & Brothers purchased a Machinery on 1st July 2011 for ₹4,75,000. Machinery is to be depreciated at 20% per annum, under Straight Line Method. On 31st March 2014, the Machinery became obsolete and was sold for ₹1,05,000. Accounts are closed on 31st March every year.

Prepare Machinery Account and Depreciation on Machinery Account.

Solution:

Working Notes

Particulars	*(₹)*
Cost of Machinery (01.07.2011)	4,75,000
Less: Depreciation for 2011–12 (for 9 Months at the rate of 20%)	71,250
Value of Machinery as on 01.04.2012	**4,03,750**
Less: Depreciation for 2012–13	95,000
Value of Machinery as on 01.04.2013	**3,08,750**
Less: Depreciation for 2013–14	95,000
Value of Machinery as on 01.04.2014	**2,13,750**

Calculation of Profit/Loss

Value of Machinery on 01.04.2014	**₹2,13,750**
Sale Price	**₹1,05,000**
Loss on Sale	**₹1,08,750**

Dr. **Machinery Account – Ledger** **Cr**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particular*	*Amount (₹)*
01.07.2011	To Bank A/c	4,75,000	31.03.2012	By Depreciation A/c	71,250
			31.03.2012	By Balance c/d	4,03,750
		4,75,000			**4,75,000**
01.04.2012	To Balance b/d	4,03,750	31.03.2013	By Depreciation A/c	95,000
			31.03.2013	By Balance c/d	3,08,750
		4,03,750			**4,03,750**
01.04.2013	To Balance b/d	3,08,750	31.03.2014	By Depreciation A/c	95,000
			31.03.2014	By Bank A/c	1,05,000
			31.03.2014	**By Profit & Loss A/c (Loss on sale)**	**1,08,750**
		3,08,750			**3,08,750**

Dr. **Depreciation on Machinery Account – Ledger** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.03.2012	To Machinery A/c	71,250	31.03.2012	By Profit & Loss A/c	71,250
		71,250			**71,250**
31.03.2013	To Machinery A/c	95,000	31.03.2013	By Profit & Loss A/c	95,000
		95,000			**95,000**
31.03.2014	To Machinery A/c	95,000	31.03.2014	By Profit & Loss A/c	95,000
		95,000			**95,000**

✎ ILLUSTRATION 8:

On 1st April 2008, Sudha & Co. purchased a Machinery for ₹84,000 and spent ₹26,000 for its installation. Depreciation is to be written off at 10% per annum under Straight Line Method. On 30th June 2010, the Machinery was found to be unsuitable and sold for ₹70,000. Assume that the accounts are closed on 31st December every year. Pass journal entries and prepare Machinery Account and Depreciation on Machinery Account for three years.

Solution:

$$\text{Total Cost} = \text{Purchase Price} + \text{Installation Charges}$$
$$= ₹84,000 + ₹26,000$$
$$= ₹1,10,000$$

$$\text{Depreciation per Year} = 1,10,000 \times \frac{10}{100} = ₹11,000$$

Working Notes

Calculation of Profit or Loss on Sale of Machinery

Particulars	*(₹)*
Cost of Machinery (01.04.2008)	1,10,000
Less: Depreciation for 9 Months (01.04.2008 – 31.12.2008)	8,250
Value of Machinery as on 01.01. 2009	**1,01,750**
Less: Depreciation for 2009–10 (01.01.2009 – 31.12.2009)	11,000
Value of Machinery as on 01.01.2010	**90,750**
Less: Depreciation till Date of Sale (30.6.2010)	5,500
Value of Machinery as on 30.06.2010	**85,250**

Calculation of Profit/Loss

Value of Machinery on 30.06.2010	**₹85,250**
Sale Price	**₹70,000**
Loss on Sale	**₹15,250**

Journal Entries
In the Books of Sudha & Co.

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.04.2008	Machinery A/c	Dr.	1,10,000	
	To Bank A/c			1,10,000
	(Being Machinery purchased)			
31.12.2008	Depreciation A/c	Dr.	8,250	
	To Machinery A/c			8,250
	(Being depreciation provided)			
31.12.2008	Profit & Loss A/c	Dr.	8,250	
	To Depreciation A/c			8,250
	(Being depreciation transferred to profit and loss account)			

(Contd.)

31.12.2009	Depreciation A/c Dr. To Machinery A/c (Being depreciation provided)	11,000	 11,000
31.12.2009	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to profit and loss account)	11,000	 11,000
30.06.2010	Depreciation A/c Dr To Machinery A/c (Being depreciation provided)	5,500	 5,500
30.06.2010	Cash A/c Dr. Profit & Loss A/c Dr. To Machinery A/c (Being Machinery sold for cash and loss transferred to profit and loss account)	70,000 15,250	 85,250
30.06.2010	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to profit and loss account)	5,500	 5,500

Dr. **Machinery Account – Ledger** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.04.2008	To Bank A/c	1,10,000	31.03.2009	By Depreciation A/c	8,250
			31.03.2009	By Balance c/d	1,01,750
		1,10,000			**1,10,000**
01.01.2009	To Balance b/d	1,01,750	31.12.2010	By Depreciation A/c	11,000
			31.12.2010	By Balance c/d	90,750
		1,01,750			**1,01,750**
01.01.2010	To Balance b/d	90,750	30.06.2010	By Depreciation A/c	5,500
			30.06.2010	By Balance c/d	85,250
		90,750			**90,750**

Dr. Depreciation on Machinery Account – Ledger Cr.

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.12.2009	To Machinery A/c	8,250	31.12.2009	By Profit & Loss A/c	8,250
		8,250			**8,250**
31.12.2010	To Machinery A/c	11,000	31.12.2010	By Profit & Loss A/c	11,000
		11,000			**11,000**
30.06.2010	To Machinery A/c	5,500	30.06.2010	By Profit & Loss A/c	5,500
		5,500			**5,500**

✎ ILLUSTRATION 9:

A new Machinery was purchased for ₹6,00,000 on 1st April 2001. On 1st October 2002, another Machinery was purchased for ₹4,40,000. On 30th September 2003, the Machinery purchased on 1st April 2001 was sold for ₹3,40,000. Depreciation is to be provided at 10% per annum, under Straight Line Method. Accounts are closed on 31st March every year. Pass journal entries and prepare Machinery Account and Depreciation on Machinery Account for three years.

Solution:

Working Notes

Calculation of Profit or Loss on Sale of Machinery

Machinery 1

Particulars	*(₹)*
Cost of Machinery (April, 2001)	6,00,000
Less: Depreciation (01.04.2001 – 31.03.2002)	60,000
Value of Machinery as on 01.04.2002	**5,40,000**
Less: Depreciation (01.04.2002 – 31.03.2003)	60,000
Value of Machinery as on 01.04. 2003	**4,80,000**
Less: Depreciation till the date of sale (30.9.2003)	30,000
Value of Machinery as on 30.09.2003	**4,50,000**

Calculation of Profit/Loss

Value of Machinery on 30.09.2003	**₹4,50,000**
Sale Price	**₹3,40,000**
Loss on Sale	**₹1,10,000**

Machinery 2

Particulars	*(₹)*
Cost of Machinery (01.10.2002)	4,40,000
Less: Depreciation for 2002–03 for 6 months, till 31.03.2003	22,000
Value of Machinery as on 01.04.2003	**4,18,000**
Less: Depreciation 2003–04 till the date 31.3.2004	44,000
Value of Machinery as on 01.04.2004	**3,74,000**

In the Books of Sudha & Co.
Journal Entries

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.04.2001	Machinery A/c	Dr.	6,00,000	
	To Bank A/c			6,00,000
	(Being Machinery purchased)			
31.03.2002	Depreciation A/c	Dr.	60,000	
	To Machinery A/c			60,000
	(Being depreciation provided)			
31.03.2002	Profit & Loss A/c	Dr.	60,000	
	To Depreciation A/c			60,000
	(Being depreciation transferred to profit and loss account)			
01.10.2002	Machinery A/c	Dr.	4,40,000	
	To Bank A/c			4,40,000
	(Being new Machinery purchased)			
31.03.2003	Depreciation A/c	Dr.	82,000	
	To Machinery A/c			82,000
	(Being depreciation provided)			
31.03.2003	Profit & Loss A/c	Dr.	82,000	
	To Depreciation A/c			82,000
	(Being depreciation transferred to profit and loss account)			

(Contd.)

30.09.2003	Depreciation A/c Dr. To Machinery A/c (Being depreciation provided on first machine till the date of sale)	30,000	 30,000
30.09.2003	Bank A/c Dr. Profit & Loss A/c Dr. To Machinery A/c (Being first Machinery sold and loss transferred to profit and loss account)	3,40,000 1,10,000	 4,50,000
31.03.2004	Depreciation A/c Dr. To Machinery A/c (Being depreciation provided)	44,000	 44,000
31.03.2004	Profits & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to profit and loss account)	44,000	 44,000

Dr. **Machinery Account – Ledger** **Cr.**

Date	*Particular*	*Amount (₹)*	*Date*	*Particular*	*Amount (₹)*
01.04.2001	To Bank A/c	6,00,000	31.03.2002	By Depreciation A/c	60,000
			31.03.2002	By Balance c/d	5,40,000
		6,00,000			**6,00,000**
01.04.2002	To Balance b/d	5,40,000	31.03.2003	By Depreciation A/c	82,000
01.10.2002	To Bank A/c	4,40,000	31.03.2003	By Balance c/d	8,98,000
		9,80,000			**9,80,000**
01.04.2003	To Balance b/d	8,98,000	30.09.2003	By Depreciation A/c	30,000
			30.09.2003	By Bank A/c	3,40,000
			30.09.2003	By Profit & Loss A/c (Loss on sale)	1,10,000
			31.03.2004	By Depreciation	44,000
			31.03.2004	**By Balance c/d – (Bal. fig.)**	**3,74,000**
		8,98,000			**8,98,000**
01.04.2004	To Balance b/d	3,74,000			

Value of Machinery as on 01.04.2004 = ₹3,74,000

Dr. **Depreciation on Machinery Account – Ledger** **Cr.**

Date	*Particular*	*Amount (₹)*	*Date*	*Particular*	*Amount (₹)*
31.03.2002	To Machinery A/c	60,000	31.03.2002	By Profit & Loss A/c	60,000
		60,000			**60,000**
31.03.2003	To Machinery A/c	82,000	31.03.2003	By Profit & Loss A/c	82,000
		82,000			**82,000**
30.09.2003	To Machinery A/c	30,000	31.03.2004	By Profit & Loss A/c	74,000
31.03.2003	To Machinery	44,000			
		74,000			**74,000**

✎ ILLUSTRATION 11:

Mr. Ram furnishes the following particulars. Prepare the Machinery Account and determine the Profit or Loss on sale of plant.

Date of Purchase	01.01.2010
Asset Purchased	Plant
Asset Value	₹7,00,000
Rate of Depreciation	15%
Accounting Year/Period	January–December
Method of Depreciation	Original Cost Method
Plant Sold on 31.12.2012	₹5,00,000

Solution:

Dr. **Plant Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2010	To Bank A/c	7,00,000	31.12.2010	By Depreciation A/c	1,05,000
				By Balance c/d	5,95,000
		7,00,000			**7,00,000**
01.01.2011	To Balance b/d	5,95,000	31.12.2011	By Depreciation A/c	1,05,000
				By Balance c/d	4,90,000
		5,95,000			**5,95,000**

(Contd.)

01.01.2012	To Balance b/d	4,90,000	31.12.2012	By Depreciation A/c	1,05,000
31.12.2012	**To Profit & Loss A/c – Profit – (Bal. fig.)**	**1,15,000**	31.12.2012	By Cash (Sale)	5,00,000
		6,05,000			**6,05,000**

✎ ILLUSTRATION 12:

Mr. Rajesh furnishes the following particulars related to his business.

Particulars	*Asset I*	*Asset II*
Asset Purchased	Plant	Plant
Date of Purchase	01.04.2010	01.04.2012
Asset Value	₹12,00,000	₹10,00,000
Rate of Depreciation	10%	15%
Accounting Year	April–March	April–March
Methods of Depreciation	Original Cost	Original Cost
Prepare Plant Account for	3 Years	1 Year

Prepare the Plant Account in the books of Mr. Rajesh.

Solution:

Dr. **Plant Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.04.2010	To Bank A/c	12,00,000	31.03.2011	By Depreciation A/c	1,20,000
				By Balance c/d	10,80,000
		12,00,000			**12,00,000**
01.04.2011	To Bank b/d	10,80,000	31.03.2012	By Depreciation A/c	1,20,000
				By Balance c/d	9,60,000
		10,80,000			**10,80,000**

(Contd.)

01.04.2012	To Balance b/d	9,60,000	31.03.2013	By Depreciation A/c – M1	1,20,000
01.04.2012	To Bank – M2	10,00,000		By Depreciation A/c – M2	1,50,000
				By Balance c/d	16,90,000
		19,60,000			**19,60,000**
01.04.2013	**To Balance b/d**	**16,90,000**			

✎ ILLUSTRATION 13:

Mr. Rahim furnishes the following particulars.

Particulars	*Asset I*	*Asset II*
Asset Purchased	Machinery	Machinery
Date of Purchase	01.04.2007	01.04.2009
Asset Value	₹6,00,000	₹4,00,000
Rate of Depreciation	5%	10%
Accounting Year/Period	April–March	April–March
Method of Depreciation	Straight Line	Straight Line
Asset Sold on 30.10.2009	4,90,000	—
Prepare Machinery Account	3 Years	1 Year

Solution:

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.04.2007	To Bank A/c – M1	6,00,000	31.03.2008	By Depreciation A/c – M1	30,000
			31.03.2008	By Balance c/d	5,70,000
		6,00,000			**6,00,000**
01.04.2008	To Balance b/d	5,70,000	31.03.2009	By Depreciation A/c – M1	30,000
			31.03.2009	By Balance c/d	5,40,000
		5,70,000			**5,70,000**

(Contd.)

01.04.2009	To Balance b/d	5,40,000	30.10.2009	By Depreciation A/c – M1	22,500
01.04.2009	To Bank – M2	4,00,000	30.10.2009	By Bank A/c	4,90,000
			30.10.2009	By Loss A/c – M1	27,500
			31.03.2010	By Depreciation A/c – M2	40,000
			31.03.2010	**By Balance c/d – (Bal. fig.)**	**3,60,000**
		9,40,000			**9,40,000**
		3,60,000			

✎ ILLUSTRATION 14:

Mr. Javith furnishes the following particulars. Determine the value of his assets for the year ending 31st December 2013. Prepare the Motor Car Account and Machinery Account.

Particulars	*Asset I*	*Asset II*
Asset Purchased	Motor Car	Machinery
Date of Purchase	01.01.2011	01.01.2013
Asset Value	₹2,00,000	₹1,00,000
Rate of Depreciation	10%	15%
Accounting Year/Period	Jan–Dec	Jan–Dec
Methods of Depreciation	Original Cost	Original Cost

Solution:

Dr. **Motor Car Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2011	To Bank A/c	2,00,000	31.12.2011	By Depreciation A/c	20,000
			31.12.2011	By Balance c/d	1,80,000
		2,00,000			**2,00,000**
01.01.2012	To Bank b/d	1,80,000	31.12.2012	By Depreciation A/c	20,000
			31.12.2012	By Balance c/d	1,60,000
		1,80,000			**1,80,000**

(Contd.)

01.01.2013	To Balance b/d	1,60,000	31.12.2013	By Depreciation A/c	20,000
			31.12.2013	By Balance c/d	1,40,000
		1,60,000			**1,60,000**
01.01.2014	**To Balance b/d**	**1,40,000**			

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2013	To Bank A/c	1,00,000	31.12.2013	By Depreciation A/c	15,000
				By Balance c/d – (Bal. fig.)	**85,000**
		1,00,000			**1,00,000**

Provision for Depreciation Account

✎ ILLUSTRATION 15:

A new Machinery was purchased on 1st January 2013 for ₹1,50,000. On 1st July 2013, another Machinery was purchased for ₹1,25,000. On 1st July 2014, the first Machinery purchased was sold for ₹1,20,000. Depreciation was written off at 10% on Original Cost Method. The accounts are closed on 31st December every year. You are required to prepare:

(a) Machinery Account

(b) Provision for Depreciation Account

Solution:

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2013	To Bank A/c – M1	1,50,000	31.12.2013	**By Balance c/d – (Bal. fig.)**	**2,75,000**
01.07.2013	To Bank A/c – M2	1,25,000			
		2,75,000			**2,75,000**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2014	To Balance b/d	2,75,000	01.07.2014	By Bank	1,20,000
			01.07.2014	By Profit & Loss A/c (Loss on sale)	7,500
			01.07.2014	By Provision for Depreciation (15,000 + 7,500)	22,500
			31.12.2014	**By Balance c/d – (Bal. fig.)**	**1,25,000**
		2,75,000			**2,75,000**

Dr. **Provision for Depreciation Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.12.2013	To Balance b/d	21,250	31.12.2013	By Depreciation A/c –M1 (1,50,000 × 10/100)	15,000
			31.12.2013	By Depreciation A/c –M2 (1,25,000 × 10/100 × 6/12)	6,250
		21,250			**21,250**
01.07.2014	To Machinery (15,000 + 7,500)	22,500	01.01.2014	By Balance b/d	21,250
31.12.2014	**To Balance c/d – (Bal. fig.)**	**18,750**	01.07.2014	By Depreciation – M1 (1,50,000 × 10/100 × 6/12)	7,500
			31.12.2014	By Depreciation – M2 (1,25,000 × 10/100)	12,500
		41,250			**41,250**

✎ ILLUSTRATION 16:

Srimathi & Co. purchased a new Machinery on 1st January 2015 for ₹3,00,000. On 1st July 2015, another Machinery was purchased for ₹2,50,000. On 1st July 2016, the first Machinery purchased was sold for ₹2,40,000. Depreciation was written off at 10% on Original Cost Method. The accounts are closed on 31st December every year. You are required to prepare:

(a) Machinery Account

(b) Provision for Depreciation Account

Solution:

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2015	To Bank A/c – M1	3,00,000	31.12.2015	**By Balance c/d – (Bal. Fig.)**	**5,50,000**
01.07.2015	To Bank A/c – M2	2,50,000			
		5,50,000			**5,50,000**
01.01.2016	To Balance b/d	**5,50,000**	01.07.2016	By Bank	2,40,000
			01.07.2016	By Profit & Loss A/c (Loss on sale)	15,000
			01.07.2016	By Provision for Depreciation (30,000 + 15,000)	45,000
			31.12.2016	**By Balance c/d – (Bal. fig.)**	**2,50,000**
		5,50,000			**5,50,000**

Dr. **Provision for Depreciation Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
				By Depreciation A/c – M1	30,000
31.12.2015	To Balance b/d	42,500	31.12.2015	(3,00,000 × 10/100)	

(Contd.)

			31.12.2015	By Depreciation A/c – M2 (2,50,000 × 10/100 × 6/12)	12,500
		42,500			**42,500**
01.07.2016	**To Machinery (30,000 + 15,000)**	45,000	01.01.2016	Balance b/d	42,500
			01.07.2016	By Depreciation – M1 (3,00,000 × 10/100 × 6/12)	15,000
31.12.2016	**To Balance c/d – (Bal. fig.)**	**37,500**	31.12.2016	By Depreciation – M2 (2,50,000 × 10/100)	25,000
		82,500			**82,500**

✎ ILLUSTRATION 17:

A new Machinery was purchased on 1st January 2005 for ₹50,000. On 1st July 2005, another Machinery was purchased for ₹25,000. On 1st July 2006, the first Machinery purchased was sold for ₹20,000. Depreciation was written of at 20% on Original Cost Method. The accounts are closed on 31st December every year. You are required to prepare:

(a) Machinery Account

(b) Provision for Depreciation Account

Solution:

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2005	To Bank A/c – M1	50,000			
01.07.2005	To Bank A/c – M2	25,000	31.12.2005	**By Balance c/d – (Bal. fig.)**	**75,000**
		75,000			**75,000**

(Contd.)

01.01.2006	To Balance b/d	75,000	01.07.2006	By Bank	20,000
			01.07.2006	By Profit & Loss A/c (Loss on sale)	15,000
			01.07.2006	By Provision for Depreciation (10,000 + 5,000)	15,000
			31.12.2006	**By Balance c/d – (Bal. fig.)**	**25,000**
		75,000			**75,000**

Dr. **Provision for Depreciation Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
			31.12.2005	By Depreciation A/c – M1 (50,000 × 20/100)	10,000
31.12.2005	**To Balance c/d – (Bal. fig.)**	**12,500**	31.12.2005	By Depreciation A/c – M2 (25,000 × 20/100 × 6/12)	2,500
		12,500			**12,500**
01.07.2006	To Machinery (10,000 + 5,000)	15,000	01.01.2006	Balance b/d	12,500
31.12.2006	**To Balance c/d – (Bal. fig.)**	**7,500**	01.07.2006	By Depreciation – M1 (50,000 × 20/100 × 6/12)	5,000
			31.12.2006	By Depreciation – M2 (25000 × 20/100)	5,000
		22,500			**22,500**

✎ ILLUSTRATION 18

The following balances appear in the books of Mohan
1.1.2015 Machinery A/c ₹40,000
1.1.2015 Provision for Depreciation A/c ₹18,000

On 01.01.2015, he desired to sell a machine for ₹4,350. This machine was purchased for ₹8,000 in January 2011. You are required to prepare provision for Depreciation A/c and Machinery A/c on 31.12.2015 assuming the firm has been charging depreciation at 10% per p.a. on Straight line method.

Solution

Machinery Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
01.01.2015	To Balance b/d	40,000	01.01.2015	By Bank	4,350
			01.01.2015	By Provision for Depreciation	3,200
			01.01.2015	By Loss on Sale	450
			31.12.2015	**By Balance c/d (Bal. fig.)**	**32,000**
		40,000			**40,000**

Provision for Depreciation

Date	*Particulars*	₹	*Date*	*Particulars*	₹
01.01.2015	To Machinery A/c	3,200	01.01.2015	By Balance b/d	18,000
31.12.2015	**To Balance c/d (Bal. fig.)**	**18,000**	31.12.2015	By Profit and Loss A/c	3,200
		21,200			**21,200**

(May 2017 DE-095/12)

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

✎ ILLUSTRATION 19:

Mr. Xavier furnishes the following particulars and requires you to prepare the Motor Van Account for three years, ending 31st December 2006.

Asset Purchased	Motor Van
Date of Purchase	01.01.2004
Asset Value	₹10,00,000
Rate of Depreciation	10%
Accounting Year	January–December
Method of Depreciation	Diminishing Balance Method

Prepare Motor Van Account for three years.

Solution:

Dr. **Motor Van Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2004	To Bank A/c	10,00,000	31.12.2004	By Depreciation A/c	1,00,000
			31.12.2004	By Balance c/d	9,00,000
		10,00,000			**10,00,000**
01.01.2005	To Balance b/d	9,00,000	31.12.2005	By Depreciation A/c	90,000
			31.12.2005	By Balance c/d	8,10,000
		9,00,000			**9,00,000**
01.01.2006	To Balance b/d	8,10,000	31.12.2006	By Depreciation A/c	81,000
			31.12.2006	By Balance c/d	7,29,000
		8,10,000			**8,10,000**
01.01.2007	To Balance b/d	**7,29,000**			

Value of Motor Van as on 01.01.2007 = ₹7,29,000

✎ ILLUSTRATION 20:

Mr. Suresh furnishes the following particulars and requests you to prepare the Furniture Account for three years.

Asset Purchased	*Furniture*
Date of Purchase	01.01.2005
Asset Value	₹4,00,000
Rate of Depreciation	10%
Accounting Year/Period	January–December
Method of Depreciation	Written Down Value Method
Asset sold on 31.12.2007	₹3,10,000

Solution:

Dr. **Furniture Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2005	To Bank A/c	4,00,000	31.12.2005	By Depreciation A/c	40,000
			31.12.2005	By Balance c/d	3,60,000
		4,00,000			**4,00,000**
01.01.2006	To Balance b/d	3,60,000	31.12.2006	By Depreciation A/c	36,000
			31.12.2006	By Balance c/d	3,24,000
		3,60,000			**3,60,000**
01.01.2007	To Balance b/d	3,24,000	31.12.2007	By Depreciation A/c	32,400
31.12.2007	**To Profit & Loss A/c – (Bal. fig.)**	**18,400**	31.12.2007	By Cash – (Sale)	3,10,000
		3,42,400			**3,42,400**

✎ ILLUSTRATION 21:

Bharathiar Manufacturing Company purchased a Machinery on 1st April 2009, for ₹8,00,000. After having used it for three years, it was sold for ₹6,50,000. Depreciation is to be provided every year at the rate of 10% per annum on Written Down Value Method. Books are closed on 31st March every year. Find out the Profit or Loss on sale of Machinery.

Solution:

Working Note

Particulars	*(₹)*
Cost of Machinery (April, 2009)	8,00,000
Less: Depreciation for 2009–10	80,000
Value of Machinery as on 01.04.2010	**7,20,000**
Less: Depreciation for 2010–11	72,000
Value of Machinery as on 01.04.2011	**6,48,000**
Less: Depreciation for 2011–12	64,800
Value on Machinery on Date of Sale	**5,83,200**

Calculation of Profit/Loss

Value of Machinery on Date of Sale	**₹5,83,200**
Sale Price	**₹6,50,000**
Profit on Sale of Machinery	**₹66,800**

✎ ILLUSTRATION 22:

Siva & Co. Manufacturing Company purchased a motor van on 1st April 2012 for ₹3,00,000. At the end of third year, the motor van was sold for ₹1,50,000. Depreciation is to be calculated at the rate of 15% per annum on Written Down Value Method. Books are closed on 31st March every year. Find out the Profit or Loss on sale of motor van.

Solution:

Working Notes

Particular	*(₹)*
Cost of Motor Van (April, 2012)	3,00,000
Less: Depreciation for 2012–13	45,000
	2,55,000
Less: Depreciation for 2013–14	38,250
	2,16,750
Less: Depreciation for 2014–15	32,513
Book Value of Motor Van on Date of Sale	**1,84,237**

Calculation of Profit/Loss

Value of Motor Van on Date of Sale	**₹1,84,237**
Sale Price	**₹1,50,000**
Loss on Sale	**₹34,237**

✎ ILLUSTRATION 23:

ABC Ltd. purchased furniture for ₹1,50,000 on 1st April 2002. Furniture was depreciated at 10% per annum on Written Down Value Method. The accounting year ends on 31st March of every year. Pass journal entries for three years.

Solution:

Working Note

Calculation of Amount of Depreciation

Particulars	*(₹)*
Cost of Furniture (April, 2002)	1,50,000
Less: Depreciation for 2002–03	15,000
Value of Furniture as on 01.04.2003	**1,35,000**
Less: Depreciation for 2003–04	13,500
Value of Furniture as on 01.04.2004	**1,21,500**
Less: Depreciation for 2004–05	12,150
Value of Furniture as on 01.04.2005	**1,09,350**

Journal Entries
In the Books of ABC Ltd.

Date	*Particulars*	*Debit (₹)*	*Credit (₹)*
01.04.2002	Furniture A/c Dr. To Bank A/c (Being furniture purchased)	1,50,000	1,50,000
31.03.2003	Depreciation A/c Dr. To Furniture A/c (Being depreciation provided)	15,000	15,000
31.03.2003	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to profit and loss account)	15,000	15,000
31.03.2004	Depreciation A/c Dr. To Furniture A/c (Being depreciation provided)	13,500	13,500
31.03.2004	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to profit and loss account)	13,500	13,500
31.03.2005	Depreciation A/c Dr. To Furniture A/c (Being depreciation provided)	12,150	12,150
31.03.2005	Profits & Loss A/c To Depreciation A/c (Being depreciation transferred to profit and loss account)	12,150	12,150

✎ ILLUSTRATION 24:

ABC Ltd. Company purchased a truck for ₹4,50,000 on 1st April 2013. The truck was depreciated at 10% per annum on Written Down Value Method. The accounting year ends on 31st March of every year. Prepare the Truck Account and Depreciation on Truck Account for three years, ending 31st March 2016.

Solution:

Dr. **Truck Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.04.2013	To Bank A/c	4,50,000	31.3.2014	By Depreciation A/c	45,000
			31.3.2014	By Balance c/d	4,05,000
		4,50,000			**4,50,000**
01.04.2014	To Balance b/d	4,05,000	31.03.2015	By Depreciation A/c	40,500
			31.03.2015	By Balance c/d	3,64,500
		4,05,000			**4,05,000**
01.04.2015	To Balance b/d	3,64,500	31.03.2016	By Depreciation A/c	36,450
			31.03.2016	**By Balance c/d – (Bal. fig.)**	**3,28,050**
		3,64,500			**3,64,500**
01.04.2016	To Balance b/d	**3,28,050**			

Dr. **Depreciation on Truck Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.03.2014	To Machinery A/c	45,000	31.03.2014	By Profit & Loss A/c	45,000
		45,000			**45,000**
31.03.2015	To Machinery A/c	40,500	31.03.2015	By Profit & Loss A/c	40,500
		40,500			**40,500**
31.03.2016	To Machinery A/c	36,450	31.03.2016	By Profit & Loss A/c	36,450
		36,450			**36,450**

✎ ILLUSTRATION 25:

Gurudev Manufacturing Company purchased a second-hand Machinery on 1st April 2012 for ₹4,90,000 and spent ₹10,000 for its repairs. On 31st March 2015, the Machinery was sold for ₹3,50,000. Depreciation is to be provided every year at 15% per annum on Written Down Value Method. Books were closed on 31st March 2018.

Pass journal entries and prepare Machinery Account and Depreciation on Machinery Account.

Solution:

Working Note

Particulars	*(₹)*
Cost of Machinery (April, 2012) (4,90,000 + 10,000)	5,00,000
Less: Depreciation for 2012–13	75,000
	4,25,000
Less: Depreciation for 2013–14	63,750
	3,61,250
Less: Depreciation for 2014–15	54,188
Book Value on Date of Sale	**3,07,062**

Calculation of Profit/Loss

Value of Machinery on Date of Sale	**₹3,07,062**
Sale Price	**₹3,50,000**
Profit on Sale	**₹42,938**

Journal Entries
In the Books of Gurudev

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.04.2012	Machinery A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	(Being Machinery purchased)			
31.03.2013	Depreciation A/c	Dr.	75,000	
	To Machinery A/c			75,000
	(Being depreciation provided)			

(Contd.)

31.03.2013	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to profit and loss account)	75,000	75,000
31.03.2014	Depreciation A/c Dr. To Machinery A/c (Being depreciation provided)	63,750	63,750
31.03.2014	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to profit and loss account)	63,750	63,750
31.03.2015	Depreciation A/c Dr. To Machinery A/c (Being depreciation provided)	54,188	54,188
31.03.2015	Cash A/c Dr. To Machinery A/c (Being Machinery sold for cash)	3,50,000	3,50,000
31.03.2015	Machinery A/c Dr. To Profit & Loss A/c (Being profit on sale of Machinery transferred to P/L A/c)	42,938	42,938
31.03.2015	Profit & Loss A/c Dr. To Depreciation A/c (Depreciation transferred to profit and loss account)	54,188	54,188

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.04.2012	To Bank A/c	5,00,000	31.3.2013	By Depreciation A/c	75,000
			31.3.2013	By Balance c/d	4,25,000
		4,25,000			**4,25,000**
01.04.2013	To Balance b/d	4,25,000	31.03.2014	By Depreciation A/c	63,750
			31.03.2014	By Balance c/d	3,61,250
		4,25,000			**4,25,000**
01.04.2014	To Balance b/d	3,61,250	31.03.2015	By Depreciation A/c	54,188
31.03.2015	**To Profit & Loss A/c – Profit – (Bal. fig.)**	**42,938**	31.03.2015	By Cash (Sale)	3,50,000
		4,04,188			**4,04,188**

Dr. **Depreciation on Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.03.2013	To Machinery A/c	75,000	31.3.2013	By Profit & Loss A/c	75,000
		75,000			**75,000**
31.03.2014	To Machinery A/c	63,750	31.03.2014	By Profit & Loss A/c	63,750
		63,750			**63,750**
31.03.2015	To Machinery A/c	54,188	31.03.2015	By Profit & Loss A/c	54,188
		54,188			**54,188**

✎ ILLUSTRATION 26:

Chennai Printing House company purchased a Machinery on 1st July 2007 for ₹2,10,000. On 1st October 2009, it purchased another Machinery for ₹1,00,000. On 1st October 2010, it sold off the first Machinery purchased on 1st June 2007 for ₹1,80,000. Accounts are closed every year on 31st March. Depreciation is written off at 10% per annum on diminishing balance method. Pass journal entries and prepare Machinery Account up to 31st March 2011.

Solution:

Working Note 1

Machinery 1

Particulars	*(₹)*
Cost of Machinery (01.07.2007)	2,10,000
Less: Depreciation for 2007–08 for 9 months only	15,750
Value of Machinery as on 01.04.2008	**1,94,250**
Less: Depreciation for 2008–09	19,425
Value of Machinery as on 01.04.2009	**1,74,825**
Less: Depreciation for 2009–10	17,483
Value of Machinery as on 01.04.2010	**1,57,342**
Less: Depreciation for 2010 till 01.10.2010	7,867
Value of Machinery on Date of Sale	**1,49,475**

Calculation of Profit/Loss

Value of Machinery on the date of Sale	**₹1,49,475**
Sale Price	**₹1,80,000**
Profit on Sale	**₹30,525**

Working Note 2

Machinery 2

Particulars	*(₹)*
Cost of Machinery (01.10 2009)	1,00,000
Less: Depreciation for 2009–10 for 6 months only	5,000
Value of Machinery as on 01.04.2012	**95,000**
Less: Depreciation for 2010–11	9,500
Value on Machinery as on 31.03.2011	**85,500**

Journal Entries
In the Books of Sudha & Co.

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.07.2007	Machinery A/c	Dr.	2,10,000	
	To Bank A/c			2,10,000
	(Being Machinery purchased)			
31.03.2008	Depreciation A/c	Dr.	15,750	
	To Machinery A/c			15,750
	(Being depreciation provided)			
31.03.2008	Profit & Loss A/c	Dr.	15,750	
	To Depreciation A/c			15,750
	(Being depreciation transferred to profit and loss account)			
31.03.2009	Depreciation A/c	Dr.	19,425	
	To Machinery A/c			19,425
	(Being depreciation provided)			
31.03.2009	Profit & Loss A/c	Dr.	19,425	
	To Depreciation A/c			19,425
	(Being depreciation transferred to profit and loss account)			

(Contd.)

01.10.2009	Machinery A/c Dr. To Bank A/c (Being new Machinery purchased)	1,00,000	1,00,000
31.03.2010	Depreciation A/c Dr. To Machinery A/c (Being depreciation provided)	22,483	22,483
31.03.2010	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to profit and loss account)	22,483	22,483
01.10.2010	Depreciation A/c Dr. To Machinery A/c (Being depreciation provided on first machine till the date of sale)	7,867	7,867
01.10.2010	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to profit and loss account)	7,867	7,867
01.10.2010	Cash A/c Dr. To Machinery A/c To Profit & Loss A/c (Being Machinery sold)	1,80,000	1,80,000
01.10.2010	Machinery A/c Dr. To Profit & Loss A/c (Being Profit on sale of Machinery transferred to P/L A/c)	30,525	30,525
31.03.2011	Depreciation A/c Dr. To Machinery A/c (Being depreciation provided)	9,500	9,500
31.03.2011	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to profit and loss account)	9,500	9,500

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.06.2007	To Bank A/c – M1	2,10,000	31.03.2008	By Depreciation A/c	15,750
			31.03.2008	By Balance c/d	1,94,250
		2,10,000			**2,10,000**

(Contd.)

01.04.2008	To Balance b/d	1,94,250	31.03.2009	By Depreciation A/c	19,425
			31.03.2009	By Balance c/d	1,74,825
		1,94,250			**1,94,250**
01.04.2009	To Balance b/d	1,74,825	31.03.2010	By Depreciation A/c (17,483 + 5,000)	22,483
01.10.2009	To Bank A/c – M2	1,00,000			
			31.03.2010	By Balance c/d	2,52,342
		2,74,825			**2,74,825**
01.04.2010	To Balance b/d	2,52,342	01.10.2010	By Bank A/c	1,80,000
01.10.2010	To Profit & Loss A/c (Profit on sale)	30,525	01.10.2010	By Depreciation A/c (7,867 + 9,500)	17,367
			31.03.2011	By Balance c/d	85,500
		2,82,867			**2,82,867**

Dr. **Depreciation on Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.03.2008	To Machinery A/c	15,750	31.03.2008	By Profit & Loss A/c	15,750
		15,750			**15,750**
31.03.2009	To Machinery A/c	19,425	31.03.2009	By Profit & Loss A/c	19,425
		19,425			**19,425**
31.03.2010	To Machinery A/c	22,483	31.03.2010	By Profit & Loss A/c	22,483
		22,483			**22,483**
31.03.2011	To Machinery A/c	17,367	31.03.2011	By Profit & Loss A/c	17,367
		17,367			**17,367**

✎ ILLUSTRATION 27:

Ms Devi purchased a new Machinery on 1st April 2009 for ₹3,60,000. On 1st October 2009, another Machinery was purchased for ₹1,80,000. On 30th September 2010, the second machine was sold for ₹2,60,000. Rate of depreciation to be provided at 10% under diminishing balance method. Books are closed on 31st March every year. Prepare Machinery Account for three years.

Solution:

Working Note 1

Machinery 1

Particulars	*(₹)*
Cost of Machinery on 01.04.2009	3,60,000
Less: Depreciation for 2009–10	36,000
Value of Machinery as on 01.04.2010	**3,24,000**
Less: Depreciation for 2010–11	32,400
Value of Machinery as on 01.04.2011	**2,91,600**
Less: Depreciation for 2011–12	29,160
Value of Machinery as on 01.04.2012	**2,62,440**

Working Note 2

Machinery 2

Particulars	*(₹)*
Cost of Machinery on 01.10.2009	1,80,000
Less: Depreciation for 2009–10 till on 31.03.2010 (6 months)	9,000
Value of Machinery as on 01.04.2010	**1,71,000**
Less: Depreciation for 2010 till Date of sale (30.09.2010)	8,550
Value on Machinery as on Date of sale	**1,62,450**

Calculation of Profit/Loss

Value of Machinery on the Date of sale	**₹1,62,450**
Sale price	**₹2,60,000**
Profit on sale of Machinery	**₹97,550**

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.04.2009	To Bank A/c – M1	3,60,000	31.03.2010	By Depreciation A/c (36,000 + 9,000)	45,000
01.10.2009	To Bank A/c – M2	1,80,000	31.03.2010	By Balance c/d	4,95,000
		5,40,000			**5,40,000**
01.04.2010	To Balance b/d	4,95,000	30.09.2010	By Depreciation – M2	8,550
30.09.2010	To Profit & Loss A/c (Profit on sale)	97,550	30.09.2010	By Bank A/c	2,60,000
			31.03.2011	By Depreciation – M1	32,400
			31.03.2011	By Balance c/d	2,91,600
		5,92,550			**5,92,550**
01.04.2011	To Balance b/d	2,91,600	31.03.2012	By Depreciation A/c	29,160
			31.03.2012	By Balance c/d	2,62,440
		2,91,600			**2,91,600**
01.04.2012	To Balance b/d	**2,62,440**			

✎ ILLUSTRATION 28:

On 1st January 2008, Machinery was purchased for ₹1,60,000. On 1st July 2010, the Machinery was replaced by new Machinery costing ₹1,20,000, the vendor taking the old machine in part exchange at a valuation of ₹32,000. Depreciation to be charged at 10% on the Diminishing Value Method. Prepare the Machinery Account up to 31st December 2010.

Solution:

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2008	To Bank A/c	1,60,000	31.12.2008	By Depreciation A/c	16,000
			31.12.2008	By Balance c/d	1,44,000
		1,60,000			**1,60,000**

(Contd.)

01.01.2009	To Balance b/d	1,44,000	31.12.2009	By Depreciation A/c	14,400
			31.12.2009	By Balance c/d	1,29,600
		1,44,000			**1,44,000**
01.01.2010	To Balance b/d	1,29,600	01.07.2010	By Depreciation A/c	6,480
01.07.2010	To Bank A/c (1,20,000 – 32,000)	88,000	01.07.2010	By Trade-in Allowance (C)	32,000
01.07.2010	To Trade-in Allowance (C)	32,000	01.07.2010	By Profit & Loss A/c (1,29,600 – (6,480 + 32,000))	91,120
			31.12.2010	By Depreciation A/c	6,000
			31.12.2010	By Balance c/d	1,14,000
		2,49,600			**2,49,600**
01.01.2011	To Balance b/d	1,14,000			

Change in Method of Depreciation from WDV to SLM with Retrospective Effect

✎ **ILLUSTRATION 29:**

Mr. Anil started business on 1st January 2000. He acquired a machine for ₹6,80,000. He spent ₹20,000 towards cost of installation. He also purchased another Machinery on 1st September 2001 for ₹1,40,000 and spent ₹10,000 towards cost of purchases. He purchased another Machinery on 30th September 2003 for ₹2,00,000. He followed the diminishing balance method of charging depreciation at 15% per annum.

On 1st January 2003, he decided to change the method of charging depreciation to Straight Line Method at the rate of 10% per annum, with retrospective effect from 1st January 2000. The accounts are closed on 31st December every year. Prepare Machinery Account from 2000 to 2003.

Solution:

Working Note

Calculation of Depreciation (Overcharged/Undercharged)

Depreciation as per	*WDV @15% (₹)*	*SLM @10% (₹)*
In the Year 2000	1,05,000	70,000
In the Year 2001	96,750	75,000
In the Year 2002	97,237.50	85,000
Depreciation charged	2,98,987.50	2,30,000

Depreciation overcharged = ₹68,987.50

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2000	To Bank A/c (6,80,000 + 20,000)	7,00,000	31.12.2000	By Depreciation A/c (7,00,000 × 15/100)	1,05,000
				By Balance c/d	5,95,000
		7,00,000			**7,00,000**
01.01.2001	To Balance b/d	5,95,000	31.12.2001	By Depreciation A/c	
01.09.2001	To Bank A/c	1,50,000		(5,95,000 × 15/100	89,250
				1,50,000 × 15/100 × 4/12)	7,500
			31.12.2001	By Balance c/d	6,48,250
		7,45,000			**7,45,000**
01.01.2002	To Balance b/d	6,48,250	31.12.2002	By Depreciation A/c (6,48,250 × 15/100)	97,237.50
				By Balance c/d	5,51,012.50
		6,48,250			**6,48,250**
01.01.2003	To Balance b/d	5,51,012.50	31.12.2003	By Depreciation A/c (8,50,000 × 10/100)	85,000

(Contd.)

	To Profit & Loss A/c (Adjustment for change in method of depreciation)	68,987.50	31.12.2003	By Depreciation A/c (2,00,000 × 10/100 × 3/12)	5,000
30.09.2003	To Bank A/c	2,00,000	31.12.2003	By Balance c/d	7,30,000
		8,20,000			**8,20,000**
01.01.2004	To Balance b/d	7,30,000			

✎ ILLUSTRATION 30:

The balance in Machinery Account stood at ₹47,385 on 1st April 2010, after providing depreciation under diminishing balance method, at the rate of 10% per annum for 3 years. It was decided on that date to change the method of charging depreciation at 10% per annum, in Straight Line Method. Show Machinery Account from 2007 to 2011.

Solution:

Working Note

Calculation of Depreciation (Overcharged/Undercharged)

Depreciation as per	*WDV @10% (₹)*	*SLM @10% (₹)*
As on 01.04.2007	65,000	65,000
Less: Depreciation	6,500	6,500
As on 01.04.2008	58,500	58,500
Less: Depreciation	5,850	6,500
As on 01.04.2009	52,650	52,000
Less: Depreciation	5,265	6,500
As on 01.04.2010	47,385	45,500
Total Depreciation Charged	17,615	19,500

Additional Depreciation to be Charged = 19,500 – 17,615 = ₹1,885

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.04.2007	To Balance b/d	65,000	31.03.2008	By Depreciation A/c (65,000 × 10/100)	6,500
			31.03.2008	By Balance c/d	58,500
		65,000			**65,000**
01.04.2008	To Balance b/d	58,500	31.03.2009	By Depreciation A/c (58,500 × 10/100)	5,850
			31.03.2009	By Balance c/d	52,650
		58,500			**58,500**
01.04.2009	To Balance b/d	52,650	31.03.2010	By Depreciation A/c (52,650 × 10/100)	5,265
			31.03.2010	By Balance c/d	47,385
		52,650			**52,650**
01.04.2010	To Balance b/d	47,385	31.03.2011	By Depreciation A/c (65,000 × 10/100)	6,500
			31.03.2011	By Depreciation (Adjustment for change in method of depreciation)	1,885
			31.03.2011	By Balance c/d	39,000
		47,385			**47,385**
01.04.2011	To Balance b/d	39,000			

✎ ILLUSTRATION 31:

Plant and Machinery Account of XY Ltd. had opening balance of ₹3,24,000 on 1st January 2008. Depreciation was provided at 10% per annum, as per the diminishing balance method. On 1st July 2008, a part of the plant and Machinery purchased for ₹1,00,000 on 1st January 2006 was sold for ₹70,000 and on the same date, a new plant and Machinery, which cost ₹2,00,000, was purchased. On 31st December 2008, the company decided to change the method of depreciation from written down method to original cost, with effect from 1st January 2006, depreciation remaining at 10% per annum. Show Plant and Machinery Account for the year 2008.

Solution:

Working Note 1

Calculation of Depreciation (Overcharged/Undercharged)

Depreciation as per	*WDV @10% (₹)*	*SLM @10% (₹)*
Book Value as on 01.01.2006, of Machinery (Except that sold) (4,00,000 – 1,00,000)	3,00,000	3,00,000
Less: Depreciation	30,000	30,000
W.D.V. as on 01.01.2007	2,70,000	2,70,000
Less: Depreciation	27,000	30,000
W.D.V. as on 01.01.2008	2,43,000	2,40,000
Total Depreciation Charged	57,000	60,000
Depreciation to be Charged = 60,000 – 57,000 = ₹3,000		

Working Note 2

Calculation of Original Cost of the remaining Machinery

	(₹)
As on 01.01.2006	4,00,000
Less: Depreciation	40,000
As on 01.01.2007	3,60,000
Less: Depreciation	36,000
As on 01.01.2008	3,24,000

Working Note 3

Machine costing ₹1,00,000 as on 1st January 2006, was sold.

	(₹)
As on 01.01.2006	1,00,000
Less: Depreciation @ 10%	10,000
As on 01.01.2007	90,000
Less: Depreciation @ 10%	9,000
As on 01.01.2008	81,000
Less: Depreciation till 01.07.2008 (81,000 × 10/100 × 6/12)	4,050
W.D.V. as on 01.07.2008	76,950
Less: Sale Value (76,950 – 70,000)	

Loss on Sale = ₹6,950

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2008	To Balance b/d	3,24,000	01.07.2008	By Bank A/c (Sale)	70,000
01.07.2008	To Bank A/c	2,00,000		By Depreciation (On Machinery sold)	4,050
				By Profit & Loss A/c (Loss on sale)	6,950
			31.12.2008	By Depreciation (Current year) (3,00,000 × 10/100 + 2,00,000 × 10/100 × 6/12))	40,000
				By Depreciation A/c (Adjustment for change in the method)	3,000
			31.12.2008	By Balance c/d	4,00,000
		5,24,000			**5,24,000**
01.01.2009	By Balance b/d	4,00,000			

Change in Method of Depreciation from SLM to WDV Without Retrospective Effect

✎ **ILLUSTRATION 32:**

XYZ Ltd. closes accounts on 31st December every year. It purchased a plant and Machinery on 1st January 2010 for ₹4,00,000. The installation expenses of the plant and Machinery amounted to ₹50,000. On 1st July 2010, another plant and Machinery was purchased and installed for ₹2,00,000. On 30th June 2012, the plant and Machinery installed on 1st January 2010 has become obsolete and was auctioned for ₹2,50,000. On the same date, another plant and Machinery was purchased for ₹6,00,000. The company charges depreciation at the rate of 10% per annum on straight line basis. In the year 2013, it has been decided to charge depreciation under Written Down Value Method at the rate of 15% per annum, without retrospective effect. Prepare Plant and Machinery Account from 2010 to 2014.

Solution:

Dr. **Plant & Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2010	To Bank A/c – M1 (4,00,000 + 50,000)	4,50,000	31.12.2010	By Depreciation (4,50,000 × 10/100 + 2,00,000 × 10/100 × 6/12)	55,000
01.07.2010	To Bank A/c – M2	2,00,000			
			31.12.2010	By Balance c/d	5,95,000
		6,50,000			**6,50,000**
01.01.2011	To Balance b/d	5,95,000	31.12.2011	By Depreciation (6,50,000 × 10/100)	65,000
			31.12.2011	By Balance c/d	5,30,000
		5,95,000			**5,95,000**
01.01.2012	To Balance b/d	5,30,000	30.6.2012	By Bank (Sale Value)	2,50,000

(Contd.)

30.06.2012	To Bank A/c – M3	6,00,000		By Depreciation (Machinery sold)	22,500
				By Profit & Loss A/c	87,500
			31.12.2012	By Depreciation A/c (2,00,000 + 10/100 + 6,00,000 × 10/100 × 6/12)	50,000
				By Balance c/d	7,20,000
		11,30,000			**11,30,000**
01.01.2013	To Balance b/d	7,20,000	31.12.2013	By Depreciation (7,20,000 × 15/100)	1,08,000
			31.12.2013	By Balance c/d	6,12,000
		7,20,000			**7,20,000**
01.01.2014	To Balance b/d	6,12,000	31.12.2014	By Depreciation (6,12,000 × 15/100)	91,800
				By Balance c/d	5,20,200
		6,12,000			**6,12,000**

Working Note:

1. Sale as on 30.06.2012 of Plant and Machinery:

Particulars	*(₹)*	*(₹)*
Cost		4,50,000
Depreciation for		
2010	45,000	
2011	45,000	
2012 (4,50,000 × 10/100 × 6/12)	22,500	1,12,500
Book Value as on 30.06.2012		3,37,500
Sale Proceeds		2,50,000
Loss on Sale		87,500

✎ ILLUSTRATION 33:

BK Ltd. purchased on 1st April 2007, a plant for ₹3,00,000. The company also purchased another plant on 1st October 2007 for ₹2,00,000 and on 30th June 2008 for ₹1,00,000. On 1st January 2009, the plant purchased in April 2007 became obsolete and was sold for ₹2,00,000. Show the treatment in Plant Account for the years 2007–2009 while depreciation was being charged at the rate of 10% per annum in Original Cost Method was changed from 1st January 2009 to diminishing balance method at 15% per annum, with retrospective effect from 2007. The company closes accounts on 31st December every year.

Solution:

Dr. **Plant Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.04.2007	To Bank A/c	3,00,000	31.30.2007	By Depreciation (3,00,000 × 10/100 × 9/12 + 2,00,000 × 10/100 × 3/12)	27,500
01.10.2007	To Bank A/c	2,00,000			
			31.12.2007	By Balance c/d	4,72,500
		5,00,000			**5,00,000**
01.01.2008	To Balance b/d	4,72,500	31.12.2008	By Depreciation (3,00,000 × 10/100 + 2,00,000 × 10/100 + 1,00,000 × 10/100 × 6/12)	55,000
30.06.2008	To Bank A/c	1,00,000			
			31.12.2008	By Balance c/d	5,17,500
		5,72,500			**5,72,500**
01.01.2009	To Balance b/d	5,17,500	01.01.2009	By Bank A/c	2,00,000
			01.01.2009	By Profit & Loss A/c (Loss on sale)	47,500
			31.12.2009	By Depreciation (2,56,120 × 15/100)	38,419

(Contd.)

			31.12.2009	By Depreciation (Adjustment for change in method)	13,875
			31.12.2009	By Balance c/d	2,17,706
		5,17,500			**5,17,500**
01.01.2010	To Balance b/d	2,17,706			

Working Note 1:

Calculation of P/L on Sale of Plant 1

Particulars	*(₹)*
Cost of Plant-I as on 01.04.2007	3,00,000
Less Depreciation for 9 months @ 10% SLM	22,500
W.D.V. as on 01.01.2008	2,77,500
Less Depreciation @10% SLM	30,000
W.D.V. as on 01.01.2009	2,47,500
Less Sale Value	2,00,000
Loss on Sale	**47,500**

Working Note 2:

Calculation of Overcharged/Undercharged Depreciation

Depreciation as per	*SLM @ 10%*	*WDV @ 15%*
As on 01.01.2007 Plant Value	2,00,000	2,00,000
Less: Depreciation (2,00,000 × 10/100 × 3/12) (2,00,000 × 15/100 × 3/12)	5,000	7,500
W.D.V. as on 01.01.2008	**1,95,000**	**1,92,500**
Add: Additional Plant on 30.06.2008	1,00,000	1,00,000
	2,95,000	**2,92,500**
Less: Depreciation (2,00,000 × 10/100) + (1,00,000 × 10/100 × 6/12) (1,92,500 × 15/100) + (1,00,000 × 15/100 × 6/12)	25,000	36,375
W.D.V. as on 01.01.2009	**2,70,000**	**2,56,125**

Total Depreciation under SLM (5,000 + 25,000)	30,000
Total Depreciation under WDV (7,500 + 36,375)	43,875
Adjustment for Additional Depreciation	13,875

✎ ILLUSTRATION 34:

RT Ltd. purchased on 1st January 2007, certain Machinery for ₹19,400 and spent ₹600 on its erection. On 1st July 2007, additional Machinery costing ₹10,000 was purchased. On 1st July 2009, the Machinery purchased on 1st January 2007 has been sold for ₹10,000 and on the same date, new Machinery was purchased at a cost of ₹15,000. Depreciation was provided annually on 31st December at the rate of 10% per annum on the original cost. In January 2011, however, the company has changed the method of depreciation to Written Down Value Method at the rate of 15% per annum from Straight Line Method. Show the Machinery Account for the period from 2007 to 2011.

Solution:

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2007	To Bank A/c (19,400 + 600)	20,000	31.12.2007	By Depreciation (20,000 × 10/100 + 10,000 × 10/100 × 6/12)	2,500
01.07.2007	To Bank A/c	10,000	31.12.2007	By Balance c/d	27,500
		30,000			**30,000**
01.01.2008	To Balance b/d	27,500	31.12.2008	By Depreciation A/c (30,000 × 10/100)	3,000
				By Balance c/d	24,500
		27,500			**27,500**

(Contd.)

01.01.2009	To Balance b/d	24,500	1.7.2009	By Bank A/c	10,000
01.07.2009	To Bank A/c	15,000	1.7.2009	By Depreciation A/c	1,000
			1.7.2009	By Profit & Loss A/c (Loss on sale)	5,000
			31.12.2009	By Depreciation A/c (10,000 × 10/100 + 15,000 × 10/100 × 6/12)	1,750
			31.12.2009	By Balance c/d	21,750
		39,500			**39,500**
01.01.2010	To Balance b/d	21,750	31.12.2010	By Depreciation A/c (10,000 × 10/100 + 15,000 × 10/100)	2,500
			31.12.2010	By Balance c/d	19,250
		21,750			**21,750**
01.01.2011	To Balance b/d	19,250	31.12.2011	By Depreciation A/c (19,250 × 15/100)	2,887.50
				By Balance c/d	16,362.50
		19,250			**19,250**
01.01.2012	To Balance b/d	16,362.50			

Annuity Method

✎ **ILLUSTRATION 35:**

On 1st January 2010, a firm purchased a five-year lease for ₹1,60,000. It decides to write off depreciation under annuity method. The rate of interest to be charged at 5% per annum. The annuity tables show that a sum of ₹36,956 should be written off every year. Prepare the Lease Account for five years. Calculations are to be made to the nearest rupee.

Solution:

Dr. **Lease Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
Year 1					
01.01.2010	To Cash A/c	1,60,000	31.12.2010	By Depreciation A/c	36,956
31.12.2010	To Interest (1,60,000 × 5%)	8,000	31.12.2010	By Balance c/d	1,31,044
		1,68,000			**1,68,000**
Year 2					
01.01.2011	To Balance b/d	1,31,044	31.12.2011	By Depreciation A/c	36,956
31.12.2011	To Interest (1,31,044 × 5%)	6,552	31.12.2011	By Balance c/d	1,00,640
		1,37,596			**1,37,596**
Year 3					
01.01.2012	To Balance b/d	1,00,640	31.12.2012	By Depreciation A/c	36,956
31.12.2012	To Interest (1,00,640 × 5%)	5,032	31.12.2012	By Balance c/d	68,716
		1,05,672			**1,05,672**
Year 4					
01.01.2013	To Balance b/d	68,716	31.12.2013	By Depreciation A/c	36,956
31.12.2013	To Interest (68,716 × 5%)	3,436	31.12.2013	By Balance c/d	35,196
		72,152			**72,152**
Year 5					
01.01.2014	To Balance b/d	35,196	31.12.2014	By Depreciation A/c	36,956
	To Interest (35,196 × 5%)	1,760			
		36,956			**36,956**

✎ ILLUSTRATION 36:

A lease of land was acquired on 1st January 2012 at a cost of ₹30,000. It was decided to depreciate it under the annuity method at 5% interest. Annuity tables show that at 5% on ₹1 over five years is equivalent to ₹0.230975 annually. Prepare the Lease Account for five years.

Solution:

Annual Deprecation = Cost of Asset × Annuity Factor

$30,000 \times 0.230975 =$ **₹6,929.25**

Dr. **Lease Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
Year 1					
01.01.2012	To Cash A/c	30,000.00	31.12.2012	By Depreciation A/c	6,929.25
31.12.2012	To Interest (30,000 × 5/100)	1,500.00	31.12.2012	By Balance c/d	24,570.75
		31,500.00			**31,500.00**
Year 2					
01.01.2013	To Balance b/d	24,570.75	31.12.2013	By Depreciation A/c	6,929.25
31.12.2013	To Interest (24,570.75 × 5/100)	1,229.00	31.12.2013	By Balance c/d	18,870.50
		25,799.75			**25,799.75**
Year 3					
01.01.2014	To Balance b/d	18,870.50	31.12.2014	By Depreciation A/c	6,929.25
31.12.2014	To Interest (18,870.50 × 5/100)	943.50	31.12.2014	By Balance c/d	12,884.75
		19,814.00			**19,814.00**

(Contd.)

Year 4					
01.01.2015	To Balance b/d	12,884.75	31.12.2015	By Depreciation A/c	6,929.25
31.12.2015	To Interest (12,884.75 × 5/100)	644.00	31.12.2015	By Balance c/d	6,599.50
		13,528.75			**13,528.75**
Year 5					
01.01.2016	To Balance b/d	6,599.50	31.12.2016	By Depreciation A/c	6,929.25
31.12.2016	To Interest (6,599.50 × 5/100)	329.75			
		6,929.25			**6,929.25**

Sinking Fund Method

✎ ILLUSTRATION 37:

On 1st January 2010, Alpha Company purchased a three-year lease for ₹1,00,000. It is decided to provide for the replacement of lease at the end of three years by setting up a sinking fund. It is expected that the investment will fetch interest at 5%. Sinking fund tables show that to provide the requiste sum at 5% at the end of three years, an investment of ₹31,728 is required every year. Investments are made to the nearest rupee.

On 31st December 2012, the investments were sold for ₹62,000. On 1st January 2013, the same lease was renewed for a further period of three years by payment of ₹1,20,000.

Show the journal entries and prepare the Lease Account, Sinking Fund Account and Sinking Fund Investments Account. Calculations are to be made to the nearest rupee.

Solution:

Journal Entries

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.01.2010	Lease A/c	Dr.	1,00,000	
	To Bank A/c			1,00,000
	(Being lease purchased)			

(Contd.)

31.12.2010	Depreciation A/c Dr. To Sinking Fund A/c (Being the annual depreciation, as per sinking fund table)	31,728	31,728
31.12.2010	Sinking Fund Investment A/c Dr. To Bank A/c (Being investment purchased from sinking fund)	31,728	31,728
31.12.2010	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to profit and loss account)	31,728	31,728
31.12.2011	Bank A/c Dr. To Interest on Sinking Fund Investment A/c (Being interest on investment received)	1,586	1,586
31.12.2011	Interest on Sinking Fund Investment A/c Dr. To Sinking Fund A/c (Being interest on S.F.I transferred)	1,586	1,586
31.12.2011	Depreciation A/c Dr. To Sinking Fund A/c (Being the annual depreciation, as per sinking fund table)	31,728	31,728
31.12.2011	Sinking Fund Investment A/c Dr. To Bank A/c (Being investment purchased from sinking fund)	33,314	33,314
31.12.2011	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred)	31,728	31,728
31.12.2012	Bank A/c Dr. To Interest on Sinking Fund Investment A/c (Being interest on investment received)	3,252	3,252
31.12.2012	Interest on Sinking Fund Investment A/c Dr. To Sinking Fund A/c (Being interest on S.F.I transferred)	3,252	3,252

(Contd.)

31.12.2012	Depreciation A/c To Sinking Fund A/c (Being the annual depreciation, as per sinking fund table)	Dr.	31,728	31,728
31.12.2012	Bank A/c To Sinking Fund Investment A/c (Being investment sold)	Dr.	62,000	62,000
31.12.2012	Sinking Fund A/c To Sinking Fund Investment A/c (Being loss on sale of investments transferred)	Dr.	3,042	3,042
31.12.2012	Sinking Fund A/c To Lease A/c (Being transfer of balance in sinking fund to lease account)	Dr.	1,00,000	1,00,000
31.12.2012	Profit & Loss A/c To Sinking Fund A/c (Being the balance amount left in sinking fund transferred to profit and loss account)	Dr.	3,020	3,020
01.01.2013	New Lease A/c To Bank A/c (Being new lease purchased)	Dr.	1,20,000	1,20,000

Dr. **Lease Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2010	To Bank A/c	1,00,000	31.12.2010	By Balance c/d	1,00,000
		1,00,000			**1,00,000**
01.01.2011	To Balance b/d	1,00,000	31.12.2011	By Balance c/d	1,00,000
		1,00,000			**1,00,000**
01.01.2012	To Balance b/d	1,00,000	31.12.2012	By Sinking Fund A/c	1,00,000
		1,00,000			**1,00,000**

Dr. **Sinking Fund Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.12.2010	**To Balance c/d (Bal. fig.)**	**31,728**	31.12.2010	By Depreciation A/c	31,728
		31,728			**31,728**

(Contd.)

			01.01.2011	By Balance b/d	31,728
31.12.2011	**To Balance c/d (Bal. fig.)**	**65,042**	31.12.2011	By Interest on S.F.I.	1,586
			31.12.2012	By Depreciation	31,728
		65,042			**65,042**
31.12.2012	To Sinking Fund Investment	3,042	01.01.2012	By Balance b/d	65,042
31.12.2012	To Lease A/c	1,00,000	31.12.2012	By Interest on S.F.I.	3,252
			31.12.2012	By Depreciation	31,728
			31.12.2012	By Profit & Loss A/c	3,020
		1,03,042			**1,03,042**

Dr. **Interest on Sinking Fund Investment Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.12.2011	To Sinking Fund A/c	1,586	31.12.2011	By Bank A/c	1,586
		1,586			**1,586**
31.12.2012	To Sinking Fund A/c	3,252	31.12.2012	By Bank A/c	3,252
		3,252			**3,252**

Dr. **Sinking Fund Investment Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.12.2010	To Bank A/c	31,728	31.12.2010	**By Balance c/d (Bal. fig.)**	**31,728**
		31,728			**31,728**
01.01.2011	To Balance b/d	31,728	31.12.2011	**By Balance c/d (Bal. fig.)**	**65,042**
01.01.2011	To Bank A/c	33,314			
		65,042			**65,042**
01.01.2012	To Balance b/d	65,042	31.12.2012	By Bank A/c	62,000
			31.12.2012	**By Sinking Fund A/c – Loss (Bal. fig.)**	**3,042**
		65,042			**65,042**

✎ ILLUSTRATION 38:

On 1st January 2013, ABC Company purchased a three-year lease for ₹4,00,000. It is decided to provide for the replacement of lease at the end of three years by setting up a sinking fund. It is expected that the investment will fetch interest at 5%. Sinking fund tables show that, to provide the requisite sum at 5% at the end of three years, an investment of ₹1,26,912 is required every year. Investments are made to the nearest rupee.

On 31st December 2015, the investments were sold for ₹2,48,000. On 1st January 2016, the same lease was renewed for a further period of three years, by payment of ₹4,80,000.

Pass the journal entries and prepare Lease Account, Sinking Fund Account and Sinking Fund Investments Account. Calculations are to be made to the nearest rupee.

Solution:

Journal Entries

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
01.01.2013	Lease A/c	Dr.	4,00,000	
	To Bank A/c			4,00,000
	(Being lease purchased)			
31.12.2013	Depreciation A/c	Dr.	1,26,912	
	To Sinking Fund A/c			1,26,912
	(Being the annual depreciation as per sinking fund table)			
31.12.2013	Sinking Fund Investment A/c	Dr.	1,26,912	
	To Bank A/c			1,26,912
	(Being investment purchased from sinking fund)			
31.12.2013	Profit & Loss A/c	Dr.	1,26,912	
	To Depreciation A/c			1,26,912
	(Being depreciation transferred)			
31.12.2014	Bank A/c	Dr.	6,346	
	To Interest on Sinking Fund Investment A/c			6,346
	(Being interest on investment received)			
31.12.2014	Interest on Sinking Fund Investment A/c	Dr.	6,346	
	To Sinking Fund A/c			6,346
	(Being interest on S.F.I. transferred)			

(Contd.)

31.12.2014	Depreciation A/c Dr. To Sinking Fund A/c (Being the annual depreciation as per sinking fund table)	1,26,912	1,26,912
31.12.2014	Sinking Fund Investment A/c Dr. To Bank A/c (Being investment purchased from sinking fund)	1,33,258	1,33,258
31.12.2014	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred)	1,26,912	1,26,912
31.12.2015	Bank A/c Dr. To Interest on Sinking Fund Investment A/c (Being interest on investment received)	13,008	13,008
31.12.2015	Interest on Sinking Fund Investment A/c Dr. To Sinking Fund A/c (Being interest on S.F.I. transferred)	13,008	13,008
31.12.2015	Depreciation A/c Dr. To Sinking Fund A/c (Being the annual depreciation as per sinking fund table)	1,26,912	1,26,912
31.12.2015	Bank A/c Dr. To Sinking Fund Investment A/c (Being investment sold)	2,48,000	2,48,000
31.12.2015	Sinking Fund A/c Dr. To Sinking Fund Investment A/c (Being loss on sale of investments transferred)	12,169	12,169
31.12.2015	Sinking Fund A/c Dr. To Lease A/c (Being transfer of balance in sinking fund to lease account)	4,00,000	4,00,000
31.12.2015	Profit & Loss A/c Dr. To Sinking Fund A/c (Being balance amount left in sinking fund transferred to profit and loss account)	12,080	12,080
01.01.2016	New Lease A/c Dr. To Bank A/c (Being new lease purchased)	4,80,000	4,80,000

Dr. **Lease Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2013	To Bank A/c	4,00,000	31.12.2013	By Balance c/d	4,00,000
		4,00,000			**4,00,000**
01.01.2014	To Balance b/d	4,00,000	31.12.2014	By Balance c/d	4,00,000
		4,00,000			**4,00,000**
01.01.2015	To Balance b/d	4,00,000	31.12.2015	By Sinking Fund A/c	4,00,000
		4,00,000			**4,00,000**

Dr. **Sinking Fund Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.12.2013	To Balance c/d	1,26,912	31.12.2013	By Depreciation A/c	1,26,912
		1,26,912			**1,26,912**
31.12.2014	To Balance c/d	2,60,170	01.01.2014	By Balance b/d	1,26,912
			31.12.2014	By Interest on S.F.I.	6,346
			31.12.2015	By Depreciation	1,26,912
		2,60,170			**2,60,170**
31.12.2015	To Sinking Fund Investment	12,170	01.01.2015	By Balance b/d	2,60,170
31.12.2015	To Lease A/c	4,00,000	31.12.2015	By Interest on S.F.I	13,008
			31.12.2015	By Depreciation	1,26,912
			31.12.2015	By Profit & Loss A/c	12,080
		4,12,170			**4,12,170**

Dr. **Interest on Sinking Fund Investment Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.12.2014	To Sinking Fund A/c	6,346	31.12.2014	By Bank A/c	6,346
		6,346			**6,346**
31.12.2015	To Sinking Fund A/c	13,008	31.12.2015	By Bank A/c	13,008
		13,008			**13,008**

Dr. **Sinking Fund Investment Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.12.2013	To Bank A/c	1,26,912	31.12.2013	By Balance c/d	1,26,912
		1,26,912			**1,26,912**
01.01.2014	To Balance b/d	1,26,912	31.12.2014	**By Balance c/d – (Bal. fig.)**	**2,60,170**
01.01.2014	To Bank A/c	1,33,258			
		2,60,170			**2,60,170**
01.01.2015	To Balance b/d	2,60,170	31.12.2015	By Bank A/c	2,48,000
			31.12.2015	By Sinking Fund A/c	12,170
		2,60,170			**2,60,170**

Insurance Policy Method

✎ ILLUSTRATION 39:

On 1st January 2007**,** Z Co. Ltd. purchased a lease of ₹2,00,000. It is decided to replace the lease at the end of five years. For this purpose, an insurance policy was taken out for which the annual premium is ₹37,600. On 1st January 2012, the lease is renewed for ₹1,80,000.
Prepare:

(a) Depreciation Reserve Account

(b) Depreciation Insurance Policy Account

(c) Lease Account

Solution:

Dr. **Depreciation Reserve Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.12.2007	**To Balance c/d (Bal. fig.)**	**37,600**	31.12.2007	By Profit & Loss A/c	37,600
		37,600			**37,600**
31.12.2008	**To Balance c/d (Bal. fig.)**	**75,200**	01.01.2008	By Balance b/d	37,600
			31.12.2008	By Profit & Loss A/c	37,600
		75,200			**75,200**
31.12.2009	**To Balance c/d (Bal. fig.)**	**1,12,800**	01.01.2009	By Balance b/d	75,200
			31.12.2009	By Profit & Loss A/c	37,600
		1,12,800			**1,12,800**
31.12.2010	**To Balance c/d (Bal. fig.)**	**1,50,400**	01.01.2010	By Balance b/d	1,12,800
			31.12.2010	By Profit & Loss A/c	37,600
		1,50,400			**1,50,400**
31.12.2011	**To Balance c/d (Bal. fig.)**	**2,00,000**	31.12.2011	By Balance b/d	1,50,400
			31.12.2011	By Profit & Loss A/c	37,600
			31.12.2011	By Depreciation A/c	12,000
		2,00,000			**2,00,000**

Dr. **Depreciation Insurance Policy Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2007	To Bank A/c	37,600	31.12.2007	**By Balance c/d (Bal. fig.)**	**37,600**
		37,600			**37,600**
01.01.2008	To Balance b/d	37,600	31.12.2008	**By Balance c/d (Bal. fig.)**	**75,200**
01.01.2008	To Bank A/c	37,600			
		75,200			**75,200**
01.01.2009	To Balance b/d	75,200	31.12.2009	**By Balance c/d (Bal. fig.)**	**1,12,800**
01.01.2009	To Bank A/c	37,600			
		1,12,800			**1,12,800**

(Contd.)

01.01.2010	To Balance b/d	1,12,800	31.12.2010	**By Balance b/d (Bal. fig.)**	**1,50,400**
01.01.2010	To Bank A/c	37,600			
		1,50,400			**1,50,400**
01.01.2011	To Balance b/d	1,50,400	31.12.2011	By Bank A/c	2,00,000
01.01.2011	To Bank A/c	37,600			
31.12.2011	To Depreciation & Reserve A/c (Profit on realisation of policy)	12,000			
		2,00,000			**2,00,000**

Dr. **Lease Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2007	To Bank A/c	2,00,000	31.12.2007	By Balance c/d	2,00,000
		2,00,000			**2,00,000**
01.01.2008	To Balance b/d	2,00,000	31.12.2008	By Balance c/d	2,00,000
		2,00,000			**2,00,000**
01.01.2009	To Balance b/d	2,00,000	31.12.2009	By Balance c/d	2,00,000
		2,00,000			**2,00,000**
01.01.2010	To Balance b/d	2,00,000	31.12.2010	By Balance b/d	2,00,000
		2,00,000			**2,00,000**
01.01.2011	To Balance b/d	2,00,000	31.12.2011	By Depreciation & Reserve A/c	2,00,000
		2,00,000			**2,00,000**
01.01.2012	To Bank (Renewal)	1,80,000			

✎ ILLUSTRATION 40:

Ahmed Co. Ltd. purchased a lease of ₹7,00,000 on 1st January 2012. It has decided to replace the lease at the end of five years. An insurance policy is taken by the company and pays an annual premium of ₹1,31,600. The lease is renewed for ₹6,30,000 at the end of the period. Prepare Depreciation Reserve Account, Depreciation Insurance Policy Account and Lease Account.

Solution:

Dr. **Depreciation Reserve Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
31.12.2012	**To Balance c/d (Bal. fig.)**	**1,31,600**	31.12.2012	By Profit & Loss A/c	1,31,600
		1,31,600			**1,31,600**
			01.01.2013	By Balance b/d	1,31,600
31.12.2013	**To Balance c/d (Bal. fig.)**	**2,63,200**	31.12.2013	By Profit & Loss A/c	1,31,600
		2,63,200			**2,63,200**
			01.01.2014	By Balance b/d	2,63,200
31.12.2014	**To Balance c/d (Bal. fig.)**	**3,94,800**	31.12.2014	By Profit & Loss A/c	1,31,600
		3,94,800			**3,94,800**
			01.01.2015	By Balance b/d	3,94,800
31.12.2015	**To Balance c/d (Bal. fig.)**	**5,26,400**	31.12.2015	By Profit & Loss A/c	1,31,600
		5,26,400			**5,26,400**
			31.12.2016	By Balance b/d	5,26,400
			31.12.2016	By Profit & Loss A/c	1,31,600
31.12.2016	**To Balance c/d (Bal. fig.)**	**7,00,000**	31.12.2016	By Depreciation A/c	42,000
		7,00,000			**7,00,000**

Dr. **Depreciation Insurance Policy Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2012	To Bank A/c	1,31,600	31.12.2012	By Balance c/d	1,31,600
		1,31,600			**1,31,600**
01.01.2013	To Balance b/d	1,31,600	31.12.2013	By Balance c/d	2,63,200
01.01.2013	To Bank A/c	1,31,600			
		2,63,200			**2,63,200**

(Contd.)

01.01.2014	To Balance b/d	2,63,200	31.12.2014	By Balance c/d	3,94,800
01.01.2014	To Bank A/c	1,31,600			
		3,94,800			**3,94,800**
01.01.2015	To Balance b/d	3,94,800	31.12.2015	By Balance b/d	5,26,400
01.01.2015	To Bank A/c	1,31,600			
		5,26,400			**5,26,400**
01.01.2016	To Balance b/d	5,26,400	31.12.2016	By Bank A/c	7,00,000
01.01.2016	To Bank A/c	1,31,600			
31.12.2016	To Depreciation & Reserve A/c (Profit on realisation of policy)	42,000			
		7,00,000			**7,00,000**

Dr. **Lease Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2012	To Bank A/c	7,00,000	31.12.2012	By Balance c/d	7,00,000
		7,00,000			**7,00,000**
01.01.2013	To Balance b/d	7,00,000	31.12.2013	By Balance c/d	7,00,000
		7,00,000			**7,00,000**
01.01.2014	To Balance b/d	7,00,000	31.12.2014	By Balance c/d	7,00,000
		7,00,000			**7,00,000**
01.01.2015	To Balance b/d	7,00,000	31.12.2015	By Balance b/d	7,00,000
		7,00,000			**7,00,000**
01.01.2016	To Balance b/d	7,00,000	31.12.2016	By Depreciation & Reserve A/c	7,00,000
		7,00,000			**7,00,000**
01.01.2017	To Bank (Renewal)	6,30,000			

Revaluation Method

✎ ILLUSTRATION 41:

On 1st January 2008, ABC Ltd. has a stock of bottles valued at ₹16,000. On 1st July 2008, they purchased additional bottles, which amounted to ₹10,000. On 31st December 2008, the entire stocks of bottles were revalued at ₹21,000. Prepare the Bottles Account for the year 1994.

Solution:

Dr. **Bottles Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2008	To Cash A/c	16,000	31.12.2008	**By Depreciation A/c (Bal. fig.)**	**5,000**
01.07.2008	To Cash A/c	10,000	31.12.2008	By Balance c/d	21,000
		26,000			**26,000**
01.01.2009	To Balance b/d	21,000			

✎ ILLUSTRATION 42:

On 1st January 2012, a firm bought crates, whose estimated value in different years is given below.

Particulars	*2012 (₹)*	*2013 (₹)*	*2014 (₹)*
Crates Bought (on 1st January)	72,000	28,800	53,100
Estimated Value (on 31st December)	48,600	47,700	63,000

Prepare Crates Account for three years.

Solution:

Dr. **Crates Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2012	To Bank A/c	72,000	31.12.2012	**By Depreciation A/c (Bal. fig.)**	**23,400**
			31.12.2012	By Balance c/d	48,600
		72,000			**72,000**

(Contd.)

01.01.2013	To Balance b/d	48,600	31.12.2013	**By Depreciation A/c – (Bal. fig.)**	**29,700**
01.01.2013	To Bank A/c	28,800	31.12.2013	By Balance c/d	47,700
		77,400			**77,400**
01.01.2014	To Balance b/d	47,700	31.12.2014	**By Depreciation A/c – (Bal. fig.)**	**37,800**
01.01.2014	To Bank A/c	53,100	31.12.2014	By Balance c/d	63,000
		1,00,800			**1,00,800**
01.01.2015	To Balance b/d	63,000			

Depletion Method

✎ ILLUSTRATION 43:

On 1st January 2006, Anu Limited leased an iron ore mine for ₹30,000. The estimated total quantity of ore in the mine is determined as 5,000 tonnes. The annual output is as follows:

Year	*Tonnes*
2006	250
2007	1,000
2008	800
2009	1,050

Prepare the Mine Account for the four years, using depletion method.

Solution:

$$\text{Depreciation Rate} = \frac{\text{Cost of Asset}}{\text{Mineral to be Extracted}}$$

$$\text{Depreciation Rate} = \frac{30,000}{5,000} = ₹6 \text{ per tonne}$$

Dr. **Books of Anu Limited** **Cr.**

Mine Account

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2006	To Bank A/c	30,000	31.12.2006	By Depreciation A/c (250 × 6)	1,500

(Contd.)

			31.12.2006	By Balance c/d	28,500
		30,000			**30,000**
01.01.2007	To Balance b/d	28,500	31.12.2007	By Depreciation A/c (1,000 × 6)	6,000
			31.12.2007	By Balance c/d	22,500
		28,500			**28,500**
01.01.2008	To Balance b/d	22,500	31.12.2008	By Depreciation A/c (800 × 6)	4,800
			31.12.2008	By Balance c/d	17,700
		22,500			**22,500**
01.01.2009	To Balance b/d	17,700	31.12.2009	By Depreciation A/c (1,050 × 6)	6,300
			31.12.2009	By Balance c/d	11,400
		17,700			**17,700**
01.01.2010	To Balance b/d	11,400			

✎ ILLUSTRATION 44:

Sky Ltd. leased an iron ore mine for ₹8,00,000 on 30th June 2012. The estimated total quantity of ore in the mine is 1,00,000 tonnes. The annual output is as follows:

Year	*Tonnes*
2012	19,000
2013	17,500
2014	16,250
2015	22,250

Using the depletion method of depreciation, show the Mine Account for the four years.

Solution:

$$\text{Depreciation Rate} = \frac{\text{Cost of Asset}}{\text{Mineral to be Extracted}}$$

$$\text{Depreciation Rate} = \frac{8,00,000}{1,00,000} = ₹8 \text{ per tonne}$$

Dr. **Books of Sky Ltd. Mine Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
30.06.2012	To Bank A/c	8,00,000	31.12.2012	By Depreciation A/c (19,000 × 8)	1,52,000
			31.12.2012	By Balance c/d	6,48,000
		8,00,000			**8,00,000**
01.01.2013	To Balance b/d	6,48,000	31.12.2013	By Depreciation A/c (17,500 × 8)	1,40,000
			31.12.2013	By Balance c/d	5,08,000
		6,48,000			**6,48,000**
01.01.2014	To Balance b/d	5,08,000	31.12.2014	By Depreciation A/c (16,250 × 8)	1,30,000
			31.12.2014	By Balance c/d	3,78,000
		5,08,000			**5,08,000**
01.01.2015	To Balance b/d	3,78,000	31.12.2015	By Depreciation A/c (22,250 × 8)	1,78,000
			31.12.2015	By Balance c/d	2,00,000
		3,78,000			**3,78,000**
01.01.2016	To Balance b/d	2,00,000			

Machine Hour Rate Method

✎ **ILLUSTRATION 45:**

A machine was purchased on 1st April 2012 at a cost of ₹2,70,000. Installation cost amounted to ₹30,000. The total life of the machine is expected to be 60,000 hours. The number of hours machine worked is as under:

Year	*Hours Worked*
2012	15,000
2013	24,000

Prepare the Machinery Account for the years 2012 and 2013.

Solution:

$$\text{Machine Hour Rate} = \frac{\text{Cost of Machine}}{\text{Estimated Total Hours of Life}}$$

$$\text{Machine Hour Rate} = \frac{3,00,000}{60,000} = ₹5 \text{ per hour}$$

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2012	To Bank A/c (2,70,000 + 30,000)	3,00,000	31.12.2012	By Depreciation A/c (15,000 h × ₹5)	75,000
			31.12.2012	By Balance c/d	2,25,000
		3,00,000			**3,00,000**
01.01.2013	To Balance b/d	2,25,000	31.12.2013	By Depreciation A/c (24,000 h × ₹5)	1,20,000
			31.12.2013	By Balance c/d	1,05,000
		2,25,000			**2,25,000**
01.01.2014	To Balance b/d	1,05,000			

✎ ILLUSTRATION 46:

On 1st January 2010, ABC Company purchased a Machinery for ₹50,000 and spent ₹2,000 for its installation. The expected total working life of the Machinery was estimated at 50,000 hours. The estimated scrap value of the Machinery will be ₹2,000 at the end of its lifetime.

The working hours of the Machinery are as follows:

Year	*Hours*
2010	2,000
2011	4,000
2012	4,400
2013	4,800

Prepare the Machinery Account from 2010 to 2013, under machine hour rate method.

Solution:

$$\text{Machine Hour Rate} = \frac{\text{Cost of Machine + Installation − Scrap Value}}{\text{Estimated Total Hours of Life}}$$

$$\text{Machine Hour Rate} = \frac{50,000}{50,000} = ₹1 \text{ per hour}$$

Dr. **Machinery Account** **Cr.**

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2010	To Bank A/c (50,000 + 2,000)	52,000	31.12.2010	By Depreciation A/c (2,000 × 1)	2,000
			31.12.2010	By Balance c/d	50,000
		52,000			**52,000**
01.01.2011	To Balance b/d	50,000	31.12.2011	By Depreciation A/c (4,000 × 1)	4,000
			31.12.2011	By Balance c/d	46,000
		50,000			**50,000**
01.01.2012	To Balance b/d	46,000	31.12.2012	By Depreciation A/c (4,400 × 1)	4,400
			31.12.2012	By Balance c/d	41,600
		46,000			**46,000**
01.01.2013	To Balance b/d	41,600	31.12.2013	By Depreciation A/c (4,800 × 1)	4,800
			31.12.2013	By Balance c/d	36,800
		41,600			**41,600**
01.01.2014	To Balance b/d	36,800			

■ *Theory Questions* ■

Short-Answer Questions

1. What is Depreciation?
2. Define Depreciation.
3. What is Residual Value?
4. What is Trade-in?
5. What do you understand by Profit on Sale of Asset?
6. What do you understand by Loss on Sale of Asset?
7. What are the factors affecting the amount of depreciation?
8. What do you understand by Straight Line Method of Depreciation?

9. What is Annuity Method of Depreciation?
10. Write the formula for calculating the Amount of Depreciation.
11. Write the formula for calculating the Rate of Depreciation.
12. What is Depletion Method of Depreciation?
13. What is Insurance Policy Method of Depreciation?
14. Write a note on Sinking Fund Method of Depreciation.
15. What do you understand by Revaluation Method of Depreciation?
16. What is Machine Hour Rate Method of Depreciation?

Long-Answer Questions

1. Explain the different methods of depreciation.
2. Distinguish between Straight Line Method of Depreciation and Written Down Value Method of Depreciation.
3. Explain the causes of depreciation.
4. State the objectives of providing depreciation.
5. State the merits and demerits of Straight Line Method of Depreciation.
6. State the merits and demerits of Written Down Value Method of Depreciation.
7. Explain about change in methods of depreciation.

■ *Exercise Problems* ■

Straight Line Method or Fixed Instalment Method or Original Cost Method

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

   [Ans: Amount of Depreciation: ₹21,000
   Rate of Depreciation: 19.09%]

2. A machine was purchased for ₹2,40,000 on 1.1.2000. This is expected to last 5 years. Estimated scrap at the end of 5 years is ₹40,000. Find out the Rate of Depreciation under Straight Line Method.

(November 2016/60521/BYAIC/CYA1A)

[Ans: Amount of Depreciation: ₹40,000
Rate of Depreciation: 16.67%]

3. A machine was purchased for ₹45,000 on 1.1.2004. This is expected to last for 5 years. Estimated scrap at the end of 5 years is ₹5,000. Find out the Rate of Depreciation under Straight Line Method.

(April 2011/21601/ZZ1G/ZZ1E/PK3B/SY1C/SDEM)

[Ans: Amount of Depreciation: ₹8,000
Rate of Depreciation: 17.77%]

4. A machine was purchased for ₹30,000 on 1.1.2002. After 5 years depreciating it by 16% under Straight Line Method, it was sold for ₹5,000. Show the Machine Account for the 5 years period.

(Alagappa University/November 2010/AF-2258 BCC1C1)

[Ans: Loss on Sale of Machine: ₹1,000]

5. A machine purchased on 1.7.2009 at a cost of ₹14,000 and ₹1,000 was spent on its installation. The depreciation is written off at 10% on the original cost every year. The books are closed on 31st December each year. The machine was sold for ₹9,500 on 31st March 2012. Show the Machinery Account for all the years.

(December 2016/U/ID 22201/UCZA/UCWA/
UCYA/UCXB/URMA/UCVB)

[Ans: Loss on Sale: ₹1,375]

6. From the following particulars, prepare Machinery Account for three years under Straight Line Method. On 1st April 2004,

Purchased Machinery = ₹1,50,000

Freight Charges = ₹20,000

Installation Charges = ₹30,000

Life of the Machine = 5 years

Books are closed on 31st December each year.

[Ans: Depreciation; I Year: ₹30,000
II Year: ₹40,000
III Year: ₹40,000
Balance at the End of Third Year: ₹90,000]

7. The following particulars are related to Arun Limited. Prepare Machinery Account for three years.

Asset Purchased	*Machinery*
Date of Purchase	01.01.2013
Asset Value	₹5,00,000
Rate of Depreciation	10%
Accounting Year	January–December
Method of Depreciation	Straight Line

[Ans: Value of Machinery as on 01.01.2016: ₹3,50,000]

8. Mr. Anil provides the following details. Determine his value of assets as on 31st March 2011. Prepare:

(a) Motor Van Account

(b) Furniture Account

Particulars	*Asset I*	*Asset II*
Asset Purchased	Motor Van	Furniture
Date of Purchase	01.04.2008	01.04.2009
Asset Value	₹4,00,000	₹2,00,000
Rate of Depreciation	10%	10%
Accounting Year/Period	April–March	April–March
Methods of Depreciation	Original Cost	Original Cost

[Ans: Value of Motor Van: ₹2,80,000,
Value of Furniture: ₹1,60,000]

9. M/s Shankar & Co. purchased a Machinery on 1st January 2012 for ₹10,00,000. The firm writes off depreciation at 10% on the original cost every year. The books are closed on 31st March every year. Pass the necessary journal entries, Machinery Account and Depreciation Account for the first three years.

[Ans: Balance at the End of the Third Year: ₹7,75,000]

10. On 1st April 2001, Excel Company Limited purchased a machine for ₹56,000. On the date of purchase, it was estimated that the effective life of the machine will be 10 years and after 10 years, its scrap value will be ₹6,000. Prepare Machine Account and Depreciation Account for three years. Depreciation is charged on Straight Line Method. Accounts are closed on 31st March of every year.

[Ans: Depreciation Amount: ₹5,000,
Balance at the End of Third Year: ₹41,000]

11. A company purchased a Machinery on 1st April 2011 for ₹2,40,000. On 1st October 2012, it purchased another Machinery for ₹60,000. On 1st October 2013, it sold off the first machine purchased on 1st April 2011 for ₹1,68,000. On the same date, it purchased another Machinery for ₹1,50,000. Accounts are closed every year on 31st March. Depreciation is written off at 10% per annum on original cost. Pass the journal entries, prepare Machinery Account and Depreciation Account for three years.

[Ans: Loss on Sale of Machinery: ₹12,000,
Balance at the End of Third Year: ₹1,93,500]

12. On 1st April 2008 Sudha and Company purchased a Machinery for ₹64,000 to install the Machinery expenses incurred ₹28,000. Depreciate Machinery at 10% per annum under Straight Line Method. On 30th June 2010 the worn-out Machinery was sold for ₹52,000. The books are closed on 31st December every year.

Prepare Journal entries. Also show Machinery Account, Depreciation Account for three years.

(Alagappa University/November 2010/2239/BCO1C1)

[Ans: Loss on Sale of Machinery: ₹19,300]

13. A company purchased an old machine for ₹50,000. It immediately spent on its repairs for ₹5,000. The machine was put into use on 1.1.2008. After having used it for three years it was sold for ₹40,000. You are required to prepare Machine Account for three years providing depreciation at 10% on Original Cost.

(November 2013/60501/BYA1A)

[Ans: Profit on Sale: ₹1,500]

14. Two machines were bought on 1.1.2000 each for ₹5000. Depreciation was provided @ 10% per annum under Straight Line Method on every 31st December. One of the machine was sold on 1.7.2002 for ₹2,750 and another machine was bought for ₹7,000. Show the Machinery Account up to 31.12. 2002.

(April 2012/60501/BYA1A)

[Ans: Loss on Sale of Machinery: ₹1,000
Balance of Machinery: ₹10,150]

15. A second-hand Machinery was purchased on 1.1.2000 for ₹30,000 and repair charges amounted to ₹6,000. It was installed at a cost of ₹4,000. On 1st July 2001. Another machine was purchased for ₹26,000. On

1st July 2002, the first purchased machine was sold for ₹30,000. On the same day, one more machine was bought for ₹25,000. On 31.12.2002 the machine bought on 1st July, 2001 was sold for ₹23,000. Accounts are closed every year on 31st December. Depreciation is written off at 15% p.a. under Straight Line Method. Prepare the Machinery Account for three years.

(April 2014/60101/BPZ1A/BPW1A/BPF1A / MAM1A/SBAMK/BPC1A/BPG1A)

[Ans: Profit on Sale of Machinery I: ₹5,000
Profit on Sale of Machinery II: ₹2,850
Value of Machinery as on 31.12.2002: ₹23,125]

Diminishing Balance Method or Written Down Value Method

16. A firm purchased a plant for ₹9,000 and spent ₹1,000 as erection charges. Date of purchase of plant was 1.1.2003. Calculate the amount of Depreciation for 2003, at 12% per annum under W.D.V. method. Accounts are closed on 31st March each year.

(November 2005: 21601/ZZ1G/ZZ1E/SY1C/PK3B/SDEM)
[Ans: Amount of Depreciation: ₹300]

17. A company acquired a machine on 1.1.1988 at a cost of ₹40,000 and spent ₹1,000 on its installation .The firm writes of depreciation at 10% on diminishing balance. The books are closed on 31st December of each year. Show the Machinery Account for 3 years.

(April 2016/60101/BPZ1A/BPW1A/BPF1A/ MAM1A/SBAMK/BPC1A/BPG1A/BPM1A)

[Ans: Value of Machinery as on 31.12.1990: ₹29,889]

18. A firm purchased a Machinery on 1st January 2002 for ₹12,000. It purchased another Machinery on 30th June 2003 for ₹2,000. As Machinery purchased on 1.1.2002 for ₹500 has become obsolete it sold out it on 31.3.2004 for ₹50. It purchased another Machinery for ₹800 the same day. It depreciates Machinery @ 15% under Written Down Value Method. Show the Machinery Account for the first three years.

(MAY 2017/U/ID 22201/UCZA/UCWA/UCYA/UCXB/ URMA/UCVB 6)

[Ans: Loss on Sale of Machine: ₹297
Balance of Machinery as on 31.12.2004: ₹9,345.5]

19. On 1.1.2002, X purchased a machine for ₹50,000. On 1.7.2003 additions were made for ₹10,000. On 1.4.2004, ₹6,400 worth of

additions were made. On 31.12.2004, one-fourth of the first machine purchased on 1.1.2002 was sold for ₹7,000. Show Machinery Account from 2002 to 2004 in the books of X under diminishing balance method at 10% per annum.

(November 2005/21601/ZZ1G/ZZ1E/SY1C/PK3B/SDEM)

[Ans: Loss on Sale: ₹2112.50
Balance of Machinery on 31.12.2004: ₹48,807.50]

20. On 1st January 2012, a firm purchased five machines at ₹10,000 each. On 1st July 2014 it bought two additional machines at the price of ₹10,000 each, Installation charges ₹1,000. The accounts are closed each year on 31st December. Depreciation is provided at 10% per annum. Show the Machinery Account for five years under reducing balance method.

(May 2017/DE-110/12)

[Ans: Value of Machinery as on 31.12. 2016: ₹45,684]

21. Mrs. Seethe & Co. purchased a machine for ₹22,000 on 1st Jan. 1992. The estimated life of Machinery is 10 years after which its break-up value will be ₹2,000. Depreciation has to be charged @ 21% on the diminishing balance. There was a addition to the original plant on 1st Jan. 1994 to the value of ₹4,000. You are required to prepare Machinery Account for the first three years.

(April 2012: 60501/BYA1A)
[Ans: Value of Machinery: ₹14,007]

22. Krish & Co. Manufacturing Company purchased on 1st April 2006, a Machinery for ₹9,00,000. After having used it for three years, it was sold for ₹6,70,000. Depreciation is to be provided every year at the rate of 20% per annum on the Written Down Value Method. Books are closed on 31st March every year. Find out the Profit or Loss on the sale of Machinery.

[Ans: Profit on Sale of Machinery: ₹2,09,200]

23. Gurudev Manufacturing Company purchased on 1st April 2012, a Machinery for ₹9,40,000 and spent ₹60,000 on its installation. After having used it for three years, it was sold for ₹4,50,000. Depreciation is to be provided every year at the rate of 20% per annum on diminishing balance method.

Prepare Machinery Account and Depreciation Account for four years, ending on 31st March every year.

[Ans: Profit on Sale of Machinery: ₹40,400]

24. A limited company purchased a Machinery on 1st June 2011 for ₹6,30,000. On 1st October 2013, it purchased another Machinery for ₹3,00,000. On 1st October 2013, it sold off the first Machinery purchased on 1st June 2011 for ₹5,40,000. Accounts are closed every year on 31st March. Depreciation is written off at 10% per annum on diminishing balance method. Prepare Machinery Account and Depreciation Account for the first three years.

[Ans: Profit on Sale of Machine: ₹41,749,
Balance at the end of Third Year: ₹2,85,000]

Change in Method of Depreciation

25. Arun Enterprises, which depreciates its plant at 10% per annum on Written Down Value Method, had on 1st January 2014, ₹8,10,000 on the debit side of Plant Account. On 1st July 2014, the plant purchased on 1st January 2012 for ₹90,000 was sold for ₹45,000. On 1st July 2014, a new plant at a cost of ₹1,90,000 was purchased and installed on the same date, erection charges being ₹10,000. The company wanted to change the method of depreciation from Written Down Value Method to Straight Line Method, with effect from 1st January 2012. Difference of depreciation up to 31st December 2014 to be adjusted. The rate of depreciation remains the same as before. Show Plant Account for the year 2014.

Additional depreciation ₹9,100.
[Ans: Loss on Sale: ₹24,255]

26. The Machinery Account of a company had a debit balance of ₹1,73,400 on 1st April 2014. The company was following the practice of charging depreciation every year on diminishing balance system at 15%. In 2014, it was, however, decided to change the method from diminishing balance to straight line, with retrospective effect from April 2012 and to give effect the change while preparing the final accounts for the year ending 31st March 2015, the rate of depreciation is 10% per annum. All the machines were acquired during 2012–2013.

[Ans: Depreciation Overcharged (66,600 + 48,000): ₹18,600
Value of Machinery = ₹1,68,000]

27. VTM Ltd. purchased a Machinery costing ₹1,00,000 on 1st January 2014. It further purchased another Machinery on 1st July 2015 for ₹75,000. The company followed Straight Line Method of charging depreciation at 10% per annum. On 1st October 2016, a part of the Machinery purchased on 1st January 2014, costing ₹25,000 was sold

for ₹14,000. On 31st December 2016, the company decided to charge depreciation with retrospective effect from 1st January 2014 in Written Down Value Method at 15%. Show Machinery Accounts, assuming the accounts are closed every year on 31st December.

[Ans: Total Depreciation Charged: ₹18,750 (SLM) and ₹26,437.5 (WDV), Difference in Depreciation to be Charged: ₹7,687.50]

28. On 1st April 2011, KM Ltd. purchased two machines costing ₹3,00,000 each. The company had a policy of charging depreciation at 10% per annum under straight line method. However, at the end of 2014, the company decided to change the method of charging depreciation to diminishing balance method at the same rate retrospectively. Prepare Machinery Account from 2011 to 2014.

[Ans: Excess Depreciation Charged: ₹17,400 (1,80,000 – 1,62,600)]

29. Mr. Raghu furnishes the following information and requests you to prepare the Machinery Account.

Particulars	*Asset I*	*Asset II*
Asset Purchased	Machinery	Machinery
Date of Purchase	01.01.2014	01.01.2016
Asset Value	₹8,00,000	₹6,00,000
Rate of Depreciation	10%	10%
Accounting Year/Period	Jan–Dec	Jan–Dec
Method of Depreciation	Written Down Value	Written Down Value
Sale Price of Machinery on 31.12. 2016	5,00,000	—

[Ans: Loss of Sale of Machinery: ₹83,200 Value of Machinery: ₹5,40,000 as on 31.12.2016]

30. Aravindh and Brothers purchased a Machinery for ₹90,000 on 1st April 2001. They spent ₹10,000 for installation charges. But the Machinery was brought into use from 1st October 2001. It further purchased a Machinery costing ₹20,000 on 1st January 2004. Accounts are closed on 31st March every year. Depreciation is to be provided at the rate of 10% per annum on Written Down Value Method. Prepare Machinery Account and Depreciation Account for three years.

(November 2016/60521/BYAIC/CYA1A)
[Ans: Value of Machinery on 31.03.2004: ₹96,450]

31. A company acquired a machine on 01.01.2006 at a cost of ₹50,000 and spent ₹1,000 on its installation. The firm writes off depreciation at 10% per annum on the Written Down Value Method. The books are closed on 31st December each year. Show the Machinery Account for three years.

(April 2011/21601/ZZ1G/ZZ1E/PK3B/SY1C/SDEM)

[Ans: Value of Machinery as on 31.12. 2008: 37,179]

32. A Limited purchased a machine on 1st January 2004 for ₹2,00,000. On 1st July 2004, the company purchased another machine for ₹1,20,000. On 1st July 2005, the company sold the machine purchased on 1st January 2004 for ₹80,000. It was decided that the machine be depreciated at 10% per annum on diminishing balance method. Accounts are closed on 31st December every year. Show the Machine Account for the years 2004 and 2005.

(April 2011/21601/ZZ1G/ZZ1E/PK3B/SY1C/SDEM)

[Ans: Value of Machinery as on 31.12. 2004: ₹2,94,000
Loss on Sale of Machinery: ₹91,000
Value of Machinery as on 31.12. 2005: ₹1,02,600]

33. On 01.01.1986, Machinery was purchased for ₹80,000. On 01.01.1987 additions were made to the amount of ₹40,000. On 31.03.1988, Machinery purchased on 01.01.1987 costing ₹12,000 was sold for ₹11,000 and on 30.06.1988 Machinery purchased on 01.01.1986 costing ₹32,000 was sold for ₹26,700. On 01.10.1988 additions were made to the amount of ₹20,000. Depreciation was provided at 10% per annum on diminishing balance method. Show Machinery Account for three years 1986 to 1988.

(November 2005/21401/MW1A)
[Ans: Profit on Sale of Machinery on 31.03.1988: ₹470
Profit on sale of Machinery on 30.06.1988: ₹2,076
Balance Value of Machinery as on 31.12.1988: ₹77,172]

34. A Machinery was purchased on 1.1.2005 for ₹40,000. The same year in July another machine was purchased for ₹15,000 and ₹5000 were spent on its installation. On 30th June 2007, the second machine was sold for ₹15,000. Prepare Machinery Account up to 31st December by depreciating it at 10% under Reducing Instalment Method.

(Alagappa University November 2010/AF 2258/BCC1C1)

[Ans: Loss on Sale: ₹3,050
Balance of Machinery: ₹32,400]

35. A company whose accounting year is the calendar year purchased on 01.01.1994 a Machinery for ₹40,000. It purchased further Machinery on 1st October 1994 for ₹20,000 and on 1st July 1995 for ₹10,000. On 01.07.1996 1/4 of the Machinery installed on 01.01.1994 became obsolete and was sold for ₹6,800.

Show how the Machinery Account would appear in the books of the company for all the three years under fixed instalment method and diminishing balance method. Depreciation is to be provided at 10% p.a.

(May 2013/U/ID 1885/PZA)
[Ans: Loss on Sale: ₹895
Balance of Machinery on 31.12.1996: ₹46,215]

36. Vijay and Company purchased a grinding machine on 1st January 2006 for ₹9,250 and immediately spent ₹750 on its erection. On 1st July 2007, it purchased another machine for ₹2,500 and on 1st July 2008, it sold off the first machine purchased in 2006 for ₹7,000 and on the same date it purchased another machine ₹6,250. On 1st July 2009, the second machine purchased for ₹2,500 was also sold off for ₹500. Depreciation was provided on the Machinery on Written Down Value Basis at 10% p.a. Give the Machinery Account for four years, commencing from 1st January 2006. Calculations are to be made to the nearest rupee.

(Alagappa University/November 2010/AF2239/BC01C1)

[Ans: Loss on Sale of Machine I: ₹695
Loss on Sale of Machine II: 1530.5
Balance of Machinery: ₹5343.5]

37. X Ltd. bought 10 identical machines each costing ₹10,000 on 01.01.2011. Two of the machines were sold on 01.07.2012 for ₹12,000. On 01.10.2012, two more machines were bought for ₹12,500 each. Two machines from the first lot were sold for ₹6,000 each on 01.04.2013. Show Machine Account on 31.03.2014, if depreciation is provided under diminishing balance method at 10% and accounts are closed on every March.

(November 2017 62101/BPH1A/BPK1A)

[Ans: Loss on Sale of Machines: ₹3,795
Value of Machinery as on 31.3.2014: ₹78,237]

Provision for Depreciation Account

38. Rohesh & Co. purchased a new Machinery on 1st January 2015 for ₹1,50,000. On 1st July 2016, another Machinery was purchased for

₹1,25,000. On 1st July 2016, the first Machinery purchased was sold for ₹1,20,000. Depreciation is written of at 10% on the Original Cost Method. The accounts are closed on 31st December every year. You are required to prepare.

(a) Machinery Account

(b) Provision for Depreciation Account

Loss on Sale of Machinery: ₹7,500
[Ans: Balance of Machinery A/c: ₹1,25,000,
Provision for Depreciation on Machinery: ₹18,750]

39. Mr. A purchased a Machinery on 1st January 2013 for ₹4,50,000. On 1st July 2013, another Machinery was purchased for ₹3,75,000. On 1st July 2014, the first Machinery purchased was sold for ₹3,60,000. Depreciation is written of at 10% on the Original Cost Method. The accounts are closed on 31st December every year. You are required to prepare:

(a) Machinery Account

(b) Provision for Depreciation Account

Loss on Sale of Machinery: ₹22,500
[Ans: Balance of Machinery A/c: ₹3,75,000,
Provision for Depreciation on Machinery: ₹56,250]

40. Bajaj Co. Ltd. purchased a machine on 1st January 2009 for ₹50,000. On 1st July 2009, further Machinery was purchased for ₹25,000. On 1st July 2011, the Machinery purchased on 1st January 2009 having become obsolete, was sold off for ₹20,000. Depreciation has to be charged at 20% on the original cost, assuming that the accounts are closed every year on 31st December. You are required to prepare:

(a) Machinery Account

(b) Provision for Depreciation Account

Loss on Sale of Machinery: ₹5,000
[Ans: Machinery Account: ₹25,000,
Provision for Depreciation Account: ₹7,500]

41. Ram Limited purchased a Machinery on 1st January 2007 for ₹50,000. On 1st July 2007, further Machinery was purchased for ₹25,000. On 1st July 2008, the Machinery purchased on 1st January 2007 have become obsolete and sold for ₹20,000. Depreciation has to charged on Original Cost at 20% assuming that the accounts are closed every year on 31st December. You are required to prepare:

(a) Machinery Account

(b) Provision for Depreciation Account

(November 2011/60521/BYA1C)

[Ans: Loss on Sale: ₹15,000
Balance of Machinery: ₹25,000
Provision for Depreciation A/c: ₹7,500]

42. Machinery Account in the books of a company was as follows:

	₹
Balance as on 01.01.1986	14,900
Purchase of Machinery on 01.07. 1986	4,400
Sale of Machinery on 01.10.1986	1,000

The original cost of Machinery sold was ₹6,000 on 01.07.1983

Machinery is being depreciated at 10% per annum on diminishing balance of the asset. Show the Machinery Account in the books of the company for the year 1986. The books are closed on 31st December each year.

(November 2015/60521/BYA1C/CYA1A)

[Ans: Loss on Sale of Machinery: ₹3,271
Balance of Machinery Account: ₹13,435]

Annuity Method

43. A firm purchases a five-year's lease for ₹3,20,000 on 1st January 2010. It decides to write off depreciation on the Annuity method, presuming the rate of interest to be 5% per annum. The annuity tables show that a sum of ₹73,912 should be written off every year. Show the Lease Account for five years. Calculations are to be made to the nearest rupee.

44. A lease of land was acquired on 01.01.2000 at a cost of ₹30,000. It was decided to depreciate it under the annuity method @ 5% interest. Annuity table shows that at 5% ₹1 over five years is equivalent to ₹0.230975 annually. Write up the Lease Account for five years.

(April 2012: 60501/BYA1A)

[Ans: ₹6,929.25 (30,000 × 0.230975)]

45. Arun Ltd. has taken a lease 5 years on 1st January 2004 for ₹1,00,000. It is decided to write off depreciation on the Annuity method, presuming the rate of interest to be 5% p.a. The annuity tables shows that at 5% ₹1 over three years is equivalent to ₹0.230975 annually. Write up the Lease Account for three years.

(November 2010: 60101/BPZ1A/ BPW1A/BPF1A/
MAM1A/SBAMK/BPC1A/BPG1A)

[Ans: 23,097.5 (1,00,000 × 0.230975)]

Sinking Fund Method

46. A company purchased a three-year lease on 1st January 2006 for ₹50,000. It is decided to provide for the replacement of lease at the end of three years by setting up a sinking fund. It is expected that the investment will fetch interest at 5%. Sinking fund tables show that to provide the requisite sum at 5% at the end of three years, an investment at ₹15,864 is required every year. Investments are made to the nearest rupee.

On 31st December 2008, the investments were sold for ₹30,500. On 1st January 2009, the same lease was renewed for a further period of three years by payment of ₹60,000.

Show the journal entries and give the Lease Account, Sinking Fund Account and Sinking Fund Investments Account. Calculations are to be made to the nearest rupee.

Insurance Policy Method

47. Shiva Co. Ltd purchased a lease of ₹50,000 on 1st January 2011 to be replaced at the end of five years. For this purpose, one insurance policy is taken out, for which the annual premium is ₹9,400. At the end of the period, the lease is renewed for ₹45,000. Show the various Ledger Accounts in the books of the company.

Revaluation Method

48. A firm purchased loose tools costing ₹16,000 on 1st April 2007. The tools were independently valued at the end of every year and the values placed on them were as follows:

Date	*(₹)*
31.12.2007	15,200
31.12.2008	12,000
31.12.2009	9,600
31.12.2010	6,400

Find out the Amount of Depreciation and show the Lose Account from 2007 to 2010.

[Ans: Depreciation 2008: ₹3,200
2009: ₹2,400
2010: ₹3,200]

Depletion Method

49. Best Ltd. leased on 30th June 2009, an iron ore mine for a sum of ₹1,00,000. It is estimated that the total quantity of ore in the mine is 20,000 tonnes. The annual output is as follows:

Year	*Tonnes*
2009	1,000
2010	4,000
2011	3,200
2012	4,200

Using the depletion method of depreciation, show the Mine Account for the four years.

[Ans: Depreciation Rate = ₹5]

Machine Hour Rate Method

50. A machine was purchased on 1st January 2013 at a cost of ₹7,10,000 and ₹20,000 were spent for its installation. It is expected that its total working life would be 1,45,000 hours and its scrap value would be ₹5,000 at the end of its life time.

Show the Machinery Account from 2013 to 2016, assuming that the machine was used as follows:

Year	*Hours*
2013	16,000
2014	32,000
2015	35,200
2016	38,400

[Ans: Machine Hour Rate = ₹5]

CHAPTER

10

Fire Insurance Claims

Learning Objectives

At the end of this chapter you will be able to:

- Understand the concept of Fire Insurance
- Calculate Gross Profit Ratio and Stock on Fire
- Conceptualise Average Clause
- Compute claims under different circumstances

10.1 Fire Insurance

Businesses are subject to risk. Risk is an inherent factor in business operations. Hence, business houses subscribe to various insurance policies for risk reduction. One of the popular and most used insurances is Fire Insurance. Raw materials, work in progress or finished goods and assets as well may be destroyed by fire while in warehouse/factories. Hence, companies usually insure the stock to safeguard against the risk of loss due to fire. A business firm usually takes a fire insurance policy to cover the damage or loss to a property or stock because of fire. A fire insurance is an agreement between the insurance company and the insured. In the event of fire, the insurance company agrees to indemnify the loss suffered by the insured. However, the insured has to pay an amount to the insurance company, which is known as 'Premium'.

10.2 Need for Fire Insurance

The destruction of raw materials, finished goods, and other assets of the business paralyses the normal functioning of the organisation. It consequently

results in loss of stock and loss of profit also. Thus, business firms insure their stock against fire to indemnify themselves in the event of loss due to fire. The Insurance Companies, with the help of experts and 'Valuers'/'Assessors' assess the loss suffered and the extent of damage. Based on the reports by these experts, the Insurance Companies would make good the loss suffered.

10.3 Important Terms

› 10.3.1 Gross Profit Ratio

The gross profit ratio, otherwise called as gross margin, is the proportion of profit in relation to sales. It is arrived at by dividing gross profit with net revenue from sales.

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

› 10.3.2 Stock on Date of Fire

It refers to the amount of stock in warehouse/factory on the date of fire. It is usually calculated as the balancing figure by preparing a Memorandum Trading Account.

› 10.3.3 Memorandum Trading Account

The trading account prepared with available information from the date of commencement of the accounting year till date of fire is called Memorandum Trading Account. The account is prepared to find out the stock on date of fire.

Proforma of Memorandum Trading Account

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Opening Stock	xxx	By Sales Less Returns	xxx
To Purchases Less Returns	xxx	**By Closing Stock (Bal. Fig.)**	**xxx**
To Wages	xxx		
To Other Direct Expenses	xxx		
To Gross Profit (% on sales)	xxx		
	xxx		xxx

› 10.3.4 Salvaged Stock

Salvaged stock is the amount of stock recovered or rescued from fire. It is usually deducted from the amount of stock on date of fire to calculate the actual amount of claim to be made.

› 10.3.5 Amount of Claim

The company has to submit a claim to the Insurance Company to receive compensation for loss suffered due to fire. The amount of claim is ascertained by subtracting the stock salvaged from the value of stock on date of fire if average clause is not applied.

› 10.3.6 Average Clause

The claim cannot exceed the loss of stock due to fire. If the loss due to fire is more than the policy amount, Average Clause is applied to compensate proportionally. The insured is called upon to bear a portion of the loss.

$$\text{Claim under Average Clause} = \frac{\text{Insured Value}}{\text{Stock on Date of Fire}} \times \text{Actual Loss}$$

› 10.3.7 Undervaluation of Stock

When the stocks are recorded at a value below the cost, it is termed as undervaluation of stock.

$$\text{Undervaluation of Stock} = \frac{\text{Value of Stock}}{100 - \text{Rate of Undervaluation}} \times 100$$

› 10.3.8 Overvaluation of Stock

If the book value is more than the actual cost, it is known as overvaluation of stock.

$$\text{Overvaluation of Stock} = \frac{\text{Value of Stock}}{100 + \text{Rate of Overvaluation}} \times 100$$

Whether overvaluation or undervaluation of stock, adjustments should be made to arrive at normal profit.

› 10.3.9 Extraordinary Items

- Samples given as advertisements have to be deducted from purchases.
- Embezzlement/Misappropriation/Suppression of cash sales or credit sales should be added back to sales during the preparation of trading accounts.

› 10.3.10 Loss of Profit

Sometimes, the production operations/sales may be suspended for a short period due to fire, which will result in loss of profit for the companies. To overcome this, the companies may take an insurance policy to indemnify the loss of profit.

10.4 Steps in Calculation of Claims

1. Ascertaining Gross Profit Ratio.
2. Preparation of Memorandum Trading Account to find value of stock on date of fire.
3. Calculation of Claim [with or without Average Clause].

✎ ILLUSTRATION 1:

Calculate Gross Profit Ratio from the following:

(a) Sales: ₹2,00,000

(b) Gross Profit: ₹1,00,000

Solution:

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$\text{Gross Profit Ratio} = \frac{1,00,000}{2,00,000} \times 100 = 50\%$$

✎ ILLUSTRATION 2:

Calculate the amount of Gross Profit.

(a) Sales: ₹15,00,000

(c) Gross Profit Ratio: 20%

Solution:

$$\text{Amount of Gross Profit} = \text{Sales} \times \text{Gross Profit Ratio}$$

$$= 15,00,000 \times 20\% = ₹3,00,000$$

✎ ILLUSTRATION 3:

Calculate Gross Profit from the following:

(a) Sales: ₹1,20,000

(b) Gross Profit on Cost is 20%.

Solution:

Assume the cost price to be ₹100

Gross Profit @20% on Sales = ₹20

Therefore, Selling Price = ₹120

If Sales = ₹1,20,000

$$\text{Gross Profit} = \frac{20 \times 1,20,000}{120} = ₹20,000$$

✎ ILLUSTRATION 4:

Mr. Deva informs you that his goods worth ₹1,00,000 are insured for ₹80,000, subject to average clause. The loss by fire is estimated to be ₹95,000.

Solution:

$$\text{Claim} = \frac{\text{Insured Stock}}{\text{Stock on Date of Fire}} \times \text{Actual Loss}$$

$$= \frac{80,000}{1,00,000} \times 95,000$$

Claim to be Made = ₹76,000

✎ ILLUSTRATION 5:

Particulars	*(₹)*
Gross Profit	40,000
Sales	2,20,000
Sales Returns	20,000

Calculate Gross Profit Ratio.

Solution:

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

$$= \frac{40,000}{2,00,000} \times 100$$

Gross Profit Ratio = 20%

Net Sales = Sales – Sales Returns
= ₹2,20,000 – ₹20,000
= ₹2,00,000

✎ ILLUSTRATION 6:

Stock on Date of Fire: ₹1,48,000
Stock Salvaged: ₹18,000
Calculate the claim to be made.

Solution:

	(₹)
Stock on Date of Fire	1,48,000
(–) Salvaged Stock	18,000
Amount of Claim to be Made	1,30,000

✎ ILLUSTRATION 7:

A firm's stock of goods are valued on 1st April 2011 at ₹2,50,000, at 20% below the cost. Calculate the amount of Undervaluation of Stock.

Solution:

$$\text{Undervaluation of Stock} = \frac{\text{Value of Stock}}{100 - \text{Rate of Undervaluation}} \times 100$$

$$\text{Value of Stock on 1st April 2011} = \frac{2,50,000}{100 - 20} \times 100 = ₹3,12,500$$

Therefore, the value of stock on 01.04.2011 will be ₹3,12,500. The stock has been undervalued by ₹62,500 (3,12,500 – 2,50,000).

✎ ILLUSTRATION 8:

Determine the value of Opening Stock from the following:

(a) Opening stock: ₹45,000

(b) Opening stock was undervalued by 10%.

Solution:

$$\text{Undervaluation of Stock} = \frac{\text{Value of Stock}}{100 - \text{Rate of Undervaluation}} \times 100$$

$$\text{Value of Stock} = \frac{45,000}{100-10} \times 100 = ₹50,000$$

Therefore, the value of Opening Stock = ₹50,000

✎ ILLUSTRATION 9:

Determine the value of opening stock from the following:

(a) Opening Stock: ₹45,000

(b) Opening Stock was overvalued by 20%.

Solution:

$$\text{Overvaluation of Stock} = \frac{\text{Value of Stock}}{100 + \text{Rate of Overvaluation}} \times 100$$

$$\text{Value of Stock} = \frac{45,000}{100+20} \times 100 = ₹37,500$$

Therefore, the value of Opening Stock = ₹37,500

✎ ILLUSTRATION 10:

A fire occurred in a business premises on 31st December 1999. Calculate the Amount of Claim.

Particulars	*(₹)*
Sales for the period 01.04.1999 to 31.12.1999	12,00,000
Purchases from 01.04.1999 to 31.12.1999	8,00,000
Stock on Hand on 01.04.1999	2,00,000
Gross Profit Ratio	25% on Sales

Solution:

Memorandum Trading Account for the period ended 31.12.1999

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	2,00,000	By Sales	12,00,000
To Purchases	8,00,000	**By Stock on the Date of Fire (Bal. fig.)**	**1,00,000**
To Gross Profit (12,00,000 × 25%)	**3,00,000**		
	13,00,000		**13,00,000**

Therefore, Claim to be Made = ₹1,00,000

✎ ILLUSTRATION 11:

A fire occurred in a business premises on 31st July 2014. Ascertain the Amount of Claim.

(a) Sales from 01.01.2014 to 31.07.2014	₹6,00,000
(b) Purchases from 01.01.2014 to 31.07.2014	₹4,00,000
(c) Stock on Hand on 01.01.2014	₹1,00,000
(d) Gross Profit	50% on Sales

Solution:

Memorandum Trading Account for the Period Ended 31.07.2014

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	1,00,000	By Sales	6,00,000
To Purchases	4,00,000	**By Stock on the Date of Fire (Bal. fig.)**	**2,00,000**
To Gross Profit (6,00,000 × 50%)	**3,00,000**		
	8,00,000		**8,00,000**

Therefore, Claim to be Made = ₹2,00,000

✎ ILLUSTRATION 12:

A fire occurred in a business premises on 31st July 2016. Ascertain the Amount of Claim.

(a) Sales from 01.01.2016 to 31.07.2016	₹18,00,000
(b) Purchases from 01.01.2016 to 31.07.2016	₹12,00,000
(c) Stock on Hand on 01.01.2016	₹6,00,000
(d) Gross Profit	40% on Sales

Solution:

Memorandum Trading Account for the period ended 31.07.2016

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	6,00,000	By Sales	18,00,000
To Purchases	12,00,000	**By Stock on the Date of Fire (Bal. Fig.)**	**7,20,000**
To Gross Profit (18,00,000 × 40/100)	7,20,000		
	25,20,000		**25,20,000**

Therefore,Claim to be Made = ₹7,20,000

✎ ILLUSTRATION 13:

A fire occurred in a business premises on 25.04.2014. Ascertain the Amount of Claim.

(a) Sales from 01.01.2014 to 25.04.2014 ₹14,50,000

(b) Purchases from 01.01.2014 to 25.04.2014 ₹10,25,000

(c) Stock on hand on 01.01.2014 ₹3,75,000

(d) Gross Profit 20% on Sales

Solution:

Memorandum Trading Account for the Period Ended 25.04.1999

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	3,75,000	By Sales	14,50,000
To Purchases	10,25,000	**By Stock on the Date of Fire (Bal. Fig.)**	**2,40,000**
To Gross Profit (14,50,000 × 20%)	2,90,000		
	16,90,000		**16,90,000**

Therefore, Claim to be Made = ₹2,40,000

✎ ILLUSTRATION 14:

A fire broke out in the premises of a trader's business on 16th August 2010. The following information was extracted from their records.

Particulars	*(₹)*
Sales from 01.01.2010 to Date of Fire	6,40,000
Purchases from 01.01.2010 to Date of Fire	4,10,000
Stock on 01.01.2010	80,000

The rate of gross profit was 30% in the past years and expected to follow the same trend in all the years. Stock salvaged from fire was worth ₹14,000. Calculate the amount of claim to be lodged.

Solution:

Memorandum Trading Account for the Period Ended 16.8.2010

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	80,000	By Sales	6,40,000
To Purchases	4,10,000	**By Stock on the Date of Fire (Bal. fig.)**	**42,000**
To Gross Profit (6,40,000 × 30%)	1,92,000		
	6,82,000		**6,82,000**

Statement of Claim:

	(₹)
Stock on Date of Fire	42,000
(–) Stock Salvaged	14,000
Amount of Claim	28,000

✎ ILLUSTRATION 15:

A fire occurred in the premises of M/s Balu & Co. On 14th April 2009, the stock recovered from fire valued at ₹27,000. The sales for the period upto fire amounted to ₹3,06,000 and the purchases amounted to ₹2,07,000, while the gross profit rate was 20%. The stock on 1st January 2009 was ₹1,20,000. Prepare Statement of Claim.

Solution:

Memorandum Trading Account for the Period 1.1.2009 to 14.4.2009

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	1,20,000	By Sales	3,06,000
To Purchases	2,07,000	**By Stock on Date of Fire (Bal. fig.)**	**82,200**
To Gross Profit (3,06,000 × 20%)	61,200		
	3,88,200		**3,88,200**

Statement of Claim:

	(₹)
Value of Stock on Date of Fire	82,200
(–) Salvaged Stock	27,000
Claim to be lodged	55,200

✎ ILLUSTRATION 16:

The following information was extracted from the books of Mr. Vivek after a fire broke out in his business premises on 19th October 2011. From the details, compute the amount of claim to be lodged, assuming the accounts are closed on 31st March every year.

Particulars	*(₹)*
Stock on 01.04.2011	1,00,000
Purchases upto Date of Fire	5,25,000
Wages	92,500
Manufacturing Expenses	57,500
Sales upto Date of Fire	7,50,000
Gross Profit Ratio	15%
Salvaged Stock	37,500

Solution:

Memorandum Trading Account for the Period Ended 19.10.2011

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	1,00,000	By Sales	7,50,000
To Purchases	5,25,000	**By Stock on Date of Fire (Bal. fig.)**	**1,37,500**
To Wages	92,500		
To Manufacturing Expenses	57,500		
To Gross Profit (7,50,000 × 15%)	1,12,500		
	8,87,500		**8,87,500**

Statement of Claim:

	(₹)
Stock on Date of Fire	1,37,500
(–) Salvaged Stock	37,500
Value of Claim to be Lodged	1,00,000

✎ ILLUSTRATION 17:

A fire occurred on 31st December 1983 in the premises of a firm. From the books which were saved from fire, it was ascertained that:

(a) Sales from 01.01.1983 to 31.12.1983 ₹12,80,000

(b) Purchases from 01.01.1983 to 31.12.1983 ₹8,40,000

(c) Stock on Hand on 01.01.1983 ₹2,36,000

Gross profit for the past five years averaged at 35% on sales. The value of stock salvaged was agreed at ₹30,000. Prepare a Statement of Claim.

Solution:

Memorandum Trading Account for the Period Ended 31.12.1983

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	2,36,000	By Sales	12,80,000
To Purchases	8,40,000	**By Stock on the Date of Fire (Bal. fig.)**	**2,44,000**
To Gross Profit c/d (12,80,000 × 35/100)	4,48,000		
	15,24,000		**15,24,000**

Statement of Claim:

Particulars	*(₹)*
Stock on the Date of Fire	2,44,000
Less: Stock Salvaged	30,000
Claim to be Lodged	2,14,000

✎ ILLUSTRATION 18:

A fire occurred on 31st October 2016 in the premises of a firm. It was ascertained that:

(a) Sales from 01.01.2016 to 31.10.2016 ₹25,60,000

(b) Purchases from 01.01.2016 to 31.10.2016 ₹16,80,000

(a) Stock on Hand on 01.01.2016 ₹ 4,72,000

Gross profit for the past five years averaged at 35% on sales. The value of stock salvaged was agreed at ₹60,000. Prepare a Statement of Claim.

Solution:

Memorandum Trading Account for the Period Ended

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	4,72,000	By Sales	25,60,000
To Purchases	16,80,000	**By Stock on the Date of Fire (Bal. fig.)**	**4,88,000**
To Gross Profit (25,60,000 × 35%)	8,96,000		
	30,48,000		**30,48,000**

Statement of Claim:

Particulars	*(₹)*
Stock on the Date of Fire	4,88,000
Less: Stock Salvaged	60,000
Claim to be Lodged	4,28,000

✎ ILLUSTRATION 19:

A fire occurred on 15th September 2015 in the godown of M/s Aravind. From the following figures, ascertain the Claim to be lodged.

Stock as on 1st April 2015	₹1,00,000
Purchases (01.04. 2015 to 15.09.2015)	₹ 3,00,000
Manufacturing Expenses	₹2,00,000
Sales (01.04.2015 to 15.09.2015)	₹ 7,00,000
Rate of Gross Profit	25% on Sales
Stock Salvaged	₹16,000

Solution:

Memorandum Trading Account During 01.042.015 to 15.09.2015

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	1,00,000	By Sales	7,00,000
To Purchases	3,00,000	**By Closing Stock (Bal. fig.)**	**75,000**
To Manufacturing Expenses	2,00,000		
To Gross Profit (7,00,000 × 25%)	1,75,000		
	7,75,000		**7,75,000**

Statement of Claim:

Particulars	*(₹)*
Stock on the Date of Fire	75,000
Less: Stock Salvaged	16,000
Claim to be Made	**59,000**

Rate of Gross Profit Not Given

✎ ILLUSTRATION 20:

The premises of Devi & Co. caught fire on 31.5.2012 and resulted in major loss of stock. From the records extracted, you are required to prepare a Statement of Claim to be submitted to the Insurance Company.

		(₹)
(a)	Purchases from 01.01.2012 to 31.05.2012	4,00,000
(b)	Sales from 1.1.2012 to 31.5.2012	6,50,000
(c)	Wages Paid till date of fire	20,000
(d)	Freight Inward till date of fire	10,000
(e)	Closing Stock on 31.12.2011	1,20,000
(f)	Value of Goods recovered from fire	2,500
(g)	Policy Value amounted to	55,000
(h)	Average Clause is applicable	
(i)	Gross Profit Ratio on sales for the past three years was: 2009: 20%, 2010: 25%, 2011: 30%	

Solution:

Calculation of Average Gross Profit

$$\text{Gross Profit} = \frac{20 + 25 + 30}{3} = 25\%$$

Memorandum Trading Account for the Period 01.01.2012 to 31.05.2012

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	1,20,000	By Sales	6,50,000
To Purchases	4,00,000	**By Stock on Date of Fire (Bal. fig.)**	**62,500**
To Wages	20,000		

(Contd.)

To Freight	10,000		
To Gross Profit (6,50,000 × 25%)	1,62,500		
	7,12,500		**7,12,500**

Actual Loss = Stock on Date of Fire – Salvaged Stock
= ₹62,500 – ₹2,500
= ₹60,000

$$\text{Claim under Average Clause} = \frac{\text{Insured Value}}{\text{Stock on Fire}} \times \text{Actual Loss}$$

$$= \frac{55,000}{62,500} \times 60,000$$

Amount of Claim to be Lodged = ₹52,800

✎ ILLUSTRATION 21:

Mr. Kannan seeks your help in preparing a statement of insurance claim for the stock destroyed in fire in his premises on 12th July 2006. He reports that a large part of stock was destroyed, except stock worth ₹14,000. The following information is available for the period 1st January 2006 to 12th July 2006.

(a) Sales for the period ₹90,000

(b) Purchases for the period ₹85,000

(c) Stock on Hand on 01.01.2006 ₹40,000 at cost

(d) Goods worth ₹5,000 were taken by Mr. Kannan for personal use.

(e) The rate of gross profit for the previous year was 33⅓% on sales.

(f) The stock was insured for ₹40,000 with average clause policy.

Calculate the amount of claim to be lodged with the insurance company.

Solution:

Memorandum Trading Account for the Period Ending 12.07.2006

Particulars		*(₹)*	*Particulars*	*(₹)*
To Opening Stock		40,000	By Sales	90,000
To Purchases	85,000		**By Stock on**	**60,000**
(–) Drawings	5,000	80,000	**Date of Fire (Bal. fig.)**	
To Gross Profit (90,000 × 33.33%)		30,000		
		1,50,000		**1,50,000**

Calculation of Claim

	(₹)
Stock on Date of Fire	60,000
(–) Salvaged Stock	14,000
Actual Loss	46,000

$$\text{Claim under Average Clause} = \frac{\text{Amount of Policy}}{\text{Stock on Date of Fire}} \times \text{Actual Loss}$$

$$= \frac{40,000}{60,000} \times 46,000$$

$$= ₹30,667$$

Note: Goods withdrawn by the proprietor shall be deducted from purchases.

✎ ILLUSTRATION 22:

A fire occurred in the godown of a company on 20th March 1995. All stocks were destroyed, except to the extent of ₹13,000. From the following particulars, ascertain the claim amount in respect of loss of stock by fire.

Particulars	*(₹)*
Stock on 01.01.1994	50,000
Purchases during 1994	1,40,000
Sales during 1994	2,00,000
Stock on 31.12.1994	30,000
Purchases during 1995, up to the Date of Fire	1,46,000
Sales during 1995 up to the Date of Fire	1,60,000

Solution:

Trading Account for the period ended 31.12.1994

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	50,000	By Sales	2,00,000
To Purchases	1,40,000	By Closing Stock	30,000
To Gross Profit c/d	**40,000**		
	2,30,000		**2,30,000**

$$\text{Rate of Gross Profit} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$
$$= \frac{40{,}000}{2{,}00{,}000} \times 100 = 20\%$$

Memorandum Trading Account from 01.01.1995 to 20.03.1995

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	30,000	By Sales	1,60,000
To Purchases	1,46,000	**By Closing Stock on the Date of Fire (Bal. fig.)**	**48,000**
To Gross Profit c/d (1,60,000 × 20/100)	32,000		
	2,08,000		**2,08,000**

Statement of Claim:

Particulars	*(₹)*
Stock on the Date of Fire	48,000
Less: Stock Salvaged	13,000
Claim to be Made	**35,000**

✎ ILLUSTRATION 23:

An accidental fire on 1st June 2013 completely destroyed the stock of Chennai Ltd., except stock worth ₹13,500. The accountant provided you the following information from which you are required to prepare a Statement of Claim to be lodged to the Insurance Company.

Particulars	*(₹)*
Stock at Cost on 01.01.2012	45,000
Stock at Cost on 31.12.2012	55,000
Sales for the Year 2012	1,70,000
Sales for 2013 upto Date of Fire	1,00,000
Purchases for 2012	1,29,250
Purchases during 2013 till Date of Fire	60,000
Manufacturing Expenses for 2012	21,000
Manufacturing Expenses for 2013	?

The manufacturing expenses and rate of gross profit were found to be constant.

Solution:

Since gross profit ratio is not known, trading account for 2012 need to be prepared.

Trading Account for the Year Ended 31.12.2012

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	45,000	By Sales	1,70,000
To Purchases	1,29,250	By Closing Stock	55,000
To Manufacturing Expenses	21,000		
To Gross Profit (Bal. fig.)	**29,750**		
	2,25,000		**2,25,000**

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$= \frac{29,750}{1,70,000} \times 100 = 17.5\%$$

Memorandum Trading Account for the Period 01.01.2013 to 01.06.2013

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	55,000	By Sales	1,00,000
To Purchases	60,000	**By Stock on Date of Fire (Bal. fig.)**	**41,250**
To Manufacturing Expenses (21,000 × 5/12)	8,750		
To Gross Profit (1,00,000 × 17.5%)	17,500		
	1,41,250		**1,41,250**

Statement of Claim:

	(₹)
Stock on Date of Fire	41,250
(–) Value of Stock Salvaged	13,500
Amount of Claim	27,750

✎ ILLUSTRATION 24:

The premises of Vani Mills caught fire on 28th June 2006 and stock were damaged, except for ₹10,000. It was found from the records that the stock on 31st March 2005 was ₹48,110 and stock on 31st March 2006 was ₹66,360.

Purchases for the year 2005–2006 was ₹2,26,250 and for the current year, till date of fire, was ₹1,74,135. Similarly, the sales for 2005–2006 was ₹2,60,000 and for the period 1st April 2006 to the date of fire was ₹2,45,850. Further information is given below:

(a) During May 2006, goods costing ₹5,000 were given as samples for advertisement.

(b) A clerk has misappropriated cash sales worth ₹2,000 during 2006–2007 but was not recorded.

(c) The rate of gross profit remained constant.

You are required to prepare a Statement of Claim to be submitted to the insurance company.

Solution:

Trading Account for the Year Ended 31.03.2006

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	48,110	By Sales	2,60,000
To Purchases	2,26,250	By Closing Stock	66,360
To Gross Profit (Bal. fig.)	**52,000**		
	3,26,360		**3,26,360**

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$= \frac{52,000}{2,60,000} \times 100 = 20\%$$

Memorandum Trading Account for the Period 01.04.2006 to 28.06.2006

Particulars	*(₹)*	*(₹)*	*Particulars*	*(₹)*	*(₹)*
To Opening Stock		66,360	By Sales	2,45,850	
To Purchases	1,74,135		(+)		
(–) Sample for Advertisement	5,000	1,69,135	Misappropriation of Cash Sales	2,000	2,47,850
			By Stock on Date of Fire (Bal. fig.)		**37,215**
To Gross Profit (2,47,850 × 20%)		49,570			
		2,85,065			**2,85,065**

Statement of Claim:

	(₹)
Stock on Date of Fire	37,215
(–) Stock Salvaged	10,000
Claim to be Made	27,215

Undervaluation of Stock and Average Clause

✎ ILLUSTRATION 25:

The premises of Mrs. Pramila caught fire on 26th September 2008. From the given particulars, ascertain the loss of stock and prepare a claim for insurance.

Particulars	*(₹)*
Purchases during the Year 2007	2,44,000
Purchases from 01.01.2008 to 26.09.2008	2,94,000
Sales during 2007	3,60,000
Sales from 01.01.2008 to 26.09.2008	3,00,000
Stock on 01.01.2007	61,200
Stock on 31.12.2007	54,000

The stocks were valued at 90% of cost. The stock saved from fire was worth ₹36,000. The amount of policy was ₹1,26,000 with Average Clause.

Solution:

Trading Account for the Year Ended 31.12.2007

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock (61200 × 100/90)	68,000	By Sales	3,60,000
To Purchases	2,44,000	By Closing Stock (54000 × 100/90)	60,000
To Gross Profit (Bal. fig.)	1,08,000		
	4,20,000		**4,20,000**

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$= \frac{1,08,000}{3,60,000} \times 100 = 30\%$$

Memorandum Trading Account for the Period 01.01.2008 to 26.09.2008

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	60,000	By Sales	3,00,000
To Purchases	2,94,000	**By Stock on Date of Fire (Bal. fig.)**	**1,44,000**
To Gross Profit (3,00,000 × 30%)	90,000		
	4,44,000		**4,44,000**

Statement of Claim:

	(₹)
Stock on Date of Fire	1,44,000
(–) Stock Salvaged	36,000
Actual Loss	1,08,000

$$\text{Claim under Average Clause} = \frac{\text{Policy Amount}}{\text{Stock on Fire}} \times \text{Actual Loss}$$

$$= \frac{1,26,000}{1,44,000} \times 1,08,000$$

Amount of Claim to be Lodged = ₹94,500

✎ ILLUSTRATION 26:

Fire occurred in the premises of Mr. Vinoth on 30th April 2015. The following information were extracted from the records of Mr. Vinoth, from which you are required to prepare a Statement of Claim. The stocks were insured for ₹6,00,000. Stock worth ₹1,50,000 was recovered from fire. The other details available are:

Particulars	*(₹)*
Stock on 01.01.2015	2,00,000
Purchases till Date of Fire	10,00,000
Sales till Date of Fire	8,10,000
Commission to Purchase Manager on Purchase	2%
Carriage on Purchase	6,000
Rate Gross Profit on Cost	50%

The stock was valued at 20% less than the cost.

Solution:

Memorandum Trading Account
for the Year Ending 01.01.2015 to 30.04.2015

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock (2,00,000 × 100/80)	2,50,000	By Sales	8,10,000
To Purchases	10,00,000	**By Stock on Date of Fire (Bal. fig.)**	**7,36,000**
To Commission on Purchases (10,00,000 × 2%)	20,000		
To Carriage	6,000		
To Gross Profit (8,10,000 × 50/150)	2,70,000		
	15,46,000		**15,46,000**

Statement of Claim:

	(₹)
Stock on Date of Fire	7,36,000
(–) Value of Stock Salvaged	1,50,000
Actual Loss	5,86,000

$$\text{Amount of Claim} = \frac{\text{Insured Amount}}{\text{Stock on Fire}} \times \text{Actual Loss}$$

$$= \frac{6,00,000}{7,36,000} \times 5,86,000$$

Amount of Claim to be Lodged = ₹4,77,717

Note: Gross Profit is 50% on cost. Hence, 50/150 on sales.

✎ ILLUSTRATION 27:

A fire occurred in the premises of Mr. Nathan on 28.07.2004 and the stock were completely destroyed by fire except stock worth ₹2,000. You are requested by the firm to calculate the claim to be submitted to the insurance company.

Particulars	*2001–2002*	*2002–2003*	*2003–2004*	*2004–2005*
Opening Stock	45,600	60,400	63,000	68,400
Purchases less Returns	1,82,000	55,000	1,10,000	62,000
Sales less Returns	2,80,000	85,000	1,86,000	1,20,000
Wages	56,800	15,600	44,200	15,000
Closing Stock	60,400	63,000	68,400	?

The accounts are closed on 31st March every year.

Solution:

Memorandum Trading Account for the Period 01.04.2004 to 28.07.2004

Particulars	*2001–2002*	*2002–2003*	*2003–2004*	*2004–2005*	*Particulars*	*2001–2002*	*2002–2003*	*2003–2004*	*2004–2005*
To Opening Stock	45,600	60,400	63,000	68,400	By Sales	2,80,000	85,000	1,86,000	1,20,000
To Purchases	1,82,000	55,000	1,10,000	62,000	By Closing Stock	60,400	63,000	68,400	**49,400**
To Wages	56,800	15,600	44,200	15,000					
To Gross Profit (1,20,000 × 20%)	56,000	17,000	37,200	24,000					
	3,40,400	**1,48,000**	**2,54,400**	**1,69,400**		**3,40,400**	**1,48,000**	**2,54,400**	**1,69,400**

$$\text{Gross Profit Ratio for 2001–2002} = \frac{56,000}{2,80,000} \times 100 = 20\%$$

$$\text{Gross Profit Ratio for 2002–2003} = \frac{17,000}{85,000} \times 100 = 20\%$$

$$\text{Gross Profit Ratio for 2003–2004} = \frac{37,200}{1,86,000} \times 100 = 20\%$$

Since the rate of gross profit is 20% in the last three years, the same percentage can be assumed for 2004–2005 also.

Statement of Claim:

	(₹)
Stock on Date of Fire	49,400
(–) Value of Stock Salvaged	2,000
Amount of Claim to be Made	47,400

Treatment of Abnormal Items

✎ **ILLUSTRATION 28:**

A fire occurred in the premises of X Ltd. on 8th November 2014. All stock were destroyed except to the extent of ₹7,000. From the given data, compute the loss of stock.

Particulars	*(₹)*
Stock on 01.01.2013	45,000
Purchases Less Return in 2013	1,54,000
Sales Less Returns in 2013	2,20,000
Stock on 31.12.2013	25,200
Sales Less Returns from 01.01.2014 to Date of Fire	1,99,500
Purchases Less Returns from 01.01.2014 to Date of Fire	1,68,000

The firm records the stocks at cost less 10%. Early in 2014, the prices were raised by 5%.

Solution:

Trading Account for the Year 2013

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock (45,000 × 100/90)	50,000	By Sales	2,20,000
To Purchases	1,54,000	By Closing Stock (25,200 × 100/90)	**28,000**
To Gross Profit (Bal. fig.)	**44,000**		
	2,48,000		**2,48,000**

$$\text{Gross Profit Percentage for 2013} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$
$$= \frac{44{,}000}{2{,}20{,}000} \times 100 = 20\%$$

Since prices rose by 5% in 2014, Gross Profit Rate will be 25/105 of sales or 25/105 = 23.809%

Memorandum Trading Account for the Period 01.01.2014 to 08.11.2014

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	28,000	By Sales	1,99,500
To Purchases	1,68,000	**By Stock on Date of Fire (Bal. fig.)**	**44,000**
To Gross Profit (1,99,500 × 25/105)	47,500		
	2,43,500		**2,43,500**

Statement of Claim:

	(₹)
Stock on Date of Fire	44,000
(–) Salvaged Stock	7,000
Amount of Claim to be Lodged	37,000

✎ ILLUSTRATION 29:

The factory premises of Mr. Ranjith caught fire on 25th August 2016 and all stock were destroyed, except stock worth ₹3,000. The following details were extracted from their records:

Particulars	*(₹)*
Sales during 2015	10,00,000
Gross Profit in 2015	2,00,000
Stock on 01.01.2016	3,20,000
Purchases from 01.01.2016 to 25.08.2016	5,00,000
Sales from 01.01.2016 to 25.08.2106	8,40,000

Additional Information:

(a) Stock-taking during May revealed that goods costing ₹1,00,000 were in a damaged state. Later, 60% of the stock were sold at 50% of the cost. Remaining stock were expected to be sold at 30% of the cost.

(b) The stock on 31st December 2015 was valued at 80% of the cost.

Prepare a Statement of Claim, considering the stock damaged.

Solution:

Working Note 1:

$$\text{Original Value of Stock on 31.12.2015} = \frac{3,20,000}{80} \times 100$$

$$= ₹4,00,000$$

$$\text{Therefore, Corrected Profit for 2015} = ₹2,00,000 + ₹80,000$$

$$= ₹2,80,000$$

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$= \frac{2,80,000}{10,00,000} \times 100 = 28\%$$

Working Note 2:

Value of Damaged Stock = ₹1,00,000

60% of them sold at 50% of Cost

Sale Value = 1,00,000 × 60% × 50% = ₹30,000

Balance Stock of Damaged Items	**(₹)**
Total Value of Stock Damaged	1,00,000
(–) Cost of Stock Sold (60%)	60,000
Remaining Stock	40,000

(a) Value of Damaged Stock Unsold = 40,000 × 30%

= ₹12,000

(b) Loss on Stock = 1,00,000 – 30,000 – 12,000 = ₹58,000

Memorandum Trading Account for the Period 01.01.2016 to 25.08.2016

Particulars	*Abnormal (₹)*	*Normal (₹)*	*Total (₹)*	*Particulars*	*Abnormal (₹)*	*Normal (₹)*	*Total (₹)*
To Opening Stock (3,20,000 × 100/80)	1,00,000	3,00,000	4,00,000	By Sales	30,000	8,40,000	8,70,000
To Purchases	—	5,00,000	5,00,000	By Gross Loss (30,000 + 28,000)	58,000	—	58,000
To Gross Profit (8,40,000 × 28%)	—	2,35,200	2,35,200	**By Stock on Date of Fire (Bal. fig.)**	**12,000**	**1,95,200**	**2,07,200**
	1,00,000	**10,35,200**	**11,35,200**		**1,00,000**	**10,35,200**	**11,35,200**

Statement of Claim:

	(₹)
Total Stock on Date of Fire:	2,07,200
(–) Salvaged	3,000
Amount of Claim	2,04,200

■ *Theory Questions* ■

Short-Answer Questions

1. What is Fire Insurance?
2. What is Memorandum Trading Account?
3. What do you mean by Under-valuation of Stock?
4. What is Average Clause?
4. What is meant by Salvaged Stock?
6. What is the objective of Fire Insurance?

Long-Answer Questions

1. Write the procedure for computation of claim for Fire Insurance.
2. Give the meaning of Average Clause and mention the objective and procedure for claiming under Average Clause.

■ *Exercise Problems* ■

1. Calculate gross profit ratio from the following.
   (a) Sales: ₹5,00,000
   (b) Gross Profit: ₹50,000

[Ans: GP Ratio: 10%]

2. Calculate the amount of gross profit from the following.
   (a) Sales: ₹20,00,000
   (b) Gross Profit Ratio:15%

[Ans: Gross Profit: ₹3,00,000]

3. Calculate gross profit from the following.
   (a) Sales: ₹1,30,000
   (b) GP on Cost:30%

[Ans: Gross Profit: ₹30,000]

4. Calculate Gross Profit Ratio.
Sales: ₹6,00,000
Gross Profit: 1,35,000

(Bengaluru University, May 2016)
[Ans: 22.5%]

5. Calculate gross profit from the following.
   (a) Sales: ₹4,00,000
   (b) Gross Profit Ratio: 25% on Cost of Sales

[Ans: Gross Profit ₹80,000]

6. Calculate gross profit from the following.
   (a) Sales: ₹5,00,000
   (b) Sales Returns:₹17,500
   (c) Gross Profit Ratio: 33⅓% on cost of sales

[Ans: Gross Profit: ₹1,20,625]
Hint: **33⅓% is equal to 1/3 on cost**
1/4 on sales

7. The trading results of Mr. Anand revealed that the gross profit for the year 2016 was ₹1,40,000. The sales for the year was ₹8,20,000. Sales returns were ₹20,000. Calculate gross profit ratio.

[Ans: Net Sales: ₹8,00,000, Gross Profit Ratio: 17.5%]

8. Find out actual claim in the following case:

Value of Insurance Policy	₹60,000
Stock on date of fire	₹85,000
Value of stock saved from fire	₹15,000

(Bengaluru University, May 2012)
[Ans: Claim: ₹49,412]

9. Calculate Insurance claims assuring the insurance policy contains average clause.

A trader's stock valued ₹80,000 was totally destroyed. The stock in godown was insured for ₹60,000. The Balance of stock left after fire, appeared in the books at ₹48,000.

(Madras Univ., Nov. 2014, BYAIA)
[Ans: Claim: ₹24,000]

10. Compute the amount of Claim:
Stock on Date of Fire: ₹80,000
Salvaged Stock: ₹15,000

[Ans: Amount of Claim: ₹65,000]

11. Stock on Date of Fire: ₹40,000,
Value of Insurance Policy: ₹35,000
Stock Salvaged from Fire: ₹2,000

Calculate claim under Average Clause policy.

[Ans: ₹33,250]

12. Mr. Siva informs you that his goods worth ₹2,00,000 are insured for ₹1,60,000, subject to average clause. The loss by fire is estimated as ₹1,70,000.

[Ans: ₹1,36,000]

13. A firm's stock of goods valued on 1st April 2016 at ₹1,12,500, at 20% below the cost. Find out the original cost of the stock.

[Ans: ₹1,40,625]

14. Determine the value of opening stock.
Opening Stock: ₹90,000
Opening Stock was undervalued by 10%.

[Ans: ₹1,00,000]

15. Determine the value of opening stock.

Opening Stock: ₹22,500

Opening Stock was overvalued by 20%.

[Ans: ₹18,750]

16. The godown of Mr. Babulal underwent a fire accident on 30th April 2011. All stock were destroyed except stock worth ₹5,000. The records of Mr. Babulal revealed the following details:

Stock on 01.01.2011: ₹42,000

Purchases during 2011 up to date of fire: ₹1,40,000

Sales for 2011 up to date of fire: ₹2,28,000

Rate of Gross Profit: 30%

Calculate the amount of claim.

[Ans: Stock on Date of Fire: ₹22,400,
Amount of Claim: ₹17,400]

17. From the following details of Radhika & Co., whose building caught fire on 25th September 2016 and major portion of stock were destroyed, you are required to prepare a Statement of Claim to be submitted to the insurance company.

Stock on 01.04.2016: ₹80,500

Purchases from 01.04.2016 to Date of Fire: ₹2,15,000

Sales from 01.04.2016 to Date of fire: ₹2,10,000

Manufacturing Wages: ₹10,800

Rate of Gross Profit: 14% on sales

Stock recovered from fire: ₹17,250

[Ans: Stock on Date of Fire: ₹1,25,700, Claim: ₹1,08,450]

18. A fire occurred in the premises of a trader on 10.4.2008. Ascertain the amount of claim from the following details.

	₹
Stock on 1.1.08	2,50,000
Transactions from 1.1.08 to 10.4.08	
Purchases	10,00,000
Sales	15,00,000
Wages	2,00,000
Manufacturing expenses	1,00,000

The gross profit is 15% on sales. The stock salvaged was estimated at ₹75,000.

(Madras Univ., IDE, May 2012, UCZA/WA/YA/XB/VB)

[Ans: Stock on Date of Fire: ₹2,75,000; Claim: ₹2,00,000]

19. A fire occurred in the premises of a trader on 31.5.2004 destroying a great part of his goods. His stock on 1.1.2004 was ₹60,000. The value of stock salvaged was ₹13,500. The gross profit on sales was 30% and the sales amounted to ₹1,53,000 from January to date of fire, while for the same period the purchases amounted to ₹1,03,500.

Prepare a Statement of Claim.

(Madras University, Nov. 2013, BPZIA/FIA/WIA/GIA/CIA/ MAMIA/SBAMK, April 2012, BYAIA)

[Ans: Stock on Date of Fire: ₹56,400; Claim: ₹42,900]

20. A fire occurred in the premises of a merchant on 15.6.1989 and a considerable part of the stock was destroyed. The value of stock salvaged was ₹4,500. The books disclosed that on 1.4.1989, the stock was valued at ₹36,750. The purchases to the date of fire was ₹1,04,940 and sales ₹1,56,500. The average Gross Profit was found to be 36% on sales. Calculate claim to be made.

(Madras Univ., April 2015, April 2012, BYAIA)

[Ans: Stock on Date of Fire: ₹41,530; Claim: ₹37,030]

21. The warehouse of Tasty Food Products met with a fire accident on 28th August 2011 and majority of the stocks were lost except stock worth ₹1000. The company wishes to file a claim to the Insurance Company and you are required to prepare a Statement of Claim. Usually, the accounts are closed on 31st December every year.

Debtors as on 31.12.2010: ₹1,20,000

Debtors as on 28.08.2011: ₹90,000

Stock on 01.01.2011: ₹45,000

Purchases from 01.01.2011 to Date of Fire: ₹3,75,000

Cash Received from Debtors: ₹4,32,000

Rate of Gross Profit on Cost of Sales: 25%

[Ans: Sales: ₹4,02,000, Stock on Fire: ₹98,400, Amount of Claim: ₹97,400]

22. A cloth merchant's godown caught fire on 15th September 2010 and a considerable part of stock was destroyed. The records revealed that the stock on 1st April 2010 was valued at ₹75,000 and the purchases for the year up to date of fire were ₹2,00,000. Value of sales up to the date of fire was at ₹3,00,000. The proprietor has taken cloth worth

₹2,000 for personal use and goods worth ₹1,000 were returned by customers.

The analysis of previous year records revealed that the average rate of gross profit for the last 4 years was at 30%.

Compute the amount of claim to be lodged after considering that the stock salvaged was ₹5,000.

[Ans: Value of Stock on Fire: ₹63,700, Amount of Claim: ₹58,700]

Hint: Reduce goods for personal use (drawings) from purchase.

23. A fire occurred in the premises of Mr. Rajan on 4th April 2013 due to which a considerable part of stock was destroyed. The stock recovered from fire was ₹60,000. Mr. Rajan provides you the following details from which he requests you to prepare a statement showing amount of claim to be made.

	(₹)
Purchases for the Year 2012	18,80,000
Sales for the Year 2012	23,24,000
Purchases from 01.01.2013 to 04.04.2013	2,70,000
Sales from 01.01.2013 to 04.04.2013	4,90,000
Stock on 01.01.2012	2,90,000
Stock on 31.12.2012	4,90,000
Wages during 2012	2,10,000
Wages during 2013	40,000

[Ans: Gross Profit: 18.67%, Stock on Date of Fire: ₹4,01,483, Claim: ₹3,41,483]

24. Fire occurred in the premises of Mr. Yadav on 1.11.2010. From the information provided, ascertain the claim to be lodged.

	₹
Stock on 01.01.2010	5,500
Purchases upto 31.10.2010	32,300
Wages upto 31.10.2010	2,000
Freight upto 31.10.2010	700
Sales upto date of fire	48,000
The rate of Gross Profit is 25% on sales	
Stock salvaged	3,000

[Ans: Stock on Fire: ₹4,500; Claim: ₹1500]

25. A firm closes its accounts on 31st March every year. A fire occurred in the warehouse of the firm on 18th September 2015, destroying a considerable part of stock leaving stock worth ₹3,000. The analysis of the books revealed the following:

Stock on 01.04.2014: ₹10,000

Stock on 01.04.2015: ₹15,000

Purchases in 2014–15: ₹46,250

Purchases from 01.04.2015 to 18.09.2015: ₹36,000

Sales in 2014–15: ₹55,000

Sales from 01.04.2015 to 18.09.2015: ₹50,000

Additional Information:

(a) During the month of August 2015, an employee misappropriated cash sales ₹3,000, which is not recorded in the books.

(b) In May 2015, the trader distributed goods worth ₹2,000 as samples.

Prepare a Statement of Claim.

[Ans: Stock on Date of Fire: ₹9,250,
Amount of Claim: ₹6,250
Rate of Gross Profit: 25%]

26. Due to fire in the premises of M/s Anandhi Traders, a major portion of stock was lost on 14th June 2012. The traders have insured the stock for an amount of ₹80,200. Stock salvaged was worth ₹11,200. The policy contained an average clause.

Stock on 01.01.2011: ₹40,000

Stock on 31.12.2011: ₹35,600

Sales for the Year 2011: ₹2,25,000

Sales from 01.01.2012 to 14.06.2012: ₹1,84,000

Purchases from 01.01.2012 to 14.06.2012: ₹1,90,000

Purchases for the year 2011: ₹1,65,500

It is the practice of the firm to record stock at 80% of the cost. Calculate the value of claim.

[Ans: Gross Profit: 24%, Stock on Date of Fire: ₹94,660,
Actual Loss: ₹83,460, Claim under Average Clause: ₹70,711]

27. Fire occurred in the premises of Unlucky Ltd., on 30th April 2006. All stock were destroyed except ₹21,600. From the following, ascertain the loss suffered by company.

	₹
Stock on 1.1.2005	36,720
Stock on 31.12.2005	32,400
Purchases during 2005	1,46,400
Sales during 2005	2,16,000
Sales from 1.1.2006 to date of fire	1,80,000
Purchases from 1.1.2006 to date of fire	1,76,400

There was a practice to value stock at 90% of cost. The amount of policy was ₹75,600 and the claim was subject to average clause. Ascertain the claim to be lodged.

(April, 2012, BYAIA, Madras University)

[Ans: Gross Profit: 30%, Stock on Date of Fire: ₹86,400, Actual Loss: ₹64,800, Claim under Average Clause: ₹56,700]

28. On June 10, 2013 a fire occurred in the premises of Mr. Amar and a considerable amount of stock destroyed. The salvaged accounting records disclose the following details.

Particulars	₹
Stock on 1.1.2012	1,50,000
Stock on 31.2.2012	1,80,000
Purchases for the year 2012	8,00,000
Sales for the year 2012	11,00,000
Purchases from 1.1.2013 to 10.6.2013	3,50,000
Sales from 1.1.2013 to 10.6.2013	4,80,000
Policy amount	1,50,000
Stock salvaged	14,000

Compute the amount of claim to be made.

(Bengaluru University, May 2014)

[Ans: Gross Profit: 30%, Stock on Date of Fire: ₹1,94,000, Actual Loss: ₹1,80,000, Claim under Average Clause: ₹1,39,175]

29. A fire occurred in the business premises of Ravi on 30.5.2012. Ascertain the claim with regard to loss of stock due to fire:

		₹
(a)	Amount of policy	3,00,000
(b)	Value of stock on 1.1.2011	3,00,000

(Contd.)

(c)	Value of stock on 31.12.2011	3,50,000
(d)	Purchases during the year 2011	5,00,000
(e)	Sales during the year 2011	6,50,000
(f)	Purchases from 1.1.2012 to date of fire	2,00,000
(g)	Sales from 1.1.2012 to date of fire	3,00,000
(h)	Value of stock salvaged	50,000
(i)	The policy is subject to average clause	

(Annamalai University, Dec. 2014, B.Com., B.Com.(AF), B.Com. (CA), B.Com.(MM) and B.Com.(IB))

[Ans: GP %: 30.77%; Stock on Date of Fire: ₹3,42,310; Claim: ₹2,56,180]

30. The business house of M/s. Dev & Co. caught fire on 24th March 2016. All stocks were extinguished except to the extent of ₹6,000. Ascertain the loss of stock and claim to be made by the company.

Stock on 01.01.2015:₹37,500

Purchases during the Year 2015: ₹1,35,000

Stock on 31.12.2015: ₹52,500

Sales for the Year 2015: ₹1,50,000

Details for the period 01.01.2016 to 28.03.2016:

Purchases: ₹31,500

Sales:₹36,250

Early in 2016, the price level rose by 10%.

[Ans: Gross Profit: 20%, New Gross Profit: Sales × 30/110, Loss of Stock: ₹57,636, Amount of Claim: ₹51,636]

31. Aparna & Co. has taken an insurance policy for ₹3,20,000 covering the stock in trade. The premises caught fire on 16th April 2017 resulting in major destruction of stock.

Purchases from 01.01.2017 to 16.04.2017: ₹21,00,000

Sales from 01.01.2017 to 16.04.2017: ₹32,00,000

Wages for the above period

(including ₹30,000 erection charges for a machine): ₹1,50,000

Closing Stock as on 31.12.2016: ₹6,00,000

Carriage Inward for Said Period: ₹50,000

Value of Goods Salvaged: ₹6000

Gross Profit Ratio for last three years: 20%, 25% and 24% respectively.

The policy includes an average clause.

[Ans: Gross Profit Ratio: 23%, Loss of Stock: ₹4,00,000, Amount of Claim: ₹3,15,270]

32. Fire occurred in the premises of George on 1.8.2013. A considerable part of stock was destroyed and the stock salvaged was ₹94,800. From the following particulars find out the amount of claim.

	₹
Value of Insurance Policy	2,40,000
Stock on 1.4.2013	2,92,800
Purchases from 1.4.2013 to date of fire	8,76,000
Sales from 1.4.2013 to date of fire	11,64,000
Purchases during 2012-13	18,42,000
Sales during 2012-13	23,58,000
Stock on 1.4.2012	2,22,000

Stock on 1.4.2012 included a special item valued at ₹67,200 which was sold at a profit of 25% on cost. A part of this item was sold during 2012-13 while the balance was sold on 20.5.2013 for ₹30,000. Except for this item, the rate of gross profit on all other items was uniform throughout the period.

(Bengaluru University, May 2014)

[Ans: Gross Profit: 25%, Gross Profit: ₹2,83,500; Abnormal Gross Profit: ₹6,000 Stock on Date of Fire: ₹2,94,300, Actual Loss: ₹1,99,500, Claim under Average Clause: ₹1,62,691]

33. On 25th August 2013, the business premises of Mr. Karthick met with fire and the entire stock was lost in fire, except for ₹7,200. However, the company retrieved the following information from which, you are required to prepare a Statement of Claim.

Stock on 01.01.2012: ₹37,500

Stock on 31.12.2012: ₹52,000

Purchases for the year 2012: ₹2,53,750

Sales for the year 2012: ₹3,15,000

Purchases (less returns) for the period upto 25.08.2013: ₹1,45,000

Sales for the period upto 25.08.2013: ₹1,84,050

In valuing the stock on 31.12.2012, due to poor selling line, 50% of the value of the stock, whose original cost was ₹6,000, was written off. During July 2013, 75% of this stock had been sold at 90% of the cost

and it was expected to sell the remaining stock also at the same price. The gross profit remained uniform throughout. Compute the claim.

[Ans: Rate of Gross Profit: 25%,
Closing Stock: Normal: ₹59,000;
Abnormal: ₹1,350, Amount of Claim: ₹53,150]

34. On 15th September 2014, the premises of Sundar was destroyed by fire, but records were saved from which the following particulars were ascertained.

	₹
Stock at cost 01.04.2013	75,000
Stock at cost 31.12.2014	80,000
Wages for the year 2013-14	8,300
Purchases for the year 2013-14	4,03,000
Purchases returns for 2013-14	4,000
Sales for the year 2013-14	5,04,500
Sales return for the year	4,500
Purchases less returns 01.04.2014 to 15.09.2014	1,62,000
Sales less returns 01.04.2014 to 15.09.2014	2,31,200

In valuing stock for balance at 31st March 2014 ₹2,300 has been written off from certain stock which had poor selling line having cost of ₹6,900. A portion of these goods was sold in June 2014 at a loss of ₹250 on the original cost of ₹3,450. The reminder of this stock was now estimated to be 80% of original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout. The stock salvaged was ₹5,800.

(Bengaluru University, May 2016)

[Ans: Gross Profit: 20%, Gross Profit: ₹45,600; Stock on Date of Fire: ₹57,760, Abnormal Loss: ₹940; Actual Loss ₹51,960]

CHAPTER

11

Average Due Date

Learning Objectives

After reading this chapter, you will be able to:

- Understand the concept of Average Due Date
- Calculate Due Date and Average Due Date
- Calculate Interest to be Paid
- Solve problems independently

11.1 Average Due Date

In business, a debtor who owes several payments to creditor and whose due dates fall on different dates, may wish to settle all the debts on a single date with a lump sum payment. This is convenient for the creditor also, as a number of dues are settled in a single payment, provided it causes no loss of interest for him. Thus, a date is arrived at, on which the lump sum payment will be made without resulting in loss of interest for both the creditor and the debtor. Such date is called as Average Due Date.

It is an equated date on which a single settlement is made for a number of dues. It is calculated in such a way that neither party loses any interest.

11.2 Areas of Application of Average Due Date

- To calculate interest on drawings made by partners.
- In settling dues between principal and agent.
- In making single settlement of bills drawn at various dates.

11.3 Steps in Calculation of Average Due Date

1. **Calculating due date for each payment**

   If due dates are given directly, they can be used as they are. But if the date and term of the bills are given, due date is to be calculated by adding the term of the bill to the date of the bill. Three grace days need to be added to arrive at the due date, in case of term bills.

2. **Selection of base date**

   It is the date at which the calculation is to be started. It is also called as Start Date, Focal Date or Zero Date.

3. **Calculation of number of days**

   The number of days for each transaction from the base date to the due date is to be calculated.

4. **Find the product.**

   Product for each transaction is to be found out by multiplying the number of days with the amount of transaction.

5. **Find the total of products.**

6. **Apply the following formulae for different scenarios:**

   - If amount is lent in instalments and repaid in one settlement

     $$\text{Average Due Date} = \text{Base Date} + \frac{\text{Total of Product}}{\text{Total of Amount}} \text{ days}$$

   - If amount is lent in lump sum and is repayable in instalments

     $$\text{Average Due Date} = \text{Base Date} + \frac{\text{Total Days/Months/ Years of Instalment}}{\text{Number of Instalment}}$$

   - For mutual transactions

     $$\text{Average Due Date} = \text{Base Date} + \frac{\text{Difference in Product}}{\text{Difference in Amount}} \text{ days}$$

11.4 Points to be Noted

- If the base date is the earliest date, then the number of days calculated to be added and if last date is taken as the base date, then the number of days calculated (Total Product/Total Amount) need to be subtracted to arrive at the Average Due Date.

- If the resultant days (Total Product/Total Amount) is in fraction, then it should be rounded off to the nearest value.
- If the due date falls on a public holiday or a Sunday, the previous working day is to be taken as the due date.
- If it falls on an emergency holiday, then the following working day must be considered.

✎ ILLUSTRATION 1:

Calculate the due dates for the following bills:

Date of Transaction	*Term (in months)*
14.01.2008	2
19.01.2008	3
10.02.2008	1
19.02.2008	4

Solution:

Calculation of Due Dates

Three grace days are to be added to the tenure of the bill.

Date of Bill	*Tenure (in months)*	*Due Date*
14.01.2008	2	17.03.2008
19.01.2008	3	22.04.2008
10.02.2008	1	13.03.2008
19.02.2008	4	22.06.2008

✎ ILLUSTRATION 2:

Ascertain the due dates for the following bills.

Date of Bill	*Term (in days)*
18.02.2012	30
25.03.2012	40
14.04.2012	35
17.05.2012	50

Solution:

Calculation of Due Dates

Three grace days are to be added to the tenure of the bill.

Date of Bill	*Tenure (in days)*	*Due Date*
18.02.2012	30	22.03.2012
25.03.2012	40	07.05.2012
14.04.2012	35	22.05.2012
17.05.2012	50	09.07.2012

***Hint*:** 2012 is a leap year. Hence, 29 days in February.

✎ ILLUSTRATION 3:

Mr. Rao accepted the following bills by Mr. Kannan, and wants to make a single payment. Find out the Average Due Date.

Date of Bill	*Due Date*	*Amount (₹)*
16.02.2010	19.04.2010	6,000
28.02.2010	30.04.2010	2,000
03.03.2010	06.05.2010	9,000
15.03.2010	18.05.2010	3,000

Solution:

Calculation of Average Due Date
Base Date: 19.04.2010

Due Date	*Number of Days From Base*	*Amount (₹)*	*Product*
19.04.2010	0	6,000	0
30.04.2010	11	2,000	22,000
06.05.2010	17 (11 + 6)	9,000	1,53,000
18.05.2010	29 (11 + 18)	3,000	87,000
	Total	**20,000**	**2,62,000**

$$\text{Average Due Date} = \text{Base Date} + \frac{\text{Total of Products}}{\text{Total Amount of Transaction}} \text{ days}$$

$$= 19.04.2010 + \frac{2,62,000}{20,000} \text{ days}$$

$$= 19.04.2010 + 13 \text{ days}$$

Average Due Date = 02.05.2010

✎ ILLUSTRATION 4:

Mr. Yadhav has four different bills with Mr. Narayan on different dates. He wishes to settle in a single payment, in lieu of the four bills. Compute Average Due Date for him.

Due Date	*Amount (₹)*
30.04.2009	2,500
01,08.2009	5,000
31.10.2009	10,000
01.12.2009	2,500

Solution:

Calculation of Average Due Date
Base Date: 30.04.2009

Due Date	*Number of Days From Base Date*	*Amount (₹)*	*Product*
30.04.2009	0	2,500	0
01.08.2009	93 (31 + 30 + 31 + 1)	5,000	4,65,000
31.10.2009	184 (31 + 30 + 31 + 31 + 30 + 31 + 1)	10,000	18,40,000
01.12.2009	215 (31 + 30 + 31 + 31 + 30 + 31 + 30 + 1)	2,500	5,37,500
	Total	**20,000**	**28,42,500**

$$\text{Average Due Date} = \text{Base Date} + \frac{\text{Total of Products}}{\text{Total Amount of Transaction}} \text{ days}$$

$$= 30.04.2009 + \frac{28,42,500}{20,000} \text{ days}$$

$$= 30.04.2010 + 142 \text{ days}$$

Average Due Date = 19.09.2009

Hint: Fraction of days to be rounded off to nearest value.

✎ ILLUSTRATION 5:

Find the Average Due Date.

Date of bill	*Amount (₹)*	*Term of Bill*
04.01.2010	3,500	3 months
17.02.2010	5,000,	4 months
26.03.2010	2,500	1 month
07.04.2010	4,000	5 months

Solution:

Calculation of Due Dates

Date of Bill	*Due Date*
04.01.2010	07.04.2010
17.02.2010	20.06.2010
26.03.2010	29.04.2010
07.04.2010	10.09.2010

Calculation of Average Due Date
Base Date: 07.04.2010

Due Date	*Number of Days From Base Date*	*Amount (₹)*	*Product*
07.04.2010	0	3,500	0
29.04.2010	22	2,500	55,000
20.06.2010	74 (23 + 31 + 20)	5,000	3,70,000
10.09.2010	156 (23 + 31 + 30 + 31 + 31 + 10)	4,000	6,24,000
	Total	**15,000**	**10,49,000**

$$\text{Average Due Date} = \text{Base Date} + \frac{\text{Total of Products}}{\text{Total Amount of Transaction}} \text{ days}$$

$$= 07.04.2010 + \frac{10,49,000}{15,000} \text{ days}$$

$$= 07.04.2010 + 69.9 \text{ days}$$

$$= 07.04.2010 + 70 \text{ days}$$

Average Due Date = 16.06.2010

✎ ILLUSTRATION 6:

Mr. Saravanan has accepted the following bills drawn by Mr. Vivek, but now he wishes to cancel these three bills and make a single payment. Calculate Average Due Date.

Bill No.	*Date of Drawing*	Amount (₹)	*Term*
1	10.04.2010	3,000	92 days
2	12.06.2010	4,000	65 days
3	14.07.2010	6,000	30 days

Grace days to be added.

Solution:

Calculation of Due Date

Date of Bill	*Term*	*Due Date**
10.04.2010	92 days	14.07.2010
12.06.2010	65 days	19.08.2010
14.07.2010	30 days	16.08.2010

*(after adding 3 grace days)

Calculation of Average Due Date
Base Date: 14.07.2010

Due Date	*Number of Days From Base Date*	*Amount (₹)*	*Product*
14.07.2010	0	3,000	0
16.08.2010	33 (17 + 16)	6,000	1,98,000
19.08.2010	36 (17 + 19)	4,000	1,44,000
	Total	**13,000**	**3,42,000**

$$\text{Average Due Date} = \text{Base Date} + \frac{\text{Total of Products}}{\text{Total Amount of Transaction}} \text{ days}$$

$$= 14.07.2010 + \frac{3,42,000}{13,000} \text{ days}$$

$$= 14.07.2010 + 26.3 \text{ days}$$

$$= 14.07.2010 + 26 \text{ days}$$

Average Due Date = 09.08.2010

✎ ILLUSTRATION 7:

Mr. Vivek and Mr. Vinoth are two businessmen, who undertake mutual transactions among them. Calculate the Average Due Date.

Goods Sold by Vivek to Vinoth			*Goods Sold by Vinoth to Vivek*		
Date	*Amount (₹)*	*Tenure (Months)*	*Date*	*Amount (₹)*	*Tenure (Months)*
20.01.2011	4,000	2	25.01.2011	4,000	2
18.02.2011	5,000	2	15.02.2011	2,000	2
08.03.2011	6,000	2	11.03.2011	6,000	2

Solution:

Calculation of Average Due Date

Goods Sold by Vivek to Vinoth			*Goods Sold by Vinoth to Vivek*		
Date	*Tenure*	*Due Date*	*Date*	*Tenure*	*Due Date*
20.01.2011	2 months	23.03.2011	25.01.2011	2 months	28.03.2011
18.02.2011	2 months	21.04.2011	15.02.2011	2 months	18.04.2011
08.03.2011	2 months	11.05.2011	11.03.2011	2 months	14.05.2011

Let the base date be 23.11.2011 for both parties.

Calculation of Amount Payable by Vivek to Vinoth
Base Date: 23.03.2011

Due Date	*Number of Days From Due Date*	*Amount (₹)*	*Product*
23.03.2011	0	4,000	0
21.04.2011	29 (8 + 21)	5,000	1,45,000
11.05.2011	49 (8 + 30 + 11)	6,000	2,94,000
	Total	**15,000**	**4,39,000**

Calculation of Amount Payable by Vinoth to Vivek
Base Date: 23.03.2011

Due Date	*Number of Days from Due Date*	*Amount (₹)*	*Product*
28.03.2011	5	4,000	20,000
18.04.2011	26 (8 + 18)	2,000	52,000
14.05.2011	52 (8 + 30 + 14)	6,000	3,12,000
	Total	**12,000**	**3,84,000**

$$\text{Average Due Date} = \text{Base Date} + \frac{\text{Difference in Product}}{\text{Difference in Amount}} \text{ days}$$

$$= 23.03.2011 + \frac{4,39,000 - 3,84,000}{15,000 - 12,000} \text{ days}$$

$$= 23.03.2011 + \frac{55,000}{3,000} \text{ days}$$

$$= 23.03.2011 + 18 \text{ days}$$

Average Due Date = 10.04.2011

On 10.04.2011, Vivek needs to pay ₹3,000 to Vinoth.

✎ ILLUSTRATION 8:

Mr. Mohan owes the following bills to Mrs. Veda.

Due Date	*Amount (₹)*
10.04.2014	3,000
05.05.2014	1,500
28.05.2014	5,000
05.06.2014	2,000

Mohan wants to settle the amount on 25th July 2014. Calculate Average Due Date and interest at 10% p.a.

Solution:

Calculation of Average Due Date
Base Date: 10.04.2014

Due Date	*Number of Days From Base Date*	*Amount (₹)*	*Product*
10.04.2014	0	3,000	0
05.05.2014	25 (20 + 5)	1,500	37,500
28.05.2014	48 (20 + 28)	5,000	2,40,000
05.06.2014	56 (20 + 31 + 5)	2,000	1,12,000
	Total	**11,500**	**3,89,500**

$$\text{Average Due Date} = \text{Base Date} + \frac{\text{Total of Products}}{\text{Total Amount of Transaction}} \text{ days}$$

$$= 10.04.2014 + \frac{3,89,500}{11,500} \text{ days}$$

$$= 10.04.2014 + 34 \text{ days}$$

Average Due Date = 14.05.2014

$$\text{Interest} = \text{Amount Due} \times \text{Rate of Interest} \times \frac{\text{Number of Days from A.D.D to Settlement Date}}{365}$$

$$= 11,500 \times \frac{10}{100} \times \frac{72}{365}$$

= ₹226.8

Interest = ₹227 (Rounded off)

✎ ILLUSTRATION 9:

Vidhya owes Raji ₹6,000 on 15th June 2013. Subsequently, the following transactions took place between them till October 2013.

01.07.2013	Vidhya purchased goods for ₹8,000 from Raji
04.08.2013	Vidhya borrowed ₹5,000 from Raji
08.09.2013	Vidhya borrowed further cash ₹4,000 as loan from Raji
10.10.2013	Vidhya purchased goods worth ₹3,000 from Raji

Vidhya wishes to settle all dues on 31.10.2013 with interest at 12% p.a. Calculate the Average Due Date and the interest payable.

Solution:

Calculation of Average Due Date
Base Date: 15.06.2013

Due Date	*No. of Days From Base Date*	*Amount (₹)*	*Product*
15.06.2013	0	6,000	0
01.07.2013	16 (15 + 1)	8,000	1,28,000
04.08.2013	50 (15 + 31 + 4)	5,000	2,50,000
08.09.2013	85 (15 + 31 + 31 + 8)	4,000	3,40,000
10.10.2013	117 (15 + 31 + 31 + 30 + 10)	3,000	3,51,000
	Total	**26,000**	**10,69,000**

$$\text{Average Due Date} = \text{Base Date} + \frac{\text{Total of Products}}{\text{Total Amount of Transaction}} \text{ days}$$

$$= 15.06.2013 + \frac{10,69,000}{26,000} \text{ days}$$

$$= 15.06.2013 + 41 \text{ days}$$

Average Due Date = 26.07.2013

$$\text{Interest} = \text{Amount Due} \times \text{Rate of Interest} \times \frac{\text{Number of Days from A.D.D to Settlement Date}}{365}$$

$$= 26,000 \times \frac{12}{100} \times \frac{97}{365} = 829$$

Interest = ₹829

✎ ILLUSTRATION 10:

Calculate Average Due Date for the following bills.

Date of Bill	*Tenure*	*Amount (₹)*
16.08.2013	8 months	7,000
29.10.2013	60 days	4,000
10.12.2013	2 months	5,000
20.01.2014	60 days	3,000
14.03.2014	2 months	2,000

Solution:

Calculation of Due Dates

Date of Bill	*Tenure*	*Due Date*
16.08.2013	3 months	19.11.2013
29.10.2013	60 days	31.12.2013
10.12.2013	2 months	13.02.2014
20.01.2014	60 days	24.03.2014
14.03.2014	2 months	17.05.2014

Calculation of Average Due Date
Base Date: 16.08.2013

Due Date	*Number of Days From Base Date*		*Amount (₹)*	*Product*
19.11.2013	0		7,000	0
31.12.2013	42	(11+31)	4,000	1,68,000
13.02.2014	86	(11+31+31+13)	5,000	4,30,000
24.03.2014	125	(11+31+31+28+24)	3,000	3,75,000
17.05.2014	179	(11+31+31+28+31+30+17)	2,000	3,58,000
	Total		**21,000**	**13,31,000**

$$\text{Average Due Date} = \text{Base Date} + \frac{\text{Total of Products}}{\text{Total Amount of Transaction}} \text{ days}$$

$$= 19.11.2013 + \frac{13,31,000}{21,000} \text{ days}$$

$$= 19.11.2013 + 63.38 \text{ days}$$

$$= 19.11.2013 + 63 \text{ days}$$

Average Due Date = 21.01.2014

✎ ILLUSTRATION 11:

Mr. Raghav advanced ₹45,000 to Mr. Narain on 15th June 2016 and agreed to pay the amount in five monthly instalments commencing from 15th July 2016. Compute Average Due Date.

Solution:

Average Due Date for Loan

$$= \text{Date of Loan} + \frac{\text{Sum of months from Lending Date to Date of Repayment}}{\text{Number of Instalments}}$$

Date of Instalment	*Number of Months from Date of Loan*
15.07.2016	1
15.08.2016	2
15.09.2016	3
15.10.2016	4
15.11.2016	5
	15

$$\text{Average Due Date} = 15.06.2016 + \frac{15}{5} \text{ months}$$
$$= 15.06.2016 + 3 \text{ months}$$
$$= 15.09.2016$$

✎ ILLUSTRATION 12:

Ms Latha lent ₹60,000 to Radha on 1st August 2010, which needs to be repaid in six half-yearly instalments commencing from 1st February 2011. Calculate the Average Due Date and interest at 7% p.a.

Solution:

Date of Instalment	*Number of Months from Date of Loan*
01.02.2011	6
01.08.2011	12
01.02.2012	18
01.08.2012	24
01.02.2013	30
01.08.2013	36
	126

$$\text{Average Due Date for loan} = \text{Date of Loan} + \frac{\text{Sum of Months from Lending Date to Date of Repayment}}{\text{Number of Instalments}}$$

$$\text{Average Due Date} = 01.08.2010 + \frac{126}{6} \text{ months}$$
$$= 01.08.2010 + 21 \text{ months}$$
$$= 01.05.2012$$

$$\text{Interest} = 60{,}000 \times \frac{7}{100} \times \frac{21}{12} = ₹7{,}350$$

✎ ILLUSTRATION 13:

Akbar and Balu are in a partnership. They withdrew the following amounts during the year ending 31st December 2014.

Drawings by Akbar		*Drawings by Balu*	
Date	*Amount (₹)*	*Date*	*Amount (₹)*
15.05.2014	1,000	08.04.2014	1,000
28.07.2014	800	21.06.2014	800
17.08.2014	1,200	16.08.2014	500
20.10.2014	500	23.12.2014	900

Interest is charged at the rate of 6% p.a. calculate Average Due Date and Interest.

Solution:

(a) Calculation of Average Due Date and Interest of Akbar
Base Date: 15.05.2014

Due Date	*Number of Days From Base Date*	*Amount (₹)*	*Product*
15.05.2014	0	1,000	0
28.07.2014	74	800	59,200
17.08.2014	94	1,200	1,12,800
20.10.2014	158	500	79,000
	Total	**3,500**	**2,51,000**

$$\text{Average Due Date} = \text{Base Date} + \frac{\text{Total of Products}}{\text{Total Amount of Transaction}} \text{ days}$$

$$= 15.05.2014 + \frac{2,51,000}{3,500} \text{ days}$$

$$= 15.05.2104 + 71.71 \text{ days}$$

$$= 15.05.2014 + 72 \text{ days}$$

Average Due Date = 26.07.2014

Interest is chargeable from 26th July 2014 to 31st December 2014.

$$\text{Interest} = 3,500 \times \frac{6}{100} \times \frac{158}{365}$$

$$= ₹90.90$$

Interest = ₹91

(b) Calculation of Average Due Date of Balu and Calculation of Interest
Base Date: 08.04.2014

Due Date	*Number of Days From Base Date*	*Amount (₹)*	*Product*
08.04.2014	0	1,000	0
21.06.2014	74	800	59,200
16.08.2014	130	500	65,000
23.12.2014	259	900	2,33,100
	Total	**3,200**	**3,57,300**

$$\text{Average Due Date} = \text{Base Date} + \frac{\text{Total of Products}}{\text{Total Amount of Transaction}} \text{ days}$$

$$= 08.04.2014 + \frac{3,57,300}{3,200} \text{ days}$$

$$= 08.04.2104 + 112 \text{ days}$$

$$\text{Average Due Date} = 29.07.2014$$

$$\text{Interest} = \text{Amount Due} \times \text{Rate of Interest} \times \frac{\text{Number of days from A.D.D. to } 31.12.2014}{365}$$

$$\text{Interest} = 3,200 \times \frac{6}{100} \times \frac{155}{365} = 81.5$$

$$= ₹81.5$$

	Akbar	*Balu*
Average Due Date	26.07.2014	29.07.2014
Interest	₹91	₹81.5

■ *Formulae* ■

- If a amount is lent in instalments and repaid in one settlement

$$\text{Average Due Date} = \text{Base Date} + \frac{\text{Total of Products}}{\text{Total Amount of Transaction}} \text{ days}$$

- If amount is lent in lump sum and repayment is in instalments

$$\text{Average Due Date} = \text{Base Date} + \frac{\text{Total Days/Months/Years}}{\text{No. of Instalments}} \text{ days}$$

- For mutual transactions

$$\text{Average Due Date} = \text{Base date} + \frac{\text{Difference in Product}}{\text{Difference in Amount}} \text{ days}$$

■ Theory Questions ■

Short-Answer Questions

1. What is Average Due Date?
2. Under what circumstances is Average Due Date used?
3. What are Grace Days?
4. What is Maturity Date of a Bill?

Long-Answer Questions

1. Write down the steps for calculating Average Due Date.

■ Exercise Problems ■

1. Calculate due dates for the following bills.

Date of Bill	*Term*
10.01.2012	2 months
18.02.2012	1 month
25.03.2012	3 months
15.04.2012	4 months

[Ans: 13.03.2012, 21.03.2012, 28.06.2012, 18.08.2012]

2. Find out the due dates.

Date of Bill	*Term*
21.04.2016	1 month
16.06.2016	3 months
24.08.2016	3 months
02.10.2016	2 months

The government announced 5th December 2016 as a public holiday due to emergency.

[Ans: 24.05.2016, 19.09.2016, 27.11.2016, 06.12.2016 (since 05.12.2016 is a holiday)]

3. Calculate the due dates.

Date of Transaction	*Term*
06.02.2012	40 days
18.04.2012	60 days
01.07.2012	55 days
13.10.2012	70 days

[Ans: 20.03.2012, 20.06.2012, 28.08.2012, 25.12.2012]

4. Calculate Average Due Date.

Due Date	*Amount (₹)*
18.05.2010	3,000
23.07.2010	6,000
03.08.2010	5,000
31.08.2010	7,000

[Ans: 29.07.2010]

5. Calculate Average Due Date of Mr. Venkatesan from the details of his transactions with Mr. Karthikesan.

Date of Bill	*Due Date*	*Amount (₹)*
03.01.2000	06.02.2000	4,000
06.02.2000	09.04.2000	5,000
03.04.2000	06.05.2000	8,000
13.05.2000	15.06.2000	7,000
20.05. 2000	22.06.2000	10,000

[Ans: 14.05.2000]

6. John accepted the following bills drawn by Mr. Rajiv and wants to settle in a single payment. Compute the Average Due Date.

Date of Bill	*Amount (₹)*	*Term*
18.02.1992	600	2 months
28.01.1992	300	1 month
06.02.1992	800	70 days
07.03.1992	200	50 days

Hint: Since 1992 is a leap year, February has 29 days.

[Ans: Base Date: 02.03.1992,
Average Due Date: 13.04.1992]

7. Javid owes the following bills to Jagan. Compute Average Due Date and interest to be paid, if Javid wants to make a single payment on 30 June 2013 with interest @ 5% p.a.

Due Date	*Amount (₹)*
10.03.2013	300
04.04.2013	1,000
30.04.2013	5,000
03.06.2013	1,000

[Ans: Average Due Date: 16.04.2013
Interest: ₹102.7]

8. Aadhavan and Chandran are partners in a firm. Their drawings details are provided below. Compute Average Due Date and interest to be paid, if the accounting year ends on 31st March every year. Interest @ 12% p.a.

Drawings by Aadhavan		*Drawings by Chandran*	
Due Date	*Amount (₹)*	*Due Date*	*Amount (₹)*
15.09.1995	1,000	15.05.1995	2,000
24.10.1995	1,000	21.09.1995	1,000
18.01.1996	2,000	13.12.1995	1,500
04.03.1996	1,500	05.01.1996	1,000

Hint: 1996 is leap year and hence, February has 29 days.

[Ans: Aadhavan's A.D.D.: 23.12.1995, Interest ₹179,
Chandran's A.D.D.: 16.09.1995, Interest ₹356.21]

9. From the following details find out the Average Due Date of Mr. Kannan who wishes to settle them with one single payment.

Date of Bill	*Amount of bill (₹)*	*Due date*
01.04.2005	800	06.06.2005
30.01.2005	1,000	03.04.2005
03.06.2005	400	06.07.2005
15.06.2005	600	18.09.2005

(Madras Univ, April 2012BPZ1A/BPW1A/
BPF1A/MAM1A/SBAMK/BPC1A/BPG1A)

[Ans: Average Due Date: 10.06.2005]

10. 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 Bill	*Amount of Bill (₹)*	*Due Date*
01.01.1990	800	06.06.1990
30.4.1990	1,000	03.08.1990
03.06.1990	400	06.07.1990
15.06.1990	600	18.09.1990

(Madras Univ, April 2013/BYA1A)
[Ans: Average Due Date: 23.07.1990]

11. Thiru. Anbu accepted the following bills payable to Babu. Find out the Average Due Date.

Date of Acceptance	*Amount of Bill (₹)*	*Term*
15.09.2007	2,000	2 months
10.10.2007	4,000	2 months
30.11.2007	5,000	3 months
10.12.2007	6,000	3 months
30.01.2008	3,000	2 months

(Madras Univ, April 2015, BYA1A)
[Ans: Average Due Date: 13.02.2008]

12. A owes B the following sums of money due on the dates stated. Calculate the Average Due Date.

Due date	*Amount*
01.01.2001	1,000
01.02.2001	2,000
01.03.2001	3,000
01.04.2001	4,000

(Madras Univ, Nov 2014, BYA1A)
[Ans: Average Due Date: 02.03.2001]

13. A purchased goods on credit. His due payments were as under. Find out Average Due Date.

Date of Bill	*Amount of Bill (₹)*	*Due Date*
05.03.2005	300	08.04.2005
15.04.2005	200	18.05.2005
10.05.2005	275	13.06.2005
05.06.2005	400	08.07.2005

(Madras Univ, April 2014, BYA1A)
[Ans: Average Due Date: 31.05.2005]

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

Details
₹ 300 due on March 9, 1993
₹1,000 due on April 2, 1993
₹4,000 due on April 30, 1993
₹100 due on June 1, 1993

He wants to make the complete payment on 30.6.1993. Calculate interest at 5% p.a. with the help of Average Due Date method.

(Madras Univ., Nov. 2012 BPZ1A/BPW1A/
BPF1A/MAM1A/SBAMK/ BPC1A/BPG1A)
[Ans: Average Due Date 23.04.1993; Interest: ₹50.3]

15. Prakash, a partner in the firm of M/s Aero Products, has withdrawn the following amounts for the half year ended 30th June 2009.

Date of withdrawal	*Amount*
Jan 18	4,400
Feb 12	4,000
March 15	5,000
April 10	4,800
May 6	4,000
June 8	4,000

Interest is charged at 15% p.a. Ascertain Average Due Date and the amount of interest to be paid by partner up to the end of the half year.

(Annamalai University, 2010, B.Com, BBM, BBS)
[Ans: Average Due Date: 27.03.2009; Interest: ₹1,023]

16. A partner has withdrawn the following sums of money during half year ending 30.06.2010.

Date of withdrawal	*Amount*
Jan 15	3,000
Feb 18	2,500
March 10	1,500
March 26	2,000
April 20	4,000
May 16	3,000
June 18	5,000

Interest is charged at the rate of 8% p.a. Find Average Due Date and interest to be debited to partner.

(Annamalai University, 2012, B.Com, BMM, BBS)
[Ans: Average Due Date: 12.04.2010; Interest: ₹364]

17. Kumar, a partner in the firm has withdrawn the following amounts for the half year ended 30th June 1995.

Date of withdrawal	*Amount*
18.01.1995	440
12.02.1995	400
15.03.1995	500
10.04.1995	480
06.05.1995	400
08.06.1995	400

Interest is charged at 10% p.a. Ascertain Average Due Date and the amount of interest to be paid by partner up to the end of the half year.

(Alagappa University, April 2011 B.Com)
[Ans: Average Due Date: 27.03.1995; Interest: ₹68.19]

18. A owes the following amounts to B. Calculate Average Due Date and also the interest on rebate if A wants to settle the amount on (a) 15th Feb. 2017, (b) 18th July 2017. The interest is changed at 9% p.a.

Due Date	*Amount (₹)*
12.01.2017	5,000
26.01.2017	1,000
28.03.2017	4,000
25.06. 2017 (Sunday)	3,000

Hint: For the second transaction, 25th January 2017 is the due date and for last transaction 24th June 2017 is due date, as it is a Sunday.

[Ans: Average Due Date: 15.03.2017.
(a) If payment is on 15.02.17, Rebate: ₹89.75
(b) If payment is on 18.07.17, Interest: ₹400.68]

19. Mr. A and Mr. B had the following mutual transactions and wish to settle their accounts on a single date. Calculate Average Due Date.

Purchases by Mr. A from Mr. B		*Purchases by Mr. B from Mr. A*	
Date	*Amount (₹)*	*Date*	*Amount (₹)*
05.01.2008	6,000	05.01.2008	5,600
01.02.2008	2,800	08.02.2008	2,400
30.03.2008	2,000	19.03.2008	1,000

[Ans: Average Due Date: 24.02.2008]

20. Rekha and Megna make mutual transactions. Calculate Average Due Date.

Rekha to Megna		*Megna to Rekha*	
Date	*Amount (₹)*	*Date*	*Amount (₹)*
14.03.2011	1,500	20.03.2011	1,000
20.04.2011	2,000	15.04.2011	1,500
19.05.2011	2,500	21.05.2011	2,000
12.06.2011	2,000		

[Ans: Average Due Date: 18.05.2011]

21. Malathi lent Rs 1,00,000 to Revathi on 1st January 2012, which is to be repaid in five half-yearly instalments commencing from 1st January 2013. The interest is charged at 12% p.a. Calculate Average Due Date and Interest.

[Ans: Average Due Date: 01.01.2014,
Interest: ₹24,000]

22. Mr. Ramesh bought ₹1,60,000 as loan from Mr. Suresh on 1st May 2011 and agreed to pay in four equal annual instalments and interest is charged at 8% p.a. Calculate Average Due Date and interest. The repayment commences from 1st May 2012.

[Ans: Average Due Date: 01.11.2013,
Interest: ₹32,000]

23. Find Average Due Date for the following payments.

₹2,000 due on 5th January 2007

₹1,700 due on 16th February 2007

₹1,500 due on 15th March 2007

₹1,000 due on 2nd April 2007

If the payment is going to be settled on 31st May 2007, find the interest @ 6% p.a.

[Ans: Average Due Date: 16.02.2007,
Interest: ₹42.80]

CHAPTER

12

Account Current

Learning Objectives

After studying this chapter, you will be able to:

- Know the meaning of Account Current
- Recognise the scope of Account Current
- Recall the points to remember regarding Counting of Days
- Understand the procedure for calculating days for account current
- Describe the Methods of Calculation of Interest

12.1 Account Current

Account Current refers to the summary of transactions between two parties during a specific period of time, in chronological order. Eric Kohler defined it as follows: "Account Current is any personal account on which specific settlements are made". It is usually prepared in the form of a ledger account.

12.2 Scope of Account Current

Account current is a statement consisting of numerous transactions between two parties and it is prepared in the following circumstances.

(i) By one trader to another trader

(ii) From an agent to his principal

(iii) From consignee to consignor

If Agent *X* sends an account current to his principal Y, then the heading of the account current will be "*Y* in account current with *X*".

12.3 Points to be Noted for Calculation of Days

- Days to be calculated from due date to date of preparation of account current.
- If due date or time of bill is not given, date of transaction is to be considered.
- Either the opening day or end day is to be included. Both must not be counted.
- Three grace days need to be added wherever applicable.
- If account current starts with an opening balance, then both opening and closing dates are to be included in calculation of number of days.

12.4 Methods for Calculating Number of Days

› 12.4.1 Forward Method

The days are counted from the due date or the date of transaction (when due date is not available) to the date of account current. This is the most popular method and is widely adopted in product method and interest table method.

› 12.4.2 Backward Method/Epoque Method

This is the opposite of forward method. Under this method, the days are counted from due date/date of transaction to the date of opening the account current. For the opening balance, no interest is calculated. This method can be applied only when the opening date of the account current is given.

› 12.4.3 Daily Balance/Step/Periodic Balance Method

This method is popularly known for its application in banks. Under this method, the days from due date of one transaction to the due date of the next transaction are considered. In case the due date is not given, the date of transaction is considered.

12.5 Methods for Calculating Interest

Methods used for calculation of interest are:

1. Interest table method
2. Product method
3. Interest number method
4. Backward method/Epoque method
5. Periodic balance method/Daily balance method

› 12.5.1 Interest Table Method

In this method, the interest is calculated as per the interest tables, which are available for ready reference. Interest is calculated for each individual item and is recorded in the interest column. At the end, the difference in interest is entered in the amount column, where the shortage occurs.

✎ **ILLUSTRATION 1:**

On 1st May 2010, Ravi owes ₹9,000 to Mahesh. The following transaction took place between them till 31st December 2010, on which date, account current is to be prepared.

Date	*Particulars*	*Amount (₹)*
01.05.2010	Sales to Ravi	4,000
16.06.2010	Ravi paid Mahesh	2,000
01.08.2010	Goods sold by Ravi to Mahesh	6,000
01.09.2010	Sales to Ravi	8,000
01.11.2010	B/R accepted by Ravi for 1 month	6,000
01.12.2010	Cash received from Ravi	4,000

Prepare an account current to be sent to Ravi by Mahesh as on 31.12.2010. Interest is charged at 12% p.a.

Solution:

In the Books of Mahesh
Ravi in Account Current with Mahesh

Date	*Particulars*	*Month/ Days*	*Interest (₹)*	*Amount (₹)*	*Date*	*Particulars*	*Month/ Days*	*Interest (₹)*	*Amount (₹)*
01.05.2010	To Balance b/d	8	720	9,000	16.06.2010	By Cash	199 days	131	2,000
01.05.2010	To Sales	8	320	4,000	01.08.2010	By Purchase	5	300	6,000
01.09.2010	To Sales	4	320	8,000	04.12.2010	By B/R	27	53	6,000
31.12.2010	To Interest	—		836	01.12.2010	By Cash	1 month	40	4,000
					31.12.2010	By Interest (contra)	—	836	—
						By Balance c/d (Bal. fig.)	—	—	**3,836**
			1,360	**21,836**				**1,360**	**21,836**
01.01.2011	To Balance b/d			3,836					

› 12.5.2 Product Method/Forward Method

This is similar to calculation of product in average due date. In product method, the amount of each transaction is multiplied by the number of days (entered in days column) and the result is entered in the product column. The interest is calculated by using the formula:

$$\text{Interest} = \text{Difference in Product} \times \text{Rate} \times 1/365$$

This is based on the principle that interest on a certain amount, for a period at certain rate, will be equal to the amount of interest per day at the same rate on products.

✎ ILLUSTRATION 2:

Ranjith had the following transaction with Keshav during the year 2012 for the period 1st July 2012 to 31st December 2012.

Date	*Particulars*	*Amount (₹)*
01.07.2012	Balance payable by Keshav	4,000
01.08.2012	Accepted Keshav's bill for 1 month	3,000
10.08.2012	Cash received from Keshav	2,500

(Contd.)

24.09.2012	Purchases from Keshav	2,000
15.10.2012	Goods returned to Keshav	500
01.11.2012	Sales to Keshav	3,000

Prepare account current, to be sent to Keshav by Ranjith on 31st December 2012, after calculating interest @ 12% p.a.

Solution:

In the books of Ranjith
Keshav in Account Current with Ranjith

Date	*Particulars*	*Amount (₹)*	*Days*	*Product*	*Date*	*Particulars*	*Amount (₹)*	*Days*	*Product*
01.07.2012	To Balance b/d	4,000	184	7,36,000	10.08.2012	By Cash	2,500	143	3,57,500
01.08.2012	To B/P (04.09.12 due)	3,000	118	3,54,000	24.09.2012	By Purchases	2,000	98	1,96,000
15.10.2012	To Returns	500	77	38,500	31.12.2012	By Balance of Product	—	—	7,55,000
01.11.2012	To Sales	3,000	60	1,80,000	31.12.2012	By Balance c/d	6,248	—	—
31.12.2012	To Interest on Balance	248							
		10,748		**13,08,500**			**10,748**		**13,08,500**

✎ ILLUSTRATION 3:

Following transactions took place between A and B during the month of May 2009.

Date	*Particulars*	*Amount (₹)*
01.05.2009	Amount payable by B to A	5,000
07.05.2009	Received acceptance of A to B for 1 month	2,500
11.05.2009	Goods sold to B	7,500
13.05.2009	A received cheque from B	7,500
16.05.2009	B sold goods to A	3,000
21.05.2009	A returned goods sold by B on 16.05.2009	500

You are required to make out an Account Current by products method to be rendered by A to B on 30.06.2009, taking interest at 10% p.a.

Solution:

In the Books of A
B in Account Current with A

Date	*Particulars*	*Amount (₹)*	*Days*	*Product*	*Date*	*Particulars*	*Amount (₹)*	*Days*	*Product*
01.05.2009	To Balance b/d	5,000	61	3,05,000	13.05.2009	By Bank	7,500	48	3,60,000
07.05.2009	To Bills Payable (due 10.6.2009)	2,500	20	50,000	16.05.2009	By Purchase	3,000	45	1,35,000
11.05.2009	To Sales	7,500	50	3,75,000	30.06.2009	By Balance of Product	—	—	2,57,500
21.05.2009	To Returns (16.05.2009)	500	45	22,500	30.06.2009	By Balance c/d	5,070.5		
30.06.2009	To Interest (2,57,500 × 10/100 × 1/365)	70.5							
		15,570.5		**7,52,500**			**15,570.5**		**7,52,500**

Red Ink Interest Method

Sometimes, the due date of a bill accepted may fall beyond the closing date. In such a case, the days between due date and closing date are marked in red ink in the days-column. The product of such transaction is shown as minus product. So, it is called as Red Ink Interest method. The amount marked in red ink is usually deducted from the products.

This occurs only in forward method but does not apply to or arise in epoque method.

✎ ILLUSTRATION 4:

The details of transaction between Raghav and Madhav are given below.

Date	*Particulars*	*Amount (₹)*
01.01.2013	Amount due to Raghav	4,000
20.01.2013	Goods sold to Madhav	3,000
11.02.2013	Purchases from Madhav	2,500
08.03.2014	Cash received from Madhav	3,500
14.03.2013	Paid to Madhav	1,500
15.04.2013	Sales to Madhav with one month credit period	1,000
10.05.2013	Purchases by Raghav	1,500
20.06.2013	Raghav drew a bill on Madhav for 2 months	1,000

Prepare account current to be sent by Raghav to Madhav on 30th June 2013. Interest is charged at 6% p.a.

Solution:

In the Books of Raghav
Madhav in Account Current with Raghav

Date	*Particulars*	*Amount (₹)*	*Days*	*Product*	*Date*	*Particulars*	*Amount (₹)*	*Days*	*Product*
01.01.2013	To Balance b/d	4,000	181	7,24,000	11.02.2013	By Purchase	2,500	139	3,47,500
20.01.2013	To Sales	3,000	161	4,83,000	08.03.2013	By Cash	3,500	114	3,99,000
14.03.2013	To Cash	1,500	108	1,62,000	10.05.2013	By Purchase	1,500	51	76,500
15.04.2013	To Sales (Due Date 18.05.2013)	1,000	43	43,000	20.06.2013	By B/R (Due Date: 23.08.2013)	1,000	–54	–54,000
30.06.2013	To Interest on Balance of Products (6,43,000 × 6/100 × 1/365)	106			30.06.2013	**By Balance of Products (Bal. fig.)**	—	—	**6,43,000**
					30.06.13	**By Balance c/d (Bal. fig.)**	**1,106**	—	—
		9,606		**14,12,000**			**9,606**		**14,12,000**

Backward Method/Epoque Method

Under this method, the days are calculated from the opening date to the date of transaction. Epoque method is possible only when opening date is given the concept of red ink interest is not applicable here. The following points are to be noted while preparing account current under this method:

- No interest is calculated on opening balance, as it will have zero days.
- The closing balance of principal amount is to be multiplied by the number of days (from opening date to closing date) and entered in the product column, before calculating interest.
- Interest is to be calculated on the balance of products at prescribed rate and entered in the amount column on the same side where balance of product is entered.

✎ ILLUSTRATION 5:

Prepare an account current to be submitted by Jamal to Peter on 30th September 2011 by applying backward method. The following transactions appear in the books of Jamal.

Date	*Particulars*	₹
01.07.2011	Opening balance (Dr.)	14,000
05.07.2011	Sales to Peter	9,500
15.07.2011	Cash received from Peter	14,000
04.08.2011	Peter purchased goods	19,000
15.08.2011	Peter paid cash	9,000
01.09.2011	Purchases from Peter	22,000
01.09.2011	Paid to Peter	8,000
12.09.2011	Sales to Peter	9,700
15.09.2011	Cash paid to Peter	6,500

Interest is to be calculated at 12% p.a. and to be rounded off to the nearest rupee.

Solution:

In the Books of Jamal
Peter in Account Current with Jamal

Date	*Particulars*	*Days*	*Amount (₹)*	*Product*	*Date*	*Particulars*	*Days*	*Amount (₹)*	*Product*
01.07.2011	To Balance b/d	0	14,000	0	15.07.2011	By Cash	15	14,000	2,10,000
05.07.2011	To Sales	5	9,500	47,500	15.08.2011	By Cash	46	9,000	4,14,000
04.08.2011	To Sales	35	19,000	6,65,000	01.09.2011	By Purchases	63	22,000	13,86,000
01.09.2011	To Cash	63	8,000	5,04,000	30.09.2011	By Balance of Principal (66,700 – 45,000) 21,700	92		19,96,400
12.09.2011	To Sales	74	9,700	7,17,800	30.09.2011	**By Balance c/d (Bal. fig.)**		**22,217**	
15.09.2011	To Cash	77	6,500	5,00,500					
30.09.2011	**To Balance of Products (Bal. fig.)**	—	—	**15,71,600**					
30.09.2011	To Interest on Balance (15,71,600 × 12% × 1/365)		517						
			67,217	**40,06,400**				**67,217**	**40,06,400**

✎ ILLUSTRATION 6:

From the given details, make up an Account Current to be rendered by Sankar to Mani, on 31st December 2013, considering interest at 14% p.a.

Date	*Particulars*	*Amount (₹)*
01.07.2013	Balance owed by Mani	3,000
30.07.2013	Goods sold to Mani (Due on 30.08.2013)	1,500
01.08.2013	Purchases by Sankar (Due on 01.09.2013)	1,000
01.09.2013	Cash received from Mani	500
15.09.2013	Mani accepted Sankar's draft at 3 months date	2000

Prepare Account Current in backward and forward methods.

Solution:

In the Books of Sankar
Mani in Account Current with Sankar (Forward)

Date	*Particulars*	*Amount (₹)*	*Days*	*Product*	*Date*	*Particulars*	*Amount (₹)*	*Days*	*Product*
01.07.2013	To Balance b/d	3,000	183	5,49,000	01.08.2013	By Purchases (01.09.2013)	1,000	121	1,21,000
30.07.2013	To Sales (due 30.8.2013)	1,500	123	1,84,500	01.09.2013	By Cash	500	121	60,500
31.12.2013	To Interest (5,26,000 × 14% × 1/365)	201.75	—	—	15.09.2013	By Bills Receivable (18.12.13)	2,000	13	26,000
					31.12.2013	By Balance of Product	—	—	5,26,000
					31.12.2013	**By Balance c/d (Bal. fig.)**	**1,201.75**	—	—
		4,701.75		**7,33,500**			**4,701.75**		**7,33,500**

Mani in Account Current with Sankar (Backward)

Date	*Particulars*	*Amount (₹)*	*Days*	*Product*	*Date*	*Particulars*	*Amount (₹)*	*Days*	*Product*
01.07.2013	To Balance b/d	3,000	0	0	01.08.13	By Purchases (01.09.2013)	1,000	63	63,000

(Contd.)

30.07.2013	To Sales (due 30.8.2013)	1,500	61	91,500	01.09.13	By Cash	500	63	31,500
31.12.2013	To Balance of Product			5,29,000	15.09.13	By Bills Receivable (18.12.13)	2,000	171	3,42,000
31.12.2013	To Interest (5,29,000 × 14/100 × 1/365)	202.9			31.12.13	By Balance of principal (4,500 – 3,500 = 1000)	-	184	1,84,000
					31.12.13	**By Balance c/d (Bal. fig.)**	**1,202.9**	—	—
		4,702.9		**6,20,500**			**4,702.9**		**6,20,500**

› 12.5.3 Interest Number Method

This method is a slight variant of product method. Under this method, instead of product column, a new column called "Interest number column" is opened. The product obtained by multiplying the number of days with amount is divided by 100 and is entered in the interest number column. At the end, the difference between interest numbers is calculated and interest on such difference is calculated at the rate of 1 day. The amount of interest is entered in the amount column opposite to the side where the interest number balance is entered.

✎ ILLUSTRATION 7:

Padma has the following transactions with Lakshmi during the period January to June 2005. Prepare an account current to be submitted by Lakshmi to Padma on 30th June 2005. Calculate interest at 8% p.a.

Date	*Particulars*	*(₹)*
01.01.2005	Padma owed Lakshmi	5,000
01.01.2005	Goods sold to Padma	500
15.01.2005	Padma paid cash	1,000
20.01.2005	Goods on one month credit to Padma	750
05.02.2005	3 month acceptance received from Padma	1,250
04.03.2005	Purchases from Padma	1,000
10.04.2005	Sales to Padma	500
07.05.2005	Sales to Padma	850
06.06.2005	Received cash from Padma	750
15.06.2005	Received cash from Padma	600

Solution:

In the Books of Lakshmi
Padma in Account Current with Lakshmi

Date	*Particulars*	*Amount (₹)*	*Days*	*Interest Number*	*Date*	*Particulars*	*Amount (₹)*	*Days*	*Interest Number*
01.01.2005	To Balance b/d	5,000	181	9,050	2005 Jan. 15	By Cash	1,000	166	1,660
01.01.2005	To Sales	500	181	905	Feb. 05	By B/R (due date 08.05.2005)	1,250	53	662.5
20.01.2005	To Sales (due date 20.02.2005)	750	130	975	Mar. 04	By Purchases	1,000	118	1,180
10.04.2005	To Sales	500	81	405	June 06	By Cash	750	24	180
07.05.2005	To Sales	850	54	459	June 15	By Cash	600	15	90
30.06.2005	To Interest on Balance of Product (8021.5 × 8/365)	176			June 30	**By Balance of Product (Bal. fig.)**	—	—	**8,021.5**
					June 30	**By Balance c/d (Bal. fig.)**	**3,176**		
		7,776		**11,794**			**7,776**		**11,794**

Daily Balance Method

This method is widely used in banks to calculate net interest payable to or receivable from the customer. Under this method, the days from one transaction to another transaction are entered in the 'days' column, instead of number of days from opening date or closing date.

In order to calculate net Interest payable or receivable, Interest is calculated on 'Debit Products' and 'Credit Products' at the end of the period. If interest is payable to customer, it is recorded as 'By Interest' and interest receivable from customer is recorded as 'To Interest'.

✎ ILLUSTRATION 8:

On 1st January 2011, Sam opened a Current Account with Bank of Baroda with a cash deposit of ₹60,000. The other transactions are:

Date	*Particulars*	*Amount (₹)*
15.01.2011	Deposit	24,000
12.02.2011	Deposit	16,000
15.02.2011	Withdrawal	52,000

(Contd.)

10.04.2011	Withdrawal	60,000
10.05.2011	Deposit	32,000
15.06.2011	Withdrawal	28,000

Make out Account Current in the books of banks as on 30th June 2011. The interest is 5% p.a. on debit balances and 2% on credit balances.

Solution:

In the Books of Bank of Baroda
Sam in Account Current with Bank of Baroda

Date	*Particulars*	*Deposits (Cr.)*	*Withdrawal (Dr.)*	*Dr./Cr.*	*Balance*	*Days*	*Debit Product*	*Credit Product*
01.01.11	By Cash	60,000		Cr.	60,000	14	—	8,40,000
15.01.11	By Cash	24,000		Cr.	84,000	28	—	23,52,000
12.02.11	By Cash	16,000		Cr.	1,00,000	3	—	3,00,000
15.02.11	To Self	—	52,000	Cr.	48,000	54	—	25,92,000
10.04.11	To Self	—	60,000	Dr.	12,000	30	3,60,000	—
10.05.11	By Cash	32,000		Cr.	20,000	36	—	—
15.06.11	To Self	—	28,000	Dr.	8,000	15	1,20,000	
30.06.11	By Interest	307		Dr.	7,693	—		
30.06.11	To Balance c/d	7,693						
		1,40,000	**1,40,000**				**4,80,000**	**60,84,000**

Interest on Credit Balance	333.36
Interest on Debit Balance	65.75
Net Interest to be credited	267.61

✎ ILLUSTRATION 9:

On 1st January 2013, Jack opened a current account with UCO Bank, with a deposit of ₹15,000. His transactions are:

Deposits		*Withdrawals*	
Date	*(₹)*	*Date*	*(₹)*
14.01.2013	6,000	14.02.2013	13,000
11.03.2013	4,000	09.04.2013	15,000
09.05.2013	8,000	14.06.2013	7,000

Prepare Jack's account in the books of UCO Bank, considering 5% interest on debit balance and 2% on credit balance (calculation may be made correct to nearest rupee). The accounts are closed on 30th June 2013.

Solution:

In the Books of UCO Bank
Jack in Account Current with UCO Bank

Date	*Particulars*	*Deposit (Cr.)*	*Withdrawal (Dr.)*	*Dr./Cr.*	*Balance*	*Days*	*Debit product*	*Credit Product*
01.01.13	By Cash	15,000		Cr.	15,000	13	—	1,95,000
14.01.13	By Cash	6,000		Cr.	21,000	31	—	6,51,000
14.02.13	To Self	—	13,000	Cr.	8,000	25	—	2,00,000
11.03.13	By Cash	4,000	—	Cr.	12,000	29	—	3,48,000
09.04.13	To Self	—	15,000	Dr.	3,000	30	90,000	—
09.05.13	By Cash	8,000	—	Cr.	5,000	36	—	1,80,000
14.06.13	To Self	—	7,000	Dr.	2,000	16	32,000	—
30.06.13	By Interest	69.54	—	Dr.	1930.46	—	—	—
30.06.13	To Balance c/d	1,930.46						
		35,000	**35,000**				**1,22,000**	**15,74,000**

Interest on Credit Balance $15,74,000 \times 2\% \times 1/365 = 86.25$
Interest on Debit Balance $1,22,000 \times 5\% \times 1/365 = 16.71$
69.54

■ *Theory Questions* ■

Short-Answer Questions

1. What is Account Current?
2. What is Red Ink Interest?
3. What are the uses of Account Current?
4. Name the methods of calculating interest.
5. What is Daily Balance Method?

Long-Answer Questions

1. Explain the methods of preparing account current.

■ *Exercise Problems* ■

Product Method

1. Prepare an Account Current for Nagesh in respect of following transactions with Basha.

Date	*Transactions*	*Amount*
2010 September 16	Goods sold to Basha (Due on 1.10.10)	400
October 1	Cash received from Basha	180
October 21	Goods purchased from Basha (due on 1.12.10)	1,000
November 1	Paid to Basha	660
December 1	Paid to Basha	600
December 5	Goods purchased from Basha (Due on 1.1.11)	1,000
December 10	Goods purchased from Basha (Due on 1.1.11)	440
2011 January 1	Paid to Basha	1200
January 9	Goods sold to Basha (Due on 1.2.18)	40

The Account current is to be prepared up to 1st February. Calculate interest at the rate of 6% p.a.

(Annamalai University, 2012; Periyar University, BBA 2004; Bharathidasan University 2002)

[Ans: Interest: ₹9.13; Balance in Account: ₹289.13]

2. Make out an Account Current to be rendered by Mohan to Surya on 30.9.2012 in respect of the following transactions appearing in the books of Mohan. Interest to be taken at 15% p.a. Calculate interest to nearest rupees under Products method.

Date	*Transactions*	*Amount*
01.07.2012	Debit balance b/f	1,300
05.07.2012	Sold goods to Surya	900
15.07.2012	Received cash from Surya	1,350
04.08.2012	Surya purchased goods	1,920
15.08.2012	Received cash from Surya	900
01.09.2012	Bought goods from Surya	2,100
01.09.2012	Paid cash to Surya	750
12.09.2012	Sold goods to Surya	960
15.09.2012	Paid cash to Surya	600

(Annamalai University , 2013 (B.Com All streams); Univ. of Madras (IDE) 2000 Adapted)

[Ans: Interest: ₹61.28; Balance: ₹2141.28]

3. The following transactions took place between Ram and Krishna from 1.1.2013 to 30.6.2013. Prepare an Account Current taking interest at 5% p.a.

Date	*Transactions*	*Amount*
01.01.2013	Sold goods to Ram	2,240
10.01.2013	Received Ram's Acceptance at 2 months	1,000
15.02.2013	Received cash from Ram	1,200
02.03.2013	Bought from Ram	5,500
03.03.2013	Accepted Ram's Bill at 1 month	2,000
11.04.2013	Paid cash to Ram	2,000
30.04.2013	Sold goods to Ram payable up to 31st May	2,400
11.05.2013	Bought goods from Ram	1,500
31.05.2013	Sold goods to Ram payable on 10th June	2,200
15.06.2013	Bought goods from Ram	3,000

(Annamalai University, May 2014 (B.Com All streams); Univ. of Madras 1999)

[Ans: Interest: ₹27.64; A/c Balance: ₹1387.64]

Forward Method

4. Prepare an Account Current to be rendered to Vani by Mala as at 30th June 2013, taking interest @ 5% p.a., adopting forward method.

Date	*Particulars*	*Amount (₹)*
01.01.2013	Purchases from Vani	2,240
10.01.2013	Accepted Vani's bill for 2 months	1,000
15.02.2013	Paid to Vani	1,200
02.03.2013	Sales to Vani	5,500
03.03.2013	Received acceptance from Vani for one month	2,000
11.04.2013	Cash received from Vani	2,000
30.04.2013	Purchases from Vani (due at end of May)	2,400
11.05.2013	Sales to Vani	1,500

(Contd.)

31.05.2013	Purchases from Vani (due on 10.06.2013)	2,200
15.06.2013	Sales to Vani	3,000

[Ans: Interest: ₹27.64; Account Balance: ₹1387.64]

5. On 1.7.2008 Aakash owes ₹6,000 to Ramesh. The following transactions were carried out during the period of six months ending 31.12.2008.

Date	*Particulars*	₹
01.07.2008	Sales to Aakash	8,000
01.08.2008	Amount received from Aakash	6,000
01.09.2008	Sales to Aakash	10,000
01.10.2008	Goods sold by Aakash to Ramesh	7,000
01.11.2008	Sales to Aakash	5,000
01.12.2008	Cash received from Aakash	8,000
31.12.2008	Cash received from Aakash	2,000

Prepare an Account Current, to be given to Aakash on 31.12.2008. Calculate interest @ 12 p.a. (in months)

(Madras Univ., Nov. 2014, BYAIA)

[Ans: Interest: ₹750; Balance: ₹6,750]

6. On 1.1.2008 Anbu owed ₹2,000 to Babu on Account. During the six months ended 30.6.2008, the transactions were as follows in the books of Babu.

Date	*Transactions*	*Amount*
01.01.2008	Goods sold to Anbu	1,000
01.02.2008	Cash received from Anbu	2,000
01.03.2008	Goods sold to Anbu	4,000
01.04.2008	Goods purchased from Anbu	1,500
01.05.2008	Cash received from Anbu	2,000
01.05.2008	Goods sold to Anbu	5,000
01.06.2008	Goods purchased from Anbu	2,500
01.06.2008	Cash received from Anbu	1,000

(Alagappa University, Nov. 2015)

[Ans: Interest: ₹220; Balance: ₹3,220]

Red Ink Interest Method

7. Keshav is in Account Current with Vishal and the following transactions take place between them from 1st January 2016 to 30th April 2016.

Date	*Particulars*	*Amount (₹)*
01.01.2016	Balance due by Keshav	3,400
15.01.2016	Sales to Keshav	6,000
25.01.2016	Cash received from Keshav	2,000
10.02.2016	Received bills receivable due after 2 months	2,400
20.02.2016	Purchases by Keshav (due on 31.03.2016)	10,000
15.03.2016	Purchases by Keshav	4,000
31.03.2016	Cash paid by Keshav	4,000
15.04.2016	Sales to Keshav (due on 30.05.2016)	5,200

Prepare an account current to be rendered by Vishal to Keshav on 30 April 2016, calculating interest at 6% p.a.

[Ans: Red Ink Interest Method,
Interest: ₹106.35,
Debit Balance: ₹12,306.35]

8. From the following prepare an Account Current by Aravind to Manokar charging interest at 6% p.a. for six months ended 30.6.10.

2010		₹
Jan. 01	Balance due from Manokar	1,200
Jan. 10	Sold goods to Manokar	1,040
Jan. 17	Manokar returned goods	250
Feb. 10	Manokar paid by cheque	800
Feb. 14	Manokar accepted Aravind's draft for one month	600
Apr. 29	Goods sold to Manokar	1,230
May 15	Received cash from Manokar	1,400
June 15	Manokar accepted Aravind's bill for 3 months	1,000

(Annamalai University, May 2014, B.Com., B.Com.(IB), B.Com.(MM)/BMM(NR), B.Com.(CA))

[Ans: Interest: ₹44.53; Balance in A/c: ₹535.47]

Interest Table Method

9. From the details provided regarding the transactions between P and Q for a period of three months ending 31st March 2015, calculate the Interest to be paid @ 12% p.a. in the books of P, under interest table method.

Date	*Particulars*	*Amount (₹)*
01.01.2015	Opening balance (Dr.)	5,000
11.01.2015	Sales by P	10,000
15.01.2015	Cash received from Q	10,000
16.02.2015	Purchases by Q	10,000
01.03.2015	Q paid cash	5,000

[Ans: Interest: ₹259.68
Debit Balance: ₹10,259.68]

10. From the given details, prepare an Account Current to be rendered by Sathish to Karthik on 30th June 2005 with interest at the rate of 10% p.a., by adopting interest table method.

Date	*Particulars*	*Amount (₹)*
01.01.2005	Amount due to Sathish by Karthik	5,000
01.03.2005	Cash remitted by Karthik	1,500
01.04.2005	Sales to Karthik	3,000
01.05.2005	Cash received from Karthik	4,500

[Ans: Interest (Dr): ₹200
Debit Balance: ₹2,200)

11. The following transactions take place between Akil and Deva.

Date	*Particulars*	*Amount (₹)*
01.04.2016	Debit balance in Akil A/c	3,000
25.04.2016	Credit sales to Akil	2,500
03.05.2016	Akil sent a cheque	4,000
06.05.2016	Sales on credit to Akil	5,000
23.05.2016	Cash paid by Akil	3,500
28.05.2016	Cash received from Akil	500

Prepare an account current to be rendered by Deva to Akil under Époque method, reckoning interest at 6% p.a.

[Ans: Interest: ₹54
Debit Balance: ₹2,554]

12. Suresh had the following transactions with Ramesh.

Date	*Transactions*	*Amount*
2000 Jan 1	Balance due from Ramesh	1,000
Feb 16	Purchased goods from Ramesh	6,000
Feb 28	Sold goods to Ramesh	10,000
March 16	Received a cheque from Ramesh	3,000
April 20	Sales to Ramesh (Invoice date 3rd May)	10,000
June 16	Purchased goods from Ramesh (Received on July 16th	15,000
Sep 23	Paid cash	3,000
Oct. 24	Accepted bill for three months	5,000
Nov. 26	Received acceptance for three months	8,000

You are required to prepare an account current of Ramesh in the books of Suresh up to 31st December. The interest is to be calculated @ 5% p.a on Epoque Method.

[Alagappa University, April 2011]

[Ans: Interest – ₹64.65; Balance Due - ₹1435.55]

13. Make out an account current to be rendered by Hema to Malini on 30th June 2017 for a period of six months. Interest to be charged at 10% p.a. Interest table method to be adopted.

Date	*Particulars*	*Amount (₹)*
01.01.2017	Amount due by Malini	24,000
01.03.2017	Cash received from Malini	7,200
01.04.2017	Sales to Malini	9,600
01.05.2017	Malini paid cash	14,400

[**Ans: Interest: ₹960**
Debit Balance: ₹12,960]

14. Compute Net Interest to be credited/debited under daily Balance method for the following data:

Interest on Debit balance	—	15%
Interest on Credit balance	—	12%
Total of products: Debit	—	₹ 1,08,000
Credit	—	₹31,46,000

(Madras Univ., Nov. 2013, BYAIA)

[Ans: Interest on Credit Balance: ₹103.43; Interest on Debit Balance: ₹44.38; Net Interest to be credited: ₹59.05]

15. The following transactions take place within the bank account of Mrs. Vaidehi with Dena Bank for the month of March 2017.

Date	*Particulars*	*Amount (₹)*
05.03.2017	Cash deposited	20,000
10.03.2017	Cash withdrawn	14,000
15.03.2017	Cash deposited	40,000
22.03.2017	Cash deposited	14,000
25.03.2017	LIC payment made through bank	80,000
28.03.2017	Cash deposited	24,000

Prepare Account Current as on 31st March 2017 in the books of Dena Bank, after charging 6% p.a. interest on debit balances and 4% p.a. on credit balances.

[Ans: Net Interest credited: ₹81.53
Credit Balance: ₹12081.53]

CHAPTER

13

Sale of Goods on Approval or Return Basis

Learning Objectives

After studying this chapter, you will be able to understand the:

- Fundamental Concept of Sale of Goods on Approval or Return Basis
- Methods of Recording Sale on Approval or Return Basis
- Accounting Treatment of Sales on Approval or Return Basis under different situations

In order to boost up sales, goods are sent to customers with an option to either accept the goods or to reject the goods within a stipulated time. This type of transaction is known as "Sale on Approval Basis" or "Sale on Return Basis". This will help to increase the turnover of the traders. Customers can also have the privilege to inspect the goods at their own place conveniently, before approval or rejection. This facility will be given only to a limited number of reliable customers. If no intimation is received within the stipulated time, the trader can assume the goods are approved.

When goods are sold on approval basis, it is only a transfer of goods and not the transfer of ownership. The trader is responsible for any loss of goods, if the customer has taken precautions to safeguard the goods.

If the ownership is transferred to customers, then it will be regarded as Sale. But ownership will be transferred only after ascertaining the approval of the customer and their satisfaction with the goods.

13.1 Methods of Recording Sale on Approval or Return Basis

There are three methods of recording "Sale on Approval or Return Basis" transactions:

1. When there are only a few transactions
2. When there are considerable number of transactions
3. When there are many transactions

› 13.1.1 When there are Only a Few Transactions

1. When goods are sent
   Debtors A/c Dr.
   To Sales A/c
2. If goods are taken or approval is received
   NO ENTRY
3. When goods are returned
   Sales A/c Dr.
   To Debtors A/c
4. When goods are not taken returned
   Closing Stock A/c Dr.
   To Trading A/c
5. If the consent of the customer is not yet received
   (a) Sales A/c Dr.
   To Customer A/c
   (b) Closing Stock A/c Dr.
   To Trading A/c

› 13.1.2 When there are Considerable Number of Transactions

When there are a considerable number of transactions, a separate Sales or Return Day Book is maintained. It is divided into several parts, namely:

1. First Column: for recording goods sent on approval,
2. Second Column: for recording goods that are sold,
3. Third Column: for recording goods that are returned, and
4. Fourth Column: for recording balance of stock of goods

› 13.1.3 When there are Many Transactions

This method is applicable where the number of transactions in a period is very large and numerous in character. Under this circumstance, the following books are opened:

1. Sale or Return Day Book,
2. Sale or Return Journal, and
3. Sale or Return Ledger

Proforma of Sale or Return Day Book

Date	Goods Sent on Approval Customer Name	Amount	Goods Approved Customer Name	Amount	Goods Returned Customer Name	Amount	Balance	Amount

Proforma of Sales and Return Book

Goods Sold					*Goods Returned*			
Date	Customer Name	Regular Ledger Folio	Sale or Return Ledger Folio	Amount	Date	Customer Name	Sale or Return Ledger Folio	Amount

✎ **ILLUSTRATION 1:**

Anand sells goods to his approved customers on 'Sale or Return' basis at a profit of 20% on sales, treating as actual sales. On 15th December, goods costing ₹1,000 were sent to Nisha Traders. No confirmation has been received from Nisha Traders until 31st December. Pass necessary journal entries in the books of Anand.

Solution:

In the books of Anand

Goods Sold				
Date			*Debit (₹)*	*Credit (₹)*
December 15	Nisha Traders A/c	Dr.	1,250	
	To Sales A/c			1,250
	(Being goods sold on approval)			

Cancellation of Sale				
Date			*Debit (₹)*	*Credit (₹)*
December 31	Sales A/c	Dr.	1,250	
	To Nisha Traders A/c			1,250
	(Being cancellation of sale entry for goods not yet approved)			

Goods with Customer				
Date			*Debit (₹)*	*Credit (₹)*
December 31	Stock with Customers A/c	Dr.	1,000	
	To Trading A/c			1,000
	(Being cost of goods with customers, not yet approved)			

Working Note:

Cost of goods	1,000
Add: 20% profit on sale (or) 25% on cost	250
Sale price of goods sent on approval	1,250

✎ ILLUSTRATION 2:

ABC Ltd. sends goods to his customers on Sale or Return basis. The following transactions took place during 2017.

Date	*Particulars*	*(₹)*
15.09.2017	Sent goods to customers on sale or return basis at cost plus 33⅓%	25,000
20.10.2017	Goods returned by customers	10,000
25.11.2017	Received Letters of Approval from customers	10,000
31.12.2017	Goods with customers awaiting approval	5,000

ABC Ltd. records sale or return transactions as ordinary sales. Pass necessary journal entries in the books of ABC Ltd., assuming that the accounts are closed on 31st December 2017.

Solution:

In the books of ABC Ltd.
Journal Entries

Date			*Debit (₹)*	*Credit (₹)*
15.09.2017	Customers A/c	Dr.	25,000	
	To Sales A/c			25,000
	(Being goods sent to customers on sale or return basis)			

Date			*Debit (₹)*	*Credit (₹)*
20.10.2017	Sales Return A/c	Dr.	10,000	
	To Customers A/c			10,000
	(Being goods returned by customers)			

Date			*Debit (₹)*	*Credit (₹)*
31.12.2017	Sales A/c	Dr.	5,000	
	To Customers A/c			5,000
	(Being the cancellation of original sale entry)			

Date			*Debit (₹)*	*Credit (₹)*
31.12.2017	Stock with Customers A/c	Dr.	3,750	
	To Trading A/c			3,750
	(Being the adjustment for cost of goods lying with customers awaiting approval)			

Hint: No entry is required for receiving letter of approval from customers.

✎ ILLUSTRATION 3:

On 31st December 1992, goods worth ₹6,000 were lying with customer Suresh, which were sent on sale or return basis and recorded as actual sales. So far, no consent has been received from the customer. Pass adjustment entries, assuming goods were sent on approval basis, at a profit of cost plus 20%. The present market price is 10% less than the cost price.

Solution:

Working Note:

	(₹)
Sale Price of Goods sent on approval	6,000
Less: Profit 6,000 × 20/120	1,000
Cost of Goods Sold	5,000

Therefore, Market Price = 10% Less than Cost Price = 5,000 × 10% = 500

In the books of Suresh

Cancellation of Sale

Date			*Debit (₹)*	*Credit (₹)*
31.12.1992	Sales A/c	Dr.	6,000	
	To Suresh A/c			6,000
	(Being cancellation of sale entry for goods not yet approved)			

Stock Recorded at Market Price

Date			*Debit (₹)*	*Credit (₹)*
31.12.1992	Stock with Customers A/c	Dr.	4,500	
	To Trading A/c			4,500
	(Being stock with customers recorded at Market Price)			

✎ ILLUSTRATION 4:

Rahim sends out his goods usually to his dealers on approval basis. All such transactions are, however, recorded as actual sales and are passed through sales book. On 31st December 1990, it was found that 250 articles, at a sale price of ₹150 each, were out on approval basis and were recorded as actual sale at the price. The sale price was at cost plus 25%.

You are required to give adjustment entries and show how they will appear in final accounts.

Solution:

Working Note:

	(₹)
Sale Price of Goods sent on approval (250 × 150)	37,500
Less: Profit 37,500 × 25/125	7,500
Cost of Goods Sold	30,000

Journal of Merchant (Adjustment)

Cancellation of Sale				
Date			*Debit (₹)*	*Credit (₹)*
31.12.1990	Sales A/c	Dr.	37,500	
	To Customer A/c			37,500
	(Being cancellation of sale entry for goods not yet approved)			

Stock Recorded at Market Price				
Date			*Debit (₹)*	*Credit (₹)*
31.12.1990	Stock with Customers A/c	Dr.	30,000	
	To Trading A/c			30,000
	(Being cost of goods lying with customer not yet approved)			

Treading Account (Includes)

	(₹)	*(₹)*		*(₹)*	*(₹)*
			By Sales	xxx	
			Less: Sale on Approval	37,500	xxx
			By Closing Stock	xxx	
			Add: Stock with Customers	30,000	xxx

Balance Sheet (Includes)

Liabilities	*Assets*	*(₹)*	*(₹)*
	Sundry Debtors	xxx	
	Less: Sale or Return	37,500	xxx
	Stock with Customers		30,000

✎ ILLUSTRATION 5:

Mr. Rajesh sends goods to his customers on sale or return basis. The following transaction took place during the month of April 2013:

Date	*Particulars*	*(₹)*
04.04.2013	Goods sent on sale or return basis at cost plus 20%	60,000
08.04.2013	Goods returned by customers	15,000
20.04.2013	Sale information received from customers	30,000
30.04.2013	No information received about the goods	12,000

Assume that the accounts are closed on 31st March every year and Rajesh records the above transactions as ordinary sales basis.

Solution:

Date		*Debit (₹)*	*Credit (₹)*
04.04.2013	Debtors A/c Dr.	60,000	
	To Sales A/c		60,000
	(Being goods sent on sale or approval basis and treated as sales)		

Date		*Debit (₹)*	*Credit (₹)*
08.04.2013	Sales A/c Dr.	15,000	
	To Debtors A/c		15,000
	(Being goods returned by customers)		

Date		*Debit (₹)*	*Credit (₹)*
30.04.2013	Sales A/c Dr.	12,000	
	To Trading A/c		12,000
	(Being goods returned by customers)		

Date		*Debit (₹)*	*Credit (₹)*
30.04.2013	Closing Stock A/c Dr.	10,000	
	To Trading A/c		10,000
	(Being recorded at cost price)		

✎ ILLUSTRATION 6:

A trader has credited certain items of sales on approval, aggregating ₹75,000 to sales account. Of these, goods of the value of ₹13,000 have been returned

and taken into the stock at cost ₹6,000 though the record of written was omitted in the accounts. In respect of another parcel of ₹8,000 (cost being ₹6,000) the period of approval did not expire on the closing date. Show the adjustment and correcting entries in the books of trader.

Solution:

Return of Goods by Customer Sent Out

Date		*Debit (₹)*	*Credit (₹)*
	Sales A/c Dr.	13,000	
	To Debtors A/c		13,000
	(Being goods returned by customers, sent out on approval basis and included in stock)		

Return of Goods by Customer Sent Out

Date		*Debit (₹)*	*Credit (₹)*
	Sales A/c Dr.	8,000	
	To Debtors A/c		8,000
	(Being goods sent out on approval basis and included in sales but not yet approved)		

Goods with Customer

Date		*Debit (₹)*	*Credit (₹)*
	Stock with Customer's A/c Dr.	6,000	
	To Trading A/c		6,000
	(Being cost of goods lying with customers, on approval basis, included in stock)		

When transactions are in large number:

✎ ILLUSTRATION 7:

M/s Bohra sends out goods on Sale or Return basis:

January 18: A – ₹500 January 20: A returned ₹150 and retained the rest.
January 22: B – ₹450 January 25: B retained all the goods.
January 30: C – ₹1,500 January 31: No intimation

Show how these transactions will appear when books are kept on double entry system. Give journal entries.

Solution:

Journal Entries in the books of M/s Bohra

Goods Sent on Approval to A				
Date			*Debit (₹)*	*Credit (₹)*
January 18	A's A/c	Dr.	500	
	To Sale or Return A/c			500
	(Being goods sent on approval to A, entered in Sale or Return ledger)			

Goods Returned by A				
Date			*Debit (₹)*	*Credit (₹)*
January 20	Sales Return A/c	Dr.	150	
	To A's A/c			150
	(Being goods returned by A entered in sale or return ledger)			

Goods Approved and Transferred to Personal Account				
Date			*Debit (₹)*	*Credit (₹)*
January 20	A's A/c (in main ledger)	Dr.	350	
	To A (in Sale or Return ledger)			350
	(Being goods approved transferred to Personal A/c in the main ledger)			

Goods Approved and Transferred from Sale or Return				
Date			*Debit (₹)*	*Credit (₹)*
January 20	Sale or Return A/c	Dr.	350	
	To Sales A/c (in main ledger)			350
	(Being goods approved transferred from Sale or Return ledger to main ledger)			

Goods Sent on Approval to B

Date		*Debit (₹)*	*Credit (₹)*
January 22	B's A/c Dr.	450	
	To Sale or Return A/c		450
	(Being goods sent on approval to B entered in Sale or Return ledger)		

Goods Approved and Transferred to Personal Account

Date		*Debit (₹)*	*Credit (₹)*
January 25	B's A/c (in main ledger) Dr.	450	
	To B A/c (in sale or return ledger)		450
	(Being goods approved transferred to Personal A/c)		

Goods Approved and Transferred from Sale or Return

Date		*Debit (₹)*	*Credit (₹)*
January 25	Sale or Return A/c Dr.	450	
	To Sales A/c (in main ledger)		450
	(Being goods approved transferred from Sale or Return ledger to main ledger)		

Goods Sent on Approval to C

Date		*Debit (₹)*	*Credit (₹)*
January 30	C's A/c Dr.	1,500	
	To Sale or Return A/c		1,500
	(Being goods sent on approval to C entered in Sale or Return ledger)		

✎ ILLUSTRATION 8:

Indira sends goods on approval basis. The details are as follows:

March 01: Jaya – ₹7,500,
March 10: Jaya returned ₹750 and retained the rest
March 12: Bhagya – ₹2,500
March 22: Bhagya retained all the goods.
March 25: Chitra – ₹3,700
March 31: No intimation

Show how these transactions will appear when books are kept on double entry system. Give journal entries.

Solution:

Journal Entries
In the books of Indira

Goods Sent on Approval to Jaya				
Date			*Debit (₹)*	*Credit (₹)*
March 01	Jaya A/c	Dr.	7,500	
	To Sale or Return A/c			7,500
	(Being goods sent on approval to Jaya entered in Sale or Return ledger)			

Goods Returned by Jaya				
Date			*Debit (₹)*	*Credit (₹)*
March 10	Sales Return A/c	Dr.	750	
	To Jaya's A/c			750
	(Being goods returned by Jaya entered in sale or return ledger)			

Goods Approved and Transferred to Personal Account				
Date			*Debit (₹)*	*Credit (₹)*
March 10	Jaya's A/c (in main ledger)	Dr.	6,750	
	To Jaya (in Sale or Return ledger)			6,750
	(Being goods approved transferred to Personal A/c in the main ledger)			

Goods Approved and Transferred from Sale or Return				
Date			*Debit (₹)*	*Credit (₹)*
March 10	Sale or Return A/c	Dr.	750	
	To Sales A/c (in main ledger)			750
	(Being goods approved transferred from Sale or Return ledger to main ledger)			

Goods Sent on Approval to Bhagya

Date		*Debit (₹)*	*Credit (₹)*
March 12	Bhagya A/c Dr.	2,500	
	To Sale or Return A/c		2,500
	(Being goods sent on approval to Bhagya entered in sale or Return ledger)		

Goods Approved and Transferred to Personal Account

Date		*Debit (₹)*	*Credit (₹)*
March 22	Bhagya's A/c (in main ledger) Dr.	2,500	
	To Bhagya (in Sale or Return ledger)		2,500
	(Being goods approved transferred to personal A/c in the main ledger)		

Goods Approved and Transferred from Sale or Return

Date		*Debit (₹)*	*Credit (₹)*
March 22	Sale or Return A/c Dr.	2,500	
	To Sales A/c (in main ledger)		2,500
	(Being goods approved transferred from Sale or Return ledger to main ledger)		

Goods Sent on Approval to Chitra

Date		*Debit (₹)*	*Credit (₹)*
March 25	Chitra A/c Dr.	3,700	
	To Sale or Return A/c		3,700
	(Being goods sent on approval to Chitra entered in Sale or Return ledger)		

■ *Theory Questions* ■

Short-Answer Questions

1. What do you understand by Sale or Return?

2. State the different methods of recording Sale on Approval or Return Basis.

Long-Answer Questions

1. Explain the methods of recording the transactions of goods sold on 'Sale or Return' basis.
2. How do you deal with 'Sale or Return' transactions when they are few in number?
3. Describe the steps involved in recording 'Sale or Return' transaction, under double entry system.

■ *Exercise Problems* ■

1. Dinesh sells goods to his approved customers on 'Sale or Return' basis, at a profit of 20% on sales, treating as actual sales. On 15th December, goods costing ₹8,000 were sent to Sudha. No confirmation has been received from Sudha until 31st December.

   Pass the necessary journal entries in the books of Dinesh.

   [Ans: Debit Sudha A/c: ₹10,000
   Credit Sales A/c: ₹10,000
   Debit Sales A/c: ₹10,000
   Credit Sudha A/c: ₹10,000
   Debit Stock with Customers: ₹8,000
   Credit Trading A/c: ₹8,000]

2. Krishna sells goods to his customers on 'Sale or Return' basis, at a profit of 25% on sales, treating as actual sales. On 31st March, goods costing ₹5,000 were sent to Suresh. No confirmation has been received from Suresh until 31st March.

   Pass the necessary journal entries in the books of Krishna.

   [Ans: Debit Suresh A/c: ₹6,250
   Credit Sales A/c: ₹6,250
   Debit Sales A/c: ₹6,250
   Credit Suresh A/c: ₹6,250
   Debit Stock with Customers: ₹5,000
   Credit Trading A/c: ₹5,000]

3. On 31st December, goods at sale price of ₹18,000 were lying with M/s Johnson & Co., to whom they were sold on 'Sale or Return' basis as sale. Since no consent has been received, you are required to pass

adjustment entries presuming foods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

[Ans: Stock to be shown at market price: ₹13,500]

4. On 31st March, goods worth sale price of ₹13,000 were lying with Javith, to whom they were sold on 'Sale or Return' basis as sale. Since no consent has been received, you are required to pass adjustment entries, presuming goods were sent on approval at a profit of cost plus 25%. Present market price is 10% less than the cost price.

[Ans: Stock to be shown at market price: ₹9,360]

5. Mr. Raman sends goods to his customers on sale or return basis. The following transactions took place during the month of September 2015:

Date		*(₹)*
02.09.2015	Goods sent on sale or return basis at cost plus 20%	2,40,000
05.09.2015	Goods returned by customers	60,000
10.09.2015	Sale information received from customers	1,20,000
25.09.2015	No information received about the goods	48,000

Assume that the accounts are closed on 30th September every year and Mr. Raman records the above transactions as ordinary sales basis.

[Ans: Debit Debtors A/c: ₹2,40,000
Credit Sales A/c: ₹2,40,000
Debit Sales A/c: ₹60,000
Credit Trading A/c: ₹60,000
Debit Sales A/c: ₹48,000
Credit Trading A/c: ₹48,000
Debit Closing Stock A/c: ₹40,000
Credit Trading A/c: ₹40,000]

6. Mr. Rahman sends goods to his customers on sale or return basis. The following transactions took place during the month of September 2015:

Date		*(₹)*
02.09.2015	Goods sent on sale or return basis at cost plus 20%	96,000
05.09.2015	Goods returned by customers	24,000
10.09.2015	Sale information received from customers	48,000
25.09.2015	No information received about the goods	19,200

Assume that the accounts are closed on 30th September every year and Mr. Rahman records the above transactions as ordinary sales basis.

[Ans: Debit Debtors A/c: ₹96,000
Credit Sales A/c: ₹96,000
Debit Sales A/c: ₹24,000
Credit Trading A/c: ₹24,000
Debit Sales A/c: ₹19,200
Credit Trading A/c: ₹19,200
Debit Closing Stock A/c: ₹16,000
Credit Trading A/c: ₹16,000]

7. Anil Traders has credited certain items of sales on approval, aggregating ₹37,500 to sales account. Of these, goods of the value of ₹6,500 have been returned and taken into the stock at cost ₹3,000 though the parcel of ₹4,000 (cost being ₹3,000) the period of approval did not expire on the closing date. Show the adjustment and correcting entries in the books of the trader.

[Ans: Debit Sales A/c: ₹6,500
Credit Debtors A/c: ₹6,500
Debit Sales A/c: ₹4,000
Credit Debtors A/c: ₹4,000
Debit Stock with Customers: ₹3,000
Credit Trading A/c: ₹3,000]

8. A sells goods to his approved customers on "Sale or Return Basis" at a profit of 20% on Sales, treating as Actual sales. On 15th December, goods costing ₹1,000 were sent to "U" traders. No confirmation has been received from "U" traders until 31st December. Give the necessary Journal Entries in the books of A.

(November 2013/60501/BYA1A)

[Ans: Debit 'U' Traders A/c: ₹1,250
Credit Sales A/c: ₹1,250
Debit Sales A/c: ₹1,250
Credit 'U' Traders A/c: ₹1,250
Debit Stock with Customers ₹1,000
Credit Trading A/c: ₹1,000]

9. On 31st December goods at sale price of ₹3,000 were lying with M/s Naveen and Co. to whom they were sold on Sale or Return basis and recorded as Sale. Since no consent has been received, you are required to pass adjustment entries presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the Cost price.

(April 2006/21503/PZ2A)
[Ans: Stock to be shown as Market Price: ₹2,250]

When transactions are in large numbers:

10. M/s Mehrotra sends out goods on approval basis. The details are as follows:

February 18: A – ₹500	February 20: A returned ₹150 and retained the rest.
February 22: B – ₹450	February 25: B retained all the goods.
February 28: C – ₹1,500	February 28: No intimation

Show how these transactions will appear when books are kept on double entry system. Give journal entries.

11. Malik sends out goods on approval basis. The details are as follows:

December 5: X – ₹2,500	December 10: X returned ₹750 and retained the rest.
December 15: Y – ₹2,250	December 22: Y retained all the goods.
December 25: Z – ₹7,500	December 31: No intimation

Show how these transactions will appear when books are kept on double entry system. Give journal entries.

12. Kalyan Bros. sends goods on approval basis as follows:

Date	*Customer's Name*	*Sale Price of the Goods Sent (₹)*	*Price of Goods Accepted (₹)*	*Price of Goods Returned (₹)*
01.06.1996	Javith	5,600	5,000	600
10.06.1996	Rafiq	6,400	6,400	—
15.06.1996	Rabeek	4,200	—	4,200
21.06.1996	Sulaiman	2,900	2,000	900
26.06.1996	Sheriff	2,400	—	—
30.06.1996	Rahman	1,600	—	—

Date of approval has not expired in all the cases. Record all the above transactions in sale or return day book and sales and return book.

[Ans: Total of Sale or Return Book: ₹23,100
Sale and Returns Book:
Sale Column: ₹13,400
Returns Column: ₹5,700]

CHAPTER

14

Single Entry System

Learning Objectives

After studying this chapter, you will be able to:

- Understand the Meaning of Single Entry System
- Understand the Features and Limitations of Single Entry System
- Identify the Difference between Single Entry System and Double Entry System
- Understand the Difference between Balance Sheet and Statement of Affairs
- Understand the Methods of Ascertaining Profit/Loss
- Work out the Problems independently

14.1 Single Entry System

Single Entry System of bookkeeping is an incomplete, inaccurate, unscientific and unsystematic system. As the name itself signifies, the transactions are not recorded as per the double entry system of bookkeeping. It maintains only personal and cash accounts. Under this system, real and nominal accounts are not maintained.

"Single Entry System is a system of bookkeeping in which, as a rule, only records of cash and personal accounts are maintained. It is always incomplete double entry varying with circumstances."

—Kohler

"Single Entry cannot be termed as a system, as it is not based on any systematic system like double entry system. Because of this reason, single entry is now-a-days known as preparation of accounts from incomplete records."

—Carter

14.2 Features of Single Entry

› 14.2.1 Suitable only for Sole Traders and Partnership Firms

The single entry system is suitable only for sole traders and partnership firms. Companies cannot keep books under single entry system because the Companies Act does not accept such type of bookkeeping.

› 14.2.2 Records Personal Accounts and Cash Transactions

Only personal accounts and cash transactions are recorded. It will not take into consideration the real and nominal accounts. Business transactions are mixed with personal transactions of a proprietor.

› 14.2.3 Lack of Uniformity

There is no uniformity of rules or principles in maintaining the accounts under single entry system. Hence, it lacks uniformity, as it is a mere adjustment of double entry system, according to the convenience of the individual.

› 14.2.4 Dependence on Original Vouchers

In order to ascertain the originality of the transactions, one has to depend on the original vouchers. Credit sales and purchases are to be ascertained from the copies of invoices.

› 14.2.5 Profit only an Estimate

The profit derived under this system is only an estimate.

› 14.2.6 True Financial Position cannot be Ascertained

Under this system, nominal and real accounts are not taken into account. Therefore, balance sheet cannot be prepared in order to ascertain the true and fair financial position.

14.3 Limitations of Single Entry

› 14.3.1 Incomplete and Unscientific Method

Single Entry System does not have any set of fixed rules and principles for recording and reporting the financial transactions. Therefore, the single entry system is an unsystematic and unscientific system of recording financial

transactions. Hence, this system is incomplete, because real and nominal accounts are not prepared.

› 14.3.2 Trial Balance cannot be Prepared

This system does not record both the aspects of transactions. Therefore, at the end of the year, a Trial Balance cannot be prepared to check arithmetical accuracy of the books.

› 14.3.3 Lack of Arithmetical Accuracy

Single entry system lacks arithmetical accuracy because it is not prepared on the principles of debit and credit. Under this system, the Trial Balance cannot be prepared to check the arithmetical accuracy of books of accounts.

› 14.3.4 Performance of the Business cannot be Ascertained

Under this system, trading account and profit and loss account cannot be prepared. Therefore, the rate and amount of gross profit and net profit cannot be ascertained.

› 14.3.5 True Financial Position cannot be Ascertained

Under the single entry system, only cash book will be maintained. It does not maintain other real accounts, and therefore, it cannot reveal the true financial position of the business. It is very difficult to prepare balance sheet, so the true financial position cannot be ascertained.

› 14.3.6 Frauds and Errors

As the single entry system of bookkeeping is incomplete, inaccurate and unscientific, it is very difficult to locate the errors and frauds. There is always a possibility of committing frauds and errors in the books of accounts.

› 14.3.7 Comparison cannot be Made

The comparison between current year's performance and the previous year's performance cannot be made due to incomplete information and non-availability of previous years' information.

› 14.3.8 Unacceptable to Tax Authorities

Income tax and sales tax authorities do not accept single entry system of accounting for computation of taxes.

14.4 Distinction between Double Entry System and Single Entry System

Double Entry System	*Single Entry System*
It is a complete record.	It is an incomplete record.
Easy to find out the errors and frauds.	Difficult to find the errors and frauds.
It is based on certain assumptions and principles.	It is not based on certain assumptions and principles.
Both the aspects of all transactions are recorded.	Both the aspects of all transactions are not recorded.
It is suitable for all types of traders.	It is suitable for only small traders.
It is the only scientific system of keeping books of accounts.	It is not a system. It is incomplete and unscientific.
Records are acceptable for the purpose of tax, loans, etc.	Records are not acceptable for the purpose of tax claims, loans, etc.
Internal check is possible.	Internal check is not possible.

14.5 Distinction between Statement of Affairs and Balance Sheet

Balance Sheet	*Statement of Affairs*
It is prepared exclusively on the basis of ledger accounts.	It is prepared on the basis of some ledger accounts and estimates.
It is a statement showing assets, liabilities and equity of the company, prepared on the basis of the double entry system of bookkeeping.	It is a statement showing assets, liabilities and capital of the entity, prepared on the basis of a single entry system of bookkeeping.
To ascertain the financial position of the business	To find out the opening or closing capital of business.
It is regarded as a reliable statement.	It is not regarded as reliable.
Since both the aspects of all transactions are duly recorded, there is no chance for missing of facts.	There remains always a possibility for missing of facts, because the accounts are incomplete.
It is a part of Financial Statements.	It is not a part of Financial Statements.
It is prepared for a specific date.	It is prepared either on opening date or closing date.

14.6 Methods of Ascertaining Profit or Loss

When accounts are kept under single entry system, the following methods are adopted to find out profit or loss of the business.

1. Statement of affairs method or Net worth method or Capital comparison method
2. Conversion method

› 14.6.1 Statement of Affairs Method

Statement of Affairs is a statement of assets and liabilities, prepared to find out the capital of a business, where accounts are not maintained on double entry system. It is a summary of company's assets and liabilities. The purpose of preparing the statement of affairs is to find out the opening or closing capital. Under this method, a trader can ascertain his profit or loss for a particular period by comparing the capital at the beginning of the period with the capital at the end of the period. Though it shows the position of assets and liabilities, it cannot be called a Balance Sheet because the values of such assets and liabilities are not taken from ledger accounts. The values are only the estimates made by the owner of the business.

The following procedures are adopted to calculate profit.

Step 1: Ascertain Opening Capital

A Statement of Affairs at the beginning of the year is prepared to find out the amount of capital in the beginning. It is like a balance sheet. The difference between assets and liabilities side represents "Opening Capital".

Format of Statement of Affairs

Liabilities	*(₹)*	*Assets*	*(₹)*
Sundry Creditors	xxxx	Cash in Hand	xxxx
Bills Payable	xxxx	Cash at Bank	xxxx
Outstanding Expenses	xxxx	Sundry Debtors	xxxx
Bank Overdraft	xxxx	Bills Receivable	xxxx
Capital (Bal. fig.)	**xxxx**	Stock in Trade	xxxx
		Prepaid Expenses	xxxx
		Fixed Assets	xxxx
	xxxx		xxxx

Step 2: Ascertainment Closing Capital

Prepare a Statement of Affairs (after all adjustments*) at the end of the accounting period, to ascertain closing capital.

Step 3:

Add the amount of **Drawings** (whether in cash or in kind) to the closing capital.

Step 4:

Deduct the amount of **Additional Capital** introduced, from the above, to get Adjusted capital.

Step 5

Ascertainment profit or loss by deducting opening capital from the adjusted closing capital.

Adjusted Closing Capital = Closing Capital + Drawings – Additional Capital introduced during the year.

Adjustments: Depreciation, interest on capitals, interest on drawings, Provision for Bad debts etc.

Statement of Profit or Loss for the year

Particulars	**(₹)**
Closing Capital	xxx
Add: Drawings	xxx
	xxx
Less: Additional Capital Introduced	xxx
Adjusted Closing Capital	xxx
	xxx
Less: Opening Capital	xxx
Net Profit or Loss for the year	**xxx**

› 14.6.2 Conversion Method

The Conversion Method of Single Entry System is a more scientific way of preparation of Final Accounts from Incomplete Records. The Conversion Method is a better approach for preparing accounts from incomplete records of transactions.

Procedure for converting Single Entry into Double Entry

The following procedure may be followed for conversion.

1. An Opening Statement of Affairs to be prepared in order to ascertain the opening capital.
2. Total Debtors Account is to be prepared in order to find out the:
   - opening balance of debtors
   - closing balance of debtors
   - credit sales
   - cash received from debtors
3. Total Creditors Account is to be prepared in order to find out the:
   - opening balance of creditors
   - closing balance of creditors
   - cash paid to creditors
   - credit purchases
4. A Cash Account is to be prepared in order to ascertain the closing cash balance.
5. Prepare Trading Account, Profit and Loss Account and a Balance Sheet as on the date to ascertain the true financial position of the sole trader.

✎ ILLUSTRATION 1:

Find out Profit or Loss from the following information.

Opening Capital	4,00,000
Drawings	90,000
Closing Capital	5,00,000
Additional Capital during the year	30,000

Solution:

Statement of Profit or Loss

	(₹)
Closing Capital	5,00,000
Add: Drawings	90,000
	5,90,000

(Contd.)

Less: Additional Capital	30,000
Adjusted Closing Capital	5,60,000
Less: Opening Capital	4,00,000
Profit for the year	1,60,000

✎ ILLUSTRATION 2:

Calculate the missing information from the following

Profit made during the year	4,800
Capital at the end	?
Additional Capital introduced during the year	4,000
Drawings	2,400
Capital in the beginning	9,600

Solution:

	(₹)
Closing Capital (Bal. fig.)	**16,000**
Add: Drawings	2,400
	18,400
Less: Additional Capital	4,000
Adjusted Closing Capital	14,400
Less: Opening Capital	9,600
Profit made during the year	4,800

Capital at the end = ₹16,000

✎ ILLUSTRATION 3:

From the following information, you are required to calculate Total Purchases.

Cash Purchases	17,000
Creditors as on 01.04.2002	8,000
Cash Paid to Creditors	31,000
Purchases Return	1,000
Creditors as on 31.03.2003	13,400

Solution:

Dr.	**Total Creditors Account**		**Cr.**
To Cash Paid	31,000	By Balance b/d (Opening Balance)	8,000
To Purchases Return	1,000	**By Credit Purchases (Bal. fig.)**	**37,400**
To Balance c/d (Closing Capital)	13,400		
	45,400		45,400

Total Purchases = Cash Purchases + Credit Purchases
= 17,000 + 37,400
= ₹54,400

✎ ILLUSTRATION 4:

From the following facts, you are required to calculate total sales made during the period.

Sundry Debtors as on 01.04.2002	20,400	Sundry Debtors as on 31.03.2003	27,600
Cash Received from Sundry Debtors	60,800	Cash Sales	56,800
Sales Return	5,400		

Dr.	**Total Debtors Account**		**Cr.**
	(₹)		*(₹)*
To Balance b/d (Opening Balance)	20,400	By Cash Received	60,800
To Credit Sales (Bal. fig.)	**73,400**	By Sales Return	5,400
		By Balance c/d (Closing Balance)	27,600
	93,800		93,800

Total Sales = Cash Sales + Credit Sales
= ₹56,800 + ₹73,400
= ₹1,30,200

✎ ILLUSTRATION 5:

From the following details, find out credit purchases.

	(₹)
Opening Balance of Sundry Creditors	50,000
Closing Balance of Sundry Creditors	60,000
Cash Paid to Creditors	2,65,000
Discount Received	15,000
Purchase Returns	15,000

Solution:

Dr. **Creditors Account** **Cr.**

	(₹)		**(₹)**
To Cash Paid	2,65,000	By Balance c/d (Opening)	50,000
To Discount Received	15,000	**By Credit Purchases (Bal. fig.)**	**3,05,000**
To Purchase Return	15,000		
To Balance c/d (Closing)	60,000		
	3,55,000		**3,55,000**

✎ ILLUSTRATION 6:

Mr. A does not keep proper records of his business. He furnishes the following information.

Particulars	*(₹)*	*Particulars*	*(₹)*
Opening Capital	10,00,000	Closing Capital	13,00,000
Drawings during the year	50,000	Additional capital brought during the year	62,000

Calculate the Profit or Loss for the year.

Solution:

Statement of Profit or Loss

Particulars	**(₹)**
Closing Capital	13,00,000
Add: Drawings	50,000
	13,50,000

(Contd.)

Less: Additional Capital	62,000
	12,88,000
Less: Opening Capital	10,00,000
Profit made during the year	**2,88,000**

✎ ILLUSTRATION 7:

Mr. B maintains his books of account under single entry system. From the following details, find the additional capital introduced during the year.

Capital at the beginning: ₹1,70,000, drawings made during the year: ₹1,00,000, capital at the end: ₹2,50,000, profit made during the year: ₹1,50,000.

Solution:

Calculation of Additional Capital Introduced during the year

	(₹)
Capital at the End	2,50,000
Add: Drawings	1,00,000
	3,50,000
Less: Opening Capital	1,70,000
	1,80,000
Less: Profit	1,50,000
Additional Capital Introduced	**30,000**

✎ ILLUSTRATION 8:

From the following details, calculate Total Sales made during the year 2012.

Particulars	*(₹)*	*Particulars*	*(₹)*
Opening Debtors	27,000	Closing Debtors	25,000
Cash Sales	22,000	Accounts Receivables	15,000
Bad debts	12,500	Cash Received from Debtors	60,000

Solution:

Debtors Account

	(₹)		*(₹)*
To Balance b/d	27,000	By Bad Debts	12,500
To Sales Credit (Bal. fig.)	**85,500**	By Accounts Receivable	15,000
		By Cash Received	60,000
		By Balance c/d	25,000
	1,12,500		**1,12,500**

Net Sales = Cash Sales + Credit Sales – Sales Return
= 22,000 + 85,500 + Nil
= 1,07,500

✎ ILLUSTRATION 9:

Find out the Credit Purchases from the following details.

Particulars	*(₹)*	*Particulars*	*(₹)*
Balance of Creditors on 01.04.2015	4,500	Balance of Creditors on 31.03.2016	3,600
Cash Paid to Creditors	18,000	Cheque Issued to Creditors	6,000
Cash Purchases	7,500	Discount Received from creditors	840
Discount Allowed	500	Bills Payable given to Creditors	1,300
Return Outwards	750	Bills Payable dishonoured	300
Bills Receivable endorsed to Creditors	400	Return Inwards	400
Bills Receivable endorsed to Creditors Dishonoured	180		

Solution:

Creditors Account

	(₹)		**(₹)**
To Cash	18,000	By Balance b/d	4,500
To Discount Received	840	By Bills Payable (dishonoured)	300
To Bank	6,000	By Debtors (Endorsed Bill dishonoured)	180
To Bills Payable	1,300	**By Credit Purchase (Bal. fig.)**	**25,910**
To Return Outwards	750		
To Bills Receivable	400		
To Balance c/d	3,600		
	30,890		**30,890**

Credit Purchase = ₹25,910

✎ ILLUSTRATION 10:

From the following information obtained from the books of Vishal Traders, ascertain Credit Sales.

Particulars	(₹)
Debtors on 01.04.2014	50,000
Debtors on 31.03.2015	70,000
Cash Received from Debtors	60,000
Discount Allowed	1,000
Bills Receivable	30,000
Bad Debts	3,000

Solution:

Debtors Account

	(₹)		(₹)
To Balance b/d	50,000	By Cash Received	60,000
To Sales Credit (Bal. fig.)	**1,14,000**	By Discount	1,000
		By Bills Receivable	30,000
		By Bad Debts	3,000
		By Balance c/d	70,000
	1,64,000		**1,64,000**

✎ ILLUSTRATION 11:

From the following details, find out Credit Sales for the year.

Particulars	(₹)
Opening Balance of Sundry Debtors	30,000
Cash Received from Debtors during the year	2,05,000
Closing Balance of Sundry Debtors	48,000
Discount Allowed	13,000
Goods Returned by Customers	14,000

Solution:

Dr. **Debtors Account** **Cr.**

	(₹)		(₹)
To Balance b/d	30,000	By Cash Received	2,05,000
To Credit Sales (Bal. fig.)	**2,50,000**	By Discount Allowed	13,000
		By Sales Return	14,000
		By Balance c/d (Bal. fig)	**48,000**
	2,80,000		**2,80,000**

✎ ILLUSTRATION 12:

Mr. X started a firm on 1st April 2015 with an initial capital of ₹10,00,000. He withdrew ₹2,00,000 during the year. He also introduced additional capital amounting to ₹1,50,000 into the business. On 31st March 2016, his position was as follows.

Furniture ₹3,40,000, creditors ₹6,00,000, debtors ₹7,00,000, stock ₹9,40,000, cash ₹6,00,000. Ascertain his Profit or Loss during the year.

Solution:

Calculation of Closing Capital
Statement of Affairs of X as on 31.03.2016

Liabilities	(₹)	*Assets*	(₹)
Creditors	6,00,000	Debtors	7,00,000
Capital (Bal. fig.)	**19,80,000**	Stock	9,40,000
		Cash	6,00,000
		Furniture	3,40,000
	25,80,000		**25,80,000**

Statement of Profit or Loss

	(₹)
Closing Capital	19,80,000
Add: Drawings	2,00,000
	21,80,000
Less: Additional Capital	1,50,000
	20,30,000
Less: Opening Capital	10,00,000
Profit made during the year	**10,30,000**

✎ ILLUSTRATION 13:

Mr. S keeps his books by single entry system. On April 2016, he started his business with a capital of ₹9,50,000. On 31st March 2017, the position was as follows: sundry creditors ₹4,50,000; cash in hand ₹75,000; cash at bank ₹3,00,000; sundry debtors ₹6,70,000; stock ₹75,000; plant ₹3,50,000. S drew ₹2,50,000 from the business during the year. He introduced an additional capital of ₹2,50,000. You are required to ascertain the Profit and Loss made by him during the year.

Calculation of Closing Capital
Statement of Affairs of Mr. S as on 31.03.2017

Liabilities	*(₹)*	*Assets*	*(₹)*
Sundry Creditors	4,50,000	Cash in Hand	75,000
Closing Capital – Bal. fig	**10,20,000**	Cash at Bank	3,00,000
		Sundry Debtors	6,70,000
		Stock	75,000
		Plant	3,50,000
	14,70,000		**14,70,000**

Statement of Profit or Loss made during the year

Particulars	*(₹)*
Closing Capital	10,20,000
Add: Drawings	2,50,000
	12,70,000
Less: Additional Capital	2,50,000
	10,20,000
Less: Opening Capital	9,50,000
Profit made during the year	**70,000**

✎ ILLUSTRATION 14:

From the following particulars, calculate Closing Balances of Debtors and Creditors

Particulars	*(₹)*
Sundry Debtors as on 01.04.2001	28,680
Sundry Creditors as on 01.04.2001	41,810

(Contd.)

Credit Purchases	1,51,400
Credit Sales	1,65,900
Discount Received	5,200
Discount Allowed	4,800
Return Outwards	7,440
Return Inwards	6,444
Cash Received from Debtors	1,50,536
Cash Paid to Creditors	1,43,765

Solution:

Dr. **Debtors Account** **Cr.**

	(₹)		(₹)
To Balance b/d (1.4.2001)	28,680	By Return Inwards	6,444
To Credit Sales	1,65,900	By Cash Received	1,50,536
		By Discount Allowed	4,800
		By Balance c/d (Bal. fig.)	**32,800**
	1,94,580		**1,94,580**
To Balance B/d	32,800		

Closing Balance of Debtors = ₹32,800

Dr. **Creditors Account** **Cr.**

	(₹)		(₹)
To Return Outwards	7,440	By Balance b/d (01.04.2001)	41,810
To Cash Paid	1,43,765	By Credit Purchases	1,51,400
To Discount Received	5,200		
To Balance c/d (Bal. fig.)	**36,805**		
	1,93,210		**1,93,210**
		By Balance b/d	36,805

Closing Balance of Creditors = ₹36,805

✎ ILLUSTRATION 15:

Find out Total Purchases and Total Sales from the following details by making necessary accounts.

Particulars	(₹)
Opening Balance of Sundry Debtors	50,000
Opening Balance of Sundry Creditors	30,000
Cash Collected from Sundry Debtors	3,00,000
Discount Received	1,500
Cash Paid to Sundry Creditors	20,000
Discount Allowed	5,000
Return Inwards	6,000
Return Outwards	8,000
Closing Balance of Sundry Debtors	35,000
Closing Balance of Sundry Creditors	25,000
Cash Purchases	12,000
Cash Sales	24,000

Solution:

(i) Calculation of Credit Sales

Dr. **Debtors Account** **Cr.**

	(₹)		*(₹)*
To Balance b/d (Opening)	50,000	By Cash Received	3,00,000
		By Discount Allowed	5,000
		By Returns Inwards	6,000
To Credit Sales (Bal. fig.)	**2,96,000**	By Balance c/d (Closing)	35,000
	3,46,000		**3,46,000**

(ii) Calculation of Credit Purchases

Dr. **Creditors Account** **Cr.**

	(₹)		*(₹)*
To Discount Received	1,500	By Balance b/d (Opening)	30,000
To Cash Paid	20,000	**By Credit Purchases (Bal. fig.)**	**24,500**
To Return Outwards	8,000		
To Balance c/d (Closing)	25,000		
	54,500		**54,500**

Total Purchases = Cash Purchases + Credit Purchases
= ₹12,000 + ₹24,500
= ₹36,500
Total Sales = Cash Sales + Credit Sales
= ₹24,000 + ₹2,96,000
= ₹3,20,000

✎ ILLUSTRATION 16:

From the following information, calculate Capital of Mr. M as at 31st March 2012.

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
Cash	1,00,000	Creditors	3,00,000
Bank (OD)	2,00,000	Debtors	4,00,000
Bills Receivable	5,00,000	Bills payable	6,00,000
Outstanding expenses	1,00,000	Prepaid rent	1,00,000
Advances (Dr.)	10,00,000	Loan (Cr.)	8,00,000
Land & Buildings	13,00,000	Stock	6,00,000

Solution:

Calculation of Capital
Statement of Affairs as on 31.3.2012

Liabilities	*(₹)*	*Assets*	*(₹)*
Bank Overdraft	2,00,000	Cash	1,00,000
Creditors	3,00,000	Debtors	4,00,000
Bills Payable	6,00,000	Bills Receivable	5,00,000
Outstanding Expenses	1,00,000	Prepaid Rent	1,00,000
Loan	8,00,000	Advances	10,00,000
Capital (Bal. fig.)	**20,00,000**	Land & Buildings	13,00,000
		Stock	6,00,000
	40,00,000		**40,00,000**

✎ ILLUSTRATION 17:

Prepare Bills Receivable and Bills Payable Account from the following data.

Particulars	*(₹)*
Opening Bills Receivable	16,000
Opening Bills Payable	48,000
Bills Receivable Dishonoured	13,000
Bills Payable Dishonoured	77,000
Closing Bills Payable	63,000
Bills Collected during the year	23,000
Closing Bills Receivable	15,000

Solution:

Bills Receivable Account

	(₹)		*(₹)*
To Balance b/d	16,000	By Debtors (B/R Dishonoured)	13,000
To Debtors A/c (B/R Received during the year)	**35,000**	By Cash	23,000
		By Balance c/d	15,000
	51,000		**51,000**

Bills Payable Account

	(₹)		*(₹)*
To Creditors (B/P Dishonoured)	77,000	By Balance b/d	48,000
To Balance c/d	63,000	By Creditors (Acceptance given during the year)	**92,000**
	1,40,000		**1,40,000**

✎ ILLUSTRATION 18:

From the following information, calculate the Value of Opening Stock.

Sales ₹33,000, purchases ₹20,000, closing stock ₹2000, carriage inwards ₹1,000, manufacturing expenses ₹1200, Rate of Gross Profit on cost of goods sold is 50%.

Solution:

Memorandum Trading Account

	(₹)		(₹)
To Opening Stock (Bal. fig.)	**1,800**	By Sales	33,000
To Purchases	20,000	By Closing Stock	2,000
To Carriage Inwards	1,000		
To Manufacturing Expenses	1,200		
To Gross Profit	11,000		
	35,000		**35,000**

Gross Profit = 1/2 on cost = 1/3 on
Sales = 1/3 × 33,000 = ₹11,000

✎ ILLUSTRATION 19:

Mr. Suresh started business with ₹2,00,000 on 1st April 2003. His books are kept under single entry. On 31st March 2004, his position was as under:

Liabilities	(₹)	*Assets*	(₹)
Sundry Creditors	40,000	Cash in Hand	6,000
Bills Payable	5,000	Cash at Bank	10,000
Outstanding creditors	7,500	Furniture	30,000
		Plant & Machinery	1,00,000
		Sundry Debtors	50,000
		Stock	90,000
		Bills Receivable	15,000

Ascertain the Profit or Loss made by Mr. Suresh for the year ended 31st March 2004.

Solution:

Calculation of Closing Capital
Statement of Affairs of Mr. Suresh as on 31.3.2004

Liabilities	(₹)	*Assets*	(₹)
Sundry Creditors	40,000	Cash in Hand	6,000
Bills Payable	5,000	Cash at Bank	10,000
Outstanding Creditors	7,500	Furniture	30,000
		Plant & Machinery	1,00,000

(Contd.)

		Sundry Debtors	50,000
		Stock	90,000
Closing Capital (Bal. fig.)	**2,48,500**	Bills Receivable	15,000
	3,01,000		**3,01,000**

Statement of Profit or Loss for the year ended 31.3.2004

	(₹)
Capital at the End	2,48,500
Less: Capital in the Beginning	2,00,000
Profit for the Year	48,500

✎ ILLUSTRATION 20:

Prakash keeps his books by single entry system. His position on 1st April 2003 and 31st March 2004 was as follows:

Particulars	*01.04.2003 (₹)*	*31.3.2004 (₹)*
Cash	500	6,000
Bank Balance	10,000	15,000
Stock	7,000	10,000
Sundry Debtors	30,000	40,000
Furniture	6,000	6,000
Sundry Creditors	6,000	12,000

He introduced an additional capital of ₹8,000 during the financial year. He withdrew ₹14,000 for domestic purpose. Find out the profit for the year ended 31st March 2004.

Solution:

(i) Calculation of Opening Capital

Statement of Affairs of Mr. Prakash as on 01.4.2003

Liabilities	**(₹)**	*Assets*	**(₹)**
Sundry Creditors	6,000	Cash	500
		Bank Balance	10,000
		Stock	7,000
		Sundry Debtors	30,000
Opening Capital (Bal. fig.)	**47,500**	Furniture	6,000
	53,500		**53,500**

(ii) Calculation of Closing Capital

Statement of Affairs of Mr. Prakash as on 31.3.2004

Liabilities	*(₹)*	*Assets*	*(₹)*
Sundry Creditors	12,000	Cash	6,000
		Bank Balance	15,000
		Stock	10,000
		Sundry Debtors	40,000
Opening Capital (Bal. fig.)	**65,000**	Furniture	6,000
	77,000		**77,000**

Statement of Profit or Loss for the period ended 31.3.2004

	(₹)
Capital at the End	65,000
Add: Drawings	14,000
	79,000
Less: Additional Capital	8,000
Adjusted Closing Capital	71,000
Less: Opening Capital	47,500
Profit for the year	23,500

✎ ILLUSTRATION 21:

Mrs. Vanitha keeps her books on singly entry basis. Find out the Profit or Loss made for the period ending 31st March 2004.

Assets & Liabilities	*01.04.2003 (₹)*	*31.3.2004 (₹)*
Bank Balance	3,500 (Cr.)	4,500 (Dr.)
Cash in Hand	200	300
Stock	3,000	4,000
Sundry Debtors	8,500	7,600
Plant	20,000	20,000
Furniture	10,000	10,000
Sundry Creditors	15,000	18,000

Mrs. Vanitha had withdrawn ₹10,000 for her personal use and had introduced additional capital of ₹4,000. A provision of 5% on debtors is necessary. Write off depreciation on plant at 10% and furniture at 15%.

Solution:

(i) Calculation of Opening Capital

Statement of Affairs of Mrs. Vanitha as on 01.4.2003

Liabilities	*(₹)*	*Assets*	*(₹)*
Bank Overdraft (O/d)	3,500	Cash in Hand	200
Sundry Creditors	15,000	Stock	3,000
		Sundry Debtors	8,500
		Plant	20,000
Opening Capital (Bal. fig.)	**23,200**	Furniture	10,000
	41,700		**41,700**

(ii) Calculation of Closing Capital

Statement of Affairs of Mrs. Vanitha as on 31.3.2004

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Sundry Creditors		18,000	Bank Balance		4,500
			Cash in Hand		300
			Stock		4,000
			Sundry Debtors	7,600	
			Less: Provision	380	7,220
			Plant	20,000	
			Less: Depreciation	2,000	18,000
Closing Capital (Bal. fig.)		**24,520**	Furniture	10,000	
			Less: Depreciation	1,500	8,500
		42,520			**42,520**

Statement of Profit or Loss for the period ended 31.3.2004

	(₹)
Capital at the End	24,520
Add: Drawings	10,000
	34,520
Less: Additional Capital	4,000
Adjusted Closing Capital	30,520
Less: Opening Capital	23,200
Profit for the Year	7,320

✎ ILLUSTRATION 22:

Mr. K keeps his books according to single entry system. His position on 1st April 2015 and 31st March 2016 is as follows:

Particulars	*1.4.2015 (₹)*	*31.03.2016 (₹)*
Creditors	5,20,000	3,90,000
Debtors	2,85,000	2,40,000
Cash	1,90,000	3,30,000
Stock	3,00,000	2,90,000
Plant and Machinery	2,50,000	3,70,000
Furniture	2,80,000	2,50,000

Mr. K introduced ₹6,00,000 as additional capital and withdrew ₹30,000 p.m. Find out Profit during 2015–2016.

Solution:

Statement of Affairs as on 1.4.2015

Liabilities	**(₹)**	*Assets*	**(₹)**
Creditors	5,20,000	Debtors	2,85,000
Opening Capital (Bal. fig.)	**7,85,000**	Cash	1,90,000
		Stock	3,00,000
		Plant & Machinery	2,50,000
		Furniture	2,80,000
	13,05,000		**13,05,000**

Statement of Affairs as on 31.03.2016

Liabilities	**(₹)**	*Assets*	**(₹)**
Creditors	3,90,000	Debtors	2,40,000
Closing Capital (Bal. fig.)	**10,90,000**	Cash	3,30,000
		Stock	2,90,000
		Plant & Machinery	3,70,000
		Furniture	2,50,000
	14,80,000		**14,80,000**

Statement of Profit or Loss made during 2015–16

Particulars	**(₹)**
Closing Capital	10,90,000
Add: Drawings (30,000 × 12)	3,60,000
	14,50,000
Less: Additional Capital	6,00,000
	8,50,000
Less: Opening Capital	7,85,000
Profit made during the year	**65,000**

✎ ILLUSTRATION 23:

Mr. B keeps his books under single entry system and his position is as follows.

Particulars	*31.12.2015 (₹)*	*31.12.2016 (₹)*
Cash	4,000	4,800
Bank Balance	60,000	25,000
Stock	65,000	50,000
Debtors	40,000	52,000
Plant and Machinery	30,000	35,000
Creditors	41,000	31,000

He withdrew ₹98,000 from business in January 2016; out of which, he spent ₹52,000 for purchase of a delivery van for the business.

Adjustments:

(a) Depreciation on closing balance of Plant and Machinery and Delivery van at 10%.

(b) Write off ₹2,200 as bad debts.

Calculate Profit for the year.

Solution:

Statement of Affairs as on 31.12.2015

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	41,000	Cash	4,000
Capital (Bal. fig.)	**1,58,000**	Bank Balance	60,000
		Stock	65,000
		Debtors	40,000
		Plant & Machinery	30,000
	1,99,000		**1,99,000**

Statement of Affairs as on 31.12.2016

Liabilities	*(₹)*	*Assets*		*(₹)*
Creditors	31,000	Cash		4,800
Capital (Bal. fig.)	**1,76,900**	Bank Balance		25,000
		Stock		50,000
		Debtors	52,000	
		Less: Bad Debts	2,200	49,800
		Plant & Machinery	35,000	
		Less: Depreciation @ 10%	3,500	31,500
		Delivery Van	52,000	
		Less: Depreciation @ 10%	5,200	46,800
	2,07,900			**2,07,900**

Statement of Profit or Loss made during the year

Particulars	*(₹)*
Closing Capital	1,76,900
Add: Drawings (98,000 – 52,000)	46,000
	2,22,900
Less: Opening Capital	1,58,000
Profit made during the year	**64,900**

✎ ILLUSTRATION 24:

Mr. Nikhil does not maintain complete double entry books of accounts. From the following details, determine the Profit for the year and prepare a revised

statement of affairs at the end of the year. 10% depreciation is to be provided on furniture. Mr. Nikhil has drawn ₹5,000 per month. ₹6,000 was invested by Mr. Nikhil in 2010.

Particulars	*01.01.2010* *(₹)*	*31.12.2010* *(₹)*
Stock	44,000	64,000
Cash	6,000	5,000
Debtors	34,000	44,000
Bank Balance	15,000	10,000 (Overdraft)
Creditors	20,000	30,000
Outstanding Expenses	9,000	12,000
Furniture (Cost)	7,000	?

Solution:

Statement of Affairs as on 01.01.2010

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	20,000	Stock	44,000
Outstanding Expenses	9,000	Cash	6,000
Capital (Bal. fig.)	**77,000**	Debtors	34,000
		Bank Balance	15,000
		Furniture	7,000
	1,06,000		**1,06,000**

Statement of Affairs as on 31.12.2010

Liabilities	*(₹)*	*Assets*		*(₹)*
Bank Overdraft	10,000	Stock		64,000
Creditors	30,000	Cash		5,000
Outstanding Expenses	12,000	Debtors		44,000
Capital (Bal. fig.)	**67,300**	Furniture	7,000	
		Less: Depreciation 10%	700	6,300
	1,19,300			**1,19,300**

Statement of Profit for the year

Particulars	*(₹)*
Closing Capital	67,300
Add: Drawings (5,000 × 12)	60,000
	1,27,300
Less: Additional Capital	6,000
	1,21,300
Less: Opening Capital	77,000
Profit for the year	**44,300**

✎ ILLUSTRATION 25:

Ram and Laxman are equal partners in a business in which the books are kept by single entry. On 1st April 2004, their position was as under:

Liabilities		*(₹)*	*Assets*	*(₹)*
Capital Accounts:			Cash in Hand	5,000
Ram	2,50,000		Cash at Bank	15,000
Laxman	2,50,000	5,00,000	Bills Receivable	30,000
Bills Payable		20,000	Stock	1,00,000
Sundry Creditors		30,000	Sundry Debtors	25,000
			Furniture	1,25,000
			Plant & Machinery	2,50,000
		5,50,000		**5,50,000**

On 31st March 2005, their position was as follows:

Particulars	*(₹)*
Cash in Hand	2,000
Sundry Creditors	35,000
Sundry Debtors	30,000
Bills Receivable	26,000
Cash at Bank	10,000
Stock	1,10,000
Bills Payable	10,000
Plant and Machinery and furniture are to be depreciated by 10%.	
Drawings: Ram	30,000
Laxman	25,000

Ascertain the profit for the year ended 31st March 2005.

Solution:

Calculation of Closing Capital
Statement of Affairs of Ram & Laxman as on 31.3.2005

Liabilities	*(₹)*	*Assets*	*(₹)*	*(₹)*
Sundry Creditors	35,000	Cash in Hand		2,000
Bills Payable	10,000	Cash at Bank		10,000
		Sundry Debtors		30,000
		Bills Receivable		26,000
		Stock		1,10,000
		Plant and Machinery	2,50,000	
		Less: Depreciation	25,000	2,25,000
Closing Capital (Bal. fig.)	**4,70,500**	Furniture	1,25,000	
		Less: Depreciation	12,500	1,12,500
	5,15,500			5,15,500

Statement of Profit or Loss for the year ended 31.3.2005

Particulars	*(₹)*	*(₹)*
Combined Closing Capital		4,70,500
Add: Drawings		
Ram	30,000	
Laxman	25,000	55,000
Adjusted Closing Capital		5,25,500
Less: Combined Opening Capital		5,00,000
Profit for the year		25,500

✎ ILLUSTRATION 26:

Ajay commenced his business on 1st January 2009. He introduced a capital of ₹30,000. He also purchased furniture worth ₹14,000. On 30th June 2009, he borrowed ₹20,000 from his friend Raja, at the rate of 12% per annum (interest yet to be paid) and introduced further capital of ₹13,000 of his own. He withdrew for his personal expenses an amount of ₹1,000 per month. On 31st December 2009, his position was as follows.

Particulars	*(₹)*	*Particulars*	*(₹)*
Cash	5,400	Cash at bank	15,200
Bills receivable	13,200	Debtors	20,000
Creditors	10,000	Outstanding rent	1,000

Rate of depreciation on furniture is at 10%. Ascertain Profit or Loss for the year 2009.

Solution:

Statement of Affairs as on 31.03.2009

Liabilities	*(₹)*	*Assets*		*(₹)*
Creditors	10,000	Cash in Hand		5,400
Rent Outstanding	1,000	Cash at Bank		15,200
Loan from Raja	20,000	Bills Receivable		13,200
Outstanding Interest (20,000 × 12/100 × 6/12)	1,200	Debtors		20,000
Capital (Bal. fig.)	**34,200**	Furniture	14,000	
		Less: Depreciation @10%	1,400	12,600
	66,400			**66,400**

Statement of Profit and Loss

Particulars	₹
Closing Capital	34,200
Add: Drawings (1,000 × 12)	12,000
	46,200
Less: Additional Capital	13,000
	33,200
Less: Opening Capital	30,000
Profit made during the year	**3,200**

Conversion Method

✎ ILLUSTRATION 27:

Mrs. Malathy maintained her account books on single entry system. On 1st April 2013, her capital was ₹2,50,000.

Additional information:

Particulars	*(₹)*
Opening Stock	1,25,000
Cash Received from Sundry Debtors	25,000
Cash Sales	1,00,000
Cash Paid to Sundry Creditors	30,000
Opening Sundry Debtors	20,000
Opening Sundry Creditors	91,500
Business Expenses	60,400
Freehold Premises (31.3.2014)	2,00,000
Furniture (31.3.2014)	3,600
Closing Stock	1,30,000
Closing Sundry Debtors	40,000
Closing Sundry Creditors	1,00,000
Closing Cash Balance	27,500

Prepare Trading and Profit and Loss Account for the year ended 31st March 2014 and Balance Sheet as on that date.

Solution:

(i) Calculation of Credit Sales

Dr. **Total Debtors Account** **Cr.**

	(₹)		*(₹)*
To Balance b/d	20,000	By Cash Received	25,000
To Credit Sales (Bal. fig.)	**45,000**	By Balance c/d	40,000
	65,000		**65,000**

(ii) Calculation of Credit Purchases

Dr. **Total Creditors Account** **Cr.**

	(₹)		*(₹)*
To Cash Paid	30,000	By Balance b/d	91,500
To Balance c/d	1,00,000	**By Credit Purchases (Bal. fig.)**	**38,500**
	1,30,000		**1,30,000**

Trading and Profit & Loss Account of Mrs. Malathy
Dr. for the year ended 31.3.2014 Cr.

	(₹)			(₹)
To Opening Stock	1,25,000	By Sales:		
To Purchases - Credit	38,500	Cash	1,00,000	
To Gross Profit c/d	**1,11,500**	Credit	45,000	1,45,000
		By Closing Stock		1,30,000
	2,75,000			**2,75,000**
To Business Expenses	60,400	By Gross Profit b/d		1,11,500
To Net Profit (Transferred to Capital A/c)	**51,100**			
	1,11,500			**1,11,500**

Balance Sheet of Mrs. Malathy as on 31.3.2004

Liabilities	(₹)	(₹)	*Assets*	(₹)	(₹)
Capital	2,50,000		Free-hold Premises		2,00,000
Add: Net Profit	51,100	3,01,100	Furniture		3,600
Sundry Creditors		1,00,000	Closing Stock		1,30,000
			Sundry Debtors		40,000
			Cash in Hand		27,500
		4,01,100			**4,01,100**

✎ ILLUSTRATION 28:

Mr. James commenced business on 1st April 2004 with a capital of ₹75,000. He immediately bought furniture for ₹12,000. During the year, he borrowed ₹15,000 from his wife as loan. He has withdrawn ₹21,600 for his family expenses. From the following particulars, you are required to prepare Trading and Profit and Loss Account and Balance Sheet as on 31st March 2005.

Particulars	**(₹)**
Cash Received from Sundry Debtors	1,21,000
Cash Paid to Sundry Creditors	1,75,000
Cash Sales	1,00,000
Cash Purchases	40,000
Carriage Inwards	4,500
Discount Allowed to Sundry Debtors	4,000

(Contd.)

Salaries	5,000
Office Expenses	4,000
Advertisement	5,000
Closing Balance of Sundry Debtors	75,000
Closing Balance of Sundry Creditors	50,000
Closing Stock	35,000
Closing Cash Balance	43,900
Provide 10% Depreciation on Furniture	

Solution:

(i) Calculation of Credit Sales

Dr. **Debtors Account** **Cr.**

	(₹)		(₹)
To Balance b/d	—	By Cash Received	1,21,000
To Credit Sales (Bal. fig.)	**2,00,000**	By Discount Allowed	4,000
		By Balance c/d	75,000
	2,00,000		**2,00,000**

(ii) Calculation of Credit Purchases

Dr. **Creditors Account** **Cr.**

	(₹)		(₹)
To Cash Paid	1,75,000	By Balance b/d	—
To Balance c/d	50,000	**By Credit Purchases (Bal. fig.)**	**2,25,000**
	2,25,000		**2,25,000**

Dr. **Trading and Profit and Loss Account of Mr. James for the year ended 31.3.2005** **Cr.**

		(₹)			(₹)
To Purchases:			By Sales		
Cash	40,000		Cash	1,00,000	
Credit	2,25,000	2,65,000	Credit	2,00,000	3,00,000
To Carriage Inwards		4,500	By Closing Stock		35,000
To Gross Profit c/d		**65,500**			
		3,35,000			**3,35,000**

(Contd.)

To Discount Allowed	4,000	By Gross Profit b/d		65,500
To Salaries	5,000			
To Office Expenses	4,000			
To Advertisement	5,000			
To Depreciation on Furniture	1,200			
To Net Profit (transferred to Capital A/c) (Bal. fig.)	**46,300**			
	65,500			**65,500**

Balance Sheet of Mr. James as on 31.3.2005

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital	75,000		Furniture	12,000	
Add: Net Profit	46,300		Less: Depreciation	1,200	10,800
	1,21,300		Sundry Debtors		75,000
Less: Drawings	21,600	99,700	Closing Stock		35,000
Loan from Wife		15,000	Cash		43,900
Sundry Creditors		50,000			
		1,64,700			**1,64,700**

✎ ILLUSTRATION 29:

From the following details, prepare Trading and Profit and Loss Account for the period ended 31st March 2004 and a Balance Sheet on that date.

Particulars	*As on 01.04.2003 (₹)*	*As on 31.03.2004 (₹)*
Stock	50,000	25,000
Sundry Debtors	1,25,000	1,75,000
Cash	12,500	20,000
Furniture	5,000	5,000
Sundry Creditors	75,000	87,500

Other details are as follows:

Particulars	*(₹)*
Drawings	20,000
Discount Received	7,500
Discount Allowed	5,000
Sundry Expenses	17,500
Cash Paid to Creditors	2,25,000
Cash Received from Debtors	2,67,500
Sales Return	7,500
Purchase Return	2,500
Cash Sales	2,500

Solution:

(i) Calculation of opening capital:

Statement of Affairs as on 1.4.2003

	(₹)		*(₹)*
Sundry Creditors	75,000	Stock	50,000
		Sundry Debtors	1,25,000
Opening Capital (Bal. fig.)	**1,17,500**	Cash	12,500
		Furniture	5,000
	1,92,500		**1,92,500**

(ii) Calculation of Credit Sales:

Dr. **Total Debtors Account** **Cr.**

	(₹)		*(₹)*
To Balance b/d	1,25,000	By Discount Allowed	5,000
To Credit Sales (Bal. fig.)	**3,30,000**	By Cash Received from Debtors	2,67,500
		By Sales Return	7,500
		By Balance c/d	1,75,000
	4,55,000		**4,55,000**

(iii) Calculation of Credit Purchases:

Dr. Total Creditors Account Cr.

Liabilities	*(₹)*	*Assets*	*(₹)*
To Discount Received	7,500	By Balance b/d	75,000
To Cash Paid to Creditors	2,25,000	**By Credit Purchase (Bal. fig.)**	**2,47,500**
To Purchase Return	2,500		
To Balance c/d	87,500		
	3,22,500		**3,22,500**

Dr. Trading and Profit and Loss Account for the year ended 31.3.2004 Cr.

Particulars	*(₹)*	*(₹)*	*Particulars*	*(₹)*	*(₹)*
To Opening Stock		50,000	By Sales:		
To Purchases	2,47,500		Credit	3,30,000	
Less: Purchase			Add: Cash	2,500	
Return	2,500	2,45,000		3,32,500	
			Less: Sales Returns	7,500	3,25,000
To Gross Profit c/d		**55,000**	By Closing Stock		25,000
		3,50,000			**3,50,000**
To Discount Allowed		5,000	By Gross Profit b/d		55,000
To Sundry Expenses		17,500	By Discount Received		7,500
To Net Profit (Transferred to Capital A/c) (Bal. fig.)		**40,000**			
		62,500			**62,500**

Balance Sheet as on 31.3.2004

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital	1,17,500		Furniture		5,000
Add: Net Profit	40,000		Sundry Debtors		1,75,000
Less: Drawings	20,000	1,37,500	Closing Stock		25,000
Sundry Creditors		87,500	Cash		20,000
		2,25,000			**2,25,000**

✎ ILLUSTRATION 30:

X and Y are carrying on business in partnership sharing profits and losses equally. They were unable to maintain full and complete records. From the following available information, compute the Profits of the firm and prepare a Balance Sheet.

Particulars	*1.1.2016 (₹)*	*31.12.2016 (₹)*
Land & Building	60,000	60,000
Plant	70,000	85,000
Furniture	30,000	35,000
Cash	11,000	15,000
Stock	22,000	40,000
Debtors	27,000	32,000
Bank Balance	15,000	15,100
Prepaid Insurance	15,000	—
Accounts Receivable	—	18,000
Creditors	70,000	60,000
Accounts Payable	20,000	—

At the beginning of the year, the capital of the partners was equal. X introduced ₹25,000 while Y withdrew ₹15,000. Bad debts were ₹14,000. Provision for depreciation at 10% on land and building, plant and furniture.

Solution:

Statement of Affairs as on 1.1.2016

Liabilities		*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Creditors			70,000	Land & Building		60,000
Accounts Payable			20,000	Plant		70,000
Capital (Bal. fig.)	**X**	**80,000**		Furniture		30,000
	Y	**80,000**	**1,60,000**	Cash		11,000
				Stock		22,000
				Debtors		27,000
				Bank		15,000
				Prepaid Insurance		15,000
			2,50,000			**2,50,000**

Statement of Affairs as on 31.12.2016

Liabilities	*(₹)*	*Assets*		*(₹)*
Creditors	60,000	Land and Buildings	60,000	
Combined Capital (Bal. fig.)	**2,08,100**	Less: Depreciation @ 10%	6,000	54,000
		Plant and Machinery	85,000	
		Less: Depreciation @ 10%	8,500	76,500
		Furniture	35,000	
		Less: Depreciation @ 10%	3,500	31,500
		Cash		15,000
		Stock		40,000
		Debtors	32,000	
		Less: Bad Debts	14,000	18,000
		Bank		15,100
		Accounts Receivable		18,000
	2,68,100			**2,68,100**

Statement of Profit and Loss for the year 2016

Particulars	*(₹)*
Combined Closing Capital	2,08,100
Add: Drawings (Y)	15,000
	2,23,100
Less: Additional Capital (X)	25,000
	1,98,100
Less: Combined Opening Capital	1,60,000
Profit for the year	**38,100**

Balance Sheet as on 31.12.2016

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
X Capital	80,000		Land & Buildings		54,000
Add: Profit	19,050		Plant		76,500
	99,050		Furniture		31,500
Add: Additional	25,000	1,24,050	Cash		15,000
Y Capital	80,000		Stock		40,000
Add: Profit	19,050		Debtors		18,000
	99,050		Bank		15,100
Less: Drawings	15,000	84,050	Accounts Receivable		18,000
Creditors		60,000			
		2,68,100			**2,68,100**

✎ ILLUSTRATION 31:

Mrs. Sujatha commenced business as a cloth merchant on 1st January 1993 with a capital of ₹10,000. On the same day, she purchased furniture and fixtures for ₹3,000. From the following particulars obtained from her books kept by single entry, you are required to prepare a Trading and Profit and Loss Account and Balance Sheet as on 31st December 1993.

Particulars	*(₹)*
Sales (including Cash sales ₹7,000)	17,000
Purchases (including cash purchases ₹4,000)	15,000
Drawings	1,200
Salaries	2,000
Bad Debts Written off	500
Business Expenses	700

Mrs. Sujatha took cloth worth ₹500 from the shop for private use and paid ₹200 to her son but omitted to record these transactions in her books. On 31 December 1993, her sundry debtors were ₹5,200 and sundry creditors were ₹3,600. Stock in hand on 31st December 1993, was ₹6,500.

(December 2016 U/ID 22212/UGRMA)

Solution:

Dr. **Debtors Account** **Cr.**

	(₹)		*(₹)*
To Credit Sales	10,000	**By Cash Received from Debtors (B/f)**	**4,300**
		By Bad Debts	500
		By Balance c/d	5,200
	10,000		**10,000**

Dr. **Creditors Account** **Cr.**

Particulars	*(₹)*	*Particulars*	*(₹)*
To Cash Paid to Creditors (B/f)	**7,400**	By Credit Purchases	11,000
To Balance c/d	3,600		
	11,000		**11,000**

Dr. **Cash Account** **Cr.**

Particulars	*(₹)*	*Particulars*	*(₹)*
To Capital	10,000	By Furniture	3,000
To Cash Sales	7,000	By Cash Paid to Creditors	7,400
		By Cash Purchases	4,000

(Contd.)

To Cash Received from Debtors	4,300	By Drawings [1,200 + 200]	1,400
		By Salaries	2,000
		By Business Expenses	700
		By Balance c/d (Bal. fig.)	**2,800**
	21,300		**21,300**

Trading and Profit and Loss Account of Mrs. Sujatha

Dr. **for the year ended 31.3.2005** **Cr.**

Particulars		*(₹)*	*Particulars*		*(₹)*
To Purchases:			By Sales		
Cash	4,000		Cash	7,000	
Credit	11,000		Credit	10,000	17,000
Less: Goods Withdrawn	500	14,500	By Closing Stock		6,500
To Gross Profit c/d		**9,000**			
		23,500			**23,500**
To Salaries		2,000	By Gross Profit b/d		9,000
To Bad Debts Written-off		500			
To Business Expenses		700			
To Net Profit (transferred to Capital A/c) (Bal. fig.)		**5,800**			
		9,000			**9,000**

Balance Sheet of Mrs. Sujatha as on 31.3.2005

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital	10,000		Furniture		3,000
Add: Net Profit	5,800		Sundry Debtors		5,200
Less: Drawings	1,900	13,900	Closing Stock		6,500
Sundry Creditors		3,600	Cash		2,800
		17,500			**17,500**

✎ ILLUSTRATION 32:

Mr. Sathya commenced business as a cloth merchant on 1st January 2015 with a capital of ₹70,000. On the same day, he purchased furniture and fixtures for ₹21,000. From the following particulars obtained from his books kept by single entry, you are required to prepare a Trading and Profit and Loss Account and Balance Sheet as on 31st December 2015.

Particulars	*(₹)*
Sales (including cash sales ₹49,000)	1,19,000
Purchases (including cash purchases ₹28,000)	1,05,000
Drawings	8,400
Salaries	14,000
Bad Debts written off	3,500
Business Expenses	4,900

Mr. Sathya took cloth worth ₹3,500 from the shop for private use and paid ₹1,400 to his son but omitted to record these transactions in his books. On 31 December 2015, his sundry debtors were ₹36,400 and sundry creditors were ₹25,200. Stock in hand on 31st December 2015 ₹45,500.

Solution:

Dr. **Debtors Account** **Cr.**

Particulars	*(₹)*	*Particulars*	*(₹)*
To Credit Sales	70,000	**By Cash Received from Debtors (Bal. fig.)**	**30,100**
		By Bad Debts	3,500
		By Balance c/d	36,400
	70,000		**70,000**

Dr. **Creditors Account** **Cr.**

Particulars	**(₹)**	*Particulars*	**(₹)**
To Cash Paid to Creditors (Bal. fig.)	**51,800**	By Credit Purchases	77,000
To Balance c/d	25,200		
	77,000		**77,000**

Dr. **Cash Account** **Cr.**

Particulars	*(₹)*	*Particulars*	*(₹)*
To Capital	70,000	By Furniture	21,000
To Cash Sales	49,000	By Cash Paid to Creditors	51,800
To Cash Received from Debtors	30,100	By Cash Purchases	28,000
		By Drawings (8,400 + 1,400)	9,800
		By Salaries	14,000
		By Business Expenses	4,900
		By Balance c/d (Bal. fig.)	**19,600**
	1,49,100		**1,49,100**

Trading and Profit and Loss Account of Mr. Sathya

Dr. **for the year ended 31.3.2015** **Cr.**

Particulars		*(₹)*	*Particulars*		*(₹)*
To Purchases:			By Sales		
Cash	28,000		Cash	49,000	
Credit	77,000		Credit	70,000	1,19,000
Less: Goods Withdrawn	3,500	1,01,500	By Closing Stock		45,500
To Gross Profit c/d		**63,000**			
		1,64,500			**1,64,500**
To Salaries		14,000	By Gross Profit b/d		63,000
To Bad Debts Written off		3,500			
To Business Expenses		4,900			
To Net Profit (transferred to Capital A/c) (Bal. fig.)		**40,600**			
		63,000			**63,000**

Balance Sheet of Mr. Sathya as on 31.3.2015

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital	70,000		Furniture		21,000
Add: Net Profit	40,600		Sundry Debtors		36,400
Less: Drawings	13,300	97,300	Closing Stock		45,500
Sundry Creditors		25,200	Cash		19,600
		1,22,500			**1,22,500**

■ *Theory Questions* ■

Short-Answer Questions

1. What do you mean by Single Entry System?
2. Define Single Entry.
3. What is Net Worth Method?
4. What is Conversion Method?
5. What are the defects of Single Entry System?
6. What is Statement of Affairs?

Long-Answer Questions

1. Explain the salient features of Single Entry System.
2. What are the limitations of Single Entry System?
3. What is Single Entry System? How does it differ from a Balance Sheet?
4. How will you calculate Credit Sales under Single Entry?
5. Describe the procedure to be adopted for the conversion of books maintained by single entry to double entry system.
6. Distinguish between Single Entry System and Double Entry System.

■ Exercise Problems ■

1. Calculate the cost of goods sold from the following information.

Particulars	*(₹)*
Opening Stock	50,000
Purchases	1,50,000
Closing Stock	25,000

[Ans: Cost of Goods Sold: ₹1,75,000]

2. Calculate (a) Gross Profit, and (b) Sales, from the following:

Cost of Sales = 8,00,000

Rate of Gross Profit = 20% on Sales

[Ans: (a) Gross Profit: ₹2,00,000, (b) Sales: ₹10,00,000]

3. Calculate Gross Profit from the following:

Particulars	*(₹)*
Sales	3,00,000
Sales Returns	10,000
Purchases	1,00,000
Closing Stock	50,000
Opening Stock	20,000

[Ans: Gross Profit: ₹2,20,000]

4. Calculate the missing figure:

Particulars	**(₹)**
Capital at the end	18,000
Capital introduced during the year	3,000
Drawings	4,000
Loss	1,000
Capital in the beginning	?

[Ans: Capital in the Beginning: ₹20,000]

5. Ascertain the cost of goods sold from the following:

Particulars	*(₹)*
Opening Stock	17,000
Purchases	61,400
Direct Expenses	9,600
Indirect Expenses	10,400
Closing Stock	18,000

[Ans: Cost of Goods Sold: ₹70,000]

6. Mr. Raghuram maintains his books on single entry system. He gives you the following information. Calculate the Profit made by Raghuram during 1992.

Particulars	*(₹)*
Capital as on 01.01.1992	32,000
Drawings during the year	10,000
Capital as on 01.01.1993	36,000
Capital introduced during the year	6,000

[Ans: Profit: ₹8,000]

7. Find out the Profit of the business for the year 1996 from the particulars given below:

	₹
Capital on 01.04.1996	30,000
Capital introduced during 1996	6,000
Capital as on 31.03.1997	42,000
Drawings	3,000

(November 2016: 60521/BYA1C/CYA1A)

[Ans: Profit: ₹9,000]

8. From the following data, calculate Capital at the beginning of the year.

Capital at the end of the year	45,000
Drawings during the year	15,000
Capital introduced during the year	2,500
Profit during the year	12,500

(April 2011/21601/ZZ1G/ZZ1E/PK3B/SY1C/SDEM)

[Ans: Capital in the Beginning: ₹45,000]

9. Calculate Gross Profit from the following data:

	₹
Sales	6,60,000
Return Inwards	10,000
Return Outwards	20,000
Purchases	2,00,000
Closing Stock	50,000
Opening Stock	40,000
Wages	1,00,000

(April 2011/21601/ZZ1G/ZZ1E/PK3B/SY1C/SDEM)

[Ans: Gross Profit: ₹3,80,000]

10. From the following data, Calculate Closing Stock

Opening Stock	18,000
Purchases	16,000
Sales	25,000
Sales Returns	1,000
Purchase Returns	2,000
Gross Profit Rate	20% on Net Sales

(April 2011/21601/ZZ1G/ZZ1E/PK3B/SY1C/SDEM)

[Ans: Closing Stock: ₹12,800]

11. Calculate the Stock at the end of the year:

	₹
Sales	3,00,000
Opening stock	25,000
Purchases	2,50,000
Wages (Productive)	5,000
Carriage inwards	3,500
Rate of gross profit on cost	20%

(December 2016/U/ID/22201/UCZA/UCWA/ UCYA/UCXB/URMA/UCVB)

[Ans: Stock at the end: ₹33,500]

12. From the following information find out the cash received from debtors.

	₹
Opening Balance of Debtors	25,000
Total sales (including ₹5,000 cash sales)	1,07,000
Discount allowed	500
Discount received	1,200
Closing Balance of Creditors	15,300
Closing Balance of Debtors	14,700

(November 2005: 21601/ZZ1G/ZZ1E/SY1C/PK3B/SDEM)

[Ans: Cash Received from Debtors: ₹1,11,800]

13. From the following information calculate the Total Sales of the year 2004.

	₹
Opening debtors	17,425
Closing debtors	15,300
Cash received from debtors	49,200
Sales returns	3,700
Bad debts	2,500
Discounts	1,800
Bills receivables	5,000
Cash sales	12,000

(MAY 2017 U/ID 22201/UCZA/UCWA/UCYA/UCXB/ URMA/UCVB)

[Ans: Credit Sales: ₹60,075
Total Sales: 72,075]

14. Find Credit Purchases from the following:

	₹
Bills Payable issued during the year	8,000
Cash paid to supplier	20,700
Discount allowed by suppliers	2,700

(Contd.)

Purchases Return	2,000
Opening Creditors	4,000
Closing Creditors	6,000
Sales Return	1,000

(November 2005: 21601/ZZ1G/ZZ1E/SY1C/PK3B/SDEM)
[Ans: Credit Purchases: ₹35,400]

15. From the following information find out the Credit Purchases made during the year.

	₹
Balance of creditors on 01.01.2009	18,500
Payment to creditors	9,875
Discount allowed by them	325
Bills payable given	1,500
Return outwards	600
Balance of creditors on 31.12.2009	10,500

(Alagappa University/November 2010/AF 2241/BCO21)
[Ans: Credit Purchases: ₹4,300]

16. From the following details find out the Credit Purchases and Total Purchases:

	₹
Cash purchases	29,000
Bills payable paid during the year	10,500
Bills payable (opening)	7,500
Purchases returns	1,500
Bills payable (closing)	2,500
Allowances from creditors	800
Creditors (opening)	20,000
Bills payable dishonoured	300
Creditors (closing)	18,000
Cash paid to creditors	25,000

(December 2014 U/ID 22201/UCZA/UCWA/
UCYA/UCXB/ URMA/UCVB)
[Ans: Credit Purchase: ₹30,800
Total Purchases: ₹59,800]

17. Find Credit Purchases from the following

	₹
Bills payable issued during the year	8,000
Cash paid to supplier	20,000
Discount allowed by supplier	2,000
Purchases return	2,000
Opening creditors	4,000
Closing creditors	6,000
Sales returns	1,000

(Periyar University 08UCY 01/April 2011)
[Ans: Credit Purchases: ₹34,000]

18. From the following prepare Total Debtors Account.

1st Jan 1996	Balance of Debtors	32,000
	Balance of Creditors	37,000
30th June 1996	Credit Sales	19,600
	Cash Sales	15,000
	Cash Received from Debtors	15,000
	Discount allowed to Debtors	400
	Bills Receivable Received	6,000
	Return Inward	1,750
	Rebate allowed to Debtors	550
	Bad Debts	900
	Bills Receivable dishonoured	750

(November 2005/21401/MW1A)

[Ans: Closing Balance of Debtors: ₹27,750]

19. Find out the Credit Purchases and Credit Sales from the following details by making necessary accounts:

	₹		₹
Opening Balance of Debtors	30,000	Return Inwards	2,000
Opening Balance of Creditors	10,000	Return Outwards	3,000
Collections from debtors	1,60,000	Cash Purchases	6,000
Discount Received	2,500	Cash Sales	10,000
Bad Debts	1,000	Closing Balance of Debtors	35,000
Payment to Creditors	14,000	Closing Balance of Creditors	15,000
Discount Allowed	1,500		

(April 2016: 60101/BPZ1A/BPW1A/BPC1A/MAM1A/ SBAMK/BPC1A/BPG1A/BPM1A)

[Ans: Credit Sales: ₹1,69,500; Credit Purchase: ₹24,500]

20. From the following, prepare Debtors Account and ascertain closing debtors.

Particulars	*(₹)*
Opening Balance of Debtors	32,000
Opening Balance of Creditors	37,000
Credit Sales	19,600
Cash Sales	15,000
Cash Received from Debtors	15,600
Discount Allowed to Debtors	400
Bill Receivable	6,000
Return Inward	1,750
Rebate Allowed to Debtors	550
Bad Debts	900
Bills Receivable Dishonoured	750

[Ans: Closing Debtors Balance: ₹27,150]

21. Madhan keeps his books under Single Entry System. His assets and liabilities on 31st December 1993 and 31st December 1994 stood as follows:

Particulars	*31.12.93 (₹)*	*31.12.94 (₹)*
Cash	10	2,000
Bank Balance	990	10,000
Stock	7,000	10,000
Sundry Debtors	15,000	20,000
Furniture	3,000	3,000
Sundry Creditors	3,000	6,000

He introduced an additional capital of ₹3,000 during 1994. He withdrew ₹7,000 for his domestic purpose. Find out profit for 1994.

(Madras Univ. 1995/1996 Nov. and April 2004)

[Ans: Opening Capital: ₹23,000
Closing Capital: ₹39,000
Profit: ₹20,000]

22. Ajay keeps his books under single entry system. His position on 31st December 1977 and 31st December 1978 stood as follows:

Particulars	*31.12.77 (₹)*	*31.12.78 (₹)*
Cash in Hand	250	300
Cash at Bank	2,750	2,200
Stock in Trade	21,000	18,000
Sundry Debtors	7,500	12,000
Furniture & Fixtures	1,750	1,575
Machinery	15,000	25,000
Sundry Creditors	18,000	23,000

During the year, Ajay introduced ₹5,000 as further capital in the business and withdrew ₹7,200 for his domestic purpose. Prepare a statement showing the profit or loss made by him for the year ended 31st December 1978.

(Madras Univ. B.C.S. 1995, 1996, Nov. 2003;
Bharathiar Univ. April 2000
Bharathidasan Univ. 1992/2001
Manonmaniam Sundaranar Univ. 2000)
[Ans: Opening Capital: ₹30,250, Closing Capital: ₹36,075,
Profit: ₹8,025]

23. From the following details, prepare Trading and Profit and Loss Account and Balance Sheet.

Particulars	*1.1.95* *(₹)*	*31.12.95* *(₹)*
Creditors	1,12,500	1,31,250
Furniture	7,500	7,500
Cash	18,750	30,000
Debtors	1,87,500	2,62,500
Stock	75,000	37,500

Other details are as follows:

Particulars	*(₹)*
Drawings	30,000
Bad Debts	3,750
Discount Received	11,250
Discount Allowed	7,500
Sundry Expenses	22,500
Payment to Creditors	3,37,500
Cash Received from Debtors	4,01,250
Sales Return	11,250
Purchase Return	3,750
Depreciation on Furniture	5%

[Ans: Opening Capital: ₹1,76,250, Credit Sales: ₹4,98,750, Credit Purchases: ₹3,71,250, Gross Profit: ₹82,500 Net Profit: ₹59,625, Balance Sheet: ₹3,37,125]

24. Vijayan maintains books on single entry. He gives you the following information.

	Jan 1, 2001 ₹	*Dec 31, 2001* ₹
Cash in Hand	4,000	6,000
Cash at Bank	2,000	4,000
Stock in Trade	24,000	24,000
Furniture	6,000	10,000
Sundry Debtors	20,000	25,000
Sundry Creditors	10,000	14,000

He has taken ₹4,000 from the business to meet his personal expenses. Depreciate Furniture by 10%. Prepare Profit and Loss Account for the year 2001.

(November 2016: 60521/BYA1C/CYA1A)

[Ans: Opening Capital: ₹ 46,000; Closing Capital: ₹54,000; Profit: ₹12,000]

25. Ravi, a retail merchant commenced business with a capital of ₹12,000 on 01.01.2009. On 01.05.2009 he invested further capital of ₹5,000. During the year, he has withdrawn ₹2,000 for his personal use. On 31.12.2009 his assets and liabilities were as follows:

	₹
Cash at Bank	3,000
Debtors	4,000
Stock	16,000
Furniture	2,000
Creditors	5,000

Calculate the profit (or) loss made during the year 2009.

(November 2011: 60521/BYA1C)

[Ans: Closing capital: ₹20,000; Profit: ₹5,000]

26. Mr. Rajesh keeps his books according to single entry system. His position on 1.4.2005 and 31.3.2006 as follows:

	1.4.2005 ₹	*31.3.2006* ₹
Cash	9,000	23,000
Stock	20,000	19,000
Debtors	18,500	14,000
Furniture	18,000	15,000
Machinery	15,000	27,000
Creditors	42,000	29,000

Rajesh brought ₹50,000 as additional capital and withdrew ₹2,000 pm. Find out Profit on 3.12.2006.

(April 2012: 60501/BYA1A)

[Ans: Opening Capital: ₹38,500; Closing Capital: ₹69,000; Profit: ₹4,500]

27. S started business with ₹2,50,000 as capital on 1.1.2009. During the year he has withdrawn at the rate of ₹6,000 per month. He introduced an additional capital of ₹40,000. His position on 31.12.09 was as follows:

	₹		₹
Bank Balance	20,000	Cash in Hand	5,000
Stock	2,00,000	Creditors	60,000
Debtors	1,21,000	Outstanding expenses	4,000
Furniture	5,000		

Determine his Profit or Loss for the year.

(November 2013: 60501/BYA1A)

[Ans: Closing Capital: ₹2,87,000; Profit: ₹69,000]

28. Mr. Mano keeps his books of accounts under single entry system. His financial position on 31.12.2009 and 31.12.2010 was as follows:

	2009 ₹	*2010* ₹
Cash	9,860	800
Stock in Trade	38,520	57,020
Plant & Machinery	54,420	61,000
Bills Receivable	—	16,480
Sundry Debtors	24,840	43,940
Sundry Creditors	72,040	80,000
Furniture	4,960	5,220
Drawings	—	5,000
During the year he introduced additional Capital of ₹20,000.		

From the above particulars, prepare a Statement of Profit or Loss of Mr. Mano for the year ended 31.12.2010.

(April 2016: 60101/BPZ1A/BPW1A/BPC1A/MAM1A/ SBAMK/BPC1A/BPG1A/BPM1A)

[Ans: Opening Capital: ₹60,560; Closing Capital: ₹1,04,460; Profit: ₹28,900]

29. Mr.'Z' has kept his books under single entry system. His position as on 31.3.2004 and 31.3.2005 was as follows.

	31.3.2004 ₹	*31.3.2005* ₹
Cash in Hand	1,000	1,500
Cash at Bank	15,000	10,000
Stock	1,00,000	70,000
Debtors	42,500	85,000
Furniture	10,000	10,000
Machinery	75,000	75,000
Creditors	1,25,000	1,45,000

During the year 2004–2005, he introduced ₹25,000 as additional capital and withdrew ₹5,000 per month. Depreciate Furniture by 5% and Machinery by 10% per year. Ascertain profit for the year ended 31.3.2005 and prepare a Balance Sheet as on that date.

(April 2014: 60101/BPZ1A/BPW1A/BPF1A/MAM1A/ SBAMK/BPC1A/BPG1A)

[Ans: Opening Capital: ₹1,18,500; Closing Capital: ₹98,500; Profit: ₹15,000; Balance Sheet Total: ₹2,43,500]

30. Mr. Sunil started business on 1st January 2009 with his own cash of ₹70,000, furniture and fixtures worth of ₹30,000, goods amounting to ₹22,000 and plant and machinery worth ₹40,000. During the year, he contributed additional capital of ₹40,000 in his business by opening a bank account. From the following information extracted from his books, you are required to prepare Final Accounts for the ended 31st December 2009.

Particulars	*(₹)*
Receipt from Debtors	77,500
Cash Sales	65,000
Cash Purchases	45,000
Wages	25,000
Salaries to Staff	37,500
General Expenses	26,500
Factory Expenses	27,500
Drawings	23,000
Cash Paid to Creditors	62,000
Discount Allowed	21,200
Discount Received	23,000
Bad Debts written-off	21,300

Mr Sunil used goods worth ₹22,500 for private purposes, which is not recorded in the books. Charge depreciation on furniture 10% and machinery 20% p.a. On 31st December 2009 his debtors were worth ₹70,000 and creditors ₹35,000, stock in trade was valued on that date at ₹25,000.

[Ans: Gross Profit: ₹63,000, Net Loss: ₹31,500, Balance Sheet: ₹1,60,000, Credit Purchases: ₹1,20,000, Credit Sales: ₹1,90,000]

31. Mr. Vijay does not keep books of accounts under double entry system. Ascertain cash sales and prepare Trading, Profit and Loss Accounts for the year ended 31st December 2016.

Particulars	*31.12.2015 (₹)*	*31.12.2016 (₹)*	*Particulars*	*31.12.2015 (₹)*	*31.12.2016 (₹)*
Furniture	1,00,000	1,20,000	Debtors	1,20,000	140,000
Stock	60,000	20,000	Creditors	40,000	?
Prepaid Expenses	___	4000	Outstanding Expenses	12,000	20,000
Cash	22,000	?			

The receipts and payments during the year is as follows:

Particulars	*(₹)*	*Particulars*	*(₹)*
Furniture Purchased	20,000	Receipts from Debtors	4,20,000
Paid to Creditors	2,00,000	Drawings	1,20,000
Freight	40,000	General Expenses	1,40,000

Cash sales during the year ₹84,000. Credit purchases during the year amounted to ₹2,30,000. Provision for doubtful debts 10% on debtors.

[Ans: Gross Profit: ₹2,14,000, Net Profit: ₹56,000, Balance Sheet: ₹2,76,000 Credit Sales: ₹4,40,000, Creditors Closing Balance: ₹70,000 Capital Balance: ₹2,50,000, Cash Account: ₹6,000]

32. Mr. M commenced business on 1st January 2014. He introduced capital of ₹50,000. He acquired furniture for ₹15,000. From the following details, prepare Trading, Profit and Loss Account for the year ending 31 December 2014 and Balance Sheet as on 31st December 2014.

Cash sales ₹2,35,000, credit sales ₹3,50,000, cash purchases ₹70,000, credit purchases ₹405,000, Mr. M withdrew ₹56,000. Salaries to staff ₹60,000, rent paid ₹21,400, sundry expenses ₹32,100, bad

debts ₹2,500. Mr. M withdrew goods worth ₹2500 for private use and paid ₹1,000 to his son, but omitted to record it in the books. On 31st December 2014, the following was his position. Sundry debtors ₹26,000, sundry creditors ₹68000, stock ₹82,500.

[Ans: Gross Profit: ₹1,95,000, Net Profit: ₹79,000,
Balance Sheet: ₹1,37,500
Cash Received from Debtors: ₹3,21,500,
Cash Paid to Creditors: ₹3,37,000,
Cash Balance: ₹14,000]

33. Mr. Vinayak keeps incomplete books and reveals the following information. Prepare Trading, Profit and Loss Account for the year and Balance Sheet at on 31st December 2015.

Particulars	*31.12.2014 (₹)*	*31.12.2015 (₹)*
Debtors	21,200	24,000
Machine	6,000	6,000
Furniture	4,000	4,000
Stock	7,600	?
Bank Balance	**Overdraft 3200**	6,400
Creditors	7,600	8,000

Additional Information: Sundry expenses ₹4400, Rent paid 1600, Drawings ₹3,600, Receipts from debtors 20,000, Payment to creditors ₹14,800. On 1st July 2015, he took a loan from his friend of ₹10,000 at 5% rate of interest. On 1st September 2015, Mr. Vinayak introduced additional capital of ₹4,000. Gross profit ratio is maintained at 40% of the sales. Depreciate furniture and machine at 5%. Provide interest on capital and drawings at 6%.

[Ans: Closing Stock: ₹9,120, Net Profit: ₹826,
Balance Sheet: ₹49,020
Credit Sales: ₹22,800, Credit Purchases: ₹15,200,
Opening Capital Balance: ₹28,000]

34. A trader commenced business as a cloth merchant on 1st January 1993 with a capital of ₹20,000. On the same day, he purchased furniture and fixtures for ₹4,000. From the following particulars obtained from his books kept by single entry, you are required to prepare a Trading and Profit and Loss Account and Balance Sheet as on 31st December 1993.

Particulars	₹
Sales (including cash sales ₹10,000)	25,000
Purchases (including cash purchases ₹6,000)	20,000
Drawings	1,000
Salaries	2,400
Bad Debts written off	200
Trade Expenses	800

The trader has used cloth worth ₹600 for private purposes and gave ₹1,000 to his son, which are not recorded anywhere. On 31st December 1993, his debtors were worth ₹7,000 and creditors were ₹4,000. Stock on that date was valued at ₹8,000.

(B.Com 1986/BCA 2005)

[Ans: Cash Received from Debtors: ₹7,800, Cash Paid to Creditors: ₹10,000, Gross Profit: ₹13,600, Net Profit: ₹10,200, Balance Sheet: ₹31,600]

35. From the following details, prepare Trading and Profit and Loss Account and Balance Sheet.

Particulars	*As on 1.1.95 (₹)*	*As on 31.12.95 (₹)*
Furniture	7,500	7,500
Creditors	1,12,500	1,31,250
Stock	75,000	37,500
Debtors	1,87,500	2,62,500
Cash	18,750	10,000

Other details:

Drawings ₹50,000; Bad debts ₹3,750; Discount received ₹11,250; Discount allowed ₹7,500; Sundry expenses ₹22,500; Payment to creditors ₹3,37,500; Collection from debtors ₹4,01,250; Sales returns ₹11,250; Purchase returns ₹3,750; Charge 10% depreciation on furniture.

[Ans: Gross Profit: ₹82,500, Net Profit: ₹59,250, Balance Sheet: ₹3,16,750; Credit Sales: ₹4,98,750; Credit Purchase: ₹3,71,250; Opening Capital: ₹1,76,250]

36. Sundram keeps his books under single entry system. From the following information, prepare Trading and Profit and Loss Account and Balance Sheet as on 31st December 1991.

Cash balance as on 1st January 1991 is ₹12,750.

Particulars	*Assets and Liabilities*	
	31.12.1990 (₹)	*31.12.1991 (₹)*
Furniture	2,550	2,550
Stock	24,990	33,660
Creditors	15,300	11,340
Debtors	48,900	63,750

Other transactions:

Particulars	*(₹)*	*Particulars*	*(₹)*
Cash Received from Debtors	1,58,040	Cash Sales	3,825
Cash Paid to Creditors	1,12,200	Cash Purchases	12,750
Salaries	30,600	Discount Received	1,785
Rent and Taxes	3,825	Discount Allowed	765
Other Expenses	4,590	Return Inwards	2,550
Drawings	7,650	Return Outwards	2,040
Additional Capital	5,100	Bad Debts	510

Adjustments:

(a) Write off depreciation of 5% on furniture.

(b) Create a reserve of 1% on debtors for doubtful debts.

[Ans: Gross Profit: ₹63,885, Net Profit: ₹24,615, Balance Sheet: ₹1,07,295, Capital on 1.1.1991: ₹73,890, Credit Sales: ₹1,76,715, Credit Purchases: ₹1,12,065]

37. From the following particulars of Mr. Rajukeeran, who keeps his books on single entry, prepare Trading, Profit and Loss Account and Balance Sheet for the year 31st December 1986.

Particulars	*01.01.1986 (₹)*	*31.12.1986 (₹)*
Debtors	6,000	9,000
Creditors	15,000	12,000
Stock	24,000	21,000
Cash	13,980	15,360
Machinery	54,000	54,000

The following transactions took place during the year ending 31st December 1986.

Particulars	*(₹)*
Sundry Expenses	7,500
Rent	7,500
Cash Purchases	1,93,020
Purchase Returns	3,000
Carriage Inwards	5,040
Lighting	2,340
Printing	3,360
Wages	18,000
Cash Collected from Customers	2,47,500

During the year, Mr. Rajukeeran had taken goods from his business for his own use amounting to ₹45 per week. He had not paid any money into business. He had also taken cash ₹9,360 for domestic purposes.

[Ans: Gross Profit: ₹36,780, Net Profit: ₹16,080, Balance Sheet: ₹99,360, Credit Sales: ₹2,50,500, Opening Capital: ₹82,980]

38. Suman commenced business on 1st January 1989 with a capital of ₹75,000. He immediately bought furniture for ₹12,000. During the year, he borrowed ₹15,000 from his wife and introduced a further capital of ₹9,000. He has withdrawn ₹1,800 at the end of each month for family expenses. From the following particulars obtained from his books, you are required to prepare Trading, Profit and Loss Accounts and Balance Sheet as on 31st December 1989.

Particulars	*(₹)*
Sales (Including cash sales of ₹90,000)	3,00,000
Purchase (Including cash purchase of ₹30,000)	2,25,000
Carriage	2,100
Wages	900
Discount Allowed to Debtors	2,400
Salaries	18,600
Bad Debts written off	4,500
Trade Expenses	3,600
Advertisement	6,600

Suman has used goods worth ₹3,900 for private purposes and paid ₹1,500 to his son, which is not recorded anywhere. On 31st December 1989, his debtors were worth ₹63,000, creditors ₹45,000 and stock in trade ₹30,000. Furniture to be depreciated at 10% p.a.

[Ans: Gross Profit: ₹1,05,900, Net Profit: ₹69,000, Balance Sheet: ₹1,86,000, Cash Received from Debtors: ₹1,40,100, Cash paid to Creditors: ₹1,50,000, Cash Balance: ₹82,200]

39. A and B are partners and they share their profits in the ratio of 3:2. They do not maintain complete double entry books of accounts. On 31st December 2015, their position was as follows.

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital A	2,00,000	Cash	50,000
Capital B	1,50,000	Stock	1,00,000
Loan	1,00,000	Debtors	4,00,000
Creditors	2,50,000	Furniture	1,50,000
Total	**7,00,000**	**Total**	**7,00.000**

Their position as on 31st December 2016 was as follows.

Loan	50,000	Cash	1,50,000
Creditors	3,00,000	Stock	2,00,000
Furniture	2,00,000	Debtors	4,80,000

Depreciate furniture at 6%. Create reserve for doubtful debtors at 2.5%. Provide interest on loan (opening balance) at 6%. Drawings of Mr. A is ₹15000 and that of Mr. B is ₹12000.

Ascertain Profit or Loss made by the firm. Also prepare Capital Accounts of partners.

[Ans: Combined Capital: ₹6,50,000
Capital Account A: ₹3,81,200
Capital Account B: ₹2,68,800
Profit: ₹27,000]

40. Mrs. K. commenced business as a cloth merchant on 01.01.2003 with a Capital of ₹50,000. On the same day she purchased Furniture & Fixtures for cash ₹20,000. From the following particulars obtained from her books kept by single entry, you are required to prepare a Trading and Profit & Loss Account and Balance Sheet as on 31.12.2003.

	₹
Sales (including cash sales ₹7,000)	17,000
Purchases (including cash purchases ₹4,000)	15,000
Mrs. K - Drawings	1,200
Salaries	5,000
Bad Debts written off	500
Business Expenses	700

Mrs. K. took cloth worth ₹500 from the shop for private use and paid ₹1,000 to her son but omitted to record these transactions in her books. On 31.12.2003 her Sundry Debtors were ₹5,200 and Sundry Creditors were ₹3,600. Stock in hand on 31.12.2003 ₹6,500.

[Ans: Cash Received from Debtors: ₹4,300
Cash Paid to Creditors: ₹7,400
Closing Cash Balance: ₹22,000
Gross Profit: ₹9,000
Net Profit: ₹2,800
Balance Sheet ₹53,700]

41. Rama commenced business on 01.01.2009 with a capital of ₹25,000. He immediately bought furniture for ₹4,000. During the year, he borrowed ₹5,000 from his wife and introduced a further capital of ₹3,000. He has withdrawn ₹600 at the end of each month for family expenses. From the following particulars obtained from his books, you are required to prepare Trading and Profit & Loss Account and Balance Sheet as on 31.12.2009.

	₹
Sales (including cash sales of ₹30,000)	1,00,000
Purchases (Including cash purchases of ₹10,000)	75,000
Carriage Inwards	700
Wages	300
Discount allowed to debtors	800
Salaries	6,200
Bad debts written off	1,500
Trade expenses	1,200
Advertisement	2,200

Rama has used goods worth ₹1,300 for private purposes and paid ₹500 to his son which is not recorded anywhere. On 31.12.2009, his

debtors, were worth ₹21,000, creditors ₹15,000 and stock in trade ₹10,000. Furniture to be depreciated at 10% p.a.

(December 2016 U/ID 22201/UCZA/UCWA/ UCYA/UCXB/URMA/UCVB Nov. 2004/2003/B.U.A.P. 2002/ Pondicherry 2001 Dec.)

[Ans: Cash Received from debtors: ₹46,700
Cash paid to creditors: ₹50,000
Closing cash balance: ₹27,400
Gross profit: ₹35,300
Net profit: ₹23,000
Balance Sheet: ₹62,000]

42. Mrs. Rani commenced business on 1.4.2000 with a capital of ₹37,500. She immediately bought furniture for ₹6,000. During the year, she borrowed ₹7,500 from her husband as loan. She has withdrawn ₹10,800 for her family expenses. From the following particulars, you are required to prepare Trading and Profit and Loss Account and Balance Sheet as on 31st March 2001.

Particulars	₹
Cash received from Sundry Debtors	60,500
Cash paid to Sundry Creditors	87,500
Cash sales	50,000
Cash purchases	20,000
Carriage inwards	2,250
Discount allowed to Sundry Debtors	2,000
Salaries	2,500
Office expenses	2,000
Advertisement	2,500
Closing balance of Sundry Debtors	37,500
Closing balance of Sundry Creditors	25,000
Closing stock	17,500
Closing cash balance	21,950
Provide 10% depreciation on furniture.	

(Alagappa University/November 2010/AF 2260/BCC2C1)

[Ans: Credit Sales: ₹1,00,000
Credit Purchases: ₹1,12,500
Gross Profit: ₹32,750
Net Profit: ₹23,150
Balance Sheet: ₹82,350]

CHAPTER

15

Accounts of Non-Trading Organisations

Learning Objectives

After studying this chapter, you will be able to understand:

- Non-Trading Organisations
- Receipts and Payments Account
- Income and Expenditure Account
- The difference between Receipts and Payments Account and Income and Expenditure Account

15.1 Non-trading Organisations

Associations, clubs, sports, culture, arts, libraries and societies are formed to cater and promote the sporting, cultural and recreational interest of its members. The main aim of these types of organisations is to render service and not to make profit. Such organisations are called non-trading organisations. However, these organisations earn income and incur expenses. The main source of income for these types of organisations is from subscription fees from its members, donations and sponsorships. These non-trading concerns do not have any trading activities. Hence, they are not required to prepare a Profit and Loss Account and a Balance Sheet.

These organisations are managed by a group of persons elected by the members from among themselves. This group is called the managing committee. They also prepare their accounts following the same accounting principles and systems that are followed by business for profit organisations that are run with an objective to earn profits. A Non-trading organisation usually prepares the following financial statements:

- Receipts and Payments Account

- Income and Expenditure Account
- Balance Sheet

15.2 Important Terms

› 15.2.1 Subscription

Subscription is a regular payment made by the members to the organisation. It is generally collected annually. It is one of the main sources of income. The amount received as subscription will appear on the debit side, i.e., receipts side of the receipts and payments account. The subscription amount may be for the current year or previous year or future years.

› 15.2.2 Entrance Fees or Admission Fees

Entrance fee or Admission fee is a fee paid by the new member at the time of joining the organisation. This is also an income and it will be shown on the debit side of the receipts and payments account.

› 15.2.3 Life Membership Fees

Life membership fees is a fee paid by the members for the whole life. It is charged once in the lifetime of a member. It is a capital receipt for the organisation.

› 15.2.4 Endowment Fund

An endowment fund is an investment fund established to provide permanent means of support for any institution. It is a receipt of capital nature.

› 15.2.5 Donation

A donation is an amount received from some person, firm, company or any other body by way of gift. Donation is also an important item of receipt. It is of two types, namely:

1. **Specific Donation:** It is a donation received for a specific purpose. Examples of such donations are donation for library, donation for building, etc.
2. **General Donation:** It is a donation, which is received not for some specific purpose. It can be of two types:
   (i) General donation of big amount
   (ii) General donation of small amount

› 15.2.6 Legacy

It is the amount, which is received by organisations as per the will of a deceased person. It is treated as a capital receipt and will appear on the debit side of the receipts and payments account.

› 15.2.7 Sale of Old Newspapers

Non-profit organisations buy newspapers for usage. After the stipulated period, they dispose the newspaper and generate revenue. The generated revenue will appear on the debit side of the receipts and payments account.

› 15.2.8 Sale of Old Sports Material

Clubs usually sell the used sports material for a price. The sale proceeds are shown on the debit side of the receipts and payments account and they are recurring in nature.

› 15.2.9 Purchase of Fixed Assets

Assets such as building, machinery, furniture, books, etc., are purchased for the organisation. These are capital expenditures and are shown on the credit side of receipts and payments account.

› 15.2.10 Payment of Honorarium

Honorarium is the remuneration paid to a person, who is not an employee of the organisation. This will be shown on the payment side of the receipts and payments account.

› 15.2.11 Purchase of Consumable Items

Non-profit organisations usually purchase consumable items like stationery, sports material, drugs and medicines, etc. Payments are regularly made by non-profit organisation. These are shown on the payment side of the receipts and payments accounts.

› 15.2.12 Capital Fund

Excess of assets over liabilities is known as capital fund. It will be shown on the liability side of the balance sheet. The excess of income over expenditure will be added to the capital fund and the excess of expenditure over income will be deducted from the capital fund account.

› 15.2.13 Special Fund

A special fund is a fund kept for special purposes. It will be shown on the liabilities side of the balance sheet. Any expenses related to utilisation of special fund will be deducted from the fund and the balance will be shown on the balance sheet.

15.3 Receipts and Payments Account

A non-trading organisation usually maintains a cash book to record cash transactions on a day-to-day basis. The receipts and payments account is the summary of cash and bank transactions, which helps in the preparation of Income and Expenditure Account and the Balance Sheet. All cash receipts and payments are recorded in this account. Receipts and payments related to the current year, previous year or the future years will also be recorded in this account. Both capital and revenue nature are recorded in this account. All receipts are shown on the debit side of the receipts and payments account and all payments are shown on the credit side of the receipts and payments account. Receipts and payments account begins with opening cash or/and bank balance. Closing balance of this account is cash in hand and or cash at bank/overdraft. The receipts and payments account serves the purpose of Trial Balance and becomes the basis of preparing financial statements, i.e. income and expenditure account and balance sheet for the organisation. A small non-profit organisation prepares only receipts and payments account.

› 15.3.1 Features of Receipts and Payments Account

- It is prepared at the end of the year, taking items from the cashbook.
- It is the summary of all cash transactions of a year.
- It records all cash transactions (previous/current/future years).
- It records cash transactions, both of revenue and capital natures.
- It begins with opening cash balance and ends with closing cash balance.

› 15.3.2 Proforma of Receipts and Payments Account

Proforma of Receipts and Payments Account
for the Year Ended on ……

		(₹)			(₹)
Balance b/d:			Purchase of Assets		xxx
Cash	xxx				
Bank	xxx	xxx			

(Contd.)

Donations		xxx	Printing and Stationery		xxx
Legacies		xxx	Repairs and Renewal		xxx
Membership Fees		xxx	Newspapers/Magazines		xxx
Entrance Fees		xxx	Rent and Taxes		xxx
Subscriptions		xxx	Postage		xxx
Lockers Rent		xxx	Investments		xxx
Sale of Fixed Assets		xxx	Conveyance		xxx
Interest on Investments		xxx	Honorarium		xxx
Miscellaneous Receipts		xxx	Charity		xxx
Sale of Old Periodicals		xxx	Insurance Premium		xxx
			Upkeep of Ground		xxx
			Telephone Charges		xxx
			Balance c/d:		
			Cash	xxx	
			Bank	xxx	xxx
		xxxx			**xxxx**

15.4 Income and Expenditure Account

Income and Expenditure Account is a nominal account. It is similar to a profit and loss account. Non-profit organisations usually prepare the income and expenditure account and balance sheet with the help of receipts and payments account. All the revenue incomes of the current year are shown on the credit side of the account. Expenses related to the current year are shown on the debit side of the account. Incomes and expenses related to previous or future years will not be shown in this account. Incomes and expenses relating to capital nature will not appear in this account. This account will be prepared at the end of the year to ascertain the surplus or deficit.

› 15.4.1 Steps to Prepare Income and Expenditure Account

In order to prepare an income and expenditure account from receipts and payments account and other information supplied, the following steps should be carefully followed:

1. Exclude all capital receipts and capital payments. Only revenue receipts will appear on the credit side (Ex: Income Side) and revenue expenses on the debit side (Ex: Expenditure Side) of income and expenditure account.

2. Exclude the opening and closing balances of cash and bank in receipts and payments account, as they are balance sheet items.
3. Make all adjustments relating to prepaid or outstanding expenses, incomes accrued or received in advance, provision for depreciation, etc.
4. Take items for the current period (Ex: items relating to the preceding and succeeding periods are to be ignored) in light of the following:
   (i) Exclude income of the previous period or any income received in advance relating to future period.
   (ii) Provide for accrued income (Ex: Income earned during the current period but not received).
   (iii) Exclude expenditure either of the preceding period or of the succeeding period.
   (iv) Provide for expenditure due for the current period but not yet paid.
5. Ascertain the difference, which represents surplus **(excess of income over expenditure)** or deficit **(excess of expenditure over income)**. Transfer this to the capital fund.

› 15.4.2 Specimen Form of Income and Expenditure Account

The specimen form of income and expenditure account can be given as follows:

Expenditure	*(₹)*	*(₹)*	*Income*	*(₹)*	*(₹)*
To Revenue Payments: (Rent, Interest, Salaries Repairs, etc.)	xxx		By Revenue Receipts: (Subscription, Rents, Interest, Entrance Fees, etc.)		xxx
Less: Pertaining to Precious Period	xxx				
	xxx		Less: Relating to Previous Period	xxx	
Less: Pertaining to Future Period	xxx			xxx	
	xxx		Less: Relating to Future Period	xxx	
Add: Outstanding Expenses	xxx	xxx		xxx	
To Loss on Sale of Assets		xxx	Add: Accrued Income	xxx	xxx
To Depreciation on Fixed Assets		xxx	By Other Receipts		xxx
To Bad Debts, etc.		xxx	By Profit on Sale of Assets		xxx

(Contd.)

To Surplus (Excess of Income & Expenditure) (Bal. fig.)		**xxx**	**By Deficit (Excess of Expenditure over Income) (Bal. fig).**		**xxx**
		xxx			**xxx**

The balancing figure in the above accounts is either surplus or deficit and it has to be merged with the capital fund in the balance sheet.

15.5 Distinction between Receipts and Payments Account and Income and Expenditure Account

Receipts and Payments Account	*Income and Expenditure Account*
It is a Real Account.	It is a Nominal Account.
It includes capital as well as revenue items.	It includes only revenue items.
It is prepared in lieu of cashbook.	It is prepared in lieu of profit and loss account.
It starts with opening cash and bank balances and ends with closing cash and bank balances.	There is no opening balance but it ends with surplus or deficit for the year.
It shows receipts and payments of the previous year, current year and the subsequent year, if cash is received in the current year itself.	It shows only income and expenditure of the current year.
It is prepared on the basis of cash system of accounting.	It is prepared on the basis of mercantile system of accounting.
It does not record non-cash items.	It records non-cash items.
Preparation of Balance Sheet is not necessary.	Preparation of Balance Sheet is necessary.

15.6 Distinction between Receipts and Payments Account and Cashbook

Receipts and Payment Account	*Cash Book*
It is prepared at the end the accounting year.	It is prepared on a day-to-day basis.
Every item appears only once.	Items appear a number of times on different dates, depending upon their occurrence.

(Contd.)

It serves the purpose of Trial Balance to prepare the financial statements.	It is a means of maintaining record of cash transactions.
It reflects the activities of the organisation.	It is only a systematic record of day-to-day cash transactions.
It is prepared only by Not-for-Profit Organisations (NPOs).	It is also prepared by business organisations meant to earn profit.

15.7 BALANCE SHEET

Balance sheet of a non-profit organisation is an important financial document, which shows the financial position of that non-profit organisation. The balance sheet of non-profit organisations is prepared in the same manner as in the case of business enterprises. It contains assets and liabilities, including capital or general fund. The surplus or deficit ascertained in income and expenditure account is transferred to capital fund.

✎ ILLUSTRATION 1:

How will the following appear in income and expenditure account of Sports Club for the year 31st December 1999, and in the balance sheet on that date.

	(₹)
Stock of Sports Materials on 01.01.1999	800
Stock of Sports Materials on 31.12.1999	1,200
Purchase of Sports Materials during the Year 1999	5,000
Sale of Old Sports Materials during the Year 1999	300

Solution:

	(₹)
Income and Expenditure Account (Debit)	4,600
Income and Expenditure Account (Credit)	300
Balance Sheet Asset Side	1,200

✎ ILLUSTRATION 2:

How will the following appear in the final accounts of Coimbatore Sports Club?

	(₹)
Stock of Sports Material on 01.01.1999	3,000
Sports Material Purchased during 1999	8,500
Sale of Old Sports Material during 1999	100
Stock of Sports Material on 21.12.1999	600

Solution:

Income and Expenditure Account

To Sports Material:			By Sale of Old Sports Material	100
Opening Stock	3,000			
Add: Purchases	8,500			
Less: Closing Stock	600	10,900		

Balance Sheet

Liabilities	(₹)	*Assets*	(₹)
		Stock of Sports Materials	600

✎ ILLUSTRATION 3:

How will the following appear in the final accounts of Regal Sports Club?

	(₹)
Sale of Old Sports Materials during 1999	700
Stock of Sports Materials on 31.12.1999	4,200
Stock of Sports Materials on 01.01.1999	21,000
Sports Material Purchased during 1999	59,500

Solution:

Regal Sports Club
Income & Expenditure Account for the Year 31.12.1999 (Includes)

Expenditure	(₹)	(₹)	*Income*	(₹)
To Sports Material:			By Sale of Old Sports Material	700
Opening Stock	21,000			
Add: Purchases	59,500			
	80,500			
Less: Closing Stock	4,200	76,300		

Regal Sports Club
Balance Sheet as on 31.12.1999 (Includes)

Liabilities	*(₹)*	*Assets*	*(₹)*
		Stock of Sports Materials	4,200

✎ ILLUSTRATION 4:

From the following information, find out the amount to be taken to income and expenditure account in the year ending 31st March 1999.

	As on 01.04.2012 (₹)	*As on 31.12.2013 (₹)*
Opening Stock	11,200	5,600
Creditors for Stationery	3,360	8,400
Amount Paid to Creditors for Stationery	—	56,000

Solution:

Computation of Stationery to be Charged to Income and Expenditure Account in 1998–1999

	(₹)
Amount Paid to Creditors for Stationery	56,000
Add: Closing Creditors for Stationery	8,400
	64,400
Less: Opening Creditors for Stationery	3,360
Credit Purchases of Stationery in 1998–1999	61,040
Add: Opening Stock of Stationery	11,200
	72,240
Less: Closing Stock of Stationery	5,600
Stationery Consumed in 1998–99 to be charged to Income and Expenditure Account	**66,640**

✎ ILLUSTRATION 5:

From the following details, ascertain the amount of subscriptions to be credited to Income and expenditure account for the year 1999.

Subscription received in 1999 amounted to ₹48,000, which includes ₹4,000 for 1998 and ₹8,000 for 2,000. Subscription due but not received at the end of the year 1999 was ₹20,000. Subscription received in 1998 in advance for 1999 was ₹12,000.

Solution:

Computation of Net Subscription for 1999

	(₹)
Subscription Received during the Year	48,000
Less: Received for Previous Year (1998)	4,000
	44,000
Less: Received for the Next Year (2000)	8,000
	36,000
Add: Outstanding Subscription for 1999	20,000
	56,000
Add: Received in Advance in 1998 for 1999	12,000
Subscriptions to be taken to Income & Expenditure A/c	**68,000**

✎ ILLUSTRATION 6:

From the following details, ascertain the amount of subscriptions to be credited to income and expenditure account for the year 2001.

Subscription received in 2001 amounted to ₹1,20,000, which include ₹10,000 for year 2000 and ₹20,000 for 2002. Subscription due but not received at the end of the year 2001 was ₹50,000. Subscription received in 2000 in advance for 2001 was ₹30,000.

Solution:

Computation of Net Subscription for 1999

	(₹)
Subscription Received during the Year	1,20,000
Less: Received for Previous Year (2000)	10,000
	1,10,000
Less: Received for the Next Year (2002)	20,000
	90,000
Add: Outstanding Subscription for 2001	50,000
	1,40,000
Add: Received in Advance in 2000 for 2001	30,000
Subscriptions to be taken to Income & Expenditure A/c	1,70,000

✎ ILLUSTRATION 7:

From the following details, ascertain the amount of subscriptions to be credited to income and expenditure account for the year 2006.

Subscription received in 2006 amounted to ₹3,12,000, which include ₹65,000 for the year 2005 and ₹1,30,000 for 2007. Subscription due but not received at the end of the year 2006 were ₹3,25,000. Subscriptions received in 2005 in advance for 2006 were ₹1,95,000.

Solution:

Computation of Net Subscription for 1999

	(₹)
Subscription Received during the Year	3,12,000
Less: Received for Previous Year (2005)	65,000
	2,47,000
Less: Received for the Next Year (2007)	1,30,000
	1,17,000
Add: Outstanding Subscription for 2006	3,25,000
	4,42,000
Add: Received in Advance in 2005 for 2006	1,95,000
Subscriptions to be taken to Income & Expenditure A/c	**6,37,000**

✎ ILLUSTRATION 8:

From the following information, prepare the Subscription Account for the year ending on 31st March 2013.

(a) Subscription in arrears on 31st March 2012 ₹1,500.

(b) Subscription received in advance on 31st March 2012 ₹1,000.

(c) Amount of subscription received during 2012–13 ₹40,000, which includes ₹500 for the year 2011–12 ₹1,500 for the year 2013–14.

(d) Subscription outstanding ₹1,000.

Solution:

Dr. **Subscription Account** **Cr.**

	(₹)		*(₹)*
To Balance b/d	1,500	By Balance b/d	1,000
To Income & Expenditure	39,500	By Bank	40,000
To Balance c/d:		By Balance c/d:	
For 2013–14	1,500	For 2011–12	500
		For 2012–13	1,000
	42,500		**42,500**

✎ ILLUSTRATION 9:

From the following details, ascertain the amount of subscriptions to be credited to income and expenditure account for the year 1999:

Subscriptions received in 1999 amount to ₹12,000, which includes ₹1,000 for 1998 and ₹2,000 for the year 2000. Subscriptions due but not received at the end of the year 1999 were ₹5,000. Subscriptions received in 1998 in advance for 1999 were ₹3,000.

Solution:

Computation of Net Subscription for the Year 1999

	(₹)
Subscriptions Received in 1999	12,000
Add: Subscriptions due but not Received at the End of the Year 1999	5,000
Add: Subscriptions Received in 1998 in Advance for 1999	3,000
Less: Received for 1998	1,000
Less: Received for the Year 2000	2,000
Subscription to be Shown in Income & Expenditure Account	**17,000**

✎ ILLUSTRATION 10:

As per receipt and payment account for the year ended on 31st March 2015, the subscriptions received were ₹2,50,000. Additional information given is as follows:

(a) Subscriptions Outstanding on 1st April 2014 ₹50,000.

(b) Subscriptions Outstanding on 31st March 2015 ₹35,000.

(c) Subscriptions Received in Advance, as on 1st April 2014 ₹25,000.

(d) Subscriptions Received in Advance, as on 31st March 2015 ₹30,000.

Ascertain the amount of income from subscriptions for the year 2014–15 and show how relevant items of subscriptions appear in opening and closing balance sheets.

Solution:

	(₹)
Subscriptions Received as per Receipt and Payment Account	2,50,000
Add: Subscriptions Outstanding on 31.03.2015	35,000
Add: Subscriptions Received in advance on 01.04.2014	25,000

(Contd.)

	3,10,000
Less: Subscriptions Outstanding on 01.04.2014	50,000
	2,60,000
Less: Subscriptions Received in Advance on 31.03.2015	30,000
Income from Subscription for the Year 2014–15	2,30,000

Alternately, income received from subscriptions can be calculated by preparing a Subscriptions account as under.

	J.F	*(₹)*		*J.F*	₹
Balance b/d (Outstanding)		50,000	Balance b/d (Advance)		25,000
Income & Expenditure (Bal. fig.)		**2,30,000**	Receipts & Payments		2,50,000
Balance c/d (Advance)		30,000	Balance b/d (Outstanding)		35,000
		3,10,000			**3,10,000**

Relevant items of subscription can be shown in the opening and closing balance sheet as under:

Balance Sheet as on 31.12.2014

Liabilities	*(₹)*	*Assets*	*(₹)*
Subscriptions Received in Advance	25,000	Subscription Outstanding	50,000

Relevant data only

Balance Sheet as on 31.03.2015

Liabilities	*(₹)*	*Assets*	*(₹)*
Subscriptions Received in Advance	30,000	Subscriptions Outstanding	35,000

✎ ILLUSTRATION 11:

Salaries paid during 2012 were ₹23,000. The following further information is available:

	(₹)
Salaries Unpaid on 31.12.2011	1,400
Salaries Prepaid on 31.12.2011	400
Salaries Unpaid on 31.12.2012	1,800
Salaries Prepaid on 31.12.2012	600

Calculate the amount to be debited to income and expenditure account in respect of salaries and also show necessary accounts.

Solution:

Salaries Account

Date		*(₹)*	*2012*		*(₹)*
01.01.2012	To Prepaid Salaries A/c	400	01.01.2012	By Salaries Outstanding A/c	1,400
31.12.2012	To Cash	23,000	31.12.2012	By Salaries Prepaid A/c	600
31.12.2012	To Salaries Outstanding A/c	1,800	31.12.2012	By Transfer to Income & Expenditure	23,200
		25,200			**25,200**

Salaries Outstanding Account

Date		*(₹)*	*2012*		*(₹)*
01.01.2012	To Salaries A/c	1,400	01.01.2012	By Balance b/d	1,400
31.12.2012	To Balance c/d	1,800	31.12.2012	By Salaries A/c	1,800
		3,200			**3,200**
			01.01.2013	By Balance b/d	1,800

Salaries Prepaid Account

2012		*(₹)*	*Date*		*(₹)*
01.01.2012	To Balance b/d	400	01.01.2012	By Salaries A/c (transfer)	400
31.12.2012	To Salaries A/c	600	31.12.2012	By Balance c/d	600
		1,000			**1,000**
01.01.2013	To Balance b/d	600			

✎ ILLUSTRATION 12:

During 2012, subscription received in cash is ₹42,000. It includes ₹1,600 for 2011 and ₹600 for 2013. Also, ₹3,000 still to be received for 2012. Calculate the amount to be credited to income and expenditure account in respect of subscription.

Solution:

	(₹)	*(₹)*
Amount Received		42,000
Add: Outstanding on 31.12.2012		3,000
		45,000
Less: Received on Account of 2011	1,600	
2012	600	2,200
		42,800

The various accounts will appear as under:

Subscription Outstanding Account

Date		*(₹)*	*Date*		*(₹)*
01.01.2012	To Balance b/d (Transfer)	1,600	31.12.2012	By Subscription A/c	1,600
31.12.2012	To Subscription A/c	3,000		By Balance c/d	3,000
		4,600			**4,600**
01.01.2013	To Balance b/d	3,000			

Subscription Account

Date		*(₹)*	*Date*		*(₹)*
31.12.2012	To Subscription Outstanding A/c (transfer)	1,600	31.12.2012	By Cash A/c	42,000
31.12.2012	To Subscription Received in Advance A/c	600	31.12.2012	By Subscription Outstanding A/c	3,000
31.12.2012	To Income and Expenditure A/c (transfer)	42,800			
		45,000			**45,000**

Subscription Received in Advance Account

Date		₹	*Date*		₹
31.12.2012	To Balance c/d	600	31.12.2012	By Subscription A/c	600
			01.01.2013	**By Balance b/d**	**600**

Subscription outstanding ₹3,000 and subscription received in advance ₹600 will be shown in the balance sheet, on the assets and liabilities side respectively.

✎ ILLUSTRATION 13:

The amount of subscription appears in the income and expenditure account of South Indian Club ₹3,000.

Adjustments were made in respect of the following:

(a) Subscription for 2012 unpaid at 1st January 2013: ₹400; ₹200 of which was received in 2013.

(b) Subscription paid in advance at 1st January 2013: ₹100

(c) Subscription paid in advance at 31st December 2013: ₹80

(d) Subscription for 2013 unpaid at 31st December 2013: ₹140

Prepare subscription account.

Solution:

Subscription Account

	(₹)		*(₹)*
To Balance b/d	400	By Balance b/d	100
To Income & Expenditure	3,000	**By Cash Received (Bal. fig.)**	**3,040**
To Balance (Paid in advance to 2013)	80	By Balance c/d (200 + 140)	340
	3,480		**3,480**
To Balance b/d		By Balance b/d	80
For 2012	200		
For 2013	140		

✎ ILLUSTRATION 14:

The Sports Club of Orissa had received in 2012–2013, ₹2,000 towards subscription.

Subscriptions for 2011–2012, unpaid on 1st April 2012, were ₹200.

Subscriptions paid in advance on 31st March 2012 were ₹50 and the same on 31st December 2013 was ₹40.

Subscriptions for 2012–2013 unpaid on 31st March 2013 were ₹90.

Show the subscriptions item that will appear in the income and expenditure account.

Solution:

	(₹)
Subscription Received during 2012–2013	2,000
Add: Subscription Outstanding on 31.03.2013	90
	2,090
Less: Subscription Outstanding on 01.04.2012	200
	1,890
Add: Subscription Paid in Advance on 31.03.2012	50
	1,940
Less: Subscription Received in Advance on 31.03.2013	40
Subscription Income for 2012 to 2013	**1,900**

✎ ILLUSTRATION 15:

On 31st December 2012, a club had subscription in arrears of ₹16,000 and in advance ₹4,000. During the year ended 31st December 2013, the club received subscription of ₹2,08,000; of which, ₹10,400 was related to 2014. On 31st December 2012, there were four members, who had not paid subscription for 2013 at ₹1,600 per person. Write up subscription account for the year 2013.

Solution:

A single subscription account should be prepared to reflect both advance and arrears figures. The balancing figure will reflect the subscription amount that will be recognised as income and transferred to income and expenditure account, as shown below:

Dr. **Subscription Account** **Cr.**

	(₹)		(₹)
To Balance b/d (Arrears)	16,000	By Balance b/d (Advance)	4,000
To I & E A/c (Income for 2013)	1,92,000	By R & P A/c (Received)	2,08,000
To Balance c/d (Advance)	10,400	By Balance c/d (Arrears)	6,400
	2,18,400		**2,18,400**

✎ ILLUSTRATION 16:

The receipts and payments for the Swaraj Club for the year ended 31st December 2012 were:

Entrance fees ₹300; Membership fees ₹3,000; Donation for club pavilion ₹10,000;

Foodstuff sales ₹1,200; Salaries and wages ₹1,200; Purchase of foodstuff ₹800;

Construction of club pavilion ₹11,000; General expenses ₹600; Rent and taxes ₹400;
Bank charges ₹160.
Cash in Hand, as on 1st January ₹200; 31st December ₹350;
Cash at Bank, as on 1st January ₹400; 31st December ?

Solution:

Swaraj Club
Receipts and Payments Account for the Year Ended 31.12.2012

Receipts	*(₹)*	*Payments*	*(₹)*
To Cash in Hand b/d	200	By Salaries and Wages	1,200
To Cash with Bank b/d	400	By Purchase of Foodstuff	800
To Entrance Fees	300	By Club Pavilion Construction	11,000
To Membership Fees	3,000	By General Expenses	600
To Donation for Club Pavilion	10,000	By Rent and Taxes	400
To Sale of Foodstuff	1,200	By Bank Charges	160
		By Cash in Hand c/d	350
		By Cash at Bank b/d – (Bal. fig)	**590**
	15,100		**15,100**

✎ ILLUSTRATION 17:

From the information given below, prepare receipts and payments accounts for the year ending 31st December 2006.

	(₹)		*(₹)*
Opening Balance:		Purchase of Books	10,000
Cash in Hand	1,650	Purchase of Sports Material	20,000
Cash in Bank	18,250	Purchase of Bicycle	2,000
Subscription	15,000	Sale of Investment	25,000
Entrance Fees	1,200	Life Membership Fees	4,000
Donation	18,000	Rent Paid	12,000
Salaries	16,000	Purchase of Development Bonds	10,000
Stationery	500	**Closing Balance:**	
Insurance Premium	800	Cash at Bank	20,000
Sale of old Furniture	1,540		
Interest on Securities	3,670		
Locker Rent	4,500		

Solution:

Receipts & Payments Account for the Year ending 31.12.2006

Receipts	*(₹)*	*Payments*	*(₹)*
To Balance b/d:		By Salaries	16,000
Cash in Hand	1,650	By Stationery	500
Cash at Bank	18,250	By Insurance Premium	800
To Entrance Fees	1,200	By Purchase of Books	10,000
To Donations	18,000	By Purchase of Sports Material	20,000
To Sale of Old Furniture	1,540	By Purchase of Bicycle	2,000
To Interest on Securities	3,670	By Rent paid	12,000
To Locker Rent	4,500	By Purchase of Development Bonds	10,000
To Sale of Investment	25,000	By Balance c/d	
To Subscription	15,000	**Cash in Hand (Bal. fig.)**	**1,510**
To Life Membership Fees	4,000	Cash at Bank	20,000
	92,810		**92,810**

✎ ILLUSTRATION 18:

From the information given below, prepare Receipts and Payments Account of Rising Sun Club for the year ended on 31st March 2006.

	(₹)	*(₹)*
Cash in Hand, as on 01.04.2005		9,800
Cash at Bank, as on 01.04.2005		17,600
Subscription:		
2004–05	7,500	
2005–06	28,600	
2006–07	6,400	42,500
Entrance Fees		4,000
Life Membership Fees		8,000
Donations		35,000
Sale of Old Bats and Balls		2,200
Printing & Stationery		2,500
Electricity Charges		3,600
Telephone Charges		4,200
Wages and Salaries		14,000

(Contd.)

Interest on Investments		2,000
Locker Rent		2,800
Purchase of Sports Material		20,000
Purchase of Government Securities		40,000
Cash in Hand, as on 31.03.2006		7,200
Cash at Bank, as on 31.03.2006		?

Solution:

Receipts & Payments Account for the Year Ended 31.12.2006

Receipts		*(₹)*	*Payments*		*(₹)*
To Balance b/d:			By Printing & Stationery		2,500
Cash in Hand		9,800			
Cash at Bank		17,600	By Electricity Charges		3,600
			By Telephone charges		4,200
To Subscription:			By Wages and Salaries		14,000
2004–05	7,500				
2005–06	28,600				
2006–07	6,400	42,500			
To Entrance Fees		4,000	By Purchase of Sports Material		20,000
To Life Membership Fees		8,000	By Purchase of Government Securities		40,000
To Interest on Investments		2,000	By Balance c/d:		
			Cash in Hand		7,200
To Locker Rent		2,800	**Cash at Bank (Bal. fig.)**		**32,400**
To Donations		35,000			
To Sale of Old Bats and Balls		2,200			
		1,23,900			**1,23,900**

✎ ILLUSTRATION 19:

Prepare Receipts and Payments Account of a club for the year ended 31st December 1999 from the following particulars.

	(₹)
Opening Balance of Cash	40,000
Rent Paid	1,200
Receipt of Entrance Fees	8,000
Payment for Purchase of Cricket Balls	500
Subscription Received for 1999	16,000
Previous Year's Subscription Received	1,600
Payment for Purchase of Cricket Bats	1,600
Salaries Paid	2,000
Payment for Stationery in Cash	100
Paid for Miscellaneous Expenses	200

Solution:

Receipts and Payments Account for the Year Ended 31.12.1999

Receipts	(₹)	(₹)	*Payments*	(₹)	(₹)
To Balance b/d		40,000	By Rent		1,200
To Entrance Fees		8,000	By CricketBalls		500
To Subscription:			By Cricket Bats		1,600
For 1999	16,000				
Add: For 1998	1,600	17,600			
			By Stationery		100
			By Salaries		2,000
			By Miscellaneous Expenses		200
			By Balance c/d (Bal. fig.)		**60,000**
		65,600			**65,600**

✎ ILLUSTRATION 20:

From the following particulars, prepare Receipts and Payments Account of National Club for the year ended 31st December 1997.

	(₹)
Cash in Hand and at Bank (01.01.1997)	2,700
Subscriptions for the Year	1,400
Subscriptions Received in Advance	50

(Contd.)

Purchase of Furniture	200
Printing & Stationery	100
Sundry Expenses	75
Annual Function – Sale of Tickets	600
Expenses of Annual Function	500
Grants to Charitable Societies	100
Salary of Staff	1,500
Interest on Bank Deposit	100

Solution:

Receipts and Payments Account of National Club

Dr. **for the Year Ended 31.12.1997** **Cr.**

Receipts	*(₹)*	*Payments*	*(₹)*
To Balance b/d	2,700	Purchase of Furniture	200
Subscriptions for the Year	1,400	Printing & Stationery	100
Subscriptions Received in Advance	50	Sundry Expenses	75
Annual Function – Sale of Tickets	600	Expenses of Annual Function	500
Interest on Bank Deposit	100	Grants to Charitable Societies	100
		Salary of Staff	1,500
		By Balance c/d (Bal. fig.)	**2,375**
	4,850		**4,850**

✎ ILLUSTRATION 21:

From the following particulars relating to Golden Point, prepare a Receipts and Payments Account for the year ending 31st March 2016.

	(₹)	*(₹)*		*(₹)*	*(₹)*
Opening Cash		1,000	Sale of Old Sports		1,200
Bank Balance		7,200	Materials		
Subscriptions Collected for:			Donation Received for Pavilion		4,600
2014–15	500		Rent Paid		3,000
2015–16	7,600				
2016–17	900	9,000			

(Contd.)

Sale of Refreshments		1,000	Sports Materials Purchased		4,800
Entrance Fees Received		1,000	Purchase of Refreshments		600
			Expenses for Maintenance of Tennis Court		2,000
			Salary Paid		2,500
			Tournament Expenses		2,400
			Furniture Purchased		1,500
			Office Expenses		1,200
			Closing Cash in Hand		400

Solution:

Books of Golden Point
Receipts and Payments for the Year Ending 31.03.2016

	(₹)	*(₹)*		*(₹)*	*(₹)*
To Balance b/d:			By Rent		3,000
Cash		1,000	By Sports Materials Purchased		4,800
Bank		7,200			
			By Purchase of Refreshments		600
To Subscriptions:			By Maintenance Expenses for Tennis Court		2,000
2014–15	500				
2015–16	7,600				
2016–17	900	9,000			
To Sale of Refreshments		1,000	By Salary Paid		2,500
To Entrance Fees		1,000	By Tournament Expenses		2,400
To Sale of Old Sports Materials		1,200	By Furniture Purchased		1,500
To Donation for Pavilion		4,600	By Office Expenses		1,200
			By Balance c/d:		
			Cash		400
			Bank (Bal. fig.)		**6,600**
		25,000			**25,000**

✎ ILLUSTRATION 22:

From the following particulars, prepare Receipts and Payments Account of State Club, for the year ended 31st December 1999.

	(₹)
Cash in Hand and at Bank (01.01.1998)	18,900
Subscriptions for the Year	9,800
Subscriptions Received in advance	350
Purchase of Furniture	1,400
Printing & Stationery	700
Sundry Expenses	525
Annual Function – Sale of Tickets	4,200
Expenses of Annual Function	3,500
Grants to Charitable Societies	700
Salary of Staff	10,500
Interest on Bank Deposit	700

Solution:

Receipts and Payments Account of State Club

Dr. **for the Year Ended 31.12.1999** **Cr.**

Receipts	(₹)	*Payments*	(₹)
To Balance b/d	18,900	Purchase of Furniture	1,400
Subscriptions for the Year	9,800	Printing & Stationery	700
Subscriptions Received in Advance	350	Sundry Expenses	525
Annual Function – Sale of Tickets	4,200	Expenses of Annual Function	3,500
Interest on Bank Deposit	700	Grants to Charitable Societies	700
		Salary of Staff	10,500
		By Balance c/d (Bal. fig.)	**16,625**
	33,950		**33,950**

✎ ILLUSTRATION 23:

From the following income and expenditure account and the balance sheet of a club, prepare Receipts and Payments Account and Subscription Account for the year ended 31st March 2013.

Income & Expenditure Account for the Year 2012–13

	(₹)		(₹)
To Upkeep of Ground	10,000	By Subscriptions	17,320
To Printing	1,000	By Sale of Newspapers (Old)	260
To Salaries	11,000	By Lectures	1,500
To Depreciation on Furniture	1,000	By Entrance Fee	1,300
To Rent	600	By Miscellaneous Income	400
		By Deficit	2,820
	23,600		**23,600**

Balance Sheet as on 31.03.2013

Liabilities	(₹)	(₹)	*Assets*	(₹)	(₹)
Subscription in Advance (2013–14)		100	Furniture		9,000
Prize Fund: Opening Balance	25,000		Ground and Building		47,000
Add: Interest	1,000		Prize Fund Investment		20,000
	26,000		Cash in Hand		2,300
Less: Prizes	2,000	24,000	Subscription (2012–13)		700
General Fund:					
Opening Balance	56,420				
Less: Deficit	2,820				
	53,600				
Add: Entrance Fee	1,300	54,900			
		79,000			**79,000**

The following adjustments have been made in the above accounts:

(a) Upkeep of ground ₹600 and printing ₹240 relating to 2011–12 were paid in 2012–13.

(b) One-half of entrance fee has been capitalised by transfer to general fund.

(c) Subscriptions outstanding in 2011–12 were ₹800 and for 2012–13 ₹700.

(d) Subscriptions received in advance in 2011–12 were ₹200 and in 2012–13 for 2013–14 ₹100.

Solution:

Receipts and Payments Account for the Year Ending 31.03. 2013

Receipts	*(₹)*	*Payments*	*(₹)*
To Balance b/d (Bal. fig.)	**4,660**	By Upkeep of Ground (10,000 + 600)	10,600
To Subscription	17,320	By Printing (1,000 + 240)	1,240
To Interest on Prize Fund Investments	1,000	By Salaries	11,000
To Lecture Fee	1,500	By Rent	600
To Entrance Fee	2,600	By Prizes	2,000
To Sale of Newspapers (Old)	260	By Balance c/d	2,300
To Miscellaneous Income	400		
	27,740		**27,740**

Working Note: ₹600 paid for upkeep of ground for 2011–12 and ₹240 paid for printing have been added to the amount shown as expenditure for the year, to arrive at total payment under these heads.

Subscription Account

2012		*(₹)*	*2012*		*(₹)*
April	To Subscription outstanding (2011–12)	800	April	**By Cash (Bal. fig.)**	**17,320**
	To Subscription in Advance (2013–14)	100		By Subscription Outstanding (2012–13)	700
				By Subscription in Advance (2011–12)	200
2013 March	To Income & Expenditure A/c	17,320			
		18,220			**18,220**

✎ ILLUSTRATION 24:

Orissa Club has kept its accounts on cash basis and the figures for 2010 are given below. You are required to prepare Receipts and Payments Account for the year.

	(₹)		(₹)
Entrance Fees Received	2,500	Secretary's Honorarium	1,500
Subscriptions Received	19,800	Cash in Hand (at 01.01.2010)	2,350
Green Fees Received	600	Locker Rent Received	500
Expenses Paid	27,250	Investment Purchased during the year	1,100
Membership fees	7,500		

Solution:

Orissa Club
Receipts and Payments Account for the year 2010

Receipts	(₹)	*Payments*	(₹)
To Balance b/d	2,350	By Expenses	27,250
To Entrance Fees	2,500	By Secretary's Honorarium	1,500
To Subscriptions	19,800	By Investment	1,100
To Green Fees	600	**By Balance c/d – (Bal. fig.)**	**3,400**
To Locker Rent	500		
To Membership fees	7,500		
	33,250		**33,250**

✎ ILLUSTRATION 25:

From the following particulars, prepare Income and Expenditure Account of the Fine Arts Club, for the year ended 31st December 2009.

	(₹)
Subscriptions Received for 2009	42,000
Entrance Fees Received for 2009	3,000
Subscriptions & Entrance Fees for 2008 (Estimated ₹600) Realised	1,120
Subscriptions and Entrance Fees for 2010	6,200
Subscriptions for 2009 to be taken at (due ₹8,000)	4,000
Miscellaneous Fees	8,400
Expenses for 2009 Paid	32,000
Expenses Unpaid	920
Liabilities for 2009 Paid (Estimated ₹2,800)	2,400
Audit Fees for 2009 Not Paid	800
Profit on Service Account Net	9,200

(Contd.)

Interest on Loans Paid	1,280
Capital Expenditure Written off	4,800
Surplus from 2008 Account	16,000
Capital Expenditure in 2009	8,480

Provide for Depreciation ₹2,720 for this Year.

Solution:

Fine Arts Club
Income and Expenditure Account for the Year Ended 31.12.2009

Expenditure	*(₹)*	*Income*	*(₹)*
To Expenses (32,000 + 920)	32,920	By Subscription and Entrance Fees (42,000 + 3,000 + 4,000 + 520)	49,520
To Audit Fees	800	By Miscellaneous Fees	8,400
To Interest on Loans	1,280	By Liabilities Provided in Excess last year (2,800 – 2,400)	400
To Capital Expenditure (written off)	4,800	By Profit on Service Account	9,200
To Depreciation	2,720		
To Surplus (Bal. fig.)	**25,000**		
	67,520		**67,520**

✎ ILLUSTRATION 26:

The following is the Receipts and Payments Account of Kandan Recreation Club for the year ended 31st March 2002.

Receipts	*(₹)*	*(₹)*	*Payments*	*(₹)*	*(₹)*
To Balance b/d		7,000	By Salaries		28,000
To Subscriptions:			By General Expenses		6,000
2000–2001	5,000				
2001–2002	20,000				
2002–2003	4,000	29,000			
To Rent for use of Conference Room		14,000	By Electricity		4,000
To Receipts from Entertainment		28,000	By Books Purchased		10,000

(Contd.)

To Sale of Old Magazines		2,000	By Periodicals Purchased		8,000
			By Loan Repaid		20,000
			By Balance c/d		4,000
		80,000			**80,000**

Additional Information:

(a) The club has 50 members, each paying ₹500 per annum as subscription;

(b) Subscriptions outstanding on 31st March 2002: ₹6,000;

(c) Salaries outstanding ₹2,000. Salaries paid include ₹6,000 for 2000–2001;

(d) On 01.04.2001, the Club properties were: Building ₹2,00,000, Furniture & Fittings ₹20,000, and Books ₹20,000;

(e) Provide 10% depreciation on Building and Furniture.

Prepare Income and Expenditure Account for the year ending 31st March 2002 and a balance sheet on the date.

Solution:

Income and Expenditure Account

Expenditure	*(₹)*	*(₹)*	*Income*	*(₹)*	*(₹)*
To Salaries	28,000		By Subscriptions Received for 2001–02	20,000	
Add: Outstanding	2,000		Add: Outstanding for 2001–02 (500 × 50 – 20,000)	5,000	25,000
	30,000				
Less: Salary of Previous Year Paid	6,000	24,000	By Rent of Conference Room		14,000
To General Expenses		6,000	By Income from: Entertainment Facilities		28,000
			Magazines		2,000
To Electricity		4,000			
To Periodicals		8,000			
To Depreciation:					
On Buildings 20,000 × 10%	2,000				
On Furniture 2,00,000 × 10%	20,000	22,000			

(Contd.)

To Surplus – Excess of Income over Expenditure		**5,000**			
		69,000			**69,000**

Balance Sheet of Kandan Recreation Club as on 31.03.2002

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Salaries Outstanding		2,000	Cash in Hand		4,000
Subscriptions Received in Advance for 2002–03		4,000	Outstanding Subscription: For 2000–2001 (6,000 – 5,000)	1,000	
Capital Fund on 01.04.2001 (W.N.)	2,27,000		For 2001–2002	5,000	6,000
Add: Surplus for the Year	5,000	2,32,000	Books	20,000	
			Add: Purchase during the Year	10,000	30,000
			Furniture	20,000	
			Less: Depreciation	2,000	18,000
			Buildings	2,00,000	
			Less: Depreciation	20,000	1,80,000
		2,38,000			**2,38,000**

Working Note for Capital Fund as on 1st April 2001:

Balance Sheet as on 31.03.2001

Liabilities	*(₹)*	*Assets*	*(₹)*
Salaries Outstanding	6,000	Cash in Hand	7,000
Loan	20,000	Subscriptions Outstanding (5,000 + 1,000)	6,000
Capital Fund (Bal. fig.)	**2,27,000**	Books	20,000
		Furniture & Fittings	20,000
		Building	2,00,000
	2,53,000		**2,53,000**

✎ ILLUSTRATION 27:

From the receipt and payment account given below, prepare the income and expenditure account of Clean Covai Club for the year ended 31st March 2015.

Dr. Receipt and Payment Account for the Year Ending 31.03.2015 Cr.

Receipts	*(₹)*	*(₹)*	*Payments*	*(₹)*	*(₹)*
Balance b/d (Cash in Hand)		3,200	Salary		1,500
Subscriptions		22,500	Rent		800
Entrance Fees		1,250	Electricity		3,500
Donations		2,500	Taxes		1,700
Rent of Hall		750	Printing and Stationery		380
Sale of Investments		3,000	Sundry Expenses		920
			Books Purchased		7,500
			Govt. Bonds Purchased		10,000
			Fixed Deposit with Bank (on 31.03.2014)		5,000
			Balance c/d:		
			Cash in Hand	400	
			Cash at Bank	1,500	1,900
		33,200			**33,200**

Solution:

Books of Clean Covai Club

Dr. Income and Expenditure Account for the Year Ending 31.03.2015 Cr.

Expenditure	*(₹)*	*Income*	*(₹)*
To Salary	1,500	By Subscriptions	22,500
To Rent	800	By Entrance Fees	1,250
To Electricity	3,500	By Donation	2,500
To Taxes	1,700	By Rent of Hall	750
To Printing & Stationery	380		
To Sundry Expenses	920		
To Surplus (Excess of Income over Expenditure) (Bal. fig.)	**18,200**		
	27,000		**27,000**

✎ ILLUSTRATION 28:

From the following Receipt and Payment Account for the year ending 31st March 2014 of Recreation Club, prepare Income and Expenditure Account for the same period.

Dr. Receipt and Payment Account for the Year Ending 31.03.2014 Cr.

Expenditure	*(₹)*	*(₹)*	*Income*	*(₹)*	*(₹)*
Balance c/ d Bank		25,000	Purchase of Furniture (01.07.2013)		5,000
Subscriptions:			Salaries		2,000
2013	1,500				
2014	10,000				
2015	500	12,000			
Donation		2,000	Telephone Expenses		300
Hall Rent		300	Electricity Charges		600
Interest on Bank Deposits		450	Postage and Stationery		150
Entrance Fees		1,000	Purchase of Books		2,500
			Entertainment Expenses		900
			Purchase of 5% Government Papers (01.07.2014)		8,000
			Miscellaneous Expenses		600
			Balance c/ d:		
			Cash	300	
			Bank	20,400	20,700
		40,750			**40,750**

The following additional information is available:

(a) Salaries outstanding: ₹1,500;

(b) Entertainment expenses outstanding: ₹500;

(c) Bank interest receivable: ₹150;

(d) Subscriptions accrued: ₹400;

(e) 50 % of entrance fees is to be capitalised;

(f) Furniture is to be depreciated at 10% per annum.

Solution:

Books of Recreation Club
Income and Expenditure Account
for the Year Ending 31.03.2015

Dr. **Cr.**

Expenditure	*(₹)*	*(₹)*	*Income*	*(₹)*	*(₹)*
To Salaries	2,000		By Subscriptions		10,400
Add: Outstanding	1,500	3,500	By Donation		2,000
To Telephone Expenses		300	By Entrance Fees (50% of ₹1,000)		500
To Electricity Charges		600	By Bank Interest	450	
To Postage and Stationery		150	Add: Outstanding interest	150	600
To Entertainment Expenses	900		By Interest on Investment		200
Add: Outstanding Expenses	500	1,400	By Hall Rent		300
To Miscellaneous Expenses		600			
To Depreciation on Furniture		375			
To Surplus (Excess of Income over Expenditure) (Bal. fig.)		**7,075**			
		14,000			**14,000**

✎ ILLUSTRATION 29:

From the following receipt and payment account and additional information relating to Citizen Cricket Club, prepare Income and Expenditure Account for the year ended 31st March 2017 and balance sheet, as on date.

Dr. **Cr.**

Receipts	*(₹)*	*Payments*	*(₹)*
Balance b/d (Cash in Hand)	18,000	Balance b/d (Bank Overdraft)	16,000
Member's Subscriptions	2,50,000	Upkeep of Field and Pavilion	1,15,000
Member's Admission Fee	15,000	Tournament Expenses	40,000
Sale of Old Sports Materials	2,500	Rates and Insurance	10,000

(Contd.)

Hire of Ground	28,000	Telephone	3,500
Subscription for Tournament	60,000	Postage and Courier Charges	4,000
Life Membership Fee	20,000	Printing and Stationery	26,000
Donations	6,00,000	Miscellaneous Expenses	4,400
		Secretary's Honorarium	30,000
		Grass Seeds	2,600
		Investments	6,00,000
		Purchase of Sports Materials	68,000
		Balance c/d	74,000
	9,93,500		**9,93,500**

Assets at the beginning of the year were:

	(₹)
Playground	5,00,000
Cash in Hand	18,000
Stock of Sports Materials	85,000
Printing and Stationery	11,000
Subscriptions Receivable	28,000

Donations and surplus on account of tournament are to be kept in reserve for a permanent pavilion. Subscriptions due on 31st March 2017 were ₹42,000. Write-off 50% of sports materials and 30% of printing and stationery.

Solution:

Books of Citizen Cricket Club

Dr. Income and Expenditure Account for the Year Ending 31.03.2017 Cr.

Expenditure	*(₹)*	*(₹)*	*Income*	*(₹)*	*(₹)*
To Upkeep of Field and Pavilion		1,15,000	By Subscriptions	2,50,000	
To Rates and Insurance		10,000	Outstanding (Closing)	42,000	
To Telephone		3,500		2,92,000	
To Postage and Courier Charges		4,000	Less: Outstanding (Opening)	28,000	2,64,000
To Printing & Stationery	26,000		By Admission Fees		15,000

(Contd.)

Add: Opening Stock	11,000		By Sale of Old Sports Material		2,500
Available for Use	37,000		By Rent of Hall		28,000
Less: Closing Stock	25,900	11,100			
To Stationery Consumed		4,400			
To Miscellaneous Expenses		30,000			
To Secretary's Honorarium		2,600			
To Grass Seeds Sports Materials Consumed:					
To Opening stock	85,000				
Add: Purchases	68,000				
	1,53,000				
Less: Closing Stock	76,500	76,500			
To Surplus (Excess of Income over Expenditure) (Bal. fig.)		**52,400**			
		3,09,500			**3,09,500**

Balance Sheet of Citizen Cricket Club as on 31.03. 2017

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital Fund	6,26,000		Cash in Hand		74,000
Add: Surplus	52,400		Outstanding Subscriptions		42,000
	6,78,400		Stock of Sports Materials		76,500
Add: Life Membership fee	20,000	6,98,400	Stock of Printing & Stationery		25,900
Pavilion Fund:			Investments		6,00,000
Surplus from Tournament			Playground		5,00,000
(₹60,000 – 40,000)	20,000				
Add: Donation	6,00,000	6,20,000			
		13,18,400			**13,18,400**

Balance Sheet of Citizen Cricket Club as on 31.03.2016

Liabilities	*(₹)*	*Assets*	*(₹)*
Bank Overdraft	16,000	Cash in Hand	18,000
Capital/General Fund (Bal. fig.)	**6,26,000**	Outstanding Subscription	28,000
		Stock of Sports Materials	85,000
		Printing and Stationery	11,000
		Playground	5,00,000
	6,42,000		**6,42,000**

✎ ILLUSTRATION 30:

Following is the receipts and payments account of an entertainment club for the year ending 31st December 1999:

Receipts	*(₹)*	*Assets*	*(₹)*
To Balance b/d	3,000	By Expenses	200
To Subscriptions		By Salaries	1,200
1998	100		
1999	4,000		
2000	160		
To Sale of Music Concert Tickets	2,100	By Music Concert Expenses	1,000
To Donations	1,100	By Newspaper	240
To Sale of Old Newspaper	100	By Municipal Taxes	120
To Entrance Fees	600	By Investments	4,000
		By Charity	800
		By Electricity	400
		By Purchase of Furniture	2,000
		By Balance c/d	1,200
	11,160		**11,160**

Additional Information:

(a) Municipal taxes amounting to ₹120 per annum paid upto 31st March 2000;

(b) There are members, each paying ₹10 as annual subscriptions;

(c) Subscriptions still outstanding for 1998 ₹120;

(d) Interest on investment has accrued for five month at 6%;

(e) The book value of building on 1st January 1999 ₹10,000.

Solution:

Income and Expenditure Account of Club for the Year Ended 31.12.1999

Expenditure	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
To Expenses		200	By Subscriptions		4,000
To Salaries		1,200	By Donations		1,100
To Music Concert Expenses		1,000	By Sale of Music Concert Tickets		2,100
To Newspapers		240	By Sale of Old Newspaper		100
To Municipal Taxes	120		By Accrued Interest on Investment		100
Less: Prepaid (120 × 3/12)	30	90	(4,000 × 6/100 × 5/12)		
To Charity		800			
To Electricity		400			
To Surplus (Excess of Income Over Expenditure) – (Bal. fig.)		**3,470**			
		7,400			7,400

Balance Sheet of Club as on 31.12. 1999

Assets	*(₹)*	*(₹)*	*Liabilities*	*(₹)*	*(₹)*
Capital Fund	13,220		Building		10,000
Add: Entrance Fees	600				
Surplus	3,470	17,290			
Subscription Received in Advance for 2000		160	Furniture		2,000
			Investments		4,000
			Cash in Hand		1,200
			Accrued Interest on Investment		100
			Subscription Outstanding for 1998		120
			Municipal Taxes Prepaid		30
		17,450			**17,450**

Workings Notes:

1. As the amount of donations is small, it is assumed that it is recurring in nature and shown in the income and expenditure account.
2. To find the opening capital fund, opening balance sheet is to be prepared.

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital Fund (Bal. fig.)	**13,220**	Building	10,000
		Cash in Hand	3,000
		Subscription Outstanding for 1998 (100 + 120)	220
	13,220		13,220

✎ ILLUSTRATION 31:

Prepare an Income and Expenditure Account of a college and the balance sheet for the year ended 31st March 1992 from the following:

Solution:

Receipt and Payments Account for the Year Ended 31.03.1992

	(₹)		*(₹)*
To Cash on 01.01.1991	20,000	By Pay & Allowances	70,500
To Tuition Fees	59,000	By Provident Fund Contribution	5,540
To Fines	1,000	By Printing & Stationery	700
To Grants from State Government	30,000	By Books for Library	4,600
To Interest on Securities	300	By Postage & Telegrams	500
To Rent from use of Hall	1,000	By Newspaper	300
		By Science Equipment	480
		By Laboratory Expenses	500
		By Construction of New Building	4,700
		By Repairs and Maintenance	600
		By Audit Fees	300
		By General Charges	580
		By Cash on 31.03.1992	22,000
	1,11,300		**1,11,300**

The college had the following assets on 31.03.1992:
Furniture ₹35,000; Land & Buildings ₹1,60,000; Library Books ₹24,000; Investments ₹10,000; and Outstanding tuition fees ₹2,200.
Provide for depreciation on the closing balances of the following assets: Land & Buildings at 5%; Furniture at 15%; Library Books at 20%.

Solution:

Income and Expenditure Account of College for the Year Ended 31.03.1992

Expenditure	*(₹)*	*Income*	*(₹)*
To Pay & Allowances	70,500	By Tuition Fees	59,000
To Provident Fund Contribution	5,540	By Fines	1,000
To Printing & Stationery	700	By Grants from State Government	30,000
To Postage and Telegrams	500	By Interest on Securities	300
To Newspapers	300	By Rent from use of Hall	1,000
To Laboratory Expenses	500	**By Deficit (Excess of expenditure over income) (Bal. fig.)**	**7,425**
To Repairs and Maintenance	600		
To Audit Fees	300		
To General Charges	580		
To Depreciation			
Land & Building 5% of (1,60,000 + 4,700)	8,235		
Furniture 15% of 35,000	5,250		
Library Books 20% of (24,000 + 4,600)	5,720		
	98,725		**98,725**

Balance Sheet of College as on 31.03.1992

Liabilities	*(₹)*	*(₹)*	*Assets*	*(₹)*	*(₹)*
Capital Fund	2,51,200		Cash		22,000
Less: Deficit	7,425	2,43,775	Furniture	35,000	
			Less: Depreciation	5,250	29,750
			Land & Building	1,60,000	
			Add: Additions	4,700	

(Contd.)

				1,64,700	
			Less: Depreciation	8,235	1,56,465
			Library Books	24,000	
			Add: Additions	4,600	
				28,600	
			Less: Depreciation	5,720	22,880
			Science Equipment		480
			Investments		10,000
			Outstanding Tuition Fees		2,200
		2,43,775			**2,43,775**

Working Notes:
To find the opening capital fund, a balance sheet with the opening balance of assets and liabilities is to be prepared.

Balance Sheet of College as on 31.03.1992

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital Fund (Bal. fig.)	**2,51,200**	Furniture	35,000
		Land & Building	1,60,000
		Library	24,000
		Investments	10,000
		Cash	20,000
		Outstanding Tuition Fees	2,200
	2,51,200		**2,51,200**

✎ ILLUSTRATION 32:

Extracts of receipt and payment account for the year ended 31st March 2015 are given below:

Receipt Subscriptions	*(₹)*
2013–14	2,500
2014–15	26,750
2015–16	1,000
	30,250

Additional Information:

(a) Total number of members: 230.

(b) Annual membership fee: ₹125.

(c) Subscriptions outstanding on April 1, 2013: ₹2,750.

Prepare a statement showing all relevant items of subscription: Income, Advance, Outstanding, etc.

Solution:

Amount of subscription due for the year 2014–15, irrespective of cash: ₹28,750 (₹125 × ₹230)

	(₹)
Subscriptions Received, as per Receipts and Payments Account	30,250
Add: Subscriptions Outstanding on 31.03.2014	2,250
Add: Subscriptions Received in Advance on 01.04.2013	NIL
	32,500
Less: Subscriptions Outstanding on 01.04.2013	2,750
	29,750
Less: Subscriptions Received in Advance on 31.03.2014	1,000
Income from Subscription for the year 2014–15 (125 × 230)	**28,750**

Note: The amount of subscriptions outstanding, as on 1st April 2014, has been ascertained as follows:

	(₹)	*(₹)*
Outstanding, as on 01.04.2014	2,750	
Less: Received for 2013–14	2,500	250
Due for 2014–15 (125 × 230)	28,750	
Less: Received for 2014–15	26,750	2,000
Outstanding, as on 31.03.2015		**2,250**

■ *Theory Questions* ■

Short-Answer Questions

1. What do you understand by Non-profit Organisation?

2. What is a Receipts and Payments Account?

3. What is an Income and Expenditure Account?

4. Write a short note on Membership Fees.

5. What is a Donation? State the types of donations.

6. Write short Notes on: (a) Legacy (b) Endowment Fund (c) Capital Fund.

Long-Answer Questions

1. Distinguish between Receipts and Payments Account and Income and Expenditure Account.

2. State the features of Receipts and Payments Account.

3. What are the features of Income and Expenditure Account?

■ *Exercise Problems* ■

1. Find out the actual expenses chargeable to income and expenditure account for the year ended 2014,

	(₹)
Expenses Actually paid	3,250
Prepaid Expenses on 31.03.2003	300
Prepaid Expenses on 31.12.2004	400
Outstanding Expenses on 31.12.2003	450
Outstanding Expenses on 31.12.2004	500

[Ans: Amount to be shown in Income & Expenditure A/c: ₹3,200 (3,250 + 300 + 500 – 400 – 450)]

2. From the following particulars, find out the amount of rent that needs to be shown in income and expenditure account.

	(₹)
Outstanding Rent at the Beginning of the Year (as on 01.04.2013)	6,000
Amount as shown in the Receipt and Payment Account	26,000
Outstanding Rent at the End of the Year 31.3.2014	4,000

[Ans: Amount to be shown Income & Expenditure A/c: ₹24,000]

3. From the following particulars, find out the amount of subscription that needs to be shown in the income and expenditure account.

	(₹)
Outstanding Subscription at the Beginning of the Year (as on 01.04.2015)	42,000
Amount, as shown in the Receipt and the Payment Account	1,82,000
Outstanding Subscription at the End of the Year 31.3.2016	28,000

[Ans: Amount to be shown Income & Expenditure A/c: ₹1,68,000]

4. Subscription for the year 2000 received was ₹15,000. This includes ₹1,500 for the year 1999. Subscription outstanding for the year 2000 was ₹5,000. How much is credited to Income and Expenditure Account for the year 2000.

(November 2005: 21601/ZZ1G/ZZ1E/SY1C/PK3B/SDEM)

[Ans: Amount to be credited in Income & Expenditure A/c: ₹18,500]

5. Calculate the amount of subscription income for the year 2007.

	₹
Subscription received during the year 2007	12,000
Subscription received in advance for 2008	1,400
Subscription outstanding at the beginning of 2007	1,600
Subscription outstanding at the closing of 2007	700

Calculate the amount of subscription at the closing of 2007.

[Ans: Amount of Subscription ₹9,700]

6. How will the following appear in the final accounts of Madurai sports club?

	₹
Sale of Old Sports Materials during 2005	4,900
Stock of Sports Materials on 31.12.2005	29,400
Stock of Sports Materials on 01.01.2005	1,47,000
Sports Material Purchased during 2005	4,16,500

[Ans: Sale of Old Sports Material: ₹4,900 (Cr. Side of Income and Expenditure A/c) Sports Material to be shown on the Dr. Side of Income and Expenditure A/c: ₹5,34,100 Stock of Sports Material to be shown in Balance Sheet: ₹29,400]

7. How will the following appear in the final accounts of Trichy sports Club?

	₹
Stock of sports materials on 1.1.09	13,000
Sports material purchased during 2009	8,500
Sale of old sports material during 2009	100
Stock of sports materials on 31.12.2009	600

(December 2016: U/ID 22201/UCZA/ UCWA/UCYA/UCXB/URMA/UCVB)

[Ans: Sale of Old Sports Material: ₹100 (Cr. Side of Income and Expenditure A/c) Sports Material to be shown on the Dr. Side of Income and Expenditure A/c: ₹20,900 Stock of Sports Material to be Shown in Balance Sheet: ₹600]

8. From the following information, find out the amount to be taken to income and expenditure account for the year ending 31st March 2015.

	As on 01.04.2016 (₹)	*As on 31.12.2017 (₹)*
Opening Stock	33,600	16,800
Creditors for Stationery	10,080	25,200
Amount Paid to Creditors for Stationery	—	1,68,000

[Ans: Amount to be shown in Income and Expenditure A/c: ₹1,99,920]

9. Find out the amount of salaries to be debited to income and expenditure account for 2009, from the details given below.

	₹
Payment made for Salaries during 2009	48,000
Outstanding Salary, as on 31.12.2008	2,000
Outstanding Salary, as on 31.12.2009	3,200
Prepaid Salary, as on 31.12.2008	1,200
Prepaid Salary, as on 31.12.2009	1,600

(Nov. 2013, BPZ1A/BPF1A/BPW1A/ BPG1A/BPC1A/MAM1A/SBAMK) (April 2013 60501/BYA1A)

[Ans: Net Salaries to be shown on the debit side of Income and Expenditure Account: ₹48,800 (48,000 + 3,200 + 1,200 – 2,000 – 1,600)]

10. From the following details, ascertain the amount of subscription for the year 2009:

Subscription received in 2009 ₹48,000, which includes ₹4,000 for 2008 and ₹8,000 for 2010.

Subscription due but not received at the end of the year 2009 was ₹20,000. Subscription received in 2008 in advance for 2009 was ₹12,000.

(April 2013 60101/BPZ1A/BPW1A/ BPF1A/MAM1A/SBAMK/ BPC1A/BPG1A)

[Ans: Subscriptions to be shown in Income & Expenditure A/c: ₹68,000 (48,000 + 20,000 + 12,000 – 4,000 – 8,000)]

11. How will the following appear in the expenditure side?

	₹
Stock of Sports Materials on 01.01.1999	3,000
Sport Materials Purchased during 1999	8,500
Stock of Sports Materials on 31.12.99	600

(Nov. 2012 60101/BPZ1A/BPW1A/ BPF1A/MAM1A/SBAMK/BPC1A/BPG1A)

[Ans: Sports Material to be shown on the Dr. Side of Income and Expenditure A/c: ₹10,900]

12. How will the following appear in income and expenditure account of sports club for the year 31st December 1999 and in the balance sheet on that date?

	₹
Stock of Sports Materials 01.01.1999	800
Stock of Sports Materials 31.12.1999	1,200
Purchases of Sports Materials during the Year 1999	5,000
Sale of Old Sports Material during the Year 1999	300

(April 2016 60101/BPZ1A/BPW1A/ BPF1A/MAM1A/SBAMK/BPC1A/BPG1A/BPM1A)

[Ans: Sale of Old Sports Material: ₹300
(Cr. Side of Income and Expenditure A/c)
Sports Material to be shown on the Dr.
Side of Income and Expenditure A/c: ₹4,600
Stock of Sports Material to be shown in Balance Sheet: ₹1,200]

13. Calculate what amount will be posted to income and expenditure account for stationery from the following data:

Stock of stationery on 01.01.2009,	₹300
Advance paid for stationery on 31.12.2008	₹20
Amount paid for stationery in 2009	₹1,080
Stock of stationery on 31.12.2009	₹50
Creditors for stationery on 31.12.2009	₹130
Advance paid for stationery on 31.12.2009	₹30
Creditors for stationery on 01.01.2009	₹200

(April 2015 60501/BYA1A)

[Ans: Stationery amount to be shown in
Income & Expenditure A/c: ₹1,250]

14. Calculate subscription income for the year 2008 from the following details:

Subscription received during 2008 was ₹24,000. It includes subscription for 2007 ₹2,000 and 2009 ₹4,000.

Subscription to be received for 2008 but unpaid was ₹10,000.

Subscription received in advance in 2007 for 2008 was ₹6,000.

(Nov. 2014 60501/BYA1A)

[Ans: Subscription Income for the year 2008: ₹34,000]

15. Compute the expenditure to be shown in income and expenditure account from the following:

Sports materials purchased for cash ₹20,000;

Opening stock of sports materials ₹5,000;

Closing stock of sports materials ₹8,000;

Opening creditors for sports materials ₹7,000;

Cash paid to creditors for sports materials ₹22,000;

Closing creditors for sports materials ₹6,000.

(April 2014 60501/BYA1A)

[Ans: Amount to be shown in
Income and Expenditure A/c: ₹38,000]

Receipts and Payments

16. Prepare Receipts and Payments Account of a Club for the year ended 31st December 1999 from the following particulars.

	₹
Opening Balance of Cash	4,00,000
Receipt of Entrance Fees	8,000
Subscription Received for 1999	16,000
Previous Year's Subscription Received	1,600
Paid Salaries	2,000
Paid for Miscellaneous Expenses	200
Rent Paid	1,200
Payment for Purchase of Cricket Balls	500
Payment for Purchase of Cricket Bats	1,600
Payment for Stationery in Cash	100

(Nov. 2012 60101/BPZ1A/BPW1A/BPF1A/MAM1A/SBAMK/ BPC1A/BPG1A)/(April 2014 60101/BPZ1A/BPW1A/BPF1A/ MAM1A/SBAMK/BPC1A/BPG1A)

[Ans: Closing Cash Balance: ₹4,20,000]

17. From the following particulars taken from the Cash Book of a Club, prepare a Receipts and Payment Accounts.

Opening Balance:	
Cash in Hand	100
Cash in Bank	500
Subscriptions received	3,300
Donations received	260
Investment Purchased	1,000
Rent paid	400
Postage and Stationery	70
Sundry Expenses	30
Closing Cash Balance	20

(Alagappa University/April 2011/AFN1417/BCS 231)

[Ans: Closing Bank Balance: ₹2,640]

18. From the following details, prepare Receipts and Payments Account.

	₹
Opening Cash in hand	500
Opening Bank balance	4,800
Furniture Purchased	2,000
Tournament Expenses	3,000
Subscription Collected	11,000
Entertainment Expenses	1,500
Entrance Fees received	1,000
Periodicals Purchased	1,200
Salary paid	3,000
Miscellaneous Expenses	300
Rent paid	1,200
Cash in hand at the end	800

(April 2015 60101/BPZ1A/BPW1A/ BPF1A/MAM1A/SBAMK/BPC1A/BPG1A/BPM1A)

[Ans: Closing Balance: ₹4,300
Total Receipts side: ₹17,300
Total Payments side: 13,000]

19. From the following particulars, prepare Receipts and Payment Account.

	₹
Cash in Hand	10,000
Cash at Bank	50,000
Investments purchased	1,00,000
General Expenses	21,000
Sundry Expenses	3,000
Subscription received	3,30,000
Donation received	26,000
Rent paid	40,000
Postage and stationery	7,000
Cash Balance at end	2,000

(November 2013: 60501/BYA1A)

[Ans: Closing Bank Balance: ₹2,43,000]

20. From the following particulars, prepare a Receipts and Payments Account.

	₹		₹
Cash in Hand	2,000	Rent paid	8,000
Cash at Bank	10,000	General expenses	4,200
Subscription received	66,000	Postage and Stationery	1,400
Donation received	5,200	Sundry expenses	600
Investments purchased	20,000	Cash balance at Close	400

(November 2016: 60521/BYA1C/CYA1A)

[Ans: Closing Bank Balance: ₹48,600]

21. From the following particulars, prepare Receipts and Payments Account of International Club for the year ending 31.12.2002.

	₹
Cash in hand and at bank (1.1.2002)	5,400
Subscriptions for the year	2,800
Subscriptions received in advance	100
Purchase of furniture	400
Printing & stationary	200
Sundry expenses	150
Annual function – Sale of tickets	1,200
Expenses of annual function	1,000
Grants to charitable societies	200
Salary of staff	3,000
Interest on bank deposit	200

[Ans: Closing Cash Balance: 4,750]

22. From the following particulars, prepare Receipts and Payments Account of Madurai Sports Club for the year ending 31.12.2008.

	₹		₹
Cash in Hand (Opening)	100	Rent paid	400
Cash at Bank (Opening)	500	General Expenses	210
Subscription received	3,300	Postal and Stationery Expenses	70
Donation received	260	Miscellaneous Expenses	30
Investment purchased	1,000	Cash (Closing Balance)	20

(November 2015 60521/BYA1C/CYA1A)

[Ans: Closing Cash Balance: ₹2,430]

23. From the following particulars relating to Silver Point, prepare a Receipt and Payment Account for the year ending 31st March 2014.

	(₹)	(₹)			(₹)
Opening Cash Balance		7,000	Sports Material Purchased for Cash		8,400
Opening Bank Balance		50,400	Donation Received for Pavilion		32,200
Subscriptions Collected for:			Rent paid		21,000
2012–13	3,500				
2013–14	53,200				
2014–15	6,300	63,000			
Sale of Refreshments		7,000	Sports Materials Purchased		33,600
Entrance Fees Received		7,000	Purchase of refreshments		4,200
Expenses for Maintenance of Tennis Court		14,000	Purchase of Stationery		10,500
Salary Paid		17,500	Office Expenses		8,400
Tournament Expenses		16,800	Closing Cash in Hand		2,800

[Ans: Closing Bank Balance = Receipts and Payments: ₹46,200)

Income and Expenditure Account

24. From the following particulars, prepare Income and Expenditure Account.

Fees collected (including ₹80,000 on account of last year) ₹5,20,000

Fees for the year outstanding ₹30,000

Salary paid (including ₹5,000 on account of last year) ₹68,000

Salary outstanding at the end of year ₹3,000

Entertainment expenses ₹8,000

Tournament expenses ₹25,000

Meeting expenses ₹18,000

Travelling and conveyance ₹7,000

Purchase of books and periodicals (includes ₹31,000 for purchase of books) ₹40,000

Rent ₹15,000

Postage, telephone and telegram ₹6,000

Printing and stationery ₹18,000

Donations received ₹25,000

(Nov. 2014 60101/BPZ1A/BPW1A/BPF1A/ MAM1A/SBAMK/BPC1A/BPG1A)
[Ans: Excess of Income Over Expenditure: ₹2,98,000]

25. From the following particulars, prepare Income and Expenditure Account.

Fee collected, including ₹80,000 on account of previous year ₹3,80,000

Fee outstanding for Current year ₹10,000

Salary paid, including ₹3,000 on account of previous year ₹28,000

Salary outstanding at end of the year ₹1,000

Entertainment expenses ₹3,000

Tournament expenses ₹12,000

Meeting expenses ₹18,000

Travelling expenses ₹6,000

Purchase of Books and Periodicals (including ₹19,000 for purchase of books) ₹29,000

Rent ₹10,000

Postage ₹15,000

Printing and Stationery ₹4,000

Donations received ₹20,000

(April 2016 60101/BPZ1A/BPW1A/BPF1A/ MAM1A/SBAMK/ BPC1A/BPG1A/BPM1A)

[Ans: Excess of Income Over Expenditure: ₹2,06,000)]

26. From the following Receipts and Payments Account of Cosmopolitan Club for the year ended 31.12.1994, prepare Income and Expenditure Account.

Receipts & Payment Account
for the year ended 31st December 1994

Receipts	₹	*Payments*	₹
To Balance b/d	1238	By General expenses	542
To Annual subscription	1630	By Salaries	550
To Life membership fees	250	By Furniture	800
To Entrance fees	200	By Rent	560
To Miscellaneous receipts	233	By Printing	125
To Interest	40	By Repairs	150
		By Balance c/d	864
Total	**3,591**	**Total**	**3,591**

On 31st December 1994 the annual subscriptions in arrears amounted to ₹350. ₹100 is to be written off as depreciation on furniture

[Ans: Excess of Expenditure over Income: ₹226]

27. The following is the Receipts and Payments account of Kandan Recreation Club for the year ended 31.3.2002.

Receipts		₹	*Payments*	₹
To Balance b/d		7,000	By Salaries	28,000
To Subscriptions:			By General Expenses	6,000
2000- 2001	5,000		By Electricity	4,000
2001- 2002	20,000		By Books Purchased	10,000
2002- 2003	4,000	29,000	By Periodicals purchased	8,000
To Rent for use of conference room		14,000	By Loan Repaid	20,000
To Receipts from entertainment facilities		28,000	By Balance c/d	4,000
To Sale of old magazines		2,000		
		80,000		**80,000**

Additional Data:

(a) The club has 50 members, each paying ₹500 p.a. as subscriptions.
(b) Subscriptions outstanding on 31.3.2002 ₹6,000.
(c) Salaries outstanding ₹2,000. Salaries paid include ₹6,000 for 2000-01.

(d) On 1.4.2001, the club properties were: Building ₹2,00,000; Furniture & Fittings ₹20,000 and Books ₹20,000.

(e) Provide 10% depreciation on Buildings and Furniture.

Prepare Income and Expenditure account for the year ending 31.3.2002 and a balance sheet on that date.

(December 2016: U/ID 22201/UCZA/UCWA/ UCYA/UCXB/URMA/UCVB)

[Ans: Excess of Income over Expenditure: ₹5,000
Capital Fund: ₹2,27,000
Balance Sheet: ₹2,38,000]

28. From following figures given below, prepare an Income and Expenditure Account for 31.12.2007.

Receipts	₹	*Payments*	₹
To Opening Balance in hand	200	By Salaries	4,800
To Opening Balance at bank	1,600	By Rent	500
To Subscription:		By Stationeries	200
2006	500	By Bicycles purchased	300
2007	8,300	By National Savings Certificates	3,000
2008	600	By Help to poor Students	2,000
To Sale of investments	2,000	By Balance in Hand	300
To Sale of old furniture (Bank value ₹400)	300	By Balance at Bank	2,400
	13,500		**13,500**

Subscriptions for 2007 still receivable were ₹700, The interest due on National Savings Certificate ₹100 and Rent outstanding ₹60.

(May 2010 U/ID 22201/UCZA/UCWA/UCYA/UCXB/URMA/UCVB)

[Ans: Excess of Income and Expenditure: ₹3,440]

29. From the receipts and payments account given below, prepare Income and Expenditure Account of Mahendra Club for the year ended 31st March 2015.

Receipts and Payments Account
Dr. **for the Year Ending 31.03.2015** **Cr.**

Receipts	*(₹)*	*(₹)*	*Payments*	*(₹)*	*(₹)*
Balance b/d (Cash in Hand)		22,400	Salary Paid		10,500
Subscriptions		1,57,500	Rent Paid		5,600
Entrance Fees		8,750	Electricity charges		24,500
Donations		17,500	Taxes Paid		11,900
Rent of Hall		5,250	Printing and Stationery		2,660
Sale of Investments		21,000	Sundry Expenses		6,440
			Books Purchased		52,500
			Government Bonds Purchased		70,000
			Fixed Deposit with Bank (on 31.03.2014)		35,000
			Balance c/d		
			Cash in Hand		2,800
			Cash at Bank		10,500
		2,32,400			**2,32,400**

[Ans: Excess of Income Over Expenditure: ₹1,27,400]

30. From the following receipts and payments account for the year ending 31st March 2015 of Negi's Club, prepare Income and Expenditure Account for the same period.

Receipts and Payments Account
Dr. **for the Year Ending 31.03.2015** **Cr.**

Expenditure	*(₹)*	*(₹)*	*Income*	*(₹)*	*(₹)*
Balance c/d Bank		1,75,000	Purchase of Furniture (01.07.2013)		35,000
Subscriptions:			Salaries		14,000
2013	10,500				
2014	70,000				
2015	3,500	84,000			

(Contd.)

Donation		14,000	Telephone Expenses		2,100
Hall Rent		2,100	Electricity Charges		4,200
Interest on Bank Deposits		3,150	Postage and Stationery		1,050
Entrance Fees		7,000	Purchase of Books		17,500
			Entertainment Expenses		6,300
			Purchase of 5% Government Papers (01.07.2014)		56,000
			Miscellaneous Expenses		4,200
			Balance c/d:		
			Cash	2,100	
			Bank	1,42,800	1,44,900
		2,85,250			**2,85,250**

The following additional information is available:

(a) Salaries outstanding: ₹10,500;
(b) Entertainment expenses outstanding: ₹3,500;
(c) Bank interest receivable: ₹1,050;
(d) Subscriptions accrued: ₹2,800;
(e) 50% of entrance fees is to be capitalised;
(f) Furniture is to be depreciated at 10% per annum.

[Ans: Excess of Income Over Expenditure: ₹49,525]

CHAPTER

16

Royalty

Learning Objectives

After studying this chapter, you will be able to:

- Understand the Meaning of Royalty, Lessor and Lessee
- Understand the Concept of Minimum Rent, Shortworkings, Recoupment of Shortworkings
- Work out the problems independently

16.1 Royalty

Royalty is concerned with the assets, both tangible and intangible in nature. Assets like land, buildings, mines, copyrights, patents, trademarks, etc., are attracted with royalty. The owner of an asset may allow the other party the right to use the asset against some consideration. Such consideration is calculated with reference to the quantity produced or sold. This payment to the owner by the user of the asset is termed as Royalty. It is normally paid in the following cases:

- By the lessee to the owner of a mine or a quarry for extraction of oil, coal, and minerals from the ground.
- By the manufacturer to the patentee for the use of a patent.
- By the publisher to the author, for the sale of the book.

A lessor is a person who owns the assets and agrees to allow the other person to use his asset for a certain sum. The person who agrees to use the asset against certain payment is known as a lessee.

16.2 Minimum Rent

Minimum Rent is also known as Dead Rent or Rock Rent or Fixed Rent. Minimum rent is fixed in order to safeguard the interest of the landlord. Minimum rent guarantees an assured sum in case of low output or sales. The lessee is required to pay the minimum rent to the landlord as per the agreement, whether he has derived the full benefit or not. If the actual royalty exceeds Minimum Rent, the landlord will claim the actual royalty. It is not necessary that the minimum rent be fixed for every year. It may vary as per the terms of agreement.

16.3 Strike and Lock Out

The royalty agreement may contain a clause for reduction in the minimum rent, in the happening of a certain event. In case of Strike or Lock Out, the minimum rent may be proportionately reduced.

16.4 Shortworking

If the actual royalty is less than the minimum rent, the difference is known as Shortworking.

Example: Royalty = ₹15,000, Minimum Rent = ₹20,000
Shortworkings = ₹5,000 (Actual Royalty – Minimum Rent)

› 16.4.1 Recoupment of Shortworkings

A royalty agreement usually contains a clause about the recovery of shortworkings (if any). The lessor has the right to recover the shortworkings in near future. The right to recover the shortworkings is known as recoupment of shortworkings. Recoupment of shortworkings can be classified into two types:

1. Fixed Recoupment
2. Flexible Recoupment

Fixed Recoupment

Under fixed recoupment, the lessee gets the right of recoupment of shortworkings for a certain period, commencing from the date of royalty agreement. Any shortworking arising beyond this period cannot be reimbursed.

Flexible Recoupment

Under this method, the lessee gets the right of recoupment of shortworkings within two or three subsequent years. The lessee can avail this right in any year when shortworkings arise.

16.5 Journal Entries for the Books of Lessee or Tenant

1. For Royalty Payable:

(a) When there are no shortworkings

Royalty A/c Dr.
  To Landlord's A/c

(b) When there are shortworkings

(i) If Minimum Rent Account need not be shown

Royalty A/c Dr.
Shortworkings A/c Dr.
  To Landlord A/c

(ii) If Minimum Rent Account is required

Minimum Rent A/c Dr.
  To Landlord A/c
Royalty A/c Dr.
Shortworking A/c Dr.
  To Minimum Rent A/c

2. For Payment of Cash:

(a) When there is no recoupment of shortworkings

Landlord A/c Dr.
  To Cash A/c

(b) When there is recoupment of shortworkings

Landlord A/c Dr.
  To Cash A/c (Actual cash paid)
  To Shortworking A/c (Recoupment made)

3. For Transferring Royalty at the end of the year:

Production A/c Dr.
or Profit and Loss A/c Dr.
  To Royalty A/c

4. If there are Shortworkings Written Off:

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

16.6 Journal Entries for the Books of Landlord or Lessor

1. For Royalty Receivable:

(a) If there are no shortworkings

	Tenant's A/c	Dr.
	To Royalty Receivable A/c	
	To Shortworkings A/c	

2. For Receiving cash:

(a) If there is no recoupment of shortworkings

	Cash A/c	Dr.
	To Tenant's A/c	

(b) If there is recoupment of shortworkings

	Cash A/c (Actual cash received)	Dr.
	Shortworking A/c (Recoupment made)	Dr.
	To Tenant's A/c	

3. For Transferring Royalty Receivable:

(a) If there is no 'lapse' of shortworkings

	Royalty Receivable A/c	Dr.
	To Profit and Loss A/c	

(b) If there is shortworking written off

	Royalty Receivable A/c	Dr.
	Shortworkings A/c	Dr.
	To Profit and Loss A/c	

It is advisable for students to prepare an analytical table based on facts given in a problem before writing journal or ledger.

✎ ILLUSTRATION 1:

Bombay Coal Limited leased a colliery on 1st January 1994 at a minimum rent of ₹32,000, merging into a royalty of ₹1 per tonne, with a stipulation to recoup shortworkings over the first three years of the lease. The output for

the first four years of the lease was 18,000, 28,000, 44,000 and 38,000 tonnes respectively. Draft the necessary journal entries in the books of the company.

Solution:

Analytical Table

Year	*Output (Tonnes)*	*Royalty (₹)*	*Minimum Rent (₹)*	*Analytical Short-workings (₹)*	*Table Short-workings Recouped (₹)*	*Short-workings Lapsed (₹)*	*Payment to Landlord (₹)*
1994	18,000	18,000	32,000	14,000	—	—	32,000
1995	28,000	28,000	32,000	4,000	—	—	32,000
1996	44,000	44,000	32,000	—	12,000	6,000	32,000
1997	38,000	38,000	32,000	—	—	—	38,000

Journal Entries in the books of Bombay Coal Ltd.

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1994	Royalties A/c	Dr.	18,000	
	Shortworkings A/c	Dr.	14,000	
	To Landlord A/c			32,000
	(Being royalty at ₹1 per tonne, on 18,000 tonnes and shortworkings ₹14,000 due to make up the minimum rent of ₹32,000)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1994	Landlord A/c	Dr.	32,000	
	To Bank A/c			32,000
	(Being the payment of minimum rent)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1994	Production A/c	Dr.	18,000	
	To Royalties A/c			18,000
	(Being transfer of actual royalties to Production Account)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1995	Royalties A/c	Dr.	28,000	
	Shortworkings A/c	Dr.	4,000	
	To Landlord A/c			32,000
	(Being royalty at ₹1 per tonne, on 28,000 tonnes and shortworkings ₹16,000 due to make up the minimum rent of ₹32,000)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1995	Landlord A/c	Dr.	32,000	
	To Bank A/c			32,000
	(Being the payment of minimum rent)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1995	Production A/c	Dr.	28,000	
	To Royalties A/c			28,000
	(Being transfer of actual royalties to Production Account)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1996	Royalties A/c	Dr.	44,000	
	To Landlord A/c			44,000
	(Being royalty at ₹1 per tonne, on 44,000 tonnes)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.19946	Landlord A/c	Dr.	44,000	
	To Shortworkings A/c			12,000
	To Bank A/c			32,000
	(Being the payment of minimum rent)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1996	Production A/c	Dr.	44,000	
	To Royalties A/c			44,000
	(Being transfer of actual royalties to Production Account)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1996	Profit & Loss A/c	Dr.	6,000	
	To Shortworkings A/c			6,000
	(Being debit in the Shortworking Account written off to Profit and Loss Account)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1997	Royalties A/c	Dr.	38,000	
	To Landlord A/c			38,000
	(Being royalty at ₹1 per tonne, on 38,000 tonnes)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1997	Landlord A/c	Dr.	38,000	
	To Bank A/c			38,000
	(Being the payment of royalties)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1997	Production A/c	Dr.	38,000	
	To Royalties A/c			38,000
	(Being transfer of actual royalties to Production Account)			

✎ ILLUSTRATION 2:

A colliery company took a lease of mine from Delhi Company for a period of 20 years, from 1st January 1993, upon the terms of a royalty of 50 paisa per tonne, upon the output with a minimum rent of ₹24,000 in the first year and

then increasing every year by ₹2,000 till it reaches ₹28,000, when it becomes fixed for all the coming years. The colliery company was granted the right of recouping shortworking of any year in the subsequent three years and not afterwards. The following are the production of the first five years:

Year	*Output (Tonnes)*
1993	8,000
1994	40,000
1995	56,000
1996	64,000
1997	68,000

Show the journal entries in the colliery company.

Solution:

Analytical Table

Year	*Output (Tonnes)*	*Royalty (₹)*	*Minimum Rent (₹)*	*Analytical Short-workings (₹)*	*Table Short-workings Recouped (₹)*	*Short-workings Lapsed (₹)*	*Payment to Landlord (₹)*
1993	8,000	4,000	24,000	20,000	—	—	24,000
1994	40,000	20,000	26,000	6,000	—	—	26,000
1995	56,000	28,000	28,000	—	—	—	28,000
1996	64,000	32,000	28,000	—	4,000	16,000	28,000
1997	68,000	34,000	28,000	—	6,000	—	28,000

Journal Entries of Colliery Company

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1993	Royalties A/c	Dr.	4,000	
	Shortworkings A/c	Dr.	20,000	
	To Delhi Company A/c			24,000
	(Being royalty at 50 paisa per tonne on 8,000 tonnes and shortworkings ₹20,000 due to make up the minimum rent of ₹24,000)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1993	Delhi Company A/c	Dr.	24,000	
	To Bank A/c			24,000
	(Being the payment of minimum rent)			

Date	*Particulars*		*Debit*	*Credit*
31.12.1993	Production A/c	Dr.	4,000	
	To Royalties A/c			4,000
	(Being transfer of actual royalties to Production Account)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1994	Royalties A/c	Dr.	20,000	
	Shortworkings A/c	Dr.	6,000	
	To Delhi Company A/c			26,000
	(Being royalty at 50 paisa per tonne on 40,000 tonnes and shortworkings ₹6,000 due to make up the minimum rent of ₹26,000)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1994	Delhi Company A/c	Dr.	26,000	
	To Bank A/c			26,000
	(Being the payment of minimum rent)			

Date			*Debit (₹)*	*Credit (₹)*
31.12.1994	Production A/c	Dr.	20,000	
	To Royalties A/c			20,000
	(Being transfer of actual royalties to Production Account)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1995	Royalties A/c	Dr.	28,000	
	To Delhi Company A/c			28,000
	(Being royalty at 50 paisa per tonne, on 56,000 tonnes)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1995	Delhi Company A/c	Dr.	28,000	
	To Bank A/c			28,000
	(Being the payment of minimum rent)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1995	Production A/c	Dr.	28,000	
	To Royalties A/c			28,000
	(Being transfer of actual royalties to Production Account)			

Date			*Debit (₹)*	*Credit (₹)*
31.12.1996	Royalties A/c	Dr.	32,000	
	To Delhi Company A/c			32,000
	(Being royalty at 50 paisa per tonne on 64,000 tonnes)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1996	Delhi Company A/c	Dr.	32,000	
	To Shortworkings A/c			4,000
	To Bank A/c			28,000
	(Being the payment of minimum rent of ₹28,000 paid and ₹4,000 shortworkings recouped)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1996	Production A/c	Dr.	32,000	
	To Royalties A/c			32,000
	(Being transfer of actual royalties to Production Account)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1996	Profit & Loss A/c	Dr.	16,000	
	To Shortworkings A/c			16,000
	(Being to shortworkings not recouped transferred to P/L A/c)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1997	Royalties A/c	Dr.	34,000	
	To Delhi Company A/c			34,000
	(Being royalty at 50 paisa per tonne on 68,000 tonnes)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1997	Delhi Company A/c	Dr.	34,000	
	To Shortworkings A/c			6,000
	To Bank A/c			28,000
	(Being the payment of minimum rent of ₹28,000 paid and ₹6,000 shortworkings recouped)			

Date	*Particulars*		*Debit (₹)*	*Credit (₹)*
31.12.1997	Production A/c	Dr.	34,000	
	To Royalties A/c			34,000
	(Being transfer of actual royalties to Production Account)			

✎ ILLUSTRATION 3:

Mr. Javith had patented a non-stick pressure cooker and gave Mohamed Metal Mart, the right to manufacture and sell under a license for seven years. The stipulated terms were as follows:

(a) A royalty of ₹5 to be paid on each piece.

(b) A minimum rent of ₹50,000 per annum.

(c) The right to deduct in two following years any excess of the minimum over the calculated royalties in any year.

The number of pieces sold was:

Year	*No. of Pieces*
1994	9,000
1995	9,600
1996	10,800
1997	12,000

Give Ledger Accounts as they would appear in the books of Mohamed Metal Mart to record these transactions.

Solution:

Analytical Table

Year	*Output (Tonnes)*	*Royalty (₹)*	*Minimum Rent (₹)*	*Analytical Short-workings (₹)*	*Table Short-workings Recouped (₹)*	*Short-workings Lapsed (₹)*	*Payment to Landlord (₹)*
1994	9,000	45,000	50,000	5,000	—	—	50,000
1995	9,600	48,000	50,000	2,000	—	—	50,000
1996	10,800	54,000	50,000	—	4,000	1,000	50,000
1997	12,000	60,000	50,000	—	2,000	—	58,000

In the books of Mohamed Metal Mart
Royalties Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
1994	To Javith's A/c	45,000	1994	By P & L A/c	45,000
1995	To Javith's A/c	48,000	1995	By P & L A/c	48,000
1996	To Javith's A/c	50,000	1996	By P & L A/c	54,000
	To Shortworkings A/c	4,000			
		54,000			**54,000**
1997	To Javith's A/c	58,000	1997	By P & L A/c	60,000
	To Shortworkings A/c	2,000			
		60,000			**60,000**

Shortworkings Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
1994	To Javith A/c	5,000	1994	By Balance c/d	5,000
1995	To Balance b/d	5,000			
1995	To Javith	2,000	1995	By Balance c/d	7,000
		7,000			**7,000**
1996	To Balance b/d	7,000	1996	By Royalties A/c	4,000
				By P &L A/c	1,000
				By Balance c/d	**2,000**
		7,000			**7,000**
1998	To Balance b/d	**2,000**	1997	**By Royalties A/c**	**2,000**

Javith's Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
1994	To Bank A/c	50,000	1994	By Royalties A/c	45,000
				By Shortworkings A/c	5,000
		50,000			**50,000**
1995	To Bank A/c	50,000	1995	By Royalties A/c	48,000
				By Shortworkings A/c	2,000
		50,000			**50,000**
1996	To Bank A/c	50,000	1996	By Royalties A/c	50,000
1997	To Bank A/c	58,000	1997	By Royalties A/c	50,000

Production Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
1994	To Royalties A/c	45,000			
1995	To Royalties A/c	48,000			
1996	To Royalties A/c	54,000			
1997	To Royalties A/c	60,000			

✎ ILLUSTRATION 4:

A colliery company took the lease of a coalfield for a period of 25 years, from 1st January 2013, on a royalty of ₹1 per tonne of coal raised, with a minimum

rent of ₹20,000 and the power to recoup the shortworkings during the first three years of the lease. The annual raisings were as follows:

Year	*Output (Tonnes)*
2013	12,000
2014	18,000
2015	12,000
2016	15,000

Prepare Shortworkings Account.

Solution:

Shortworkings Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
2013	To Landlord A/c	8,000	2013	By Balance c/d	8,000
2014	To Balance b/d	8,000	2014	By Balance c/d	10,000
2014	To Landlord A/c	2,000			
		10,000			10,000
2015	To Balance b/d	10,000	2015	By Landlord A/c	4,000
				By P & L A/c	6,000
		10,000			**10,000**

✎ ILLUSTRATION 5:

Rafiq Mine Company obtained a mine on lease for a period of 30 years, beginning from 1st January 2010 on the following terms:

(a) To pay a minimum rent of ₹48,000 per year.

(b) Each year, excess of minimum rent over the actual royalties, i.e. shortworkings, can be recovered during the subsequent two years.

(c) Royalty was calculated at 50 paisa per tonne.

Production during the four years 2010–2013 was as follows:

Year	*Output (tonnes)*
2010	56,000
2011	72,000
2012	1,20,000
2013	1,28,000

Prepare Minimum Rent Account, Landlord Account and Shortworkings Account in the books of Rafiq Mine Company.

Solution:

Analytical Table

Year	*Output (Tonnes)*	*Royalty 0.50 paise per Tonne (₹)*	*Minimum Rent (₹)*	*Analytical Short-workings (₹)*	*Table Short-workings Recouped (₹)*	*Short-workings Lapsed (₹)*	*Payment to Landlord (₹)*
2010	56,000	28,000	48,000	20,000	—	—	48,000
2011	72,000	36,000	48,000	12,000	—	—	48,000
2012	1,20,000	60,000	48,000	—	12,000	8,000	48,000
2013	1,28,000	64,000	48,000	—	12,000	—	52,000

Minimum Rent Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.2010	To Landlord A/c	48,000	31.12.2010	By Royalties A/c	28,000
				By Shortworkings A/c	20,000
		48,000			**48,000**
31.12.2011	To Landlord A/c	48,000	31.12.2011	By Royalties A/c	36,000
				By Shortworkings A/c	12,000
		48,000			**48,000**

Shortworkings Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.2010	To Minimum Rent A/c	20,000	31.12.2010	By Balance c/d	20,000
01.01.2011	To Balance b/d	20,000	31.12.2011	By Balance c/d	32,000
31.12.2011	To Minimum Rent A/c	12,000			
		32,000			32,000
01.01.2012	To Balance b/d	**32,000**	31.12.2012	By Landlord A/c	**12,000**
			”	By P & L A/c	8,000
			”	**By Balance c/d**	12,000
		32,000			**32,000**
01.01.2013	To Balance b/d	**12,000**	31.12.2013	**By Landlord A/c**	**12,000**

Landlord Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.2010	To Bank A/c	48,000	31.12.2010	By Minimum Rent A/c	48,000
31.12.2011	To Bank A/c	48,000	31.12.2011	By Minimum Rent A/c	48,000
31.12.2012	To Shortworkings A/c	12,000	31.12.2012	By Royalties A/c	60,000
	To Bank A/c	48,000			
		60,000			**60,000**
31.12.2013	To Shortworkings A/c	12,000	31.12.2013	By Royalties	64,000
	To Bank A/c	52,000			
		64,000			**64,000**

✎ ILLUSTRATION 6:

R Colliery Co. lessees a mine at a dead rent of ₹8,000 per annum. Dead rent paid in excess of actual royalties is recoverable during the five years following the year in respect of which such excess was paid. The results of the working for the year ended were as follows:

Year	*2000*	*2001*	*2002*	*2003*
Actual Royalties (₹)	2,600	7,400	14,000	14,800

Write up the Minimum Rent, Royalties Payable, Shortworkings Allowable and Landlord Accounts in the books of the Colliery Co.

Solution:

Analytical Table

Year	*Royalty (₹)*	*Minimum Rent (₹)*	*Analytical Short-workings (₹)*	*Surplus (₹)*	*Table Short-workings Recouped (₹)*	*Short-workings Not Recouped (₹)*	*Payment to Landlord (₹)*
2000	2,600	8,000	5,400	—	—	—	8,000
2001	7,400	8,000	600	—	—	—	8,000
2002	14,000	8,000	—	6,000	6,000	—	8,000
2003	14,800	8,000	—	—	—	—	14,800

In the books of R. Colliery Co.
Minimum Rent

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.2000	To Landlord A/c	8,000	31.12.2000	By Royalties A/c	2,600
				By Shortworkings A/c	5,400
		8,000			**8,000**
31.12.2001	To Landlord A/c	8,000	31.12.2001	By Royalties A/c	7,400
				By Shortworkings A/c	600
		8,000			**8,000**

Royalties Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.2000	To Minimum Rent A/c	2,600	31.12.2000	By Production A/c	2,600
31.12.2001	To Minimum Rent A/c	7,400	31.12.2001	By Production A/c	7,400
31.12.2002	To Landlord A/c	14,000	31.12.2002	By Production A/c	14,000
31.12.2003	To Landlord A/c	14,800	31.12.2003	By Production A/c	14,800

Shortworkings Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.2000	To Minimum Rent A/c	5,400	31.12.2000	By Balance c/d	5,400
01.01.2001	To Balance b/d	5,400	31.12.2001	By Balance c/d	6,000
31.12.2001	To Minimum Rent A/c	600			
		6,000			**6,000**
01.01.2002	To Balance b/d	**6,000**	**31.12.2002**	By Landlord A/c	**6,000**

Landlord Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.2000	To Bank A/c	8,000	31.12.2000	By Minimum Rent A/c	8,000
31.12.2001	To Bank A/c	8,000	31.12.2001	By Minimum Rent A/c	8,000
31.12.2002	To Shortworkings A/c	6,000	31.12.2002	By Royalties A/c	14,000
	To Bank A/c	8,000			
		14,000			**14,000**
31.12.2003	To Bank A/c	14,800	31.12.2003	By Royalties	14,800

✎ ILLUSTRATION 7:

On 1st January 2001, Vasan Co. acquired a lease of 15 years from Mr. Z for getting earth. Terms of lease are:

(a) Annual rate of royalty paid is ₹1 per 100 cubic feet of earth taken out.

(b) Minimum rent is ₹24,000 per annum.

(c) On 1st January 2001, the company gave ₹3,00,000 to Z for Rahana.

(d) Shortworkings can be recouped during first four years only.

(e) Annual royalty is paid on 31st December each year.

Vasan Company extracts earth in the following manner:

Year	*2001*	*2002*	*2003*	*2004*
Earth in cubic feet	20,00,000	30,00,000	18,00,000	24,00,000

Open Rahana's Account, Royalty Account and Shortworkings Account in the books of Vasan Co.

Solution:

Year	*Earth (cubic feet)*	*Royalty ₹1 per tonne (₹)*	*Analytical Short-workings (₹)*	*Table Short-workings Recouped (₹)*	*Short-workings Not Recouped (₹)*	*Payment to Landlord (₹)*
2001	20,00,000	20,000	4,000	—	—	24,000
2002	30,00,000	30,000	—	4,000	—	26,000
2003	18,00,000	18,000	6,000	—	—	24,000
2004	28,00,000	28,000	—	4,000	2,000	24,000

Rahana's Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.2001	To Bank A/c	3,00,000	31.12.2001	By P & L A/c	20,000
				By Balance c/d	2,80,000
		3,00,000			**3,00,000**
01.01.2002	To Balance b/d	2,80,000	31.12.2001	By P & L A/c	20,000
				By Balance c/d	2,60,000
		2,80,000			**2,80,000**

(Contd.)

01.01.2003	To Balance b/d	2,60,000	31.12.2001	By P & L A/c	20,000
				By Balance c/d	2,40,000
		2,60,000			**2,60,000**
01.01.2004	To Balance b/d	2,40,000	31.12.2001	By P & L A/c	20,000
				By Balance c/d	2,20,000
		2,40,000			**2,40,000**

Royalties Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
2001	To Landlord A/c	20,000	2001	By Production A/c	20,000
2002	To Landlord A/c	30,000	2002	By Production A/c	30,000
2003	To Landlord A/c	18,000	2003	By Production A/c	18,000
2004	To Landlord A/c	28,000	2004	By Production A/c	28,000

Shortworkings Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
2001	To Landlord A/c	4,000	2001	By Balance c/d	4,000
2002	To Balance b/d	4,000	2002	By Landlord A/c	4,000
2003	To Landlord A/c	6,000	2003	By Balance c/d	6,000
2004	To Balance b/d	**6,000**	**2004**	By Landlord A/c	**4,000**
				By P & L A/c	**2,000**
		6,000			**6,000**

✎ ILLUSTRATION 8:

Prof. Praveen wrote a book on Marketing Management and gave the right of its publication and sale to Margham Publishers in the month of April 2004, at a royalty of 15% of printed sale price of book sold. Each year, royalty is paid to the author on 15th September of next year. Accounts of Margham Publishers are closed on 31st March each year. From the following particulars, prepare necessary accounts in the books of Margham Publishers.

Year	*Books Printed*	*Wastage*	*Specimen Copies*	*Closing Balance (₹)*	*Printed Price (₹)*
2004–2005	12,000	400	400	1,200	120
2005–2006	20,000	800	800	1,600	140
2006–2007	24,000	1,200	800	2,000	160
2007–2008	28,000	400	1,200	400	200

Solution:

Analytical Table

Year	*No. of Books Sold = (Opening Stock + Books Printed – Wastage – Specimen Opening Stock)*	*Printed Price (₹)*	*Total Sale (₹)*	*Royalty (₹)*
2004–2005	12,000 – 400 – 400 – 1,200 = **10,000**	120	12,00,000	1,80,000
2005–2006	1,200 + 20,000 – 800 – 800 – 1,600 = **18,000**	140	25,20,000	3,78000
2006–2007	1,600 + 24,000 – 800 – 1,200 – 2,000 = **21,600**	160	34,56,000	5,18,400
2007–2008	2,000 + 28,000 – 1,200 – 400 – 400 = **28,000**	200	56,00,000	8,40,000

In the books of Margham Publishers
Royalties Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.03.2001	To Praveen's A/c	1,80,000	31.03.2001	By P & L A/c	1,80,000
31.03.2002	To Praveen's A/c	3,78,000	31.03.2002	By P & L A/c	3,78,000
31.03.2003	To Praveen's A/c	5,18,400	31.03.2003	By P & L A/c	5,18,400
31.03.2004	To Praveen's A/c	8,40,000	31.03.2004	By P & L A/c	8,40,000

Praveen Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.03.2001	To Balance c/d	1,80,000	31.03.2001	By Royalties A/c	1,80,000
15.09.2002	To Bank A/c	1,80,000	01.04.2001	By Balance b/d	1,80,000
31.03.2002	To Balance c/d	3,78,000	31.03.2002	By Royalties A/c	3,78,000
		5,58,000			**5,58,000**
15.09.2002	To Bank A/c	3,78,000	01.04.2002	By Balance b/d	3,78,000
31.03.2003	To Balance c/d	5,18,400	31.03.2003	By Royalties A/c	5,18,400
		8,96,400			**8,96,400**
15.09.2002	To Bank A/c	5,18,400	01.04.2003	By Balance b/d	5,18,400
31.03.2004	To Balance c/d	8,40,000	31.03.2004	By Royalties A/c	8,40,000
		13,58,400			**13,58,400**
15.09.2004	To Bank A/c	8,40,000	01.04.2004	By Balance b/d	8,40,000

✎ ILLUSTRATION 9:

A acquired the right to manufacture and sell locks from B on 1st January 1995. A has to pay a royalty of ₹5 for each lock with a minimum annual payment of ₹50,000. Amounts are to be settled on 31st December.

The number of locks sold was as follows:

Year	*1995*	*1996*	*1997*	*1998*
Number of Locks	8,000	9,000	11,000	18,000

Prepare Ledger Accounts in the books of A for the year ending 31st December 1998, assumed that shortworkings cannot be recouped.

Solution:

Table showing Calculation of Royalty

Year	*Sales*	*Royalty (₹)*	*Minimum Rent (₹)*	*Short-workings (₹)*	*Unrecouped Short-workings (₹)*	*Amount Paid (₹)*
1995	8,000	40,000	50,000	10,000	10,000	50,000
1996	9,000	45,000	50,000	5,000	5,000	50,000
1997	11,000	55,000	50,000	—	—	55,000
1998	18,000	90,000	50,000	—	—	90,000

In the books of A (Lessee)
Royalty Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.1995	To Minimum Rent A/c	40,000	31.12.1995	By P & L A/c	40,000
		40,000			**40,000**
31.12.1996	To Minimum Rent A/c	45,000	31.12.1996	By P & L A/c	45,000
		45,000			**45,000**
31.12.1997	To B's A/c	55,000	31.12.1997	By P & L A/c	55,000
		55,000			**55,000**
31.12.1998	To B's A/c	90,000	31.12.1998	By P & L A/c	90,000
		90,000			**90,000**

B's Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.1995	To Bank A/c	50,000	31.12.1995	By Minimum Rent A/c	50,000
		50,000			**50,000**
31.12.1996	To Bank A/c	50,000	31.12.1996	By Minimum Rent A/c	50,000
		50,000			**50,000**
31.12.1997	To Bank A/c	55,000	31.12.1997	By Minimum Rent A/c	55,000
		55,000			**55,000**
31.12.1998	To Bank A/c	90,000	31.12.1998	By Minimum Rent A/c	90,000
		90,000			**90,000**

Shortworkings Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.1995	To Minimum Rent A/c	10,000	31.12.1995	By P & L A/c	10,000
		10,000			**10,000**
31.12.1996	To Minimum Rent A/c	5,000	31.12.1996	By P & L A/c	5,000
		5,000			**5,000**

Minimum Rent Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.1995	To B's A/c	50,000	31.12.1995	By Royalty	40,000
				By Shortworkings	10,000
		50,000			**50,000**
31.12.1996	To B's A/c	50,000	31.12.1996	By Royalty	45,000
				By Shortworkings	5,000
		50,000			**50,000**

✎ ILLUSTRATION 10:

On 1st July 2004, Anu obtained from Balu, a lease of some coal-bearing land, terms being a royalty of ₹2 per tonne raised, subject to a minimum rent of ₹9,000 per annum with a right to recoup the shortworkings over the first four years (up to 2007) of the lease. From the following details, prepare Royalty Payable Account, Shortworkings Account and Balu Account in the books of Anu.

Year	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
Sales (tonnes)	1,500	2,300	5,000	6,000	3,600	4,500
Closing Stock (tonnes)	500	400	700	800	600 (Strike for two months)	500 (Lock out for two months)

In the event of strike, the minimum rent would be taken pro-rata on the basis of actual period of working but in the event of lock out, the lessee would enjoy a concession in respect of minimum rent for 4% of the period of lock out.

Solution

Analytical Table

Year	*Output (Tonnes)*	*Royalty at ₹2 per Tonne (₹)*	*Minimum Rent (₹)*	*Short-workings (₹)*	*Surplus (₹)*	*Short-workings Recouped (₹)*	*Short-workings Not Recouped (₹)*	*Payment to Landlord (₹)*
2004	2,000	4,000	9,000	5,000	—	—	—	9,000
2005	2,200	4,400	9,000	4,600	—	—	—	9,000
2006	5,300	10,600	9,000	—	1,600	1,600	—	9,000
2007	6,100	12,200	9,000	—	3,200	3,200	4,800	9,000
2008	3,400	6,800	7,500	700	—	—	700	7,500
2009	4,400	8,800	8,400	—	400	—	—	8,800

Output = Closing Stock + Sales – Opening Stock

Royalties Payable Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
2004	To Landlord	4,000	2004	By P & L A/c	4,000
2005	To Landlord	4,400	2005	By P & L A/c	4,400
2006	To Landlord	10,600	2006	By P & L A/c	10,600
2007	To Landlord	12,200	2007	By P & L A/c	12,200
2008	To Landlord	6,800	2008	By P & L A/c	6,800
2009	To Landlord	8,800	2009	By P & L A/c	8,800

Landlord Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
2004	To Bank	9,000	2004	By Royalties Payable A/c	4,000
				By Allowable Shortworkings	5,000
		9,000			**9,000**
2005	To Bank	9,000	2005	By Royalties Payable A/c	4,400
				By Allowable Shortworkings	4,600
		9,000			**9,000**
2006	To Allowable Shortworkings	1,600	2006	By Royalties Payable A/c	10,600
	To Bank A/c	9,000			
		10,600			**10,600**
2007	To Allowable Shortworkings	3,200	2007	By Royalties Payable A/c	12,200
	To Bank A/c	9,000			
		12,200			**12,200**
2008	To Bank	7,500	2008	By Royalties Payable A/c	6,800
				By Allowable Shortworkings	700
		7,500			**7,500**
2009	To Bank	8,800	2009	By Royalties Payable A/c	8,800
		8,800			**8,800**

Allowable Shortworkings Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
2004	To Landlord A/c	5,000	2004	By Balance c/d	5,000
		5,000			**5,000**
2005	To Balance b/d	5,000	2005	By Balance c/d	9,600
	To Landlord A/c	4,600			
		9,600			**9,600**
2006	To Balance b/d	9,600	2006	To Landlord A/c	1,600
				To Balance b/d	8,000
		9,600			**9,600**

(Contd.)

2007	To Balance b/d	8,000	2007	To Landlord A/c	3,200
				To Balance b/d	4,800
		8,000			**8,000**
2008	To Landlord A/c	700	2008	By P & L A/c	700
		700			**700**

✎ ILLUSTRATION 11:

On 1st January 2006, Popular Co. acquired a lease of 15 years from Mr Anand for getting earth. Terms of lease are:

(a) Annual rate of royalty is ₹1 per 100 cubic feet of earth taken out.

(b) Minimum rent is ₹12,000 per annum.

(c) On 1st January 2006, company gave ₹1,50,000 to Anand for extra payment.

(d) Shortworkings can be recouped during first four years only.

(e) Annual royalty is paid on 31st December, each year.

Popular Co. extracted earth in the following manner:

Year	*2006*	*2007*	*2008*	*2009*
Earth in cubic feet	10,00,000	15,00,000	9,00,000	14,00,000

Open Lease Premium, Royalty Account and Shortworking Account in the books of Popular Co.

Solution:

Year	*Earth (Cu. feet)*	*Minimum Rent (₹)*	*Royalties (₹)*	*Short-workings (₹)*	*Short workings Recouped (₹)*	*Short-workings Unrecouped (₹)*	*Payment to Landlord (₹)*
2006	10,00,000	12,000	10,000	2,000	—	—	12,000
2007	15,00,000	12,000	15,000	—	2,000	—	13,000
2008	9,00,000	12,000	9,000	3,000	—	—	12,000
2009	14,00,000	12,000	14,000	—	2,000	10,000	12,000

Lease Premium Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
2006	To Bank	1,50,000	2006	By P & L A/c	10,000
				By Balance c/d	1,40,000
		1,50,000			**1,50,000**
2007	To Balance c/d	1,40,000	2007	By P & L A/c	10,000
				By Balance c/d	1,30,000
		1,40,000			**1,40,000**
2008	To Balance c/d	1,30,000	2008	By P & L A/c	10,000
				By Balance c/d	1,20,000
		1,30,000			**1,30,000**
2009	To Balance c/d	1,20,000	2009	By P & L A/c	10,000
				By Balance c/d	1,10,000
		1,20,000			**1,20,000**

Royalty Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
2006	To Landlord	4,000	2006	By P & L A/c	4,000
		4,000			**4,000**
2007	To Landlord	4,400	2007	By P & L A/c	4,400
		4,400			**4,400**
2008	To Landlord	10,600	2008	By P & L A/c	10,600
		10,600			**10,600**
2009	To Landlord	12,200	2009	By P & L A/c	12,200
		12,200			**12,200**

Shortworkings Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
2006	To Landlord A/c	2,000	2006	By Balance c/d	2,000
		2,000			**2,000**
2007	To Balance b/d	2,000	2007	By Landlord A/c	2,000
		2,000			**2,000**
2008	To Landlord A/c	3,000	2008	By Balance b/d	3,000
		3,000			**3,000**
2009	To Balance b/d	3,000	2009	By Landlord A/c	2,000
				By P & L A/c	1,000
		3,000			**3,000**

✎ ILLUSTRATION 12:

A acquired the right to manufacture and sell watches from Praveen on 1st January 2005. Prakash has to pay a royalty of ₹5 for each watch with a minimum annual payment of ₹2,00,000.

Amounts are to be settled on 31st December.

The number of watches sold was as follows:

Year	*2005*	*2006*	*2007*	*2008*
No. of Watches	32,000	36,000	44,000	72,000

Prepare ledger accounts in the books of Prakash for the year ending 31st December 2004, assuming that shortworkings cannot be recouped.

Solution:

Table showing Calculation of Royalty

Year	*Sales*	*Royalty (₹)*	*Minimum Rent (₹)*	*Short-workings (₹)*	*Unrecouped Short-workings (₹)*	*Amount Paid (₹)*
2005	32,000	1,60,000	2,00,000	40,000	40,000	2,00,000
2006	36,000	1,80,000	2,00,000	20,000	20,000	2,00,000
2007	44,000	2,20,000	2,00,000			2,00,000
2008	72,000	3,60,000	2,00,000			2,00,000

In the books of Prakash (Lessee)
Royalty Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.2005	To Minimum Rent A/c	1,60,000	31.12.2005	By P & L A/c	1,60,000
		1,60,000			**1,60,000**
31.12.2006	To Minimum Rent A/c	1,80,000	31.12.2006	By P & L A/c	1,80,000
		1,80,000			**1,80,000**
31.12.2007	To Praveen's A/c	2,20,000	31.12.2007	By P & L A/c	2,20,000
		2,20,000			**2,20,000**
31.12.2008	To Praveen's A/c	3,60,000	31.12.2008	By P & L A/c	3,60,000
		3,60,000			**3,60,000**

Praveen's Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.2005	To Bank A/c	2,00,000	31.12.2005	By Minimum Rent A/c	2,00,000
		2,00,000			**2,00,000**
31.12.2006	To Bank A/c	2,00,000	31.12.2006	By Minimum Rent A/c	2,00,000
		2,00,000			**2,00,000**
31.12.2007	To Bank A/c	2,20,000	31.12.2007	By Minimum Rent A/c	2,20,000
		2,20,000			**2,20,000**
31.12.2008	To Bank A/c	3,60,000	31.12.2008	By Minimum Rent A/c	3,60,000
		3,60,000			**3,60,000**

Shortworkings Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.2005	To Minimum Rent A/c	40,000	31.12.2005	By P & L A/c	40,000
		40,000			**40,000**
31.12.2006	To Minimum Rent A/c	20,000	31.12.2006	By P & L A/c	20,000
		20,000			**20,000**

Minimum Rent Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.2005	To Praveen's A/c	2,00,000	31.12.2005	By Royalty	1,60,000
				By Shortworkings	40,000
		2,00,000			**2,00,000**
31.12.2006	To Praveen's A/c	2,00,000	31.12.2006	By Royalty	1,80,000
				By Shortworkings	20,000
		2,00,000			**2,00,000**

✎ ILLUSTRATION 13:

A company leased a colliery on 1st January 1992 at a minimum rent of ₹20,000 merging into a royalty of ₹1.50 per tonne with power to recoup shortworkings over the first four years of the lease. The output of the colliery for the first four years was 9,000 tonnes, 12,000 tonnes, 16,000 tonnes and 20,000 tonnes respectively. Give Journal Entries and Ledger Accounts for four years in the books of lessee and lessor.

Solution:

Analysis of Royalty

Year	*Output (Tonnes)*	*Royalty at ₹1.50 per Tonne (₹)*	*Minimum Rent (₹)*	*Short-workings (₹)*	*Short-workings Recouped (₹)*	*Short-working Irre-coverable Transferred to P & L A/c (₹)*	*Payment to Landlord (₹)*
1992	9,000	13,500	20,000	6,500	—	—	20,000
1993	12,000	18,000	20,000	2,000	—	—	20,000
1994	16,000	24,000	20,000	—	4,000	—	20,000
1995	20,000	30,000	20,000	—	4,500	—	25,500

Journal Entries in the books of Lessee

Date	*Particulars*		*(₹)*	*(₹)*
31.12.1992	Royalty A/c	Dr.	13,500	
	Shortworkings A/c	Dr.	6,500	
	To Landlord A/c			20,000
	(Being royalty due to landlord)			
31.12.1992	Landlord A/c	Dr.	20,000	
	To Bank A/c			20,000
	(Being minimum rent paid to landlord)			
31.12.1992	Production A/c	Dr.	13,500	
	To Royalty A/c			13,500
	(Being royalty transferred)			
31.12.1993	Royalty A/c	Dr.	18,000	
	Shortworkings A/c	Dr.	2,000	
	To Landlord A/c			20,000
	(Being royalty due to landlord)			
31.12.1993	Landlord A/c	Dr.	20,000	
	To Bank A/c			20,000
	(Being minimum rent paid)			
31.12.1993	Production A/c	Dr.	18,000	
	To Royalty A/c			18,000
	(Being royalty transferred)			
31.12.1994	Royalty A/c	Dr.	24,000	
	To Landlord A/c			24,000
	(Being royalty due)			

(Contd.)

31.12.1994	Landlord A/c	Dr.	24,000	
	To Shortworkings A/c			4,000
	To Bank A/c			20,000
	(Being minimum rent paid and ₹4,000 recouped)			
31.12.1994	Production A/c	Dr.	24,000	
	To Royalty A/c			24,000
	(Being royalty transferred)			
31.12.1995	Royalty A/c	Dr.	30,000	
	To Landlord A/c			30,000
	(Being royalty due)			
31.12.1995	Landlord A/c	Dr.	30,000	
	To Shortworkings A/c			4,500
	To Bank A/c			25,500
	(Being ₹25,500 paid to landlord after recouping ₹4,500)			
31.12.1995	Production A/c	Dr.	30,000	
	To Royalty A/c			30,000
	(Being royalty transferred)			

Journal Entries in the books of Landlord

Date	*Particulars*		*(₹)*	*(₹)*
31.12.1992	Lessee's A/c	Dr.	20,000	
	To Royalty Receivable A/c			13,500
	To Shortworkings A/c			6,500
	(Being royalty due from lessee)			
31.12.1992	Bank A/c	Dr.	20,000	
	To Lessee A/c			20,000
	(Being minimum rent received)			
31.12.1992	Royalty Receivable A/c	Dr.	13,500	
	To P & L A/c			13,500
	(Being royalty receivable transferred)			
31.12.1993	Lessee A/c	Dr.	20,000	
	To Royalty Receivable A/c			18,000
	To Shortworkings A/c			2,000
	(Being royalty due from lessee)			
31.12.1993	Bank A/c	Dr.	20,000	
	To Lessee A/c			20,000
	(Being minimum rent received)			

(Contd.)

31.12.1993	Royalty receivable A/c	Dr.	18,000	
	To P & L A/c			18,000
	(Being royalty receivable transferred)			
31.12.1994	Lessee's A/c	Dr.	24,000	
	To Royalty Receivable A/c			24,000
	(Being royalty due from lessee)			
31.12.1994	Bank A/c	Dr.	20,000	
	Shortworkings A/c	Dr.	4,000	
	To Lessee A/c			24,000
	(Being minimum received after adjusting shortworkings)			
31.12.1994	Royalty receivable A/c	Dr.	24,000	
	To P & L A/c			24,000
	(Being royalty receivable transferred)			
31.12.1995	Lessee's A/c	Dr.	30,000	
	To Royalty Receivable A/c			30,000
	(Being royalty due from lessee)			
31.12.1995	Bank A/c	Dr.	25,500	
	Shortworkings A/c	Dr.	4,500	
	To Lessee A/c			30,000
	(Being royalty received)			
31.12.1995	Royalty Receivable A/c	Dr.	30,000	
	To P & L A/c			30,000
	(Being royalty receivable transferred)			

Ledger Accounts in the books of Lessee
Shortworkings Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.1992	To Landlord A/c	6,500	31.12.1992	By Balance c/d	6,500
		6,500			6,500
01.01.1993	To Balance b/d	6,500	31.12.1993	By Balance c/d	8,500
31.12.1993	To Landlord A/c	2,000			
		8,500			8,500
01.01.1994	To Balance b/d	8,500	31.12.1994	By Landlord A/c	4,000
			”	By Balance c/d	4,500
		8,500			8,500
01.01.1995	To Balance b/d	4,500	31.12.1995	By Landlord A/c	4,500
		4,500			4,500

Landlord Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.1992	To Bank A/c	20,000	31.12.1992	By Royalty A/c	13,500
			”	By Shortworkings	6,500
		20,000			20,000
31.12.1992	To Bank A/c	20,000	31.12.1992	By Royalty A/c	18,000
			”	By Shortworkings	2,000
		20,000			20,000
31.12.1994	To Shortworkings	4,000	31.12.1994	By Royalty A/c	24,000
	To Bank A/c	20,000			
		24,000			24,000
31.12.1995	To Shortworkings	4,500	31.12.1995	By Royalty A/c	30,000
	To Bank A/c	25,500			
		30,000			30,000

Royalty Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.1992	To Landlord A/c	13,500	31.12.1992	By Production A/c	13,500
		13,500			13,500
31.12.1993	To Landlord A/c	18,000	31.12.1993	By Production A/c	18,000
		18,000			18,000
31.12.1994	To Landlord A/c	24,000	31.12.1994	By Production A/c	24,000
		24,000			24,000
31.12.1995	To Landlord A/c	30,000	31.12.1995	By Production A/c	30,000
		30,000			30,000

Ledger Accounts in the books of Landlord
Shortworkings Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.1992	To Balance c/d	6,500	31.12.1992	By Lessee A/c	6,500
		6,500			6,500
31.12.1993	To Balance b/d	8,500	01.01.1993	By Balance c/d	6,500
			31.12.1993	By Lessee A/c	2,000
		8,500			8,500

(Contd.)

31.12.1994	To Lessee A/c	4,000	1.01.1994	By Balance c/d	8,500
”	To Balance c/d	4,500			
		8,500			8,500
31.12.1995	To Lessee A/c	4,500	1.01.1995	By Landlord A/c	4,500
		4,500			4,500

Lessee Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.1992	To Royalty		31.12.1992	By Bank A/c	20,000
	Receivable A/c	13,500			
	To Shortworkings A/c	6,500			
		20,000			20,000
31.12.1993	To Royalty		31.12.1993	By Bank A/c	20,000
	Receivable A/c	18,000			
	To Shortworkings A/c	2,000			
		20,000			20,000
31.12.1994	To Royalty		31.12.1994	By Bank A/c	20,000
	Receivable A/c	24,000		By Shortworkings A/c	4,000
		24,000			24,000
31.12.1995	To Royalty		31.12.1995	By Bank A/c	25,500
	Receivable A/c	30,000		By Shortworkings A/c	4,500
		30,000			30,000

Royalty Receivable Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.1992	To P & L A/c	13,500	31.12.1992	By Lessee A/c	13,500
		13,500			13,500
31.12.1993	To P & L A/c	18,000	31.12.1993	By Lessee A/c	18,000
		18,000			18,000
31.12.1994	To P & L A/c	24,000	31.12.1994	By Lessee A/c	24,000
		24,000			24,000
31.12.1995	To P & L A/c	30,000	31.12.1995	By Lessee A/c	30,000
		30,000			30,000

✎ ILLUSTRATION 14:

Ravi took a colliery on lease. The dead rent was ₹750 a year, merging into a royalty of 35 paisa per tonne of coal raised, with the right to recover shortworkings out of two subsequent years from the period in which the shortworkings arose. The output raised were:

Year I	1,000 tonnes
Year II	1,500 tonnes
Year III	2,500 tonnes
Year IV	1,500 tonnes
Year V	1,000 tonnes

Give necessary Ledger Accounts for each of the five years in the books of Ravi.

Solution:

Analysis of Royalty

Year	*Output (Tonnes)*	*Royalty at ₹0.35 per Tonne (₹)*	*Minimum Rent (₹)*	*Short-workings (₹)*	*Short-workings Re-couped (₹)*	*Short-working Irrecover-able Trans-ferred to P & L A/c (₹)*	*Payment to Landlord (₹)*
I	1,000	350	750	400	—	—	750
II	1,500	525	750	225	—	—	750
III	2,500	875	750	—	125	275	750
IV	1,500	525	750	225	—	225	750
V	1,000	350	750	400	—	—	750

Ledger Accounts in the Books of Ravi (Lessee)
Shortworkings Account

		(₹)			*(₹)*
Year I	To Landlord A/c	400	Year I	By Balance c/d	400
		400			400
Year II	To Balance b/d	400	Year II	By Balance c/d	625
	To Landlord A/c	225			
		625			625
Year III	To Balance b/d	625	Year III	By Landlord A/c	125
				By P & L A/c	275
				By Balance c/d	225
		625			625
Year IV	To Balance b/d	225	Year IV	By P & L A/c	225
	To Landlord A/c	225		By Balance c/d	225
		4,500			450

(Contd.)

Year V	To Balance b/d	225	Year V	By Balance c/d	625
	To Landlord A/c	400			
		625			625

Landlord Account

		(₹)			(₹)
Year I	To Bank A/c	750	Year I	By Royalty A/c	350
				By Shortworkings	400
		750			750
Year II	To Bank A/c	750	Year II	By Royalty A/c	525
				By Shortworkings A/c	225
		750			750
Year III	To Shortworkings	125	Year III	By Royalty A/c	875
	To Bank A/c	750			
		875			875
Year IV	To Bank A/c	750	Year IV	By Royalty A/c	525
				By Shortworkings A/c	225
		750			750
Year V	To Bank A/c	750	Year V	By Royalty A/c	350
				By Shortworkings A/c	400
		750			750

Royalty Account

		(₹)			(₹)
Year I	To Landlord A/c	350	Year I	By P & L A/c	350
		350			350
Year II	To Landlord A/c	525	Year II	By P & L A/c	525
		525			525
Year III	To Landlord A/c	875	Year III	By P & L A/c	875
		875			875
Year IV	To Landlord A/c	525	Year IV	By P & L A/c	525
		525			525
Year V	To Landlord A/c	350	Year V	By P & L A/c	350
		350			350

✎ ILLUSTRATION 15:

India Coal Ltd. got the lease of a colliery on the basis of ₹5 per tonne of coal raised, subject to minimum rent of ₹2,00,000 p.a. The tenant has the right to recoup shortworkings during first four years of the lease and not afterwards.

Year	*Output (Tonnes)*
1	18,000
2	26,000
3	50,000
4	60,000
5	1,00,000

You are required to give the Journal Entries and Ledger Accounts in the books of India Coal Ltd.

Solution:

Analytical Table

Year	*Output (Tonnes)*	*Royalty at ₹5 per tonne (₹)*	*Minimum Rent (₹)*	*Analytical Short-workings (₹)*	*Short-workings Recouped (₹)*	*Short-workings Not Recouped (₹)*	*Payment to Landlord (₹)*
1	18,000	90,000	2,00,000	1,10,000	—	—	2,00,000
2	26,000	1,30,000	2,00,000	70,000	—	—	2,00,000
3	50,000	2,50,000	2,00,000	—	50,000	—	2,00,000
4	60,000	3,00,000	2,00,000	—	1,00,000	30,000	2,00,000
5	1,00,000	5,00,000	2,00,000	—	—	—	5,00,000

Journal Entries

Date			*Debit (₹)*	*Credit (₹)*
I Year	Royalties A/c	Dr.	90,000	
	Shortworkings A/c	Dr.	1,10,000	
	To Landlord A/c			2,00,000
	(Being royalty at ₹5 per tonne on 18,000 tonnes and shortworkings ₹1,10,000 due to make up the minimum rent of ₹2,00,000)			

I Year			*Debit (₹)*	*Credit (₹)*
	Landlord A/c	Dr.	2,00,000	
	To Bank A/c			2,00,000
	(Being the payment of minimum rent)			

I Year			*Debit (₹)*	*Credit (₹)*
	Production A/c	Dr.	90,000	
	To Royalties A/c			90,000
	(Being transfer of actual royalties to Production Account)			

II Year			*Debit (₹)*	*Credit (₹)*
	Royalties A/c	Dr.	1,30,000	
	Shortworkings A/c	Dr.	70,000	
	To Landlord A/c			2,00,000
	(Being royalty at ₹5 per tonne on 26,000 tonnes and shortworkings ₹70,000 due to make up the minimum rent of ₹2,00,000)			

II Year			*Debit (₹)*	*Credit (₹)*
	Landlord A/c	Dr.	2,00,000	
	To Bank A/c			2,00,000
	(Being the payment of minimum rent)			

II Year			*Debit (₹)*	*Credit (₹)*
	Production A/c	Dr.	1,30,000	
	To Royalties A/c			1,30,000
	(Being transfer of actual royalties to Production Account)			

III Year			*Debit (₹)*	*Credit (₹)*
	Royalties A/c	Dr.	2,50,000	
	To Shortworkings A/c			50,000
	To Landlord A/c			2,00,000
	(Being royalty at ₹5 per tonne on 50,000 tonnes and shortworkings ₹50,000 due to make up the minimum rent of ₹2,00,000)			

III Year			*Debit (₹)*	*Credit (₹)*
	Landlord A/c	Dr.	2,00,000	
	To Bank A/c			2,00,000
	(Being the payment of minimum rent)			

III Year			*Debit (₹)*	*Credit (₹)*
	Production A/c	Dr.	2,50,000	
	To Royalties A/c			2,50,000
	(Being transfer of actual royalties to Production Account)			

IV Year			*Debit (₹)*	*Credit (₹)*
	Royalties A/c	Dr.	3,00,000	
	To Shortworkings A/c			1,00,000
	To Landlord A/c			2,00,000
	(Being royalty at ₹5 per tonne on 60,000 tonnes and shortworkings ₹1,00,000 due to make up the minimum rent of ₹2,00,000)			

IV Year			*Debit (₹)*	*Credit (₹)*
	Landlord A/c	Dr.	2,00,000	
	To Bank A/c			2,00,000
	(Being the payment of minimum rent)			

IV Year			*Debit (₹)*	*Credit (₹)*
	Profit & Loss A/c	Dr.	30,000	
	To Shortworkings A/c			30,000
	(Being transferred to shortworkings not recouped)			

IV Year			*Debit (₹)*	*Credit (₹)*
	Production A/c	Dr.	3,00,000	
	To Royalties A/c			3,00,000
	(Being transfer of actual royalties to Production Account)			

V Year			*Debit (₹)*	*Credit (₹)*
	Royalties A/c	Dr.	5,00,000	
	To Landlord A/c			5,00,000
	(Being royalty at ₹5 per tonne on 1,00,000 tonnes and minimum rent of ₹2,00,000)			

V Year			*Debit (₹)*	*Credit (₹)*
	Landlord A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	(Being the payment of minimum rent)			

V Year			*Debit (₹)*	*Credit (₹)*
	Production A/c	Dr.	5,00,000	
	To Royalties A/c			5,00,000
	(Being transfer of actual royalties to Production Account)			

Ledger Accounts
Landlord Account

Date		*(₹)*	*Date*		*(₹)*
Year I	To Bank A/c	2,00,000		By Royalties A/c	90,000
				By Shortworkings A/c	1,10,000
		2,00,000			**2,00,000**
Year II	To Bank A/c	2,00,000		By Royalties A/c	1,30,000
				By Shortworkings A/c	70,000
		2,00,000			**2,00,000**
Year III	To Bank A/c	2,00,000		By Royalties A/c	2,00,000
		2,00,000			**2,00,000**
Year IV	To Bank A/c	2,00,000		By Royalties A/c	2,00,000
		2,00,000			**2,00,000**
Year V	To Bank A/c	5,00,000		By Royalties A/c	5,00,000
		5,00,000			**5,00,000**

Shortworkings Account

Date		*(₹)*	*Date*		*(₹)*
Year I	To Landlord A/c	1,10,000		By Balance c/d	1,10,000
		1,10,000			**1,10,000**
Year II	To Balance b/d	1,10,000		By Balance c/d	1,80,000
	To Landlord A/c	70,000			
		1,80,000			**1,80,000**
Year III	To Balance b/d	1,80,000		By Royalty A/c	50,000
				By Balance c/d	1,30,000
		1,80,000			**1,80,000**
Year IV	To Balance b/d	1,30,000		By Royalty A/c	1,00,000
				By P & L A/c	30,000
		1,30,000			**1,30,000**

Royalties Account

Date		*(₹)*	*Date*		*(₹)*
Year I	To Landlord A/c	**90,000**		By P & L A/c	**90,000**
Year II	To Landlord A/c	**1,30,000**		By P & L A/c	**1,30,000**

(Contd.)

Year III	To Landlord A/c	2,00,000		By P & L A/c	2,50,000
	To Shortworkings A/c	50,000			
		2,50,000			**2,50,000**
Year IV	To Landlord A/c	2,00,000		By P & L A/c	3,00,000
	To Shortworkings A/c	1,00,000			
		3,00,000			**3,00,000**
Year V	To Landlord A/c	5,00,000		By P & L A/c	5,00,000

■ *Theory Questions* ■

1. What is Royalty?

2. What is Minimum Rent?

3. What is Shortworkings?

4. What do you mean by Recoupment of Shortworkings?

5. Who is a Lessor?

6. Who is a Lessee?

■ *Exercise Problems* ■

1. Prepare a royalty analytical table from the following information:

(a) Minimum rent ₹10,000

(b) Shortworkings can be recovered during the subsequent two years.

(c) Royalty at ₹2 per tonne

(d) Details of output were as follows:

Year	*Output (in Tonnes)*
2001	4,000
2002	4,500
2003	5,500
2004	6,000
2005	8,000

[Ans: Shortworkings for the years 2001 and 2002: ₹2,000 and ₹1,000, Shortworkings Recouped for the years 2003 and 2004: ₹1,000 and ₹1,000, Shortworkings Lapsed in the year 2003: ₹1,000]

2. Ramu took a lease of mine for a period of 20 years. Royalty payable is ₹1 per tonne, subject to a minimum rent of ₹12,000 per annum. The shortworkings are recoupable during the first three years of the lease. The output was as follows:

1990	*NIL*
1991	4,000
1992	20,000
1993	40,000

Give Journal Entries in the books of Ramu.

[Ans: Shortworkings for the years 1990 and 1991: ₹12,000 and ₹8,000, Shortworkings Recouped for the year 1992: ₹8,000, Shortworkings lapsed in the year 1992: ₹12,000]

3. Hyderabad Coal Limited leased a colliery on 1st January 1991 at a minimum rent of ₹2,24,000, merging into a royalty of ₹1 per tonne, with a stipulation to recoup shortworkings over the first three years of the lease. The output for the first four years of the lease was 1,26,000, 1,96,000, 3,08,000 and 2,66,000 tonnes respectively. Draft the necessary Journal Entries in the books of the company.

[Ans: Shortworkings for the years 1991 and 1992: ₹98,000 and ₹28,000, Shortworkings Recouped for the year 1993: ₹84,000, Shortworkings lapsed for the year 1993: ₹42,000]

4. A colliery company took a lease of mine from Assam Company for a period of 20 years, from 1st January 1990, upon the terms of a royalty of 50 paisa per tonne upon the output with a minimum rent of ₹60,000 in the first year and then increasing every year by ₹5,000, till it reaches ₹70,000, when it becomes fixed for all the coming years. The colliery company was granted the right of recouping shortworking of any year in the subsequent three years and not afterwards. The following are the production of the first five years:

Year	*Tonnes*
1990	20,000
1991	1,00,000
1992	1,40,000
1993	1,60,000
1994	1,70,000

Show the Journal Entries in the colliery company.

[Ans: Shortworkings for the years 1990 and 1991: ₹50,000 and ₹15,000, Shortworkings Recouped for the years 1993 and 1994: ₹10,000 and ₹15,000 Shortworkings lapsed for the year 1993: ₹40,000]

5. Mr. Jana had patented a Gas and gave Madhu Metal Mart, the right to manufacture and sell under a license, for seven years. The stipulated terms were as follows:

(a) A royalty of ₹5 to be paid on each piece.

(b) A minimum rent of ₹1,25,000 per annum.

(c) The right to deduct in two following years any excess of the minimum over the calculated royalties in any year.

The number of pieces sold was as follows:

Year	*No. of Pieces*
1994	22,500
1995	24,000
1996	27,000
1997	30,000

Give Ledger Accounts as they would appear in the books of Madhu Metal Mart to record these transactions.

[Ans: Shortworkings for the years 1994 and 1995: ₹12,500 and ₹5,000, Shortworkings Recouped for the years 1996 and 1997: ₹10,000 and ₹5,000 Shortworkings lapsed for the year 1996: ₹2,500]

6. Raja & Co. obtained a mine on lease for a period of 30 years, beginning from 1st January 2000 on the following terms:

(a) To pay a minimum rent of ₹1,20,000 per year.

(b) Each year, excess of minimum rent over the actual royalties, i.e. shortworkings can be recovered during the subsequent two years.

(c) Royalty was calculated at 50 paisa per tonne.

Production during the four years from 2010–2013 was as follows:

Year	*Output (tonnes)*
2000	1,40,000
2001	1,80,000
2002	3,00,000
2003	3,20,000

Prepare Minimum Rent Account, Landlord Account and Shortworkings Account in the books of Raja & Co.

[Ans: Shortworkings for the years 2000 and 2001: ₹50,000 and ₹30,000, Shortworkings Recouped for the Years 2002 and 2003: ₹30,000 and ₹30,000 Shortworkings lapsed for the year 2002: ₹20,000]

7. A Colliery and Co. lessees a mine at a dead rent of ₹48,000 per annum, merging into a royalty of ₹2 per tonne. Dead rent paid in excess of actual royalties is recoverable during the five years following the year in respect of which such excess was paid. The lease provides that in case of strike and the minimum rental not being reached, the actual royalties earned for the year discharged all rental obligations for that year. The results of the working for the year ended were as follows:

Year	*2003*	*2004*	*2005*	*2006*
Actual royalties (₹)	15,600	44,400	84,000	28,800

Write up the Minimum Rent, Royalties Payable, Shortworkings Allowable and Landlord Accounts in the books of the Colliery Co.

[Ans: Shortworkings for the years 2003 and 2004: ₹32,400 and ₹3,600 Shortworkings Recouped for the year 2005: ₹36,000]

8. On 1st January 2001, Varun & Co. acquired a lease of 15 years from Mr R on lease for getting earth. Terms of lease are:

(a) Annual rate of royalty paid is ₹1 per 100 cubic feet of earth taken out.

(b) Minimum rent is ₹60,000 per annum.

(c) On 1st January 2001, the company gave ₹10,50,000 to R for Rahman.

(d) Shortworkings can be recouped during first four years only.

(e) Annual royalty is paid on 31st December, each year.

Varun & Co. extracts earth in the following manner:

Years	*2002*	*2003*	*2004*	*2005*
Earth in cubic feet	50,00,000	75,00,000	45,00,000	70,00,000

Open Rahman Account, Royalty Account and Shortworkings Account in the books of Varun & Co.

[Ans: Shortworkings for the years 2002 and 2004: ₹10,000 and ₹15,000 Shortworkings Recouped for the year 2003: ₹10,000 Shortworkings Recouped for the year 2005: ₹15,000]

9. Prof. Naveen wrote a book on Human Resource Management and gave the right of its publication and sale to Venus Publishers in the month of April 1994, at a royalty of 15% of printed sale price of book sold. Each year, royalty is paid to the author on 15th September of the next year. Accounts of Venus Publishers are closed on 31st March each year. From the following particulars, prepare Necessary Accounts in the books of Venus Publishers.

Year	*Books Printed*	*Wastage*	*Specimen Copies*	*Closing Balance (₹)*	*Printed Price (₹)*
1994–1995	30,000	1,000	1,000	3,000	120
1995–1996	50,000	2,000	2,000	2,000	140
1996–1997	60,000	3,000	2,000	5,000	160
1997–1998	70,000	1,000	3,000	1,000	200

[Ans: Final Royalty: ₹4,50,000, ₹9,87,000, ₹12,48,000, ₹21,00,000]

10. On 1st July 2010, Arun obtained from Varun, a lease of some coal-bearing land, terms being a royalty of ₹2 per tonne raised, subject to a minimum rent of ₹18,000 per annum with a right to recoup the shortworkings over the first four years (up to 2013) of the lease. From the following details, prepare Royalty Payable Account, Shortworkings Account and Varun Account in the books of Arun.

Year	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
Sales (tonnes)	3,000	4,600	10,000	12,000	7,200	9,000
Closing Stock (tonnes)	1,000	800	1,400	1,600	1,200 (Strike for two months)	1,000 (Lock out for two months)

In the event of strike, the minimum rent would be taken pro-rata on the basis of actual period of working but in the event of lock out, the lessee would enjoy a concession in respect of minimum rent for 4% of the period of lock out.

[Ans: Shortworkings for the years 2010, 2011 and 2014: ₹10,000, ₹9,200 and ₹1,400
Shortworkings Recouped for the years 2012 and 2013: ₹3,200 and ₹6,400]

11. On 1st January 2006, Lenovo Co. acquired a lease of 15 years from Mr Ahamad for getting earth. Terms of lease are:

(a) Annual rate of royalty is ₹1 per 100 cubic feet of earth taken out.

(b) Minimum rent is ₹24,000 per annum.

(c) On 1st January 2000, company gave ₹1,50,000 to Ahamad for extra payment.
(d) Shortworkings can be recouped during first four years only.
(e) Annual royalty is paid on 31st December each year.

Earth was extracted in the following manner:

	2000	*2001*	*2002*	*2003*
Earth in cubic feet	20,00,000	30,00,000	18,00,000	28,00,000

Open Lease Premium, Royalty Account and Shortworking Account in the books of Lenovo Co.

[Ans: Shortworkings for the year 2000 and 2002: ₹4,000, ₹6,000 Shortworkings Recouped for the years: 2001, 2003: ₹4,000, ₹4,000]

12. A company leased a colliery on 1st January 1990 at a minimum rent of ₹10,000, merging into a royalty of ₹1.50 per tonne with power to recoup shortworkings over the first four years of the lease. The output of the colliery for the first four years was 4,500 tonnes, 6,000 tonnes, 8,000 tonnes and 10,000 tonnes, respectively. Give Journal Entries and Ledger Accounts for four years in the books of lessee and lessor.

[Ans: Shortworkings for the years 1990 and 1991: ₹3,250 and ₹1,000, Shortworkings Recouped for the years 1992 and 1993: ₹2,000 & ₹2,250]

13. Raj took a colliery on lease. The dead rent was ₹2,250 a year, merging into a royalty of 35 paisa per tonne of coal raised, with the right to recover shortworkings out of two subsequent years from the period in which the shortworkings arose. The outputs raised were.

Year I	3,000 tonnes
Year II	4,500 tonnes
Year III	7,500 tonnes
Year IV	4,500 tonnes
Year V	3,000 tonnes

Give necessary Ledger Account for each of the five years in the books of Raj.

[Ans: Shortworkings for years I, II, IV and V: ₹1,200, ₹675, ₹675 and ₹1,200 Shortworkings Recouped for year III: ₹375]

14. Delhi Coal Ltd. got the lease of Colliery on the basis of ₹5 per tonne of coal raised, subject to minimum rent of ₹6,00,000 p.a. The tenant has the right to recoup shortworkings during first years of the lease and not afterwards.

Years	*Output (Tonnes)*
I	54,000
II	78,000
III	1,50,000
IV	1,80,000
V	3,00,000

You are required to give the Journal Entries and Ledger Accounts in the books of Delhi Coal Ltd.

[Ans: Shortworkings for the years I and II: ₹3,30,000, ₹2,10,000
Shortworkings Recouped for the years III and
IV: ₹1,50,000 and ₹3,00,000]

15. Coal India Limited are lessees of a mine on a royalty of 50 paisa per tonne of coal raised with a dead rent of ₹40,000 per annum, with power to recoup shortworkings during first five years of the lease. The output for the first five years was as follows:

Year	*Production (in tonnes)*
1990	10,000
1991	48,000
1992	80,000
1993	1,20,000
1994	1,20,000

Give Journal Entries in the books of lessor.

[Ans: Shortworkings for the year 1990: ₹35,000, 1991: ₹16,000
Shortworkings Recouped for the year 1993: ₹20,000,
1994: ₹20,000
Shortworkings Irrecoverable: ₹11,000 in the year 1994]

16. X took out a lease under a royalty agreement from Y, which provided as follows:

Royalty ₹15 per tonne

Minimum Rent ₹15,000

Right of Recouping – First three years

Production during the first three years was as follows:

Year 2014	600 tonnes
Year 2015	1,100 tonnes
Year 2016	1,200 tonnes

Write up the Journal Entries in the books of X.

[Ans: Shortworkings for the year 2014: ₹6,000
Shortworkings recovered for the year 2015: ₹1,500
Shortworkings recovered for the year 2016: ₹3,000
Shortworking irrecoverable: ₹1,500 in the year 2016]

17. Arangan leased a colliery. The dead rent was ₹1,200 a year into a royalty of 25 paisa per tonne of coal raised, with the right of recouping shortworking out of royalties during the first four years.

The quantities raised were:

Year	*Output (tonnes)*
2012	2,000
2013	3,600
2014	6,000
2015	12,000
2016	25,000

Show Royalty Account, Shortworkings Account and Landlord's Account.

[Ans: Shortworkings for the year 2012: ₹700
Shortworkings for the year 2013: ₹300
Shortworkings recovered for the year 2014: ₹300
Shortworkings recovered for the year 2015: ₹700]

18. Mysore Minerals acquired a lease from a landlord for the purpose of extracting ore. It was agreed that the company should pay ₹2 per tonne of ore raised, subject to a minimum annual rent of ₹4,000 and that the shortworking could be recouped for the first three years. The tonnage raised for first four years was:

Year	*Output (tonnes)*
2009	1,000
2010	2,500
2011	3,000
2012	5,000

Show the ledger accounts in the books of Mysore Minerals.

[Ans: Shortworkings for the year 2009: ₹2,000
Shortworkings recovered for the year 2010: ₹1,000
Shortworkings recovered for the year 2011: ₹1,000]

19. Bihar Coal Ltd. leased a colliery from Himalaya Coal Ltd. on 1st January 2001, at a minimum rent of ₹30,000, merging into royalty of ₹2 per tonne, with a power to recoup shortworkings during the first two years of the lease. The output of the colliery for the five years of the lease was 9,000, 15,000, 27,000, 17,000 and 28,000 tonnes respectively.

Pass the Journal Entries for three years for the above transactions in the books of Himalaya Coal Ltd.

[Ans: Shortworkings for the I year: ₹12,000
Shortworkings recovered for the III year: ₹12,000]

20. On 1st January 2003, Raman acquires the right to manufacture and sell locks from the patentee, Ravikiran, on a royalty of ₹5 per lock sold with a minimum annual rent of ₹50,000, payable on 31st December each year.

Number of locks sold was as follows:

Year	*Sales in Numbers*
2003	8,000
2004	9,000
2005	10,000
2006	12,000

Shortworkings are recoupable within four years. Prepare Shortworkings Account.

[Ans: Shortworkings for the year 2003: ₹10,000
Shortworkings for the year 2004: ₹5,000
Shortworkings recovered for the year 2006: ₹10,000
Shortworkings irrecoverable for the year 2006: ₹5,000]

21. Mr. Engineer had patented a quick-boiling kettle and gave the right to manufacture and sell the same to Modern Appliances Ltd., under a license for seven years. The stipulated terms were as follows:

(a) A royalty of ₹4 to be paid on each kettle sold.
(b) A minimum payment of ₹20,000 p.a. should be made
(c) The right to deduct in two following years, any excess of the minimum over the calculated royalties in any year.

The number of kettles sold was as follows:

Year ended	31.03.2013	4,000
	31.03.2014	4,500
	31.03.2015	5,400
	31.03.2016	6,500

Show the Shortworkings Account in the books of the Modern Appliances Ltd. for the above transactions.

[Ans: Shortworkings for the year 2013: ₹4,000
Shortworkings for the year 2014: ₹2,000
Shortworkings recovered for the year 2015: ₹1,600
Shortworkings irrecoverable in the year 2015: ₹2,400
Shortworkings recovered for the year 2016: ₹2,000[

22. Ram Coal Co. Ltd took a lease of mine from M/s Madura & Co. for a period of 25 years from 1st January 2000, upon the terms of a royalty of 50 paisa per tonne of coal raised with the minimum rent of ₹10,000 in the first year and the increasing every year by ₹1000, till it reaches ₹13,000 when it becomes fixed for all the coming years. Ram Coal Co. Ltd was granted the right of recouping shortworking of any year in the subsequent three years and not afterwards. The following was the production of coal in the first three years:

Year	*Production*
2000	3,000 tonnes
2001	18,000 tonnes
2002	24,000 tonnes
2003	30,000 tonnes
2004	32,000 tonnes

Show journal entries in the books of Ram Coal Co., when

(a) There is no "Minimum Rent Account"

(b) There is "Minimum Rent Account"

[Ans: Shortworkings for the year 2001: ₹8,500
Shortworkings for the year 2002: ₹2,000
Shortworkings recovered for the year 2004: ₹2,000
Shortworkings irrecoverable for the year 2004: ₹6,500
Shortworkings recovered for the year 2005: ₹2,000]

23. Mr. Sendhil holds a patent for the manufacture of electric blankets. He allows Everest Manufacturers Ltd., the use of the patent for a royalty

of ₹10 per blanket manufactured, subject to minimum rent of ₹10,000 in the first year, ₹12,000 in the second year and ₹15,000 thereafter. Any shortworking is recoverable out of the royalties of the three years subsequent to the year in which the shortworking arises.

The output is as under:

Year 1999	300 blankets
Year 2000	400 blankets
Year 2001	1,000 blankets
Year 2002	2,000 blankets
Year 2003	2,800 blankets

Show the Shortworkings Account in the books of the company for the various years.

[Ans: Shortworkings for the year 1999: ₹7,000
Shortworkings for the year 2000: ₹8,000
Shortworkings recovered for the year 2001: ₹5,000
Shortworkings recovered for the year 2002: ₹5,000
Shortworkings recovered for the year 2003: ₹5,000]

24. Bengal Coal Co. lessees a mine on a royalty of ₹1 per tonne of coal raised with a dead rent of ₹40,000 per annum and power to recoup shortworkings of any year in the next two years. The lease, however, provided that in any year, if the mine is not worked due to strike, the minimum rent of that year shall be reduced proportionately, having regard to the length of stoppage.

The output was as follows:

Year 1985	10,000 tonnes
Year 1986	48,000 tonnes
Year 1987	52,000 tonnes
Year 1988	52,500 tonnes
Year 1999	25,000 tonnes (strike 3 months)

Write up Royalty, Shortworkings and Landlord's Accounts in the books of Bengal Coal Co.

[Ans: Shortworkings for the year 1985: ₹30,000
Shortworkings recovered for the year 1986: ₹8,000
Shortworkings recovered for the year 1987: ₹12,000
Shortworkings irrecoverable for the year 1987: ₹10,000
Minimum rent for the year 1999: ₹30,000]

25. A colliery worked coal under a lease, which provided for the payment of royalties at 50 paisa per tonne, with a minimum rent of ₹17,000 per annum. Each year's excess rent over the actual royalties was recoverable during the subsequent three years.

The lease, however, stipulated that if in any year, the normal rent was not attained due to strike or accident, the minimum rent was to be regarded as having been reduced proportionately having regard to the length of the stoppage. The output was as follows:

Year	*Tonnes*
2001	4,000
2002	28,000
2003	30,000
2004	46,000
2005	30,000
2006	50,000

During the year 2003, there was a stoppage (due to strike) lasting three months. Give the necessary accounts in the books of the colliery for each of the above years.

[Ans: Shortworkings for the year 2001: ₹15,000
Shortworkings for the year 2002: ₹3,000
Minimum Rent for the year 2003: ₹12,750
Shortworkings recovered for the year 2003: ₹2,250
Shortworkings recovered for the year 2004: ₹6,000
Shortworkings irrecoverable for the year 2004: ₹6,750
Shortworkings recovered for the year 2005: ₹2,000
Shortworkings irrecoverable for the year 2005: ₹1,000]

26. "A" acquired the right to manufacture and sell locks from B on 01.01.1995. A has to pay a royalty of ₹5 for each lock with a minimum annual payment of ₹50,000 amounts are to be settled on 31st December.

The number of locks sold was as follows:

Year	*1995*	*1996*	*1997*	*1998*
Number of Locks	8,000	9,000	11,000	18,000

Prepare Ledger Accounts in the books of A for the year ending 31.12.1998 assuming that shortworking cannot be recouped.

(December 2013/DE-6810/24)

[Ans: Shortworkings irrecoverable for the year 1995: ₹10,000
Shortworkings irrecoverable for the year 1996: ₹5,000]

27. Ramu took a lease of mine for a period of 20 years. Royalty payable is ₹1 per tonne subject to a minimum rent of ₹12,000 p.a. The shortworkings are recoupable during the first three year of the lease. The output was:

2006 – Nil, 2007 – 4,000 tonnes, 2008 – 20,000 tonnes and 2009 – 40,000 tonnes. Give Royalty Account, Shortworkings Account and Landlord's Account in the books.

(November 2010/AF-2248/BC04C2)

[Ans: Shortworkings for the year 2006: ₹12,000
Shortworkings for the year 2007: ₹8,000
Shortworkings recovered for the year 2008: ₹8,000
Shortworkings irrecoverable for the year 2008: ₹12,000]

28. Kuttalam Coal Company Ltd. are the lessees of a mine on a royalty of ₹5 per ton of coal raised with a dead rent of ₹60,000 per annum and power to recoup shortworkings during the first three years of the lease. The output for the first five years were are follows:

I year – 5,500 tons; II years – 10,000 tons; III year – 15,000 tons; IV year – 8,000 tons; V year – 12,000 tons. Prepare necessary account in the books of Kuttalam Coal Ltd.

(Alagappa University May 2014/DE-7934/24)

[Ans: Shortworkings for the I year: ₹32,500
Shortworkings for the II year: ₹10,000
Shortworkings recovered for the III year: ₹15,000
Shortworkings irrecoverable for the III year: ₹27,500
Shortworkings for the IV year: ₹20,000
Shortworkings irrecoverable for the IV year: ₹20,000]

29. Tata limited leases a colliery on 2007 at a minimum rent of ₹20,000 merging into a royally of ₹1.50 per ton with power to recoup short-workings over the first three years of the lease. The output of the colliery for the four years was:

2007 – 9,000 tons, 2008 – 12,000 tons, 2009 – 16,000 tons and 2010 – 20,000 tons

Pass Journal Entries in the books of Tata limited for the first year four years.

(May 2011 U/ID 1380/MWP)

[Ans: Shortworkings for the year 2007: ₹6,500
Shortworkings for the year 2008: ₹2,000
Shortworkings recovered for the year 2009: ₹4,000
Shortworkings irrecoverable for the year 2009: ₹4,500]

CHAPTER

17

Branch Accounts

Learning Objectives

After studying this chapter, you will be able to:

- Understand the concept and purpose of Branch Accounting.
- Understand the types of Accounts maintained by Dependant Branches.
- Understand the meaning and treatment of goods sent at Cost Price and Invoice Price.
- Ascertain the Profit/Loss made by branch by preparing necessary Accounts.

17.1 Branch Accounting

The growth and expansion of business houses necessitate them to open up branches. Branches are ancillary units of head office, acting either dependently or independently in the same lines of Head Office. Branches help the business establishments to overcome place hindrances. The primary unit is called 'Head Office' and its ancillary units are called 'Branches'.

17.2 Objectives of Branch Accounting

- To ascertain the financial result of branches.
- To create accountability among branches.
- To measure individual financial position and performance.
- To exercise proper control.
- To suggest measures for improving efficiency, if needed.

17.3 Types of Branches

1. Dependent branch
2. Independent branch
3. Foreign branch

› 17.3.1 Dependent Branches

Dependent branches are those branches, which are controlled by head office. They act according to the instructions of the head office. The branches remit all the cash received at branches and their expenses are wholly met out by the head office. The accounts of branch are prepared by the head office, based on the reports sent by the branches.

Sometimes, the branch manager may be left with a small amount of cash known as petty cash, under imprest system.

Branches may Prepare their accounts on any one of the following systems:

- Debtors System
- Stock and Debtors System
- Wholesale and Retail Profit System
- Final Account System

Debtors System

This is otherwise called as synthetic method. The head office prepares a branch account for all the branches, in its books. It is nominal in nature. The head office may send the goods at cost to the branches or, sometimes, at invoice price. An invoice price is the price, which includes a percentage of profit. The head office treats branch as an outsider and sends goods at a price that includes profit. If goods are sent at invoice price, stock reserves need to be created to remove unrealised profits.

The proforma of branch account is given below:

Proforma of Branch Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d: (All assets)		By Balance b/d: (Liabilities)	
Stock	xxx	Creditors, etc.	xxx
Debtor	xxx	By Remittances:	
Petty Cash	xxx	Cash Sales	xxx
Furniture, etc.	xxx	Cash from Debtors	xxx

(*Contd.*)

To Goods Sent to Branch	xxx	By Goods Sent to Branch (Returns)	xxx
To Bank (Expenses)	xxx	By Balance b/d (Closing Value of Assets)	xxx
To Balance b/d (Closing Value of Liabilities)	xxx	By General P & L A/c (Loss)	xxx
To General P & L A/c (Profit)	xxx		
	xxx		xxx

- Shortage, pilferage or surplus are ignored.
- Stock reserves on opening stock, closing stock, goods sent, goods returned to be created on opposite sides, if goods are sent at invoice price.

Journal Entries

1. **For Recording Opening Balances of Assets at the Branch:**

   Branch A/c Dr. xxx
   To (Individual)
   Branch Assets A/c xxx

2. **For Recording Opening Balance of Liabilities at the Branch:**

   (Individual) Branch Liabilities A/c Dr. xxx
   To Branch A/c xxx

3. **When Goods are Sent to Branch:**

   Branch A/c Dr. xxx [At Cost/Invoice Price]
   To Goods Sent to Branch A/c xxx

4. **For Return of Goods by Branch to Head Office:**

   Goods Sent to Branch A/c Dr. xxx
   To Branch A/c xxx

5. **For Cash/Cheque sent to Branch for Expenses:**

   Branch A/c Dr. xxx
   To Cash/Bank A/c xxx

6. **For Cash/Cheque Received from Branch (Cash Sales Plus Collection from Debtors):**

Cash/Bank A/c	Dr.	xxx		[Amount including direct payment from debtors]
To Branch A/c			xxx	

7. For Recording Closing Balance of Assets at the Branch:

Branch Assets A/c	Dr.	xxx		
To Branch A/c			xxx	

8. For Recording Closing Balance of Liabilities of the Branch:

Branch A/c	Dr.	xxx		
To Branch Liabilities (Individual) A/c				xxx

9. For Abnormal Loss:

(a) Abnormal Loss A/c	Dr.	xxx	[Total]		
To Branch A/c			xxx		
(b) General Profit and Loss A/c	Dr.	xxx	[Loss]		
Insurance Claim A/c	Dr.	xxx	[Claim]		
To Abnormal Loss A/c			xxx		[Total]

Note: The branch account is prepared to know the correct profit of the branch without being affected by any abnormal loss.

10. For Transferring Profit or Loss of the Branch:

(a) For Profit:				
Branch A/c	Dr.	xxx		
To General Profit & Loss A/c				xxx
(b) For Loss:				
General Profit & Loss A/c	Dr.	xxx		
To Branch A/c				xxx

Note:

- Credit sales, bad debts, discount allowed and returns by debtors will be recorded in debtors account and hence, are not recorded at branch account.
- Branch expenses paid by branch will be adjusted out of petty cash if allowed or will be adjusted out of the collections from cash sales and debtors.
- The closing balance of branch assets and liabilities are shown in the balance sheet of the head office.

✎ ILLUSTRATION 1:

Calculate debtors on 31st December 2012:

Debtors as on 01.01.2012	₹14,000
Credit Sales	₹60,000
Cash Received from Debtors	₹42,000
Discount Allowed	₹1,000
Bad Debts	₹500
Goods Returned by Customers	₹2,000

Solution:

Debtors Account

Particulars	(₹)	*Particulars*	(₹)
To Balance b/d	14,000	By Cash Received from debtors	42,000
To Credit Sales	60,000	By Discount allowed	1,000
		By Returns	2,000
		By Bad Debts	500
		By Balance c/d (Bal. fig.)	**28,500**
	74,000		**74,000**

✎ ILLUSTRATION 2:

Calculate Total Sales:

Branch Debtors on 01.04.2016	₹20,000
Bad Debts	₹1,000
Discount Allowed	₹2,000
Debtors as on 31.03.2017	₹25,000
Cash Received from Debtors	₹80,000
Cash Sales	₹40,000

Solution:

Branch Debtors Account

Particulars	₹	*Particulars*	₹
To Balance b/d	20,000	By Cash	80,000
To Credit Sales (Bal. fig.)	**88,000**	By Bad Debts	1,000
		By Discount	2,000
		By Balance c/d	25,000
	1,08,000		**1,08,000**

Total Sales = Cash Sales + Credit Sales
= 40,000 + 88,000
= ₹1,28,000

✎ ILLUSTRATION 3:

Shanmugam Traders opened a branch at Anna Nagar on 1st January 2010. Prepare Anna Nagar branch account in the books of head office for the year 2010.

Goods Sent to Branch	₹45,000
Cash Sent to Branch for Expenses	₹17,000
Cash Received from Debtors	₹80,000
Stock on 01.01.2010	₹10,000
Stock on 31.12.2010	₹8,000

Solution:

Anna Nagar Branch Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	10,000	By Remittances:	
To Goods Sent to Branch	45,000	Cash Received	80,000
To Bank:		By Closing Stock	8,000
(Expenses)	17,000		
To Profit (Bal. fig.) (Transferred to P & L A/c)	**16,000**		
	88,000		**88,000**

✎ ILLUSTRATION 4:

Prepare Tanjore Branch Account from following:

	(₹)
Stock at the Beginning	11,500
Cash at the Beginning	200
Cash Received from Debtors	3,00,000
Goods Sent to Branch	2,25,000
Stock at the end	29,000
Cash at the end	150
Cash sent to branch for:	
Rent	9,000
Salaries	25,000
Other Expenses	8,000

(Madras University, Nov. 2014, BYA2A, 1/5 figures)

Solution:

Tanjore Branch Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	11,500	By Remittances:	
To Opening Cash	200	Cash from Debtors	3,00,000
To Goods Sent to Branch	2,25,000	By Balance c/d	
To Cash:		Stock	29,000
Rent	9,000	Cash	150
Salaries	25,000		
Other Expenses	8,000		
To Profit (Bal. fig.)	**50,450**		
	3,29,150		**3,29,150**

✎ ILLUSTRATION 5:

From the following details, compute the Profit/Loss made by the Trichy branch.

Opening Stock at Branch	₹45,000
Goods Sent to the Branch	₹1,35,000
Sales at the Branch	₹1,80,000
Cash Sent to Branch for:	
Salaries	₹15,000
Other Expenses	₹6,000

The branch manager is entitled for a commission of 5% before charging such commission. It is known that branch usually sells at cost plus 20%.

(Madras University, Apr. 2016, BYA2C/CYA2A, 1/3 figures, B.Sc., Oct. 2001, Nov. 2012, Periyar BBA, Nov. 2004)

Solution:

Calculation of Closing Stock

$$\text{Cost of Sales} = \text{Opening Stock} + \text{Purchases} - \text{Closing Stock}$$

$$(1,80,000 \times 100/120) = 45,000 + 1,35,000 - \text{Closing Stock}$$

$$1,50,000 = 1,80,000 - \text{Closing Stock}$$

$$\text{Closing Stock} = 1,80,000 - 1,50,000$$

$$= ₹30,000$$

Trichy Branch Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	45,000	By Remittances:	
To Goods Sent to Branch	1,35,000	Sales	1,80,000
To Cash:		By Closing Stock	30,000
Salaries	15,000		
Other Expenses	6,000		
To Manager Commission (9,000 × 5%)	450		
To Net Profit – Transferred to Gen. P & L A/c (Bal. fig.)	**8,550**		
	2,10,000		**2,10,000**

✎ ILLUSTRATION 6:

From the following particulars, prepare Madurai branch account for the year ended 31st December 2012.

Particulars	*(₹)*
Goods Sent to Branch	21,500
Cash Sent to Branch for Expenses	7,600
Cash Received from Branch	32,400
Branch Stock on 31.12.2012	3,230
Petty Cash on 31.12.2012	104

(Madras University, Nov. 2013, BPZ2A/G2A/F2A/C2A/SBAML)

Solution:

Madurai Branch Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Goods Sent to Branch	21,500	By Cash (Remittances)	32,400
To Cash	7,600	By Closing Balance:	
To Profit (Bal. fig.) (Transferred to P & L A/c)	**6,634**	Stock Petty Cash	3,230 104
	35,734		**35,734**

✎ ILLUSTRATION 7:

From the given particulars of a branch for the year 2009, prepare Branch Account in the head office.

	(₹)
Balance on 01.04.2009:	
Stock at Branch	7,500
Debtors	15,000
Petty Cash	150
Goods Sent to Branch in 2009	1,26,000
Cash Sales in 2009	30,000
Goods Returned to H.O.	1,000
Cash Received from Debtors	1,05,000
Credit Sales	1,14,000
Cash Sent to Branch for:	
Salaries	4,500
Rent	750
Petty Cash	550
Balances on 31.03.2010:	
Stock	12,500
Petty Cash	100
Debtors	24,000

(Madras Univ., Nov. 2013, BYA2A, 2 times)

Solution:

Branch Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d:		By Remittances:	
Stock	7,500	Cash Sales	30,000
Debtors	15,000	Cash from Debtors	1,05,000
Petty Cash	150	By Returns	1,000
To Goods Sent	1,26,000	By Balance c/d:	
To Bank:		Stock	12,500
Salaries	4,500	Petty Cash	100
Rent	750	Debtors	24,000
Petty Cash	550		
To Profit (Bal. fig.) (Transferred to Gen. P & L)	**18,150**		
	1,72,600		**1,72,600**

✎ ILLUSTRATION 8:

From the following particulars relating to Erode branch of Little Work & Co., prepare Branch Account for the year ending 31st December 2008.

Particulars		*(₹)*
Stock on 01.01.2008		35,000
Debtors on 01.01.2008		15,000
Petty cash 01.01.2008		500
Goods Sent to Branch		65,000
Goods Returned to Head Office		1,000
Sales:		
Cash	40,000	
Credit	55,000	95,000
Sales Return at Branch		500
Bad Debts		500
Discount Allowed		200
Branch Expenses met by H.O.		4,500
Petty Cash Sent to Branch		1,000
Petty Expenses at Branch		800
Furniture Purchased by Branch		2,000
Stock on 31.12.2008		13,000

(University of Madras, B.Com., Apr. 2000, Mar. 1993 adapted)

Solution:

Branch Debtors Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	15,000	**By Cash Received (Bal. fig.)**	**68,800**
To Credit Sales	55,000	By Bad Debts	500
		By Discount	200
		By Returns	500
	70,000		**70,000**

*As both closing balances of debtors and cash collected from debtors are missing, closing debtors can be taken nil.

Erode Branch Account

Particulars		*(₹)*	*Particulars*		*(₹)*
To Balance b/d:			By Remittances:		
Stock		35,000	Cash Sales	40,000	
Debtors		15,000	Cash Collected	68,800	
Petty Cash		500		1,08,800	
To Goods Sent to Branch		65,000	(–) Furniture	2,000	1,06,800
To Bank (Expenses)		4,500	By Goods Sent (returns)		1,000
To Bank (Petty Cash)		1,000	By Balance c/d:		
To Profit (Bal. fig.)		**2,500**	Stock		13,000
			Debtors		—
			Petty Cash (500 + 1,000 – 800)		700
			Furniture		2,000
		1,23,500			**1,23,500**

✎ ILLUSTRATION 9:

The following information relates to Chennai branch:

Particulars	*(₹)*	*(₹)*
Stock on 01.01.2012		11,200
Branch debtors on 01.01.2012		6,300
Goods Sent to Branch		51,000
Cash Sent for Branch:		
Rent	1,500	
Salaries	3,000	
Petty Cash	500	5,000
Sales at Branch:		
Cash	25,000	
Debtors	39,000	64,000
Cash Received from Debtors		41,200
Stock on 31.12.2012		13,600

Prepare Branch Accounts for the year 2012.

(Madras Univ. Apr. 2013, BPZ2A/C2A/G2A/F2A, SBAML)

Solution:

Branch Debtors Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	6,300	By Cash	41,200
To Sales (credit)	39,000	**By Balance c/d (Bal. fig.)**	**4,100**
	45,300		**45,300**

Chennai Branch Account

Particulars	*(₹)*	*(₹)*	*Particulars*	*(₹)*	*(₹)*
To Balance b/d:			By Bank:		
Stock		11,200	Cash Received from Debtors	41,200	
Debtors		6,300			
			Cash Sales	25,000	66,200
To Goods Sent to branch		51,000	By Balance c/d: Stock		13,600
To Bank:			Debtors		4,100
Rent	1,500				
Salaries	3,000				
Petty Cash	500	5,000			
To Profit (Bal. fig.)		**10,400**			
		83,900			**83,900**

Invoice Price

✎ ILLUSTRATION 10:

A head office in Trichy sends goods to its branch at Coimbatore, to which goods are invoiced at cost plus 25%. Prepare Branch Account in the books of head office from the following details.

Particulars	*(₹)*
Opening Stock at Invoice Price	3,000
Debtors on 01.01.2012	5,600
Petty Cash at the Beginning	150
Goods Sent to Branch	25,000
Remittances by Branch to H.O.:	
Cash Sales	15,000
Cash Collected from Debtors	35,000

(*Contd.*)

Cheques Sent to Branch:		
Salary	3,500	
Rent	10,000	
Petty Cash	200	
Other Expenses	750	14,450
Closing Stock at Invoice Price		5,000
Petty Cash in Hand on 31.12.2012		50
Debtors at the End of the Year		40,000

(Madras University, Nov. 2013, BPZ2A/BPF2A/C2A/G2A)

Solution:

Coimbatore Branch Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d:		By Remittances:	
Stock	3,000	Cash Sales	15,000
Debtors	5,600	Cash Collected from Debtors	35,000
Petty Cash	150		
To Goods Sent to Branch	25,000	By Balance c/d:	
To Bank:		Stock	5,000
Salary	3,500	Debtors	40,000
Rent	10,000	Petty Cash	50
Petty Cash	200	By Stock Reserve	600
Other Expenses	750	(3,000 × 25/125)	
To Stock Reserve		By Goods Sent – Loading	
(5,000 × 25/125)	1,000	(25,000 × 25/125)	5,000
To Profit (Bal. fig.)			
(Transferred to Gen. P & L)	**51,450**		
	1,00,650		**1,00,650**

✎ ILLUSTRATION 11:

The following details are provided by Star Ltd., regarding its branch at Cuddalore, to which goods are invoiced at cost plus 60%.

Particulars	*(₹)*
Stock on 01.01.2012	24,000
Branch Debtors on 01.01.2012	21,375
Furniture as on 01.01.2012	20,000
Goods Sent to Branch	3,12,000
Cash Sent to Branch for Expenses	16,260

(*Contd.*)

Sales at Branch:	
Cash	2,16,000
Credit	62,400
Bad Debts	375
Discount to Debtors	600
Debtors as on 31.12.2012	10,800
Stock on 31.12.2012	33,600

Depreciation for furniture @15% p.a. Prepare Branch Accounts to compute profit. **(CS Foundation 2002, 10 times)**

Debtors Account

To Balance b/d	21,375	By Bad debts	375
		By discount	600
To Credit Sales	62,400	**By cash received from Debtors (Bal. fig.)**	**72,000**
		By Balance c/d	10,800
	83,775		83,775

Solution:

Cuddalore Branch A/c

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d:		By Remittances:	
Stock	24,000	Cash Sales	2,16,000
Debtors	21,375	Cash Collected from	72,000
Furniture	20,000	Debtors	
To Goods Sent to Branch	3,12,000	By Stock Reserve (24,000 × 60/160)	9,000
To Bank:	16,260	By Goods Sent – Loading (3,12,000 × 60/160)	1,17,000
To Stock Reserve (33,600 × 60/160)	12,600	By Balance c/d:	
		Stock	33,600
		Debtors	10,800
To Profit (Bal. fig.) (Transferred to Gen. P & L)	**52,165**		
	4,58,400		**4,58,400**

Stock and Debtors System

Under this method, the head office maintains separate accounts under various heads instead of a single branch account. The accounts maintained are:

Branch Stock Account All transactions relating to stock are recorded by following the accounting rules of Real Account. This account shows the gross profit or gross loss, if goods are sent at cost price and shows shortage or surplus, if goods are sent at invoice price.

Branch Debtors Account This is the usual debtors account prepared.

Branch Expenses Account All expenses relating to branch are recorded here in the debit side by adopting rules of nominal account. The balance of this account is transferred to branch profit and loss account.

Branch Adjustment Account This account is prepared only if the goods are sent at invoice price. Loading on goods sent, goods returned, stock reserve on opening and closing stock are shown in this account and the balance of this account denotes gross profit/loss.

Branch Profit and Loss Account The gross profit computed through the branch stock or branch adjustment account is transferred to this account. The branch expenses, cost of shortage, cost of surplus are also transferred. The balance is either net profit or net loss. The entries are as follows:

Journal Entries

(a)	**When Goods are Sent to Branch:**			
	Branch Stock A/c	Dr.	xxx	
	To Goods Sent to Branch A/c			xxx
(b)	**For Cash Sales made in Branch:**			
	Branch Cash A/c	Dr.	xxx	
	To Branch Stock A/c			xxx
(c)	**For Credit Sales made in Branch:**			
	Branch Debtors A/c	Dr.	xxx	
	To Branch Stock A/c			xxx
(d)	**For Goods Returned by Branch**			
	Goods Sent to Branch A/c	Dr.	xxx	
	To Branch Stock A/c			xxx
(e)	**For Stock Damaged/Destroyed etc.:**			
	Defective Stock A/c	Dr.	xxx	
	To Branch Stock A/c			xxx
(f)	**For Cash collected from Branch Debtors:**			
	Branch Cash A/c	Dr.	xxx	
	To Branch Debtors A/c			xxx
(g)	**For Goods Returned by Branch Debtors:**			
	Branch Stock A/c	Dr.	xxx	
	To Branch Debtors A/c			xxx

(h) For Branch Expenses:

Branch Expenses A/c	Dr.	xxx	
To Bank/Cash A/c			xxx

(i) For Transferring Branch Expenses:

Branch P & L A/c	Dr.	xxx	
To Branch Expenses A/c			xxx

(j) For Shortage of Goods:

Branch Adjustment A/c	Dr.	xxx	[For loading on goods]
Branch P & L A/c	Dr.	xxx	[For cost goods]
To Branch Stock A/c			xxx

(k) For Purchase of Asset for Branch:

Branch Asset A/c	Dr.	xxx	
To Cash A/c			xxx

(l) For Depreciation on Branch Assets:

Branch Profit & Loss A/c	Dr.	xxx	
To Branch Assets A/c			xxx

✎ ILLUSTRATION 12:

Prepare Branch Expenses Account from the following information

Branch Salaries	–	₹2,000
Branch Rent	–	₹1,000
Discount	–	₹500
Bad Debts	–	₹300

(Periyar University/April 2011/08UCY01)

Branch Expenses Account

	₹		₹
To Cash/Bank (Salaries, Rent)	3,000	By Branch Profit & Loss A/c	3,800
To Branch Debtors – (Discount, Bad Debts)	800		
	3,800		**3,800**

✎ ILLUSTRATION 13:

Prepare Branch Stock Account from the following:

Stock on 1.1.2014: ₹21,000

Goods sent to Branch: ₹78,000

Cash Sales: ₹52,500
Goods returned to Head Office: ₹3,000
Credit Sales: ₹85,200
Stock on 31.12. 2014: ₹19,500
Goods returned by Customers to Branch: ₹1,500

Branch Stock Account

	₹		₹
To Balance b/d	21,000	By Cash Sales	52,500
To Goods sent to branch	78,000	By Goods returned to HO	3,000
To Branch Debtors	1,500	By Branch Debtors – Credit Sales	85,200
To Surplus – Branch Profit & Loss A/c (Bal. fig.)	**59,700**	By Balance c/d	19,500
	1,60,200		**1,60,200**

✎ ILLUSTRATION 14:

On 1.1.2010 the goods invoiced by Bombay Head Office of a trader to its Madras Branch were ₹96,000 at invoice price being 33⅓%, on cost price. For 6 months ended June 30, 2010 the Branch returns showed that the sales were ₹58,000. The goods invoiced at ₹4,000 were returned by the branch. On 30th June 2010, closing stock were ₹33,600 at Selling Price. There was no opening stock at the branch.

You are required to prepare Branch Stock Account, Branch Adjustment Account and Goods sent to Branch Account in Bombay head office books.

(December 2013/DE-6810/24)

Branch Stock Account

	₹		₹
To Goods Sent to Branch	96,000	By Goods Returned	4,000
		By Cash Sales	58,000
		By Balance c/d	33,600
		By Shortage:	
		P & L A/c	300
		Adjustment A/c	100
	96,000		**96,000**

Goods Sent to Branch Account

	₹		₹
To Branch Stock – Returns	4,000	By Branch Stock – Goods Sent	96,000
To Branch Adjustment A/c (92,000 × 1/4)	23,000		
To Purchases – Transfer	69,000		
	96,000		**96,000**

Branch Adjustment Account

	₹		₹
To Branch Stock	100	By Loading on Goods Sent (92,000 × 1/4)	23,000
To Stock Reserve (33,600 × 1/4)	8,400		
To Branch P & L A/c	14,500		
	23,000		**23,000**

✎ ILLUSTRATION 15

ABC Company invoiced goods to its Delhi branch at cost. The head office paid all the branch expenses from its bank, except petty cash expenses, which were paid by the branch. From the following details relating to the branch, prepare Branch Stock Account, Branch Debtors Account, Branch Expenses Account, Branch Profit and Loss Account.

Particulars	*(₹)*
Stock (Opening)	24,000
Debtors (Opening)	38,000
Petty cash (Opening)	1,000
Goods Sent from H.O.	98,000
Cash Sales	55,000
Advertisements	2,500
Cash Received from Debtors	81,000
Closing Stock	20,000

(*Contd.*)

Allowances to Customer	1,800
Discount to Customers	600
Bad Debts	4,200
Goods Returned by Customer	2,000
Goods Returned to Head Office by branch	3,000
Salaries and Wages	18,600
Rent & Rates	3,600
Closing Debtors	35,400
Closing Petty Cash	300
Credit Sales	87,000

Solution:

Branch Stock Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening Stock	24,000	By Cash Sales	55,000
To Goods Sent to Branch	98,000	By Credit Sales	87,000
To Branch Stock A/c	2,000	By Goods Returned to H.O.	3,000
To Profit & Loss **(Bal. fig.)**	**41,000**	By Closing Stock	20,000
	1,65,000		**1,65,000**

Branch Debtors Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	38,000	By Cash Received	81,000
To Credit Sales	87,000	By Expenses:	
		Bad Debts	4,200
		Allowances	1,800
		Discount	600
		By Branch stock(Returns)	2,000
		By Closing Debtors	35,400
	1,25,000		**1,25,000**

Branch Expenses Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Debtors:		By P & L	32,000
Bad Debts	4,200		
Allowances	1,800		
Discount	600		
To Bank:			
Advertisement	2,500		
Salaries	18,600		
Rent & Rates	3,600		
To Petty Expenses (1000 – 300)	700		
	32,000		**32,000**

Branch Profit and Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Expenses A/c	32,000	By Stock A/c	41,000
To General P & L A/c (Bal. fig.)	**9,000**		
	41,000		**41,000**

✎ ILLUSTRATION 16:

The Everwin Trading Company invoices goods to its Tuticorin branch at cost. All expenses of Branch were met by the head office except petty cash expenses, which were paid by the branch. Prepare: (i) Branch Stock Account, (ii) Branch Debtors Account, (iii) Branch Expenses Account, and (iv) Branch Profit and Loss Account to ascertain profit or loss for the year ended 31st March 2015.

Particulars	*(₹)*
Stock on 01.04.2014	2,10,000
Debtors as on 01.04.2014	3,78,000
Petty Cash on 01.04.2014	6,000
Goods Sent to Branch	7,80,000
Goods Returned by Branch to H.O.	30,000
Cash Sales	5,25,000

(*Contd.*)

Advertisement	24,000
Cash Received from Debtors	8,55,000
Stock as on 31.03.2015	1,95,000
Bad Debts	18,000
Discount allowed	42,000
Allowances to Customers	6,000
Goods Returned by Customers to Branch	15,000
Salaries and Wages	1,86,000
Rent and Rates	36,000
Debtors as on 31.03.2015	2,94,000
Petty Cash as on 31.03.2015	3,000
Credit Sales at Branch	8,52,000

(Madras Univ., Apr. 2012, Mar. 1989 1/10 figures, BYA2A, Adapted)

Solution:

Branch Stock Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	2,10,000	By Branch Cash	5,25,000
To Goods Sent to Branch	7,80,000	By Branch Debtors	8,52,000
To Branch Debtors (Returns)	15,000	By Goods Sent to Branch (Returns)	30,000
To Branch P & L A/c (Bal. fig.) (Transfer)	**5,97,000**	By Balance c/d	1,95,000
	16,02,000		**16,02,000**

Branch Debtors Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	3,78,000	By Branch Cash	8,55,000
To Branch Stock A/c (Credit Sales)	8,52,000	By Branch Expenses (Discount, Bad Debts, Allowances)	66,000
		By Branch Stock (Returns)	15,000
		By Balance c/d	2,94,000
	12,30,000		**12,30,000**

Branch Expenses Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Branch Debtors A/c	66,000	By Branch P & L A/c (Transfer)	3,15,000
To Bank:			
Advertisements	24,000		
Salaries	1,86,000		
Rent	36,000		
To Petty Expenses (6,000 – 3,000)	3,000		
	3,15,000		**3,15,000**

Branch Profit and Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Branch Expenses A/c	3,15,000	By Branch Stock A/c	5,97,000
To Branch Profit and Loss A/c (Bal. fig.) (Profit)	**2,82,000**		
	5,97,000		**5,97,000**

✎ ILLUSTRATION 17:

Calculate Stock Reserve and Loading on goods sent to branch, if head office invoices goods at cost plus 25%.

		(₹)
Stock at the Beginning	–	45,000
Stock at the End	–	30,000
Goods Sent to Branch	–	1,32,000
Goods Returned to Head Office	–	12,000

All the above values are recorded at invoice price.

Solution:

Stock Reserve on Opening Stock = 45,000 × 25/125 = ₹9,000
Stock Reserve on Closing Stock = 30,000 × 25/125 = ₹6,000
Goods Sent – Loading = 1,32,000 × 25/125 = ₹26,400
Goods Returned by Customer = 12,000 × 25/125 = ₹2,400

✎ ILLUSTRATION 18:

Raja Ltd. owns a branch at Delhi. The head office invoices goods to the branch at cost plus 33⅓%. Find out Profit made by the branch adopting stock and debtors system.

	(₹)
Stock on 01.01.2013 (Invoice Price)	45,000
Debtors on 01.01.2013	34,200
Goods Invoiced to Branch (Invoice Price)	2,01,000
Cash Sales	93,000
Credit Sales	1,12,200
Bad Debts written off	750
Discount Allowed	900
Expenses at Branch	20,100
Cash Received from Debtors	1,20,000
Stock on 31.12.2013	40,000

(Madras Univ., Apr. 2016, BYA2C/CYA2A 1/3 figures, Nov. 2014, BYA2A)

Solution:

Branch Stock Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	45,000	By Cash A/c	93,000
To Goods to Branch	2,01,000	By Branch Debtors A/c	1,12,200
		By Branch P & L – Shortage	450
		By Branch Adj. A/c – Shortage	150
		By Balance c/d	40,200
	2,46,000		**2,46,000**

Branch Debtors Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance c/d	34,200	By Branch Expenses (900 + 750)	1,650
To Branch Stock	1,12,200	By Cash	1,20,000
		By Balance c/d (Bal. fig.)	**24,750**
	1,46,400		**1,46,400**

Branch Expenses Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Branch Debtors	1,650	**By Branch P & L A/c (Bal. fig.)**	**21,750**
To Bank	20,100		
	21,750		**21,750**

Branch Adjustment Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Stock Reserve (40,200 × 33.33/133.33)	10,050	By Stock Reserve (45,000 × 33.33/133.33)	11,250
To Branch Stock (Loading on Shortage)	150	By Goods to Branch Loading (2,01,000×33.33/133.33)	50,250
To Branch P & L (Gross Profit) (Bal. fig.)	**51,300**		
	61,500		**61,500**

Branch Profit and Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Branch Stock A/c	450	By Branch Adj. A/c	51,300
To Branch Expenses	21,750		
To Net Profit (Bal. fig.)	**29,100**		
	51,300		**51,300**

✎ ILLUSTRATION 19:

A head office at Chennai invoices goods to Nellai branch at cost plus 50%. Branch remits all cash received to head office and all branch expenses are met by the head office. Prepare necessary accounts under stock and debtors system to ascertain gross profit and net profit.

	(₹)
Stock on 01.01.2014 (Invoice Price)	27,900
Debtors on 01.01.2014	20,400
Goods Invoiced to Branch (Invoice Price)	1,53,000
Cash Sales	75,000
Credit Sales	93,000
Cash Collected from Debtors	91,200
Goods Returned by Debtors	3,600
Goods Returned by Branch	4,500
Shortage of Stock	1,350
Discount Allowed	600
Expenses at Branch	16,200
Bad Debts	600

(Madras University, Nov. 2015, BYA2A, Sep. 1992)

Solution:

Branch Stock Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	27,900	By Branch Cash A/c	75,000
To Goods Sent to Branch	1,53,000	By Branch Debtors	93,000
To Branch Debtors (Returns)	3,600	By Goods Sent to Branch (Return to H.O.)	4,500
		By Branch Adj. A/c (Loading on Shortage) (1,350 × 50/150)	450
		By Branch P & L A/c (1,350 × 100/150)	900
		By Balance c/d (Bal. fig.)	**10,650**
	1,84,500		**1,84,500**

Branch Debtors Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance c/d	20,400	By Branch Cash	91,200
To Branch Stock A/c	93,000	By Branch Stock	3,600
		By Branch Expenses:	
		Discount	600
		Bad Debts	600
		By Balance c/d (Bal. fig.)	**17,400**
	1,13,400		**1,13,400**

Branch Expenses Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Bank	16,200	**By Branch P & L A/c (Bal. fig.)**	**17,400**
To Branch Debtors (600 + 600)	1,200		
	17,400		**17,400**

Branch Adjustment Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Stock Reserve (10,650 × 50/150)	3,550	By Stock Reserve (27,900 × 50/150)	9,300
To Branch Stock A/c (1,350 × 50/150) (Loading on Shortage)	450	By Goods Sent – Loading (1,53,000 × 50/150)	51,000
To Goods Returned – Loading (4,500 × 50/150)	1,500		
To Branch P & L A/c (Gross Profit)	54,800		
	60,300		**60,300**

Branch Profit and Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Branch Expenses A/c	17,400	By Branch Adj. A/c	54,800
To Branch Stock A/c (Transfer from Stock)	900		
To General P & L A/c (Bal. fig.) (Net Profit)	**36,500**		
	54,800		**54,800**

✎ ILLUSTRATION 20:

Udaya Traders sends goods to their branch at Mysore at cost plus 50%. All expenses of branch are met by the head office. Prepare necessary Ledger Accounts under stock and debtors systems.

	(₹)
Stock on 01.01.2017 at Invoice Price	39,000
Debtors on 1.1.17	21,750
Goods Sent to Branch at Cost	90,000
Cash Collected from Debtors	74,500
Goods Returned by Debtors	3,750
Cash Sales	87,500
Credit Sales	75,250
Surplus in Stock	750
Discount Allowed to Customers	875
Branch Expenses	16,750

(Madras Univ., Nov. 2013, BYA2A (Adapted))

Solution:

Branch Stock Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance c/d	39,000	By Cash	87,500
To Goods Sent to Branch (90,000 + 50%)	1,35,000	By Branch Debtors	75,250
To Branch Debtors (Returns)	3,750	**By Balance c/d (Bal. fig.)**	**15,750**
To Branch Adj. A/c (750 × 50/150)	250		
To Branch P & L A/c (750 × 100/150)	500		
	1,78,500		**1,78,500**

Branch Debtors Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	21,750	By Cash	74,500
To Branch Stock (Credit Sales)	75,250	By Branch Expenses (Discount)	875
		By Branch Stock (Returns)	3,750
		By Balance c/d (Bal. fig.)	**17,875**
	97,000		**97,000**

Branch Expenses Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Bank	16,750	**By Branch P & L A/c (Bal. fig.)**	**17,625**
To Branch Debtors	875		
	17,625		**17,625**

Branch Adjustment Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Stock Reserve (15,750 × 50/150)	5,250	By Stock Reserve (39,000 × 50/150)	13,000
To Branch P & L A/c (Bal. fig.) (Gross Profit)	**53,000**	By GSB – Loading (1,35,000 × 50/150)	45,000
		By Branch Stock (Loading on Surplus)	250
	58,250		**58,250**

Branch Profit and Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Branch Expenses A/c	17,625	By Branch Adj. A/c	53,000
To Net Profit (Transferred to Gen. P & L)	**35,875**	By Branch Stock A/c	500
	53,500		**53,500**

✎ ILLUSTRATION 21:

The Royal Ltd., with its head office at Chennai, opened a branch at Madurai, on 1st January 2012 and invoices goods to the branch at a price 25% above cost. From the given data, prepare necessary accounts in the books of head office under stock and debtors system to ascertain Gross Profit and Net Profit of the Madurai branch.

Particulars		*(₹)*
Goods Sent to Branch at I.P.		45,000
Expenses of Branch met by H.O.		7,200
Discount Allowed		50
Bad Debts Written Off		80
Sales:		
Cash	21,000	
Credit	12,000	33,000
Stock on 31.12.2012 (I.P.)		11,800
Goods Returned by the Branch (I.P.)		600
Goods Returned by the Debtors		500

(Madras Univ. Nov. 2014, BPZ2A/C2A/G2A/F2A, SBAML)

Solution:

Branch Stock Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Goods Sent to Branch	45,000	By Cash A/c	21,000
To Branch Debtors (Returns Inwards)	500	By Branch Debtors A/c	12,000
		By Goods Sent to Branch (Returns)	600
		By Balance c/d	11,800

(Contd.)

		By Branch Adj. A/c (100 × 25/125)	20
		By Branch P & L A/c (100 × 100/125)	80
	45,500		**45,500**

Branch Debtors Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Branch Stock A/c	12,000	By Branch Expenses A/c:	
		Discount	50
		Bad Debts	80
		By Branch Stock (Returns Inwards)	500
		By Balanced c/d	11,370
	12,000		**12,000**

Branch Expenses Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Bank	7,200	**By Branch P & L A/c (Bal. fig.)**	**7,330**
To Branch Debtors A/c	130		
	7,330		**7,330**

Branch Adjustment Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Loading on Goods Sent to Branch (600 × 25/125)	120	By Goods Sent to Branch – Loading (45,000 × 25/125)	9,000
To Stock Reserve (11,800 × 25/125)	2,360		
To Branch Stock A/c (Loading in Shortage)	20		
To Branch P & L A/c (GP) (Bal. fig.)	**6,500**		
	9,000		**9,000**

Branch Profit and Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Branch Stock A/c (Cost of Shortage)	80	By Branch Adj. A/c	6,500
To Branch Expenses A/c	7,330	**By Net Loss (Bal. fig.)**	**910**
	7,410		**7,410**

✎ ILLUSTRATION 22:

A Mumbai head office invoices goods to its Chennai branch at cost plus 25%. Prepare necessary ledger accounts in the books of the head office, under stock and debtors system, for the year ended 31st March 2013.

	(₹)
Stock on 01.04.12	60,000
Good Sent to Branch (I.P)	2,70,000
Loss of Goods in Transit (I.P)	18,000
Pilferage at Branch	3,600
Closing Stock (31.03.2013)	48,000
Sales Made by Branch	3,15,000
Salaries and Wages of Branch	10,000
Advertisement	9,000
Other Expenses at Branch	8,000

The branch received ₹12,000 from the insurance company for claim for loss of goods in transit.

Solution:

Branch Stock Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	60,000	By Branch Debtors A/c	3,15,000
To Goods Sent to Branch	2,70,000	By Loss of Goods in Transit:	
		P & L A/c (18,000 × 100/125)	14,400
		Adj. A/c (18,000 × 25/125)	3,600
To Surplus:		By Pilferage:	
(Bal. fig.)		P & L A/c (3,600 × 100/125)	2,880
P & L (54,600 × 100/125)	**43,680**	Adj. A/c (3,600 × 25/125)	720
Adj. A/c (54,600 × 25/125)	**10,920**	By Balance c/d	48,000
	3,84,600		**3,84,600**

Branch Expenses Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Salaries and Wages	10,000	By Branch P & L A/c	27,000
To Advertisement	9,000		
To Other Expenses	8,000		
	27,000		**27,000**

Branch Adjustment Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Stock Reserve (48,000 × 25/125)	9,600	By Stock Reserve (60,000 × 25/125)	12,000
To Branch Stock (Loading on Loss)	3,600	By Goods Sent – Loading (2,70,000 × 25/125)	54,000
To Branch Stock (Loading on Pilferage)	720	By Branch Stock A/c (Loading on Surplus)	10,920
To Branch P & L A/c (Bal. fig.) (Gross Profit)	**63,000**		
	76,920		**76,920**

Branch Profit and Loss Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Branch Expenses A/c	27,000	By Branch Adj. A/c	63,000
To Branch Stock (Cost of Loss in Transit)	14,400	By Branch Stock (Cost of Surplus)	43,680
To Branch Stock (Cost of Pilferage)	2,880		
To General P & L A/c (Bal. fig.) (Net Profit)	**62,400**		
	1,06,680		**1,06,680**

Note: Claim received is less than the cost of transit.
∴ No entry needed.

✎ ILLUSTRATION 23:

The Calcutta Commercial Company invoiced goods to its Jamshedpur Branch at cost. The Head office paid all the branch expenses from its bank except petty cash expenses, which were paid by the branch. From the following details relating to the Branch, prepare:

(a) Branch Stock Account

(b) Branch Debtors Account

(c) Branch Expenses Account

(d) Branch P & L Account

	₹		₹
Stock (Opening)	21,000	Discount to Customers	4,200
Debtors (Opening)	37,800	Bad debts	1,800
Petty Cash (Opening)	600	Goods returned by customers at the branch	1,500
Goods sent from Head Office	78,000	Salaries & Wages	18,600
Goods returned to Head office	3,000	Rent & Rates	3,600
Cash sales	52,500	Debtors (Closing)	29,400
Advertisement	2,400	Petty cash (Closing)	300
Cash received from debtors	85,500	Credit Sales	85,200
Allowances to customers	600	Stock (Closing)	19,500

(December 2014 U/ID 22201/UCZA/ UCWA/UCYA/UCXB/ URMA/UCVB)

Branch Stock Account

	₹		₹
To Balance b/d	21,000	By Cash Sales	52,500
To Goods sent to branch	78,000	By Branch Debtors	85,200
To Branch Debtors	1,500	By Goods Sent to Branch	3,000
To Surplus (Bal. fig.)	**59,700**	By Balance c/d	19,500
	1,60,200		**1,60,200**

Branch Debtors Account

	₹		₹
To Balance b/d	37,800	By cash received from customers	85,500
To Branch Stock	85,200	By Branch Expenses – Bad debts	6,600
		By Branch Expenses – Returns	1,500
		By Balance c/d (Bal. fig.)	**29,400**
	1,23,000		**1,23,000**

Branch Expenses Account

	₹		₹
To Branch Debtors – Bad	6,600	By Branch Profit & Loss A/c	31,500
To Cash	24,600		
To Petty Expenses	300		
	31,500		**31,500**

Branch Profit & Loss Account

	₹		₹
To Branch Expenses	31,500	By Branch Stock	59,700
To Net Profit (Bal. fig.)	**28,200**		
	59,700		**59,700**

Wholesale Profit

In recent days, manufacturers run factory outlets in which both wholesale trading and retail trading takes place. The retail profit will be differing from the wholesale profit, as the wholesale price is usually lower than the retail price. Hence, it is necessary for the manufacturer to ascertain the correct profit. To enable this, the head office sends goods to the branches at wholesale rates. The branch maintains a separate stock reserve account to arrive at the accurate profit earned by it.

✎ ILLUSTRATION 24:

A head office at Mumbai sends goods to its branch at 20% less than the list price. The list price is cost plus 100%. Ascertain the Profit made at head office and the branch on wholesale basis.

Particulars	*H.O.* *(₹)*	*Branch* *(₹)*
Purchases	5,00,000	—
Goods Sent to Branch at Invoice Price	2,00,000	—
Sales	4,25,000	2,00,000

Solution:

Trading and Profit and Loss Account

Particulars	*H.O.* (₹)	*Branch* (₹)	*Particulars*	*H.O.* (₹)	*Branch* (₹)
To Purchases	5,00,000	—	By Goods Sent	2,00,000	—
To Goods Sent to Branch	—	2,00,000	By Sales	4,25,000	2,00,000
To Gross Profit (Bal. fig.)	**2,87,500**	**40,000**	By Closing Stock	1,62,500	40,000
	7,87,500	**2,40,000**		**7,87,500**	**2,40,000**
To Stock Reserve (40,000 × 60/160)	15,000	—	By Gross Profit	2,87,500	40,000
To Net Profit (Bal. fig.)	**2,72,500**	**40,000**		—	—
	2,87,500	**40,000**		**2,87,500**	**40,000**

Working Notes:

1. Let, Cost = ₹100

   ∴ List Price = 100 + 100%
   = ₹200

   Invoice Price = List Price – 20%
   = 200 – 40
   = ₹160

2. Closing Stock at Head Office

Goods Purchased		5,00,000
(–) Sales at H.O.	4,25,000	
(–) Profit		
(4,25,000 × 100/200)	2,12,500	2,12,500
		2,87,500
(–) Cost of Goods Sent to Branch (2,00,000 × 100/160)		1,25,000
Closing Stock		1,62,500

3. Closing Stock at Branch

Goods Received @ Invoice Price	2,00,000
(–) Invoice Value of Goods Sold (2,00,000 × 160/200)	1,60,000
	40,000

Final Account System

The final account system enables the dependent branch to compute profit/ loss by preparing memorandum trading and profit and loss account. The values are recorded at cost. A branch account is also prepared to represent the net assets at the end of the year.

✎ ILLUSTRATION 25:

A head office invoices goods to its branch at Tuticorin at cost plus 25%. The branch maintains only debtors ledger and sales ledger and all expenses are met by the head office. Prepare Trading Account and Profit and Loss Account of Tuticorin branch for the year ending 31st March 2014.

Particulars	*(₹)*
Stock on 01.04.2013	36,000
Credit Sales	61,500
Goods Sent to Branch	45,000
Stock on 31.03.2014	27,000
Branch Expenses	15,600
Goods in Transit, as on 31.03.2014	2700
Cash Sales	26,250
Debtors	13,740
Cash Received from Debtors	56,850

Solution:

Branch Trading and Profit and Loss Account for the Year Ended 31.03.2014

Particulars		*(₹)*	*Particulars*	*(₹)*
To Opening Stock (36,000 – 7,200)		28,800	By Sales (26,250 + 61,500)	87,750
To Goods Sent from H.O	38,160		By Closing Stock	21,600
(–) Cost of Goods in Transit	2,160	36,000	(27,000 –5,400)	
To Gross Profit (Bal. fig.)		**44,550**		
		1,09,350		**1,09,350**
To Expenses		15,600	By Gross Profit	44,550
To Net Profit (Bal. fig.)		**28,950**		
		44,550		**44,550**

Tuticorin Branch Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d:		By Bank	83,100
Opening Stock (36,000 – 7,200)	28,800	(26,250 + 56,850)	
Debtors	9,090		
To Goods Sent from H.O (45,000 + 2,700) – 9,540	38,160	By Goods in Transit (2,700 – 540)	2,160
To Expenses	15,600	By Balance b/d	
		Closing Stock (27,000 – 5,400)	21,600
		Debtors	13,740
To Net Profit (Bal. fig.)	**28,950**		
	1,20,600		**1,20,600**

- Opening balance of debtors is found by preparing Debtors Account.
- Opening stock, closing stock and goods in transit are shown after reducing loading on them, by taking 25/125.

› 17.3.2 Independent Branches

An independent branch acts like a separate unit and maintains its own set of books. It receives goods from the head office and also can purchase from outside. It maintains separate books, from which, it prepares a Trial Balance and the final accounts. The copy of the Trial Balance is sent to the head office. The head office incorporates the Trial Balance and prepares consolidated final accounts. Even though the branches meet their expenses out of their collections, sometimes, transfer of goods and cash may take place between the head office and the branches.

A. Adjustment Entries

✎ **ILLUSTRATION 26:**

Give journal entries in the books of H.O. for the following transactions. The accounts are closed on 31st December every year.

(a) Goods sent to branch on 26th December for ₹2,500 to its Kolkata branch were not received by branch up to 31st December.

(b) 10% depreciation on plant is to be provided (cost ₹50,000) when the branch account is maintained in Head Office books.

(c) The branch collected a sum of ₹5,000 from a Kolkata customer of Head Office.

(d) The Kolkata branch received ₹1,800 as arrears of call money from a share holder is November but was communicated to H.O. on 5th January.

(e) Goods costing ₹2,000 purchased by Kolkata branch by the payment was made by Head Office. The H.O. debited the amount to its own purchases A/c.

(f) ₹2,000 interest on investment collected by the branch on behalf of H.O.

(Madras Univ., Nov. 2012, BYA2A (Adapted))

Solution:

Journal in the books of H.O.

Particulars		*Debit (₹)*	*Credit (₹)*
(i) Goods in Transit A/c	Dr.	2,500	
To Kolkata Branch A/c			2,500
(Being goods in transit as on 31st December)			
(ii) Kolkata Branch A/c	Dr.	5,000	
To Kolkata Branch Furniture A/c			5,000
(Being depreciation on branch asset)			
(iii) Kolkata Branch A/c	Dr.	5,000	
To Customer A/c			5,000
(Being amount collected by branch from H.O. customer)			
(iv) Kolkata Branch A/c	Dr.	1,800	
To Calls-in-Arrears A/c			1,800
(Being calls-in-arrear received)			
(v) Kolkata Branch A/c	Dr.	2,000	
To Purchase A/c			2,000
(Being account rectified)			
(vi) Kolkata Branch A/c	Dr.	2,000	
To Interest on Investment A/c			2,000
(Being interest collected by branch)			

B. Incorporation of Branch Trial Balance

✎ ILLUSTRATION 27:

Salem branch submitted the following Trial Balance to its head office on 31st March 2016.

Name of Account	*Debit (₹)*	*Credit (₹)*
Cash in Hand	13,500	—
Head Office A/c	—	1,35,000
Sales	—	4,05,000
Opening Stock	27,000	—
Debtors	45,000	—
Creditors	—	45,000
Goods from H.O.	1,80,000	—
Furniture	9,000	—
Purchases	2,70,000	—
Wages	13,500	—
Salaries	18,000	—
Trade Expenses	9,000	—
	5,85,000	**5,85,000**

Closing stock at branch was valued at ₹1,35,000. Pass necessary Journal Entries to incorporate branch Trial Balance in the books of Head Office. Also prepare Branch Trading Account, and Profit and Loss Account, Branch Account in Head Office Books.

Solution:

In the books of Head Office
Salem Branch Trading and Profit and Loss Account

Particulars		*(₹)*	*Particulars*		*(₹)*
To Salem Branch A/c:			By Salem Branch A/c:		
Stock	27,000		Sales	4,05,000	
Purchases	2,70,000		Stock	13,500	5,40,000
Goods from H.O.	1,80,000				
Wages	13,500	4,90,500			

(Contd.)

To Salem Branch A/c					
P & L A/c (Bal. fig.)		**49,500**			
		5,40,000			**5,40,000**
To Salem Branch A/c:			By Salem Branch Trading A/c		49,500
Salaries	18,000				
Trade Expenses	9,000	27,000			
To General P & L A/c (Bal. fig.)		**22,500**			
		49,500			**49,500**

Salem Branch Account

To Balance b/d (H.O. A/c)	1,35,000	By Salem Branch Trading A/c	4,90,500
To Salem Branch Creditors A/c	45,000	By Salem Branch P & L A/c	27,000
To Salem Branch Trading A/c	5,40,000	By Salem Branch Cash A/c	13,500
		By Salem Branch Debtors A/c	45,000
		By Salem Branch Furniture A/c	9,000
		By Salem Branch Stock A/c	1,35,000
	7,20,000		**7,20,000**

Journal Entries

Particulars		*Debit (₹)*	*Credit (₹)*
(i) Salem Branch Trading A/c	Dr.	4,90,500	
To Salem Branch A/c			4,90,500
(Being incorporation of stock, purchases, goods sent, wages, etc.)			
(ii) Salem Branch A/c	Dr.	5,40,000	
To Salem Branch Trading A/c			5,40,000
(Being incorporation of sales and closing stock)			
(iii) Salem Branch Trading A/c	Dr.	49,500	
To Salem Branch P & L A/c			49,500
(Being transfer of gross profit)			

(Contd.)

(iv)	Salem Branch P & L A/c	Dr.	27,000	
	To Salem Branch A/c			27,000
	(Being incorporation of salaries and expenses)			
(v)	Salem Branch P & L A/c	Dr.	22,500	
	To General P & L A/c			22,500
	(Being transfer of net profit)			
(vi)	Salem Branch Cash A/c	Dr.	13,500	
	Salem Branch Stock A/c	Dr.	1,35,000	
	Salem Branch Debtors A/c	Dr.	45,000	
	Salem Branch Furniture A/c	Dr.	9,000	
	To Salem Branch A/c			2,02,500
	(Being incorporation of various assets from Trial Balance)			
(vii)	Salem Branch A/c	Dr.	45,000	
	To Salem Branch Creditors A/c			45,000
	(Being incorporation of creditors from Trial Balance)			

■ *Theory Questions* ■

Short-Answer Questions

1. What is Branch Accounting?
2. What are the Types of Branches?
3. What is a Dependent Branch?
4. What is a Foreign Branch?
5. What is Stock and Debtors System?
6. What is the use of Branch Adjustment Account?
7. Write any two Objectives of Branch Accounting.
8. What is Invoice Price?
9. What is a Wholesale System?

Long-Answer Questions

1. Distinguish branches from departments.
2. Explain the types of branches.

■ *Exercise Problems* ■

1. Pass journal entries under Debtors system for the following:
   (a) Cash remitted by branch: ₹52,000
   (b) Cash sent to branch for expenses: ₹10,000

2. Pass journal entries under Debtors system
   (a) Goods sent to branch: ₹1,2,000
   (b) Goods returned by branch to head office: ₹6,000

3. From the following, calculate debtors at the beginning.
   (a) Cash received from customers: ₹84,000
   (b) Credit sales: ₹1,18,000
   (c) Debtors at the end: ₹35,000
   (d) Discount allowed: ₹500
   (e) Bad debts: ₹200
   (f) Returns by customers: ₹1,000

[Ans: ₹2,700]

4. Calculate loading on the following, if goods are invoiced at 20% above cost.
   (a) Goods sent to branch: ₹2,20,000
   (b) Goods returned by branch: ₹15,000

[Ans: Loading on Goods sent: ₹36,667
Loading on Return: ₹2,500]

5. Pass journal entries under Stock and Debtors system.
   (a) Cash sales at branch: ₹80,000
   (b) Credit sales at branch: ₹2,00,000
   (c) Goods sent to branch: ₹2,80,000

6. Calculate petty cash at the end.

   Petty cash balance on 01.01.2017: ₹400

   Cash sent by H.O towards petty cash: ₹3,000

   Petty expenses at the branch: ₹2,480

[Ans: ₹920]

7. Ascertain Credit Sales by preparing Branch Debtors Account.

Debtors at the beginning	₹50,000
Cash received from debtors	₹2,00,000
Bills receivable dishonoured	₹5,000
Bad debts	₹5,000
Closing debtors	₹75,000

(Bengaluru University, May 2012)

[Ans: Credit Sales: ₹2,25,000]

8. Prepare Branch Debtors Account and find Total Sales.

	₹
Debtors (1.1.2013)	17,425
Debtors (31.12.2013)	15,300
Cash received from debtors	49,200
Sales return	3,700
Bad debts	2,500
Discount	1,800
Bills receivable	5,000
Cash sales	12,000

(Alagappa Univ., May 2017, B.Com. (CA))

[Ans: Credit Sales: ₹60,075; Total Sales: ₹72,075]

9. From the following, prepare goods sent to branch Account to find purchases.

Goods sent to branch at cost plus 25%	₹1,50,000
Returns by Branch to Head Office	₹5,000

[Ans: ₹1,16,000]

10. A Head Office invoices goods to its branch at Pollachi at cost plus 20%. From the particulars provided to you. Prepare Branch Adjustment Account.

Stock on 1.1.2016	₹40,000
Stock on 31.12.2016	₹20,000
Goods sent to branch	₹1,00,000
Goods returned by branch	₹10,000

[Ans: Amount transferred to P & L A/c: ₹18,334]

11. Show how these will appear in Branch Debtors Account and Branch Expenses Account?

Discount to customers	₹400
Bad debts written off	₹500
Salaries	₹4,000

12. Prepare Branch Adjustment Account.

Particulars	₹
Goods sent to branch at a profit of 50% over cost	1,20,000
Goods returned by branch at Invoice price	9,000
Stock on 1.1.1999	18,000
Stock on 31.12.1999	24,000
Surplus in Stock A/c	1,500

[Ans: Loading on Surplus: ₹500; Transfer to P & L A/c: ₹35,500]

13. How will you treat the following, if the invoice price is cost plus 25%.

(a) Shortage found in Stock A/c: ₹2,000

(b) Surplus in Stock A/c: ₹300

14. Pass journal entries in the books of head office, if the accounts are closed on 31st March every year.

(a) Goods sent to branch on 25th March 2016 but received by the branch on 5th April: ₹80,000

(b) Cash remitted by branch, ₹20,000, on 28th March but not received till 31st March.

15. Journalise in the books of branch and head office

(a) Depreciation of buildings, whose account is maintained by head office but used by branch: ₹4,000

(b) Goods in transit: ₹10,000

16. Pass journal entries:

(a) Goods in transit: ₹5,000

(b) Salary paid by branch to a officer of H.O.: ₹7,000

17. Calculate value of debtors at the end:

Debtors at the beginning: ₹60,000

Credit sales: ₹1,12,000

Bad debts: ₹1,000

Discount allowed: ₹3,500

Cash received from debtors at the branch: ₹72,000

[Ans: ₹95,500]

18. Calculate the cost of goods sent:

Goods sent to branch: ₹1,96,000

Invoice price includes profit @ 20% on sales

[Ans: ₹1,56,800]

19. The invoice price of the company is 25% above cost. The branch stock account showed a shortage of ₹1,200. How will you treat this?

20. Prepare Branch Account.

Goods sent to branch: ₹18,000

Branch expenses: ₹7,200

Cash received from branch: ₹30,000

Stock on 31.12.2010: ₹3,000

(Madras University, April 2011 (Adapted))

[Ans: Profit: ₹7,800]

21. From the following, prepare Debtors Account.

	₹
Opening balance of Debtors	32,000
Opening balance of Creditors	37,000
Credit Sales	19,600
Cash Sales	15,000
Cash Received from Debtors	15,600
Discount allowed to debtors	400
Bill Receivable	6,000
Return Inward	1,750
Rebate allowed to debtors	550
Bad Debts	900
Bills Receivable Dishonoured	750

(Periyar University/April 2011/08UCY01)

[Ans: Closing Debtors: ₹27,150]

Debtors System – Cost Price

22. R.N. Swamy & Co. opened a branch at Delhi in 2009. Prepare Delhi Branch Account for 2009.

Particulars	*(₹)*
Goods Sent to Branch	1,50,000
Cash Sent to Branch for Expenses	60,000
Cash Received from Branch	2,40,000
Stock on 31.12.2009	23,000
Petty Cash in Hand on 31.12.2009	400

(Madras Univ., B.Com., B.Com.(CS), Nov. 2007, B.Com. Sep. 1989, B.Com.(CS), BYA2A, Apr. 2015, 1/10 figures)

[Ans: Profit: ₹53,400]

23. G Ltd. Opened a branch on 1.1.2014. The following informations are supplied to you. Prepare Branch Account.

	₹		₹
Goods Sent to Branch	50,000	Sales: Cash	20,000
Cash Received from Debtors	32,000	Credit	36,000
Discount allowed to them	600	Stock on 31.12.14	8,000
Cash sent to branch for expenses	7,000	Debtors on 31.12.14	3,400

(November 2017 60522/BYA2C/CYA2A)

[Ans: Profit: ₹6,400]

24. Samrat Shoe Company opened a branch at Madurai on 1.1.2009. From the following particulars, prepare the Madurai Branch Account for the year 2009.

	₹
Goods sent to Madurai branch	45,000
Cash sent to branch for:	
Rent	1,800
Salaries	5,000
Other expenses	1,600
Cash received from the branch	60,000

(Contd.)

Stock on 1st January	2,300
Stock on 31st Dec.	5,800
Petty cash in hand on 1st Jan.	40
Petty cash in hand on 31st Dec.	30

(November 2011 60503/BYA2A)

[Ans: Profit ₹10,090]

25. Prepare Nellai Branch Account in the books of Head Office for the year ended 31.12.1998.

Stock at branch (1.1.98)	₹15,000
Goods sent to branch	₹2,52,000
Cash sales	₹60,000
Received from Debtors	₹2,28,000
Cheque to branch for salaries	₹11,600
Stock at branch (31.12.98)	₹25,000

(Thiruvalluvar Univ., Nov. 2012, SCM21)

[Ans: Profit: ₹34,400]

26 A head office in Delhi invoices goods to its branch at Bengaluru. The following details are given for the year ended 31st December 2016 in the books of head office.

Particulars	*(₹)*
Stock at Branch on 01.01.2016	1,81,000
Stock at Branch on 31.12.2016	1,65,700
Branch Debtors on 01.01.2016	56,500
Branch Debtors on 31.12.2016	30,200
Petty Cash at the Branch on 1.1.2016	1,100
Petty Cash at the branch on 3.12.2016	700
Goods Sent to Branch	7,83,400
Branch Expenses by H.O.	35,000
Cash Sales	8,41,000
Cash Received from Debtors	1,38,500
Cash from H.O. to Branch to meet Petty Expenses	5,200

(Madras Univ., Apr. 2012, BYA2A)

[Ans: Profit: ₹1,13,900]

27. A company opened a branch at Chennai on 1.1.2009. From the following particulars, prepare Chennai Branch A/c for the years 2009 and 2010.

Particulars	*2009*	*2010*
Goods sent to branch	15,000	45,000
Cash sent to branch for Rent	1,800	1,800
Salaries	3,000	5,000
Other expenses	1,200	1,600
Cash received from branch	24,000	60,000
Stock on 31st December	2,300	5,800
Petty cash on 31st December	40	30

(Madras Univ., IDE, May 2012, PZA;B.Com 1995; Periyar University (BBA) 2004; Pondicherry University (B.Com) 2001)

[Ans: Profit – 2009: ₹5,340; 2010: ₹10,130]

28. Prepare Branch Account of Hyderabad branch for the year ended 31st December 2012.

Particulars		*(₹)*
Branch Stock on 01.01.2012		15,000
Branch Debtors on 01.01.2012		30,000
Petty Cash Branch on 01.01.2012		300
Goods Sent to Branch during the year 2012		2,52,000
Cash Sales		60,000
Cash Received from Debtors during 2012		2,10,000
Credit Sales		2,28,000
Cheque Sent to Branch for:		
Salaries	9,000	
Rent & Rates	1,500	
Petty Cash	1,500	12,000
Stock at branch on 31.12.2012		26,000
Petty Cash on 31.12.2012		400
Goods Returned to Head Office by Branch		2,000
Debtors on 31.12.2012		50,000

(Madras Univ., Nov. 2015, BPZ2A/F2A/C2A/G2A/SBAML)

[Ans: ₹39,100]

29. From the following details, prepare Branch Account.

Particulars	*(₹)*
Goods Sent to Branch	1,50,000
Cash Sales at Branch	1,00,000
Credit Sales at Branch	1,20,000
Salaries of Branch Staff paid by H.O.	30,000
Office Expenses of Branch Staff paid by H.O.	24,000
Cash Remittance to Branch towards Petty Cash	12,000
Petty Cash at branch at end	1,000
Branch Debtors at the End of the Year	10,000
Branch Stock at the End of the Year	54,000

(University of Madras, Nov. 2014, BPZ2A/F2A/G2A/C2A/SBAML, 1/2 figures)

[Ans: Cash Collected from Debtors: ₹1,10,000, Profit: ₹59,000]

30. Reeta & Co., having the H.O. at Kerala, has a branch in Chennai, whose details for the year 2016–17 are given below.

Particulars	*(₹)*
Stock on 01.04.2016	22,000
Debtors on 01.04.2016	12,350
Petty Cash on 01.04.2016	720
Goods Sent to Branch	1,12,340
Cash Sales	8,240
Credit Sales	1,73,260
Cash Sent to Branch:	
Salary	6,200
Rent	3,900
Petty Cash	3,000
Stock at Branch on 31.03.2017	19,220
Debtors at Branch on 31.03.2017	38,445
Petty Cash at Branch on 31.03.2017	600

Prepare Branch Account.

[Ans: Cash Received from Debtors: ₹1,47,165, Profit: ₹53,160]

31. From the given information relating to Madurai branch, prepare Branch Account for the year ending 31st December 2000.

Particulars		*(₹)*
Stock on 01.01.2000		11,200
Branch Debtors on 01.01.2000		6,300
Goods Sent to Branch		51,000
Cash Sent to Branch for:		
Rent	1,500	
Salary	3,000	
Petty Cash	500	5,000
Sales at Branch:		
Cash	25,000	
Credit	39,000	64,000
Cash Received from Debtors		41,200
Stock at Branch on 31.12.2012		13,600

(Madras Univ., B.Com./BBA, Nov. 2006, BCA/B.Sc., Oct. 2006, Apr. 2005; B.Com., Nov. 2003, Mar. 1995, May 1996, Nov. 2003)

[Ans: Closing Debtors: ₹4,100 Branch Profit: ₹10,400]

32. The following information relates to Salem branch.

	₹	₹
Stock on 1.1.2010		11,200
Branch debtors on 1.1.2010		6,300
Goods sent to branch		51,000
Cash sent to Branch for :		
Rent	1,500	
Salaries	5,000	
Petty Cash	700	7,200
Sales at branch:		
Cash	25,000	
Credit	39,000	64,000
Cash received from debtors		41,200
Stock on 31.12.2010		13,600

Prepare Branch Account for the year 2010.

(November 2011: 60522/BYA2C)

[Ans: Closing Debtors: ₹4,100, Branch Profit: ₹8,200]

33. Nathan of Chennai has a branch in Delhi. The goods are sent to branch at cost price. From the following details, prepare Branch Account as it would appear in the books of Head Office.

	₹
Opening stock at cost	12,000
Closing stock at cost	9,000
Credit sales	20,500
Cash sales	8750
Receipt from debtors	18,950
Closing debtors	4,580
Goods received from Head Office	15,000
Expenses paid by Head Office for the Branch	5,200

(May 2010 U/ID 22201/UCZA/UCWA/ UCYA/UCXB/URMA/UCVB)

[Ans: Opening Debtors: ₹3,030; Profit: ₹6,050]

34. Fancy Clothes Limited opened a Branch on 1st January 1998 at Delhi. The figures given below are for the year 1998:

Particulars	₹
Goods Sent to Branch	25,000
Sales:	
Cash	10,000
Credit	18,000
Cash received from Debtors	16,000
Discount allowed	300
Cash sent to Branch for Expenses	3,500
Stock on 31st December 1998	4,000

Prepare Branch Account.

(Periyar University/April 2011/08UCY01)
[Ans: Profit: ₹3,200
Closing Debtors: 1,700]

35. Chennai Company has a branch at New Delhi. Write up Branch A/c in the books of head office from the following:

	₹
Stock on 1.1.2009	1,000
Goods sent to branch	50,000
Expenses of branch	3,000
Petty expenses of branch	1,000
Goods sold by the branch	1,00,000
Stock on 31.12.2009	12,000

(November 2011 21604/ZZ2H/SY2C/SDEN)

[Ans: Profit: ₹57,000]

36. India Traders, Chennai opened a branch at Patna on 1.1.2010. The following information is available in respect of the branch for the year 2010.

	₹
Goods sent to branch	75,000
Cash sales at the branch	50,000
Credit sales at the branch	60,000
Salaries of the branch staff paid by head office	15,000
Cash remittance to branch towards petty cash	6,000
Petty cash at branch on 31.12.2010	500
Debtors at the branch on 31.12.2010	5,000
Stock at the branch on 31.12.2010	27,000

Prepare Branch Account to show the profit and loss from the branch for the year 2010.

(November 2011 21604/ZZ2H/SY2C/SDEN)

[Ans: Profit: ₹41,500; Cash Received from Debtors: ₹55,000]

37. From the following particulars relating to Hyderabad Branch for the year ended 31.12.1990, prepare Branch Accounts in the Head Office Books.

	₹
Stock at the branch on 1.1.1990	15,000
Debtors at the branch on 1.1.1990	30,000
Petty cash at the branch on 1.1.1990	300
Goods sent to branch during 1990	2,52,000
Cash sales 1990	60,000
Received from Debtors 1990	2,10,000
Credit sales during 1990	2,28,000
Cheques sent to branch during 1990	
For Salaries	9,000
For Rent & Rates	1,500
For Petty cash	1,100
Stock at the branch on 31.12.1990	25,000
Petty cash on 31.12.1990	200
Goods returned by the branch	2,000
Debtors on 31.12.1990	48,000

(May 2017 U/ID 1884/CAA)

[Ans: Profit: ₹36,300]

38. Loyal Shoe Company opened a branch at Madras on 1.1.1989. From the following particulars prepare the Madras Branch Account for the years 1989 and 1990.

	1989	1990
	₹	₹
Goods sent to Madras branch	15,000	45,000
Cash sent to branch for:		
Rent	1,800	1,800
Salaries	3,000	5,000
Other expenses	1,200	1,600

Cash received from the branch	48,000	80,000
Stock on 31st December	2,300	5,800
Petty cash in hand on 31st December	40	30

(December 2014 U/ID 22201/UCZA/ UCWA/ UCYA/UCXB/ URMA/UCVB)

[Ans: Branch Profit for the year 1989: ₹29,340
Profit for the year 1990: ₹30,130]

Invoice Price

39. A head office at Salem has a branch at Erode, to which goods are invoiced at cost plus 20%. Ascertain Profit of the branch under debtors system.

Particulars	*(₹)*
Branch Debtors on 01.01.1996	24,000
Branch Stock on 01.01.2016	7,680
Goods Sent to Branch	2,11,872
Cash Sales	1,10,400
Credit Sales	96,000
Collection from Branch Debtors	88,000
Stock on 31.12.2016	13,440

(Madras Univ., Apr. 2009, 2010 (Adapted))

[Ans: Closing Debtors: ₹32,000, Branch Profit: ₹34,640]

40. A Chennai head office has a branch at Salem to which goods are invoiced at cost plus 20%. From the following particulars, prepare Branch Account in the head office books:

	₹
Goods sent to branch	9,53,424
Total Sales	9,28,800
Cash Sales	4,96,800
Cash received from Branch debtors	3,96,000
Branch debtors on 1.1.2010	1,08,000
Branch Stock on 1.1.2010	34,560
Branch Stock on 31.12.2010	60,480

(April 2011 60522/BYA2C)

[Ans: Closing Debtors: ₹1,44,000; Profit ₹1,55,880]

41. A Madurai head office has a branch at Erode to which goods are invoiced at cost plus 20%. From the following particulars, prepare Branch Account.

	₹		₹
Goods sent to Branch	11,65,296	Total Sales	11,35,200
Cash received from debtors	4,84,000	Cash Sales	6,07,200
Branch Debtors on 1.1.2014	1,32,000	Branch Stock on 31.12.2014	73,920
Branch stock on 1.1.2014	42,240		

(November 2017 60522/BYA2C/CYA2A
April 2011 60522/CYA2A)

[Ans: Profit: ₹1,90,520; Closing Debtors: ₹1,76,000]

42 Chander Ltd. has a branch in Vellore. It invoices goods at cost plus 25%. The information is provided below, from which you are required to prepare a Branch Account to ascertain Profit.

Particulars	*(₹)*
Goods Sent to Branch (Invoice Price)	1,25,000
Cash Sent to Branch for Expenses	20,000
Cash Sales	55,000
Credit Sales	57,500
Cash Received from debtors	50,000
Closing Stock (Invoice Price)	12,000
Bad Debts	1,500

[Ans: Closing Debtors: ₹6,000, Branch Profit: ₹600]

43 Jaison Ltd. invoices goods to its Koonoor branch at cost plus 25%. Both cash and credit sales are effected by the branch. The branch expenses are paid by the head office. The details of transactions available for the year ended 31st March 2010 are:

Particulars	*(₹)*
Goods Received from H.O. at Invoice Price	4,00,000
Returns to H.O. at Invoice Price	8,000
Stock at Kanpur on 01.04.2009 at Invoice Price	80,000
Credit Sales for the Year	3,00,000

(Contd.)

Cash Sales for the Year	1,87,000
Debtors as on 01.04.2009	52,000
Debtors as on 31.03.2010	42,000
Discounts Allowed to Customers	3,000
Bad Debts	5,000
Returns from Customers	7,000
Rent and Rates	6,000
Wages and Salaries	12,000
Sundry Expenses	3,000
Stock on 31.03.2010 at invoice price.	60,000

Prepare Branch Account.

[Ans: Branch Profit: ₹1,21,400
Cash Received from Debtors: ₹2,95,000]

44. Nischal Traders has a branch at Mysore. Goods are sent from the head office at cost plus 25%. The branch also purchases goods independently from local merchants for which the payment is made out of collections at branch. The branch is advised to deposit cash periodically into head office bank A/c. From the following particulars, prepare Mysore Branch Account in the books of head office for the period ending 31.3.2014.

Particulars	₹
Balance on 1.4.2013	
Branch petty cash	20,000
Branch debtors	2,50,000
Branch furniture	4,00,000
Branch Stock:	
Goods sent by HO	2,40,000
Direct purchases	1,60,000
Cash sales	4,50,000
Credit sales	13,00,000
Direct purchases	4,50,000
Returns by customers	30,000
Goods invoiced to branch at invoice price	6,00,000
Cash sent to branch for petty expenses	25,000

(Contd.)

Bad debts at the branch	10,000
Discount allowed by branch to debtors	20,000
Cash received by branch from debtors	12,50,000
Branch salary and rent paid by HO	30,000
Petty expenses paid by branch manager	35,000
Balance as on 31.3.2014	
Petty Cash	?
Branch debtors	?
Branch furniture	?
Stock:	
Goods from HO	1,80,000
Direct purchases	1,20,000

Provide Depreciation on branch furniture at 10% p.a.

(Bengaluru University, May 2014)

[Ans: Closing Debtors: ₹2,40,000; Profit: ₹5,67,000]

45. Hindustan Company Limited invoices goods to its Belagavi branch at cost plus 25%. The branch sells goods only on cash basis. All the cash received being remitted to Head Office A/c by the branch regularly.

Particulars	₹
Goods sent to branch	40,000
Goods returned by branch	1,800
Stock at branch on 1.1.2013	8,000
Petty cash on 1.1.2013	250
Cash sales	58,700
Cash sent by HO for expenses:	
Salaries	5,600
Rent	2,500
Petty cash	475
Stock at branch on 31.12.2013	48,000
Petty cash on 31.12.2013	185

Prepare Belagavi Branch A/c.

(Bengaluru University, May 2016)

[Ans: Profit: ₹51,500]

46. A Head Office in Mumbai sends goods to its Chennai branch at 20% above cost. From the following particulars, show how the Branch Account will appear in the Head Office books:

	₹	₹
Stock on 1.4.2003 at the branch		1,800
Debtors on 1.4.2003 at the branch		3,000
Petty cash 1.4.2003 at the branch		30
Goods supplied to branch		30,000
Remittance from the branch:		
Cash sales	6,000	
Money received from Debtors	21,000	27,000
Cheques sent to branch:		
Salary	900	
Rent and Tax	150	
Petty Cash	110	1,160
Stock at branch on 31.3.2004		3,000
Debtors at the branch 31.3.2004		4,800
Petty cash at the branch 31.3.2004		20

(April 2007 21604/ZZ2H/SY2C/SDEN)

[Ans: Profit: ₹3,630]

Stock & Debtors System

47. A head office invoices goods to its branch at Tuticorin at cost. The expenses of the branch are met by head office. The branch makes both cash and credit sales. From the details given below, prepare necessary ledgers under stock and debtors system to ascertain the profit made by the branch for the year ending 31.12.2006.

Particulars	₹	*Particulars*	₹
Goods sent to branch	37,500	Credit sales	39,000
Returns by branch	2,250	Discount to debtors	1,350
Expenses met by head office	7,500	Cash sales	1,875
Remittances by branch	31,500	Branch stock on 31.12.2006	12,750
Receipts by debtors not paid in by branch	2,250	Branch debtors on 31.12.2006	5,775

[Ans: Surplus (Stock A/c): ₹18,375; Net Profit: ₹9,525]

48. A commercial company invoiced goods to its Chennai branch at cost. The head office paid all expenses except the petty cash expenses which were paid by the branch. From the following details, prepare:

(a) Branch Stock Account, (b) Branch Debtors Account,

(c) Branch Expenses Account, (d) Branch P&L Account

Particulars	₹	*Particulars*	₹
Opening stock	42,000	Discount to customers	8,400
Opening debtors	75,600	Bad debts	3,600
Opening petty cash	1,200	Returns by customers	3,000
Goods sent from H.O.	1,56,000	Salaries	37,200
Goods returned to H.O.	6,000	Rent & Rates	7,200
Cash sales	1,05,000	Closing debtors	58,800
Advertisement	4,800	Closing petty cash	600
Cash collected from debtors	1,71,000	Credit sales	1,70,400
Closing stock	39,000		
Allowances to customers	1,200		

(Univ. of Madras, Nov. 2013, BYA2C, B.Com., March 1989 ½ figures)

[Ans: Surplus (Stock A/c): ₹1,19,400; Net Profit: ₹56,400]

49. X Ltd. of Madras has a branch at Trichy and in order to maintain strict control on stocks, invoices goods to branch at selling price which is cost plus 33⅓%. From the following particulars make out the Branch Stock Account, Branch Debtors Account and other necessary accounts to show the Gross Profit and Net Profit/Net Loss made by the branch.

	₹
Stock on 1.1.2004 (Invoice price)	15,000
Debtors on 1.1.2004	11,400
Goods invoiced to Branch (invoice price)	67,000
Bad debts written off	250
Discount allowed to customers	300
Expenses at the branch	6,700
Cash sales	31,000
Credit sales	37,400
Stock on 31.12.2004 (invoice price)	13,400
Cash received from debtors	40,000

(April 2007 21604/ZZ2H/SY2C/SDEN)

[Ans: Gross Profit: ₹17,100; Net Profit: ₹9,700; Shortage: ₹200; Closing Debtors: ₹8,250]

50. Arun agencies opened a branch in Chennai on 1st Jan 2009. Goods were invoiced at selling price which was at cost plus 25%. From the following particulars related to the year 2009. You are required to prepare different accounts under the Stock and Debtors System.

	₹
Goods sent to Branch	30,000
Sales:	
Cash	10,000
Credit	14,000
Goods returned by customers	300
Cash received from customers	8,000
Discount allowed	100
Cash remitted to branch for:	
Rent & Rates	150
Salaries	600
Sundry expenses	100
Defective goods written off	100
Goods returned by branch	1,200
Stock at the end	5,000

(November 2011 60503/BYA2A)

[Ans: Branch Debtors A/c: ₹5,600; Branch Expenses A/c: ₹950; Branch Adjustment A/c Gross Profit: ₹4,740; Branch Profit and Loss A/c Net Profit: ₹3,710; Purchases: ₹23,040]

51. Calculate purchases by preparing goods sent to Branch Account.

Goods sent to branch (IP)	₹33,000
Goods returned by branch	₹1,800
Goods are invoiced to branch at cost plus 25%	25%

[Ans: ₹24,960]

52. ABC Ltd., in Trichy, has a branch in Chennai. Prepare Branch Stock Account under Stock and Debtors System.

(a) Goods sent from Head Office: ₹25,000
(b) Returns to Head Office: ₹500
(c) Cash Sales: ₹17,750
(d) Credit Sales: ₹4,000
(e) Opening Stock: ₹5,000
(f) Closing Stock: ₹5,500

[Ans: Shortage in Stock: ₹2,250]

53. XYZ Ltd. of Chennai has a branch at Trichy. The head office sends goods to its branch at cost plus 50%. Prepare necessary Ledger Accounts to compute Profit under Stock and Debtor System.

Particulars	*(₹)*
Goods Sent to Branch	1,00,000
Returns by Branch	2,000
Cash Sales	71,000
Credit Sales	16,000
Opening Stock	20,000
Closing Stock	22,000

[Ans: Shortage in Stock A/c: ₹9,000,
Gross Profit: ₹29,000; Net Profit: ₹23,000]

54. Madhu Ltd. has its head office at Ranchi and invoices goods at cost plus 33⅓%. From the following particulars, prepare Branch Stock Account and other necessary accounts to compute Profit of the branch.

Particulars	*(₹)*
Stock on 01.01.2017 (Invoice Price)	7,500
Debtors on 01.01.2017	5,700
Goods Invoiced to Branch during the year at Invoice Price	33,500
Cash Sales at Branch	15,500
Credit Sales at Branch	18,700
Cash Received from Debtors	20,000
Bad Debts	150

(Contd.)

Discount Allowed	125
Branch Expenses	3,350
Closing Stock at Invoice Price	6,700

[Ans: Shortage: ₹100, Gross Profit: ₹8,550, Net Profit: ₹4,850]

55. Bengaluru Soaps Ltd. has a branch at Mysore, to which the goods are invoiced at cost plus 33⅓%. All cash collected at branch are credited to head office bank account.

The ledger balances of the company for the year ending 31st December 2011 revealed the following:

Particulars	*(₹)*
Branch Debtors A/c	45,000
Stock on 01.01.2011 (at I.P)	18,000
Cash Sales	22,500
Credit Sales	4,50,000
Goods Received from Head Office at Selling Price	5,40,000
Cash Received from Branch Debtors	4,32,000
Discount Allowed to Debtors	11,070
Branch Expense met by H.O.	1,12,500

The stock at branch on 31st December was ₹72,000 at Invoice Price.

Prepare necessary Ledger Accounts relating to branch in the books of H.O., according to Stock and Debtors system.

[Ans: Shortage: ₹13,500, Net Loss: ₹15,570]

Wholesale and Retail Profit

56. A company has branch at Mumbai and the details are furnished below. Compute Profit.

Particulars	*(₹)*
Stock at Branch (at Invoice Price) on 01.01.2014	80,000
Goods Sent to Branch (Invoice Price)	2,00,000
Branch Expenses for 2014	1,000
Sales During the year	24,000

Good are invoiced at cost plus 25%. Sales price is 50% above cost. Also calculate the Stock Reserve to be created for unrealised profit on stocks.

[Ans: Profit: ₹30,000, Closing Stock: ₹80,000, Stock Reserve: ₹16,000]

57. A head office invoices goods at 20% less than its list price to its branch. The list price was fixed at cost plus 100%. Ascertain the Profit at head office and branch.

Particulars	*H.O.* *(₹)*	*Branch* *(₹)*
Purchases	2,00,000	—
Goods Sent to Branch (Invoice Price)	80,000	—
Sales	1,70,000	80,000

(Madras University, B.Com., Sept. 1999, Periyar University 2001)

[Ans: Gross Profit: H.O. ₹1,15,000; Branch ₹16,000, Net Profit: H.O. ₹1,09,000; Branch ₹16,000, Closing Stock: H.O. ₹65,000; Branch ₹16,000]

58. A head office sends goods to its branch at 25% less than the list price. Goods are sold to customers at cost plus 60%. From the following particulars, ascertain the Profit made by the head office and by the branch:

	Head office ₹	*Branch* ₹
Opening stock at cost (at invoice price in case of branch)	50,000	30,000
Purchases	1,50,000	—
Goods sent to branch	1,08,000	—
Sales	1,60,000	80,000
Expenses	10,000	6,000

(April 2011 60522/BYA2C)

[Ans: Gross profit: Head Office ₹78,000, Branch Office ₹20,000; Net Profit: Head Office ₹60,000, Branch Office ₹14,000; Closing Stock; Head Office ₹10,000, Branch Office ₹78,000; Stock Reserve: Opening Stock Reserve ₹5,000, Closing Stock Reserve ₹13,000]

59. A head office sends goods to its branch at 20% less than the list price. Goods are sold to customers at cost plus 100%. From the following particulars, ascertain the Profit made by the head office and by the branch on the whole sale basis:

	Head Office ₹	*Branch* ₹
Purchases	7,00,000	—
Goods sent to branch	2,80,000	—
Sales	5,95,000	2,80,000

(November 2011 21604/ZZ2H/SY2C/SDEN)

[Ans: Gross Profit: Head office ₹4,02,500, Branch office ₹56,000; Net Profit: Head office ₹3,81,500, Branch office ₹56,000; Closing Stock: Head office ₹2,27,500, Branch office ₹56,000]

Final A/C System

60. Bharathi & Co. has a branch at Chidambaram to which the goods are sent at cost plus 25%. From the given particulars, prepare Branch Trading and Profit and Loss Account, Branch Account for the year 2016.

Particulars	*(₹)*
Stock on 01.01.2016 (Invoice Price)	11,000
Debtors on 01.01.2016	100
Petty cash on 01.01.2016	100
Cash Sales	2,650
Cheques Sent to Branch:	
Rent	600
Wages	200
Salary	900
Credit sales	23,950
Goods Sent to Branch (Invoice Price)	20,000
Goods Returned by Branch	300
Bad Debts	300
Allowances	250
Return Inwards	500
Collection from Debtors	21,000

(Contd.)

Stock at Invoice Price on 31.12.2016	13,000
Debtors on 31.12.2016	2,000
Petty Cash on 31.12.2016	125

(including miscellaneous income ₹25 not remitted)

(Madras Univ., B.Com., May 1995, Nov. 2005, B.Com.(CS), Apr. 2004)

[Ans: Gross Profit: ₹11,740, Net Profit: ₹9,715]

61. From the following Trial Balance of Trivandrum Branch, incorporate in the head office books and prepare Trading and Profit and Loss Account and Branch Account.

Name of Account	*(₹)*	*Name of Account*	*(₹)*
Opening Stock	4,800	Head Office A/c	62,960
Debtors	25,600	Sales	70,000
Vehicles	11,200	Creditors	1,680
Wages	2000		
Rent	10,000		
Miscellaneous Expenses	8,000		
Cash in Hand	3,120		
Goods Received from H.O	69,920		
	1,34,640		**1,34,640**

Closing stock was valued at ₹39,360.

[Ans: Gross Profit: ₹32,640, Net Profit: ₹14,640]

Independent Branches

62. Pass necessary adjusting entries in the books of head office.

(a) Goods worth ₹10,500 transferred from Trichy branch to Chennai branch.

(b) Transport allowance ₹2,000 paid to the inspection team from Head office.

(c) Trichy branch's expenses ₹23,200 paid by head office.

(d) Goods in transit to Trichy branch: ₹4,500

(e) ₹3,250 as dividend paid by the Trichy branch to shareholders on behalf of head office.

63. How will you journalise these in the books of Head Office and Palakkad branch?

(a) Depreciation of ₹5,000 for branch asset is provided by head office.

(b) Cash sent to branch ₹3,000 received after the date of closing the accounts.

(c) ₹2,000 paid to the visiting official of head office.

(d) Goods were received by the branch ₹12,000 from Kannur branch on the instruction of head office.

64. Give Journal Entries for the following transactions in the books of Head Office. The accounts are closed on 31.12.2008.

(a) Goods sent by head office on 26.12.2008 for ₹4,700, to Erode branch, not received by branch upto 31.12.2008.

(b) The branch paid ₹3,800 dividend to local shareholders on behalf of head office.

(c) Goods sent by Namakkal branch to Erode ranch for ₹8,000 are not yet to be recorded.

(d) Erode branch paid ₹15,000 to a Head Office creditor.

(e) The branch collected ₹80,000 from a Head Office debtor.

65. Fortune Limited has its Head Office at Bengaluru, has a branch at Hassan. It closes the books of accounts on 31st March every year. Pass adjustment entries in the books of Head Office for the following:

(a) Goods worth ₹30,000 sent by head office on 25th March 2014 were received by branch on 5th April 2014.

(b) Depreciation at 15% p.a. is to be provided on furniture costing ₹3,50,000 installed on 1st August 2013 at Hassan. The furniture A/c is maintained at Head Office.

(c) Hassan branch collected ₹18,500 from a local customer and ₹1,250 interest on investments on behalf of the Head Office.

(d) A clerk of the branch rendered services in the Head Office for a period of 3 months and salary per month is ₹12,000.

(Bengaluru University, May 2014)

CHAPTER

18

Departmental Accounting

Learning Objectives

After studying this chapter, you will be able to:

- Understand the Fundamentals of Departmental Accounting
- Identify Direct and Indirect Expenses
- Allocate and Apportion the expenses to Departments
- Deal with Inter-Departmental Transfers
- Calculate the amount of Stock Reserve on Unrealised Stock
- Work out Problems Independently

18.1 Departmental Accounting

Business with diverse trading activities is divided into several departments. Each department deals with a particular kind of goods or service under the same roof. An organisation can have multiple departments, depending upon the size and activities. The practice of grouping and dividing an organisation into various departments helps them to specialise in their activities. Departmental Accounting means maintenance of accounts for one or more departments of the company. Departmental accounting will be applicable for departmental stores, which offer a wide range of consumer goods in different product categories, known as "Departments". At the end of the year, each department's revenues and expenses are recorded and reported separately. They will consolidate the accounts of each department to prepare the financial statements of the company. The departmental accounting will be helpful for the management to identify the profitable departments and also helps them to make decisions. The method of accounting followed to ascertain the trading performance of an organisation is known as Departmental Accounting.

A departmental accounting system is an accounting information system that records the activities and financial information about the department.

Departmental Accounting refers to maintaining accounts for one or more departments of the company.

18.2 Need of Departmental Accounting

The need for departmental accounting is as follows:

- Helps to identify the performance of each department
- Helps to ascertain the position of stock in each department
- Helps to compare the operational efficiency of each departments
- Helps to formulate policies specific to each department
- Helps to reward the personnel based on the department's performance
- Helps to identify the strengths, weakness, opportunities and threats of each department
- Helps to provide information to the management in planning, decision-making, budgeting, controlling and evaluating the departmental performance
- Helps to decide upon for expansion or discontinuation of any department.

18.3 Advantages of Departmental Accounting

The following are the advantages of Departmental Accounting:

- Ascertainment of each department's profitability
- Comparison of performance
- Employee performance appraisal
- Early detection of mistakes and department-specific remedial measures
- Investment and divestment decisions
- Department-based policy formulation (geography-based, product-based, and customer-based)

18.4 Distinction Between Department and Branch

Points of Difference	*Department*	*Branch*
Location	Same premises	Different locations
Bookkeeping and Accounting	Centralised	Head-Office consolidates
Allocation of Common Expenses	Allocated in proportion to the usage by departments	Separate branch does not confront with this situation
Scope for Organisational Growth	Confined to local business	Paves way for geographic expansion
International Trade & Foreign Currency Conversion	Does not arise	Scope for international trade and conversion of foreign currency to Indian is necessary to ascertain the profitability.

18.5 Methods of Departmental Accounting

Depending upon the organisational requirements, an organisation can adopt any one of these methods for maintaining departmental accounting. However, records need to be maintained in such a way as to measure the efficiency, performance and profitability of each department.

Departmental Accounts can be prepared in two ways:

(a) Individual set of books are maintained.

(b) All departmental accounts are maintained columnar-wise, collectively.

› 18.5.1 Individual Set of Books are Maintained

Under this method, accounts of each individual department are independently maintained. The results of all the entire departments are collected and taken into consideration to find out the net result of the organisation.

› 18.5.2 All Departmental Accounts are maintained Columnar-Wise Collectively

Under this method, a Departmental Trading, and Profit and Loss Account is opened for each individual department in a columnar form. It also has a separate column for 'Total,' in order to ascertain the individual result of the different departments and also as a whole. But the balance sheet is prepared in a combined form.

18.6 Direct and Indirect Expenses

The Departmental Expenses can be divided into two types:

1. **Direct Expenses:** Direct expenses are those expenses,which can be tracked back to a specific department. It is directly charged to the respective department and intended to benefit that department. E.g. Direct Material, Wages, Packing, Cold Storage.
2. **Indirect Expenses:** Indirect expenses are those expenses that are related to more than one department. They can be further classified into:
   - Expenses that can be apportioned
   - Expenses that cannot be apportioned

18.7 Basis of Allocation of Departmental Expenses

While preparing the departmental accounts, expenses should be allocated among different departments on a rational basis. The following table will provide the basis of allocation of various expenses.

Basis of Allocation of Expenses

Common Expenses	*Basis of Allocation*
Sales Related Expenses: ◆ Travelling Salesman Commission ◆ Salary of Salesman ◆ Bad Debts ◆ Selling Expenses ◆ Carriage Outwards ◆ Discount of Debtors ◆ Sales Managers Salary	Sales Ratio (OR) Turnover of each Department
Premises related Expenses: ◆ Building Rent & Rates ◆ Air Conditioning & Heating ◆ Building Insurance ◆ Depreciation of Building	Floor Area Occupied
Lighting	Number of Light Points In the absence of Light Points, Floor Area
Insurance of Stock	Value of Stock

(Contd.)

Plant & Machinery Related ◆ Insurance ◆ Depreciation ◆ Repairs & Renewal	Value of Plant & Machinery
Power	Horse Power of Machine
Employee Related ◆ Group Insurance ◆ Salaries ◆ Canteen Expenses ◆ Labour Welfare	No. of Employees
Carriage Inwards	Purchase of each Department
Discount Received	Purchase of each Department

Note: In the absence of non-specification of allocation of expenses, all expenses to be apportioned on the basis of Sales Ratio.

18.8 INTER-DEPARTMENTAL TRANSFERS

Transfer of goods from one department to another is known as Inter-Departmental Transfer. When one department transfers goods to another department, the transfer shall be considered as "Sale" for the supplying department and a "Purchase" for the receiving department.

Journal Entry for Inter-Departmental Transfer

Particulars		*Debit (₹)*	*Credit (₹)*
Receiving Department A/c Dr. To Supplying Department A/c (Being goods transferred)	C		

› 18.8.1 Calculation of Stock Reserve on Inter-Departmental Transfer

Goods may be transferred either at cost price or at selling price.

- If goods are transferred at cost price, then there is no need to calculate the Stock Reserve.
- If goods are transferred at selling price and such goods are lying unsold, then the profit charged on unsold goods shall be treated as unrealised profit and should be debited to the General Profit and Loss Account

as Stock Reserve. Stock Reserve should be deducted from the closing stock in the balance sheet.

If unrealised profit is included in the opening stock, such reserve should be credited to the general profit and loss account.

Proforma of General Profit and Loss Account

	(₹)		(₹)
To Net Loss (if any) Department	xxx	By Net Profit Department	xxx
To Expenses (which cannot be apportioned)		By Opening Stock Reserve	xxx
To Closing Stock Reserve	xxx		
To Net Profit c/d to Balance Sheet	xxx	**By Net Loss (if any (Bal. fig.))**	**xxx**
	xxx		**xxx**

✎ ILLUSTRATION 1:

Calculate Sales from the following:

Department	*Opening Stock (units)*	*Purchases (units)*	*Closing Stock (units)*
I	120	1,000	100
II	80	2,000	160

Solution:

Calculation of Sales

Sales = Opening Stock + Purchases – Closing Stock

Department I = 120 + 1,000 – 100 = **1,020 units**
Department II = 80 + 2,000 – 160 = **1,920 units**

✎ ILLUSTRATION 2:

Calculate Opening Stock from the following:

Department	*Purchases (units)*	*Sales (Units)*	*Closing Stock (Units)*
X	1,500	2,000	500
Y	2,000	4,000	1,000
Z	5,000	10,000	2,000

Solution:

Calculation of Opening Stock

Opening Stock = Sales + Closing Stock – Purchases

Department X = 2,000 + 500 – 1500 = **1,000 units**
Department Y = 4,000 + 1,000 – 2,000 = **3,000 units**
Department Z = 10,000 + 2,000 – 5,000 = **7,000 units**

✎ ILLUSTRATION 3:

Calculate Closing Stock from the following:

Department	*Opening Stock (units)*	*Purchases (units)*	*Sales (units)*
A	10,000	1,50,000	1,30,000
B	12,000	2,40,000	2,28,000

Solution:

Calculation of Closing Stock

Closing Stock = Opening Stock + Purchases – Sales

Department A = 10,000 + 1,50,000 – 1,30,000 = **30,000 units**
Department B = 12,000 + 2,40,000 – 2,28,000 = **24,000 units**

✎ ILLUSTRATION 4:

Calculate Purchases from the following:

Department	*Opening Stock (units)*	*Closing Stock (units)*	*Sales (units)*
A	24,000	12,000	70,000
B	39,000	59,000	91,000

Solution:

Calculation of Purchases

Purchases = Sales + Closing Stock - Opening Stock

Department A = 70,000 + 12,000 – 24,000 = **58,000 units**
Department B = 91,000 + 59,000 – 39,000 = **1,11,000 units**

✎ ILLUSTRATION 5:

Apportion the following expenses on the basis of cost of sales ratio among the four departments, A, B, C and D.

(a) The sales of each department are given below:

Department	*A*	*B*	*C*	*D*
Sales (₹)	2,00,000	1,50,000	1,00,000	50,000

(b) Gross Profit Ratio = 20% on Sales

(c) The expenses were as follows:

Salaries: ₹6,000

Rent: ₹1,500 and

Insurance: ₹1,300

Solution:

Step I: To find out Amount of Gross Profit

Amount of Gross Profit = Sales × Gross Profit Ratio

Gross Profit for Department A = 2,00,000 × 20% = ₹40,000
Gross Profit for Department B = 1,50,000 × 20% = ₹30,000
Gross Profit for Department C = 1,00,000 × 20% = ₹20,000
Gross Profit for Department D = 50,000 × 20% = ₹10,000

Step II: Calculation of Cost of Goods Sold Ratio

Cost of Goods Sold = Sales – Gross Profit

Cost of Goods Sold for Department A = 2,00,000 – 40,000 = ₹1,60,000
Cost of Goods Sold for Department B = 1,50,000 – 30,000 = ₹1,20,000
Cost of Goods Sold for Department C = 1,00,000 – 20,000 = ₹80,000
Cost of Goods Sold for Department D = 50,000 – 10,000 = ₹40,000

Therefore, Cost of Goods Sold Ratio = 4:3:2:1

Step III: Apportionment of Expenses

Expenses	*Total*	*Basis of Apportionment*	*Dept. A*	*Dept. B*	*Dept. C*	*Dept. D*
Salaries	6,000	4:3:2:1	2,400	1,800	1,200	600
Rent	1,500	4:3:2:1	600	450	300	150
Insurance	1,300	4:3:2:1	520	390	260	130
	8,800		**3,520**	**2,640**	**1,760**	**880**

✎ ILLUSTRATION 6:

The following are the expenses of a departmental store. Apportion the expenses on the basis of cost of sales ratio among the three departments, I, II, and III.

(a) The sales of each department are given below:

Department	*I*	*II*	*III*
Sales	5,00,000	3,00,000	2,00,000

(b) Gross Profit Ratio = 25% on Sales

(c) The expenses were:

Printing and Stationery: ₹10,000

Rates and Taxes: ₹15,000

Telephone Charges: ₹12,000

Solution:

Step I: To find out Amount of Gross Profit

Amount of Gross Profit = Sales × Gross Profit Ratio

Gross Profit for Department I = 5,00,000 × 25% = ₹1,25,000
Gross Profit for Department II = 3,00,000 × 25% = ₹75,000
Gross Profit for Department III = 2,00,000 × 25% = ₹50,000

Step II: Calculation of Cost of Goods Sold Ratio

Cost of Goods Sold = Sales – Gross Profit

Cost of Goods Sold for Department I = 5,00,000 – 1,25,000 = ₹3,75,000
Cost of Goods Sold for Department II = 3,00,000 – 75,000 = ₹2,25,000
Cost of Goods Sold for Department III = 2,00,000 – 50,000 = ₹1,50,000

Therefore, Cost of Goods Sold Ratio = 5:3:2

Step III: Apportionment of Expenses

Expenses	*Total*	*Basis of Apportionment*	*Dept. I*	*Dept. II*	*Dept. III*
Printing & Stationery	10,000	5:3:2	5,000	3,000	2,000
Rates & Taxes	15,000	5:3:2	7,500	4,500	3,000
Telephone Charges	12,000	5:3:2	6,000	3,600	2,400
	37,000		**18,500**	**11,100**	**7,400**

✎ ILLUSTRATION 7:

The following data was obtained from the books of a company for the year ended 31st March 2007. The expenses for the year ended 31st December 1987 are:

(a) Motive Power: ₹550

(b) Lighting: ₹100

(c) Salaries to Staff: ₹1,500

(d) Depreciation: ₹15,000

(e) Repairs and Maintenance: ₹3000

(f) Rent and Taxes: ₹275

Additional Information:

Particulars	*Department*				
	A	*B*	*C*	*X*	*Y*
Staff (No.)	100	150	150	50	50
Electricity (K.W.H)	4000	3000	2000	1000	1000
Light Points (No.)	10	16	4	6	4
Assets Value (₹)	60000	40000	30000	10000	10000
Area Occupied (Sq. M)	150	250	50	50	50

You are required to allocate and apportion the expenses to each department on suitable basis.

Solution:

Allocation and Apportionment of Expenses

Particulars	*Basis of Apportionment*	*Total*	*A*	*B*	*C*	*X*	*Y*
Motive Power	Electricity	550	200	150	100	50	50
Lighting	Light Points	100	25	40	10	15	10
Salaries to Staff	Employees	1,500	300	450	450	150	150
Depreciation	Assets Value	15,000	6,000	4,000	3,000	1,000	1,000
Repairs & Maintenance	Assets Value	3,000	1,200	800	600	200	200
Rent & Taxes	Area	275	75	125	25	25	25
	Total	**20,425**	**7,800**	**5,565**	**4,185**	**1,440**	**1,435**

✎ ILLUSTRATION 8:

From the following details, prepare Departmental Trading Accounts:

Particulars	*Department X*	*Department Y*
Opening Stock	18,000	16,000
Purchases	54,000	42,000
Sales	84,000	75,000
Closing Stock	20,000	10,000
Wages	2,000	1,000

Solution:

Departmental Trading Account

	X	*Y*		*X*	*Y*
To Opening Stock	18,000	16,000	By Sales	84,000	75,000
To Purchases	54,000	42,000	By Closing Stock	20,000	10,000
To Wages	2,000	1,000			
To Gross Profit	**30,000**	**26,000**			
	1,04,000	**85,000**		**1,04,000**	**85,000**

✎ ILLUSTRATION 9:

From the following details, prepare Departmental Trading Account.

	Department A	*Department B*
Opening Stock	5,000	8,400
Purchases	27,000	12,000
Sales	50,000	36,000
Closing Stock	10,800	14,000
Wages	15,000	5,000

Solution:

Departmental Trading Account

	Dept. A	*Dept. B*		*Dept. A*	*Dept. B*
To Opening Stock	5,000	8,400	By Sales	50,000	36,000
To Purchases	27,000	12,000	By Closing Stock	10,800	14,000
To Wages	15,000	5,000			
To Gross Profit	**13,800**	**24,600**			
	60,800	**50,000**		**60,800**	**50,000**

✎ ILLUSTRATION 10:

From the following details, prepare Departmental Trading Account.

Particulars	*Tins* (₹)	*Toys* (₹)
Opening Stock	9,000	8,000
Total Purchases	27,000	21,600
Total Sales	42,000	36,000
Closing Stock	10,800	4,800

Solution:

Departmental Trading Account

	Tins (₹)	*Toys* (₹)		*Tins* (₹)	*Toys* (₹)
To Opening Stock	9,000	8,000	By Sales	42,000	36,000
To Purchases	27,000	21,600	By Closing Stock	10,800	4,800
To Gross Profit	**16,800**	**11.200**			
	52,800	**40,800**		**52,800**	**40,800**

✎ ILLUSTRATION 11:

Calculate Opening and Closing Stock Reserve from the following:

X department transfers goods to Y department at selling price**.** Stock of Y department consists 60% of goods received from department X and balance 40% other expenses.

Gross Profit Ratio of Department X: 25%

Opening Stock of Department Y: ₹1,00,000

Closing Stock of Department Y: ₹2,00,000

Solution:

Calculation of Opening Stock Reserve

$$1,00,000 \times 60\% \times 25\% = \textbf{₹15,000}$$

Calculation of Closing Stock Reserve

$$2,00,000 \times 60\% \times 25\% = \textbf{₹30,000}$$

✎ ILLUSTRATION 12:

Calculate Opening and Closing Stock Reserve from the following.

Department X transfers goods to Department Y at selling price. Y Department's stock consists 2/3rd of goods received from Department X and balance 1/3rd other expenses.

Gross Profit Ratio of Department X: 30%

Opening Stock of Department Y: ₹1,50,000

Closing Stock of Department Y: ₹3,00,000

Solution:

Calculation of Opening Stock Reserve

$1,50,000 \times 2/3 \times 30\% =$ **₹30,000**

Calculation of Closing Stock Reserve

$3,00,000 \times 2/3 \times 30\% =$ **₹60,000**

✎ ILLUSTRATION 13:

A company has two departments A and B. From the following figures, prepare Departmental Trading and Profit and Loss Account.

Particulars	*Department A (₹)*	*Department B (₹)*
Opening Stock	30,000	10,000
Purchases	2,10,000	50,000
Sales	5,00,000	1,00,000
Closing Stock	2,00,000	50,000
Carriage Inwards	5,000	2,000
Wages	5,000	1,000
Salaries	2,000	1,500
Rent	6,000	3,000

Solution:

Departmental Trading & Profit and Loss Account

Particulars	*A*	*B*	*Particulars*	*A*	*B*
To Opening Stock	30,000	10,000	By Sales	5,00,000	1,00,000
To Purchases	2,10,000	50,000	By Closing Stock	2,00,000	50,000
To Carriage Inwards	5,000	2,000			
To Wages	5,000	1,000			
To Gross Profit c/d – (Bal. Fig)	**4,50,000**	**87,000**			
	7,00,000	1,50,000		7,00,000	1,50,000

(Contd.)

To Salaries	2,000	1,500	By Gross Profit b/d	4,50,000	87,000
To Rent	6,000	3,000			
To Net Profit c/d –(Bal. fig.)	**4,42,000**	**82,500**			
	4,50,000	87,000		4,50,000	87,000

✎ ILLUSTRATION 14:

From the following details, prepare Departmental Trading and Profit and Loss Account.

	Cloth (₹)	*Readymade (₹)*
Opening Stock	9,000	8,000
Purchases	27,000	21,000
Sales	52,000	66,000
Closing Stock	50,000	34,000

Other Information:

(a) Salaries: ₹30,000

(b) Rent: ₹12,000

(c) Goods transferred from Cloth to Readymade: ₹10,000

(d) Number of Employees Working in the Department: Cloth: 10, Readymade: 20

(e) Area Occupied by the Department: Cloth: 500 Sq. ft., Readymade: 700 Sq. ft.

Solution

Departmental Trading and Profit and Loss Account

	Cloth Dept.	*Ready-made Dept.*		*Cloth Dept.*	*Ready-made Dept.*
To Opening Stock	9,000	8,000	By Sales	52,000	66,000
To Purchases	27,000	21,000	Closing Stock	50,000	34,000
To Cloth – Transfer – (C)	—	10,000	By Readymade – Transfer – (C)	10,000	—
To Gross Profit	**76,000**	**61,000**			
	1,12,000	**1,00,000**		**1,12,000**	**1,00,000**

(Contd.)

To Salaries 30,000 (10:20)	10,000	20,000	By Gross Profit	76,000	61,000
To Rent 12,000 (500:700)	5,000	7,000			
To Net Profit	**61,000**	**34,000**			
	76,000	**61,000**		**76,000**	**61,000**

Note: When goods are transferred from one department to another it is known as Inter Departmental Transfer. This will reflect in the Trading Account. This is a Contra entry**.**

Journal Entry is:

Particulars		*Debit (₹)*	*Credit (₹)*
Readymade Department A/c Dr.		10,000	
To Cloth Department A/c	C		10,000
(Being goods transferred from Cloth to Readymade)			

✎ ILLUSTRATION 15:

From the following information, prepare Departmental Trading and Profit and Loss Account for the year ending on 31st December 2009.

	(₹)		*(₹)*
Sales:		Purchases:	
Dept. I	1,00,000	Dept. I	50,000
Dept. II	2,00,000	Dept. II	75,000
Stock (01.01.1996):		Salaries	6,000
Dept. I	20,000		
Dept. II	30,000		
Rent	1,800	Advertisement	7,500
Insurance	2,400	Bank Charges	1,200
Wages	10,000	Stationery	3,000
Bad Debts	1,500		

Additional Information:

(a) Stock on 31st December 1996: Dept. I: ₹40,000; Dept. II: ₹56,000

(b) Wages are to be apportioned in the ratio of 2:3

(c) Salaries are to be apportioned in the ratio of 3:2

(d) Rent to be apportioned in the ratio of 1:9

Solution:

Departmental Trading, and Profit and Loss Account for the Year Ended 31.12.2009

	Dept. I	*Dept. II*		*Dept. I*	*Dept. II*
To Opening Stock	20,000	30,000	By Sales	1,00,000	2,00,000
To Purchases	50,000	75,000	Closing Stock	40,000	56,000
To Wages	4,000	6,000			
To Gross Profit	**66,000**	**1,45,000**			
	1,40,000	**2,56,000**		**1,40,000**	**2,56,000**
To Rent	180	1,620	**By Gross Profit**	**66,000**	**1,45,000**
To Insurance	800	1,600			
To Bad Debts	500	1,000			
To Salaries	3,600	2,400			
To Advertisement	2,500	5,000			
To Bank Charges	400	800			
To Stationery	1,000	2,000			
To Net Profit	**57,020**	**1,30,580**			
	66,000	**1,45,000**		**66,000**	**1,45,000**

Note: In the absence of information, Insurance, Bad Debts, Advertisement, Bank Charges and Stationery are to be apportioned on the basis of Sales Ratio.

✎ ILLUSTRATION 16:

Mr. Kumar carries on a trading business. The business is divided into two departments. Following is the Trial Balance as on 31st March 2009. From the particulars given below, prepare Departmental Trading and Profit and Loss Account and Balance Sheet as on 31st March 2009.

Debit	*(₹)*	*Credit*	*(₹)*
Opening Stock:		Sales:	
Dept. A	3,400	Dept. A	70,000
Dept. B	1,100	Dept. B	30,000
Salaries	5,400	Capital	30,000
Commission Paid	2,200	Creditors	12,000
Bank Charges	120	Bills Payable	2,250

(Contd.)

Telegrams	600		
Discount Allowed	1,500		
Cash in Hand	2500		
Debtors	23,000		
Bills Receivable	5,000		
Furniture	1,000		
Rent	1,800		
Insurance	2,400		
Purchases:			
Dept. A	43,000		
Dept. B	25,000		
Office Expenses	2,800		
Advertisement	5,800		
Stationery	2,700		
Miscellaneous Expenses	900		
Investments	6900		
Cash at Bank	7,130		
	1,44,250		**1,44,250**

Adjustments:

(a) Write off 10% depreciation on furniture.

(b) Provide ₹300 for bad debts.

(c) Closing stocks were: Dept. A: ₹4,000, Dept. B: ₹1,680

(d) Apportion the expenses in proportion to the sales of each department.

Solution:

Departmental Trading and Profit & Loss Account for the Year Ending 31.03.2009

	Dept. A	*Dept. B*		*Dept. A*	*Dept. B*
To Opening Stock	3,400	1,100	By Sales	70,000	30,000
To Purchases	43,000	25,000	By Closing Stock	4,000	1,680
To Gross Profit	**27,600**	**5,580**			
	74,000	**31,680**		**74,000**	**31,680**

(Contd.)

To Salaries	3,780	1,620	By Gross Profit b/d	27,600	5,580
To Commission	1,540	660			
To Bank Charges	84	36			
To Telegrams	420	180			
To Discount Allowed	1,050	450	**By Net Loss (Bal. fig.)**		**2,406**
To Insurance	1,680	720			
To dep. on Furniture	70	30			
To Bad Debts	210	90			
To Office Expenses	1,960	840			
To Advertisement	4,060	1,740			
To Stationery	1,890	810			
To Misc. Expenses	630	270			
To Rent	1,260	540			
To Net Profit – (Bal. fig.)	**8,966**				
	27,600	**7,986**		**27,600**	**7986**

Balance Sheet as on 31.03.2009

Liabilities		*(₹)*	*Assets*		*(₹)*
Capital	30,000		Cash in Hand		2,500
Add: Net Profit	8,966				
Less: Net Loss	(–) 2,406	36,560			
Creditors		12,000	Debtors		22,700
Bills Payable		2,250	Bills Receivable		5,000
			Furniture	1,000	
			Less: Depreciation	100	900
			Investments		6,900
			Cash at Bank		7,130
			Closing Stock		5,680
		50,810			**50,810**

✎ ILLUSTRATION 17:

From the following information given below, prepare the Departmental Trading Profit and Loss Account and Balance Sheet of a businessman:

Trial Balance as on 31.12.1994

	Debit (₹)	*Credit* (₹)
Capital		1,00,000
Opening Stock:		
Department A	15,000	
Department B	25,000	
Purchases:		
Department A	1,50,000	
Department B	3,00,000	
Carriage on Purchases:		
Department A	15,000	
Department B	30,000	
Sales:		
Department A		3,00,000
Department B		6,00,000
Wages		
Department A	12,000	
Department B	24,000	
Sundry Debtors	1,20,000	
Bills Receivable	20,000	
Plant & Machinery	5,00,000	
Furniture	70,000	
Sundry Creditors		2,00,000
Bills Payable		1,00,000
Loan from Bank		1,00,000
Advertisement	25,000	
Commission	5,000	
Discount Allowed	2,000	
Printing and Stationery	1,000	
Bad Debts	1,500	
Provision for Doubtful Debts		1,000

(Contd.)

Miscellaneous Expenses	2,500	
Cash in Hand	25,000	
Discount Received		3,000
Telephone Charges	2,000	
Insurance	4,000	
Drawings	55,000	
	14,04,000	**14,04,000**

Additional Information

(a) Closing Stock:

Department A: ₹75,000

Department B: ₹50,000

(b) Outstanding Wages:

Department A: ₹1,000

Department B: ₹2,000

(c) Provide ₹5,000 as bad debts and 5% for provision for Bad and Doubtful Debts

(d) Prepaid Insurance: ₹1,000

(e) Depreciate Plant and Machinery by 10% and Furniture by 20%

Prepare Departmental Trading and Profit and Loss Account and a Balance Sheet as on that date.

Solution:

Departmental Trading and Profit and Loss Account for the Year Ended 31.12.1994

	A	*B*		*A*	*B*
To Opening Stock	15,000	25,000	By Sales	3,00,000	6,00,000
To Purchases	1,50,000	3,00,000	By Closing Stock	75,000	50,000
To Carriage on Purchases	15,000	30,000			
To Wages with Outstanding	13,000	26,000			
To Gross Profit (Bal. fig.)	**1,82,000**	**2,69,000**			
	3,75,000	**6,50,000**		**3,75,000**	**6,50,000**

(Contd.)

To Advertisement 25,000 (1:2)	8,333	16,667	By Gross Profit b/d	1,82,000	2,69,000
To Commission 5,000 (1:2)	1,667	3,333	By Discount received 3,000 (1:2)	1,000	2,000
To Discount Allowed 2,000 (1:2)	667	1,333			
To Printing and Stationery 1,000 (1:2)	333	667			
To Bad Debts 11,250 (1:2) (SWN1)	3,750	7,500			
To Miscellaneous Expenses 2,500 (1:2)	833	1,667			
To Telephone Charges 2,000 (1:2)	667	1,333			
To Insurance Less Prepaid 3,000 (1:2)	1,000	2,000			
To Dep. on P & M 50,000 (1:2)	16,667	33,333			
To Dep. on Furniture 14,000 (1:2)	4,667	9,333			
To Net Profit (Bal. fig.)	**1,44,416**	**1,93,834**			
	1,83,000	**2,71,000**		**1,83,000**	**2,71,000**

Note: Discount received to be apportioned on the basis of Purchase Ratio (1:2).

In the absence of specific information, all expenses to be apportioned on the basis of sales.

Working Note for Bad Debts:

		(₹)
Bad Debts (Trial Balance)	1,500	
Add: New Bad Debts (Adjustments)	5,000	
Add: New Provision for Doubtful Debts (Adjustments) (₹1,15,000 × 5%)	5,750	
Less: Old Provision for Doubtful Debts (Trial Balance)	1,000	11,250

Balance Sheet as on 31.12.1994

Liabilities		*(₹)*	*Assets*		*(₹)*
Capital	1,00,000		Plant & Machinery	5,00,000	
Add: Net Profit: A	1,44,416		Less: Depreciation @10%	50,000	4,50,000
Net Profit: B	1,93,834				
Less: Drawings	55,000	3,83,250			
Sundry Creditors		2,00,000	Sundry Debtors	1,20,000	
			Less: Bad Debts	5,000	
			Less: New Prov. for D.D	5,750	1,09,250
Bills Payable		1,00,000	Bills Receivable		20,000
Loan from Bank		1,00,000	Cash in Hand		25,000
Outstanding Wages:			Closing Stock:		
A	1,000		A	75,000	
B	2,000	3,000	B	50,000	1,25,000
			Furniture	70,000	
			Less: Depreciation @ 20%	14,000	56,000
			Prepaid Insurance		1,000
		7,86,250			**7,86,250**

✎ ILLUSTRATION 18:

Guru Ram Singh purchased goods for his three departments. The details are as follows:

Dept. A	300 units	at a Total Cost of ₹15,000
Dept. B	1,500 units	
Dept. C	400 units	

Sales of the three departments were as follows:

Dept. A	180 units at ₹14 per unit
Dept. B	1500 units at ₹14 per unit
Dept. C	400 units at ₹12 per unit

Opening Stock:

Dept. A	100 units
Dept. B	400 units
Dept. C	60 units

Guru Ram Singh informs that the rate of gross profit is the same in all departments.

You are required to prepare Departmental Trading Account.

Solution:

Step I: Calculation of Closing Stock

Closing Stock = Opening Stock + Purchases – Sales

Department A: 100 + 300 – 180 = 220 units
Department B: 400 + 1,500 – 1500 = 400 units
Department C: 60 + 400 – 400 = 60 units

Step II: Calculation of Gross Profit Ratio

To calculate the amount of Gross Profit Ratio, assume that all the units purchased have been sold at the Selling Price.

		(₹)
Department A	300 × 14	4,200
Department B	1,500 × 14	21,000
Department C	400 × 12	4,800
Total Sales		30,000
Less: Purchase Price		15,000
Gross Profit		**15,000**

$$\text{Rate of Gross Profit} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$\frac{15,000}{30,000} \times 100 = 50\%$$

Rate of Gross Profit = 50%

Step III: Calculation of Cost Price of each unit

Department A: 14 × 50% = ₹7
Department B: 14 × 50% = ₹7
Department C: 12 × 50% = ₹6

Step IV: Calculation of Purchase of each department:

Department A: ₹300 × 7 =	₹2,100
Department B: ₹1500 × 7 =	₹10,500
Department C: ₹400 × 6 =	₹2,400
Total Purchase Price	**15,000**

Note: After ascertaining the purchase price, this can be cross-checked.

Step V: Value of Opening Stock at Cost Price

Department A: 100 × 7 = ₹700
Department B: 400 × 7 = ₹2,800
Department C: 60 × 6 = ₹360

Step VI: Value of Closing Stock at Cost Price

Department A: 220 × 7 = ₹1,540
Department B: 400 × 7 = ₹2,800
Department C: 60 × 6 = ₹360

Step VII: Calculation of Sales of each department:

Department A: 180 × 14 = ₹2,520
Department B: 1,500 × 14 = ₹21,000
Department C: 400 × 12 = 4,800

Step VIII: Preparation of Departmental Trading Account

Departmental Trading Account

	A (₹)	*B* (₹)	*C* (₹)		*A* (₹)	*B* (₹)	*C* (₹)
To Opening Stock	700	2,800	360	By Sales	2,520	21,000	4,800
To Purchases	2,100	10,500	2,400	By Closing Stock	1,540	2,800	360
To Gross Profit (Bal. fig.)	**1,260**	**10,500**	**2,400**				
	4,060	**23,800**	**5,160**		**4,060**	**23,800**	**5,160**

✎ ILLUSTRATION 19:

The following purchases were made by a business house, having three departments.

Dept. A 2,000 units
Dept. B 4,000 units } at a total cost of ₹2,00,000
Dept. C 4,800 units

Stock on 1st January were:

Dept. A 240 units
Dept. B 160 units
Dept. C 304 units

Sales were:

Dept. A 2040 units at ₹20 each
Dept. B 3840 units at ₹22.50 each
Dept. C 4992 units at ₹25 each

The rate of gross profit is same in each case. Prepare Departmental Trading Account.

Solution:

Step I: Calculation of Closing Stock

Closing Stock = Opening Stock + Purchases – Sales

Department A: 240 + 2,000 – 2,040 = 200 units
Department B: 160 + 4,000 – 3,840 = 320 units
Department C: 304 + 4,800 – 4,992 = 112 units

Step II: Calculation of Gross Profit Ratio

To calculate the amount of Gross Profit Ratio, let us assume that all the units purchased have been sold at the Selling Price.

		(₹)
Department A	2,000 × 20	40,000
Department B	4,000 × 22.50	90,000
Department C	4,800 × 25	1,20,000
Total Sales		2,50,000
Less: Purchase Price		2,00,000
Gross Profit		**50,000**

$$\text{Rate of Gross Profit} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$= \frac{50{,}000}{2{,}50{,}000} \times 100 = 20\%$$

Rate of Gross Profit = 20%

Step III: Calculation of Cost Price of Each Unit

Department A: 20 × 80% = ₹16
Department B: 22.5 × 80% = ₹18
Department C: 25 × 80% = ₹20

Step IV: Calculation of Purchase of Each Department

Department A: ₹2,000 × 16 =	32,000
Department B: ₹4,000 × 18 =	72,000
Department C: ₹4,800 × 20 =	96,000
Total Purchase Price	**2,00,0000**

Step V: Value of Opening Stock at Cost Price

Department A: 240 × 16 = ₹3,840
Department B: 160 × 18 = ₹2,880
Department C: 304 × 20 = ₹6,080

Step VI: Value of Closing Stock at Cost Price

Department A: 200 × 16 = ₹3,200
Department B: 320 × 18 = ₹5,760
Department C: 112 × 20 = ₹2,240

Step VII: Calculation of Sales of Each Department

Department A:2,040 × 20 = ₹40,800
Department B: 3,840 × 22.5 = ₹86,400
Department C: 4,992 × 25 = ₹1,24,800

Step VIII: Preparation of Departmental Trading Account

Departmental Trading Account

	A (₹)	*B* (₹)	*C* (₹)		*A* (₹)	*B* (₹)	*C* (₹)
To Opening Stock	3,840	2,880	6,080	By Sales	40,800	86,400	1,24,800
To Purchases	32,000	72,000	96,000	By Closing Stock	3,200	5,760	2,240
To Gross Profit (Bal. fig.)	**8,160**	**17,280**	**24,960**				
	44,000	**92,160**	**1,27,040**		**44,000**	**92,160**	**1,27,040**

✎ ILLUSTRATION 20:

A firm had two departments – cloth and readymade garments. The garments were made by the firm, out of cloth supplied by the cloth department at its usual selling price. From the following information, prepare Departmental Trading and Profit and Loss Account and general Profit and Loss Account for the year ended 31.12.2014.

Particulars	*Cloth*	*Readymade*
Stock on 01.01. 2014	5,00,000	1,00,000
Purchases	25,00,000	5,00,000
Sales	50,00,000	15,00,000
Transfer to Readymade Garments Department	5,00,000	—
Manufacturing Expenses	4,00,000	50,000
Selling Expenses	40,000	10,000
Stock on 31.12.2014	12,00,000	5,00,000

The stock in the readymade garments department may be considered as consisting 60% cloth and 40% other expenses. The Cloth Department earned a gross profit @ 50% in 2013. General expenses of the business as a whole came to ₹1,30,000 and this has to be apportioned on the basis of Sales Ratio.

Solution:

Departmental Trading and Profit and Loss Account

	Cloth	*Readymade*		*Cloth*	*Readymade*
To Opening Stock	5,00,000	1,00,000	By Sales	50,00,000	15,00,000
To Purchases	25,00,000	5,00,000	By Closing Stock	12,00,000	5,00,000
To Manufacturing Expenses	4,00,000	50,000	By Readymade – Transfer	5,00,000	
To Cloth – Transfer		**5,00,000**			
To Gross Profit	**33,00,000**	**8,50,000**			
	67,00,000	**20,00,000**		**67,00,000**	**20,00,000**
To Selling Expenses	40,000	10,000	**By Gross Profit**	33,00,000	8,50,000
To General Expenses (10:3)	1,00,000	30,000			
To Net Profit	**31,60,000**	**8,10,000**			
	33,00,000	8,50,000		33,00,000	8,50,000

Note: Gross Profit Ratio of Cloth Department for the year 2013 is given.
Gross Profit Ratio of Cloth Department for the year 2014 is to be found out.
To find the gross profit ratio of the cloth department, the actual sales of cloth department is to be ascertained. While calculating sales, goods transferred to readymade departments should be added to the actual sales. Therefore, the actual sales made by cloth department is ₹50,00,000 + ₹5,00,000 = ₹55,00,000

Rate of Gross Profit of Cloth Department for the year 2014:

$$\text{Rate of Gross Profit} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$= \frac{33,00,000}{55,00,000} \times 100 = 60\%$$

Rate of Gross Profit = 60%

Calculation of Opening Stock Reserve

Opening Stock Reserve = 1,00,000 × 60% × 50% = ₹30,000

Calculation of Closing Stock Reserve

Closing Stock Reserve = 5,00,000 × 60% × 60% = ₹1,80,000

General Profit and Loss Account

	(₹)		(₹)
To Closing Stock Reserve (5,00,000 × 60% × 60%)	1,80,000	By Net Profit: Cloth	31,60,000
		Readymade	8,10,000
		By Opening Stock Reserve (1,00,000 × 60% × 50%)	30,000
To Net Profit (Bal. fig.)	**38,20,000**		
	40,00,000		**40,00,000**

✎ ILLUSTRATION 21:

From the following information, prepare Departmental Trading and Profit and Loss Account of Ms Laxmi, for the year ended 31st December 2007.

	A	*B*	*C*
Opening Stock	5,00,000	3,00,000	2,00,000
Purchases	15,00,000	9,00,000	6,00,000
Sales	30,00,000	18,00,000	12,00,000
Wages	1,00,000	50,000	25,000
Closing Stock	7,00,000	2,00,000	1,00,000

Expenses of the Department are as follows:

(a) Rent: ₹3,00,000

(b) Salaries: ₹5,00,000

(c) General Expenses: ₹1,80,000

(d) Depreciation: ₹50,000

(e) Postage: ₹2,500

(f) Insurance : ₹6,000

Additional Information:

(a) Rent to be apportioned equally

(b) Number of employees working in each department: A: 50, B: 30, C: 20

(c) Value of Assets: A: 5,00,000, B: ₹3,00,000, C: ₹2,00,000

(d) General Expenses to be apportioned in the ratio of 1:2:3

(e) Goods were transferred from one department to another at cost price as follows:

A to B: ₹40,000
A to C: ₹60,000
B to C: ₹20,000
C to A: ₹10,000

Solution:

Table Showing Inter-Departmental Transfer at Cost Price

Transfer	*Department A*	*Department B*	*Department C*
A to B	Sale – 40,000 (Cr.)	Purchase – ₹40,000 (Dr)	
A to C	Sale – 60,000 (Cr.)		Purchase – ₹60,000 (Dr.)
B to C		Sale – ₹20,000 (Cr.)	Purchase – ₹20,000 (Dr.)
C to A	Purchase – ₹10,000 (Dr.)		Sale – ₹10,000 (Cr.)

Departmental Trading and Loss Account for the Year ended 31.12.2007

	A	*B*	*C*		*A*	*B*	*C*
To Opening Stock	5,00,000	3,00,000	2,00,000	By Sales	30,00,000	18,00,000	12,00,000
To Purchases	15,00,000	9,00,000	6,00,000	By Closing Stock	7,00,000	2,00,000	1,00,000
To Wages	1,00,000	50,000	25,000	By Transfer	1,00,000	20,000	10,000
To Transfer – Working Note	10,000	40,000	80,000				
To Gross Profit	**16,90,000**	**7,30,000**	**4,05,000**				
	38,00,000	**20,20,000**	**13,10,000**		**38,00,000**	**20,20,000**	**13,10,000**
To Rent (1:1:1)	1,00,000	1,00,000	1,00,000	By Gross Profit b/d	16,90,000	7,30,000	4,05,000
To Salaries (5:3:2)	2,50,000	1,50,000	1,00,000				
General Expenses (1:2:3)	30,000	60,000	90,000				
Depreciation (5:3:2)	25,000	15,000	10,000				
Postage (5:3:2)	1,250	750	500				
Insurance (5:3:2)	3,000	1,800	1,200				
To Net Profit (Bal. fig.)	**12,80,750**	**4,02,450**	**1,03,300**				
	16,90,000	**7,30,000**	**4,05,000**		**16,90,000**	**7,30,000**	**4,05,000**

Note: Postage and Insurance to be apportioned on the basis of Sales Ratio, in the absence of basis of apportionment.

✎ ILLUSTRATION 22:

A company carries on its business through 5 departments. The details relating to expenses of the departments were as follows:

	A	*B*	*C*	*D*	*E*
Opening Stock	10,000	15,000	20,000	25,000	30,000
Closing Stock	50,000	60,000	70,0000	80,000	90,000
Purchases	1,00,000	2,00,000	3,00,000	4,00,000	5,00,000
Sales	10,00,000	20,00,000	30,00,000	40,00,000	50,00,000
Manufacturing Expenses	10,000	15,000	20,000	30,000	40,000

Goods were transferred from one department to another at Cost Price as follows:

Department A to Department B: ₹2,000

Department B to Department C: ₹3,000

Department C to Department D: ₹4,000

Department D to Department E: ₹5,000

Department E to Department A: ₹6,000

Prepare Departmental Trading Account.

Solution:

Table Showing Inter Departmental Transfer at Cost Price

Transfer	*Dept. A*	*Dept. B*	*Dept. C*	*Dept. D*	*Dept. E*
A to B	Sale – ₹2,000 (Cr.)	Purchase – ₹2,000 (Dr.)			
B to C		Sale – ₹3,000 (Cr.)	Purchase – ₹3,000 (Dr.)		
C to D			Sale – ₹4,000 (Cr.)	Purchase – ₹4,000 (Dr.)	
D to E				Sale – ₹5,000 (Cr.)	Purchase – ₹5,000 (Dr.)
E to A	Purchase – ₹6,000 (Dr.)				Sale ₹6,000 (Cr.)

Departmental Trading and Loss Account for the Year ended 31.12.2007

	A	*B*	*C*	*D*	*E*		*A*	*B*	*C*	*D*	*E*
To Opening Stock	10,000	15,000	20,000	25,000	30,000	By Sales	10,00,000	20,00,000	30,00,000	40,00,000	50,00,000
To Purchases	1,00,000	2,00,000	3,00,000	4,00,000	5,00,000	By Closing Stock	50,000	60,000	70,000	80,000	90,000
To Manufacturing Expenses	10,000	15,000	20,000	30,000	40,000	By Transfer	2,000	3,000	4,000	5,000	6,000
To Transfer – Working Note	6,000	2,000	3,000	4,000	5,000						
To Gross Profit	**9,26,000**	**18,31,000**	**27,31,000**	**36,26,000**	**45,21,000**						
	10,52,000	**20,63,000**	**30,74,000**	**40,85,000**	**50,96,000**		**10,52,000**	**20,63,000**	**30,74,000**	**40,85,000**	**50,96,000**

✎ ILLUSTRATION 23

Following is the Profit and Loss Account of Sony Electronics for the year ending 31-3-2014.

Purchases:	₹	*Sales:*	₹
Transistors (x)	1,60,000	Transistors (x)	1,75,000
Tape Recorders (y)	1,25,000	Tape Recorders (y)	1,40,000
Repairs (z)	80,000	Repairs (z)	35,000
Salaries& Wages	48,000	Stock on 31.03.2014	
Rent	10,800	Transistors (x)	60,100
Sundry Expenses	11,000	Tape Recorders (y)	20,300
Profit	40,200	Repairs (z)	44,600
	4,75,000		**4,75,000**

Other particulars are given below:

(a) Transistors and tape recorders have been sold in showroom and repairs are made in the factory.

(b) Apportionment of salaries and wages i.e., showroom 3/4 and factory 1/4: salaries and wages of showroom are to be divided in 1:2 ratio in x and y departments.

(c) Rent of factory is ₹500 p.m. Rent of showroom is apportioned equally in x and y departments.

(d) Sundry expenses are apportioned in the sales ratio of the departments.

Prepare departmental Trading and P & L Account.

Solution:

Departmental Trading and Profit and Loss Account of Sony Electronics for the year ended 31.03.2014

	Show Room		*Factory*		*Show Room*		*Factory*
	Transistors ₹ *X*	*Tape Recorder* ₹ *Y*	*Repairs* ₹ *Z*		*Transistors* ₹ *X*	*Tape Recorder* ₹ *Y*	*Repairs* ₹ *Z*
To Purchases	1,60,000	1,25,000	80,000	By Sales	1,75,000	1,40,000	35,000
To Gross Profit (Bal. fig.)	**75,100**	**35,300**		By Closing Stock	60,100	20,300	44,600
				By Gross loss (Bal. fig.)			**400**
	2,35,100	**1,60,300**	**80,000**		**2,35,100**	**1,60,300**	**80,000**

(Contd.)

To Gross Loss b/d			400	By Gross Profit b/d	75,100	35,300	
To Salaries & Wages	12,000	24,000	12,000	**By Net Loss c/d (Bal. fig.)**			**19,500**
To Rent	2,400	2,400	6,000				
To Sundry Expenses	5,500	4,400	1,100				
To Net Profit c/d (Bal. fig.)	**55,200**	**4,500**	—				
	75,100	**35,300**	**19,500**		**75,100**	**35,300**	**19,500**

✎ ILLUSTRATION 24

A Hotel proprietor has two departments viz., Apartment department and Meals department. The following is the Trial Balance of his business.

	₹		₹
Provisions	15,500	Income from apartments and attendance department	46,000
Stock of provisions in the beginning	1,020	Income from meals department	32,000
Cash in hand and at Bank	10,000	Capital	2,20,000
Customers debit balances	800	Suppliers A/c	9,800
Buildings (1/10th used for meals department)	2,10,000	Provision for depreciation on building	24,000
Furniture and equipment	60,000	Interest	1,130
General expenses	27,410		
Interest accrued	200		
Life insurance	1,600		
Income tax	400		
Wages	6,000		
	3,32,930		**3,32,930**

Additional information:

(a) The servants in the Apartment department had occupied a room worth ₹120 and took meals worth ₹60. Similarly, servants in the Meals department had occupied a room worth ₹150 and took meals worth ₹90.

(b) Wages are charged in the proportion of 1/2 to the Apartment department $1/4^{th}$ to the Meals department and remaining to the general P&L A/c.

(c) Increase provision for depreciation of buildings to ₹30,000.

(d) A sum of ₹800 representing accommodation ₹240 and meals ₹560 to be charged to proprietor of the hotel.

You are required to prepare Profit and Loss Account and Balance Sheet as on 31.3.1992.

(May 2017 U/ID 1884/CAA)

Solution:

Working Notes:

	Apartment Dept.	*Meals Dept.*	*Total Expenses*
Expenses on Servants in Apartment Dept.	120	60	**180 (For Apartment Dept.)**
Expenses on Servants in Meals Dept.	150	90	**240 (For Meals Dept.)**
Total income	**270**	**150**	

Departmental Profit & Loss Account for the ending 31.3.92

	₹ *Apartment*	₹ *Meals*		₹ *Apartment*	₹ *Meals*
To Stock	—	1,020	By Income	46,000	32,000
To Provisions	—	15,500	By Proprietor's A/c	240	560
To Deprecation on buildings	5,400	600	By Inter-dept. adjustment **(WN)**	270	150
To Wages	3,000	1,500			
To Inter-Dept. adjustment **(WN)**	180	240			
To Net Profit c/d	**37,930**	**13,850**			
	46,510	**32,710**		**46,510**	**32,710**

General P & L Account

	₹		₹
To Wages	1,500	By Net Profit b/s	
To General Expenses	27,410	Apartment	37,930
To Net Profit c/d	**24,000**	Meals	13,850
		By Interest	1,130
	52,910		**52,910**

Balance Sheet as on 31.3.92

Liabilities	₹	₹	*Assets*	₹	₹
Capital	2,20,000		Buildings		2,10,000
Less:			Furniture & Equipment		60,000
Income Tax 400			Customer's A/c		800
Premium 1,600			Interest accured		200
Meals 560			Cash in Hand & at Bank		10,000
Apartment 240	2,800				
	2,17,200				
Add: Net Profit	24,000	2,41,200			
Suppliers A/c		3,800			
Provision for Depreciation		30,000			
		2,81,000			**2,81,000**

■ *Theory Questions* ■

Short-Answer Questions

1. What are Departmental Accounts?
2. What is Stock Reserve?
3. What do you understand by Inter-Departmental Transfers?
4. What are Direct Expenses?
5. What are Indirect Expenses?
6. State the basis on which the following expenses can be allocated:

   (i) Lighting (ii) Rent (iii) Bad Debts (iv) Carriage Outwards (v) Depreciation

Long-Answer Questions

1. What are the advantages of preparing Departmental Accounts?
2. State the need for preparing Departmental Accounts.
3. Distinguish between Department and Branches.
4. What are the bases on which common expenses are apportioned among departments?

5. How do you treat Inter-Departmental Transfers in Departmental Accounts?
6. How do you deal the Stock Reserve on Unsold Goods in Departmental Accounts?
7. What should be the basis of allocation for the following expenses under Departmental Accounts?
   (a) Welfare Expenses
   (b) Expenses on Insurance
   (c) Salary of Factory Manger
   (d) Expenses on Land

(October 2001/1860/NZA/NYA)

■ Exercise Problems ■

1. Calculate Sales from the following:

Department	*Opening Stock (units)*	*Purchases (units)*	*Closing Stock (units)*
I	1,200	10,000	700
II	800	4,000	1,600

[Ans: Sales: Dept. I: 10,500 units, Dept. II: 3,200 units]

2. Calculate Opening Stock from the following:

Department	*Purchases (units)*	*Sales (units)*	*Closing Stock (units)*
X	15,000	20,000	5,000
Y	20,000	40,000	10,000
Z	50,000	70,000	20,000

[Ans: Opening Stock: Dept. X: 10,000 units, Y: 30,000 units, Z: 40,0000 units]

3. Calculate Closing Stock from the following:

Department	*Opening Stock (units)*	*Purchases (units)*	*Sales (units)*
A	50,000	1,50,000	1,80,000
B	1,20,000	2,90,000	2,78,000

[Ans: Closing Stock: Dept. A: 20,000 units, Dept. B: 1,32,000 units]

4. Calculate Purchases from the following:

Department	*Opening Stock (units)*	*Closing Stock (units)*	*Sales (units)*
A	42,000	21,000	1,70,000
B	93,000	95,000	1,95,000

[Ans: Purchases: Dept. A: 1,49,000 units, Dept. B: 1,97,000 units]

5. Apportion the following expenses on the basis of Cost of goods sold ratio among the four departments, A, B C & D.

(a) The sales of each department are given below

Department	*A*	*B*	*C*	*D*
Sales	2,00,000	1,50,000	1,00,000	50,000

(b) Gross Profit Ratio = 20% on Sales

(c) The expenses were: Salaries ₹6,000; Rent ₹1,500

(November 2007/ 21604/ ZZ2H/ SY2C/ SDEN)
[Ans: Cost of good sold ratio: 4: 3: 2: 1
Salaries: Dept A: 2,400, Dept B: 1,800,
Dept C: 1,200, Dept D: 600
Rent: Dept A: 600, Dept B: 450, Dept C: 300, Dept D: 150]

6. Apportion the following expenses on the basis of Cost of Sales ratio among the four departments, A, B, C & D.

(a) The sales of each department are given below

Department	*A*	*B*	*C*	*D*
Sales	4,00,000	3,00,000	2,00,000	1,00,000

(b) Gross Profit Ratio = 20% on Sales

(c) The expenses were: Salaries ₹12,000; Rent ₹3,000 and Insurance ₹2,600

[Ans: Cost of good sold ratio: 4:3:2:1
Salaries: Dept. A: ₹4,800, B: ₹3,600, C: ₹2,400, D: ₹1,200
Rent: Dept. A: ₹1,200, B: ₹900, C: ₹600, D: ₹300
Insurance: Dept. A: ₹1,040, B: ₹780, C: ₹520, D: ₹260]

7. Apportion the Expense, Salary ₹6,000 to the departments A, B, C and D in the ratio of Cost of Goods Sold . The Gross Profit Ratio is 20% on Sales. The sales are: A: ₹2,00,000, B : ₹1,50,000, C: ₹1,00,000 and D: ₹4,50,000.

(November 2017/ 60522/BYA2C/CYA2A)
[Ans: Cost of good sold ratio – 16:12:8:36
Salary – A: ₹1,333 B: ₹1,000, C: ₹667, D: ₹3,000]

8. Apportion the following expenses on the basis of cost of goods sold ratio among the four Departments A, B, C and D.

Sales: A: 2,00,000; B: 1,50,000; C: 1,00,000; D: 50,000

G.P ratio – 20% on sales

Expenses: Salaries ₹6,000; Rent – ₹1,500.

(November 2007/21604/ZZ2H/SY2C/SDEN)
[Ans: Cost of good sold ratio: 4:3:2:1
Salaries – Dept A: 2,400, Dept B: 1,800,
Dept C: 1,200, Dept D: 600
Rent – Dept A: 600, Dept B: 450, Dept C: 300, Dept D: 150]

9. Goods are transferred from Department A to Department B at selling price. Usually stocks of Department B consist of 75% of goods received from Department A and balance 25% other expenses. From the following particulars, compute the Profit included in the stocks of Department B:

Gross Profit Ratio of Department A : 20% on Sales

Opening Stock of Department B : ₹40,000

Closing Stock of Department B: ₹90,000

(November 2017/60522/BYA2C/CYA2A)
[Ans: Opening Stock Reserve: ₹6,000
Closing Stock Reserve: ₹13,500]

10. The following data was obtained from the books of a company for the year ended 31st March 2009: The expenses for the year are:

(a) Motive Power ₹550
(b) Lighting ₹100
(c) Salaries to Employees ₹1500
(d) Depreciation ₹15,000
(e) Repairs and maintenance ₹3000
(f) Rent and taxes ₹550

Particulars	*Department*				
	A	*B*	*C*	*X*	*Y*
Staff (Number)	100	150	150	50	50
Electricity (K.W.H)	4000	3000	2000	1000	1000
Light points (No.)	10	16	4	6	4
Assets value (₹)	60000	40000	30000	10000	10000
Area occupied (Sq. M)	150	250	50	50	50

You are required to allocate and apportion the Expenses to each department on a suitable basis.

[Ans: Motive Power – Electricity, Dept. A: ₹200, B: ₹150, C: ₹100, X: ₹50, Y: ₹50
Lighting: Dept. A: ₹25, B: ₹40, C: ₹10, X: ₹15, Y: ₹10
Salaries to Employees: ₹Dept. A: ₹300, B: ₹450, C: ₹450, X: ₹150, Y: ₹150
Depreciation: Assets Value: Dept. A: ₹6,000, B: ₹4,000, C: ₹3,000, X: ₹1,000, Y: ₹1,000
Repairs & Maintenance: Asset Value, Dept. A: ₹1,200, B: ₹800, C: ₹600, X: 200, Y: ₹200
Rent & Taxes: Area, Dept. A: ₹150, B: ₹250, C: ₹50, X: ₹50, Y: ₹50]

11. There are five departments in a concern. The total indirect expenses amounted to ₹12,000. One sixth of the expenses are to be divided equally to all the five departments. The remaining are to be shared in the ratio of sales. Sales of various departments were as follows:

Department A	₹50,000
Department B	₹40,000
Department C	₹30,000
Department D	₹20,000
Department E	₹60,000

Show the Allocation of Indirect Expenses

(November 2015/60522/BYA2C)

[Ans: Dept A : ₹2,900, Dept. B: ₹2,400, Dept. C: ₹1,900, Dept. D: ₹1,400, Dept E: ₹3,400]

12. From the following details, prepare Departmental Trading Account.

Particulars	*Tins* (₹)	*Toys* (₹)
Opening Stock	18,000	16,000
Total Purchases	54,000	43,200
Total Sales	84,000	72,000
Closing Stock	21,600	9,600

[Ans: Gross Profit: Tins: ₹33,600, Toys: ₹22,400]

13. From the following details, prepare Departmental Trading Account:

Particulars	*Department A*	*Department B*
Opening Stock	10,000	20,000
Purchases	30,000	60,000
Sales	1,00,000	2,00,000
Closing Stock	50,000	1,00,000
Wages	10,000	20,000
Carriage on Purchases	5,000	10,000

[Ans: Gross Profit: Dept. A: ₹95,000, B: ₹1,90,000]

14. Prepare Departmental Trading Accounts from the following details:

Particulars	*Department A* (₹)	*Department B* (₹)	*Department C* (₹)
Opening Stock	9,000	8,000	5,000
Total Purchases	27,000	25,000	25,000
Total Sales	42,000	60,000	78,000
Closing Stock	10,800	40,000	8,000

[Ans: Gross Profit – Dept. A: ₹16,800, B: ₹67,000, C: ₹56,000]

15. A company has two departments, A and B. From the following figures, prepare Departmental Trading and Profit and Loss Accounts.

Particulars	*Department A* (₹)	*Department B* (₹)
Opening Stock	30,000	10,000
Purchases	2,10,000	50,000

(Contd.)

Sales	5,00,000	1,00,000
Closing Stock	2,00,000	50,000
Carriage Inwards	5,000	2,000
Wages	5,000	1,000
Salaries	2,000	1,500
Rent	6,000	3,000

[Ans: Gross Profit – Dept. A: ₹4,50,000, B: ₹87,000
Net Profit – Dept. A: ₹4,42,000, B: ₹82,500]

16. From the following details, prepare Departmental Trading Account.

	Department A ₹	*Department B* ₹
Opening Stock	9,000	8,400
Total Purchases	27,000	21,600
Total Sales	42,000	36,000
Closing Stock	10,800	4,800
Credit Purchases	17,000	10,600
Credit Sales	5,000	6,000

(December 2016: U/ID 22201/UCZA/UCWA/
UCYA/UCXB/URMA/UCVB
Nov. 2011/60503/BYA2A)

[Ans: Gross Profit – Dept. A: ₹16,800, B: ₹10,800]

17. From the following particulars, prepare the Departmental Trading and Profit and Loss Account for the ending 31.12.2007.

	Dept. A ₹	*Dept. B* ₹
Stock (1.1.2007)	9,000	8,400
Sales	42,000	36,000
Purchases	27,000	21,600
Direct Expenses	5,490	8,520
Stock (31.12.2007)	10,800	4,800
Postage	360	360

(November 2010/21604/ZZ2H/SY2C/SYDEN)
[Ans: Gross Profit – Dept. A: 11,310, Dept. B: 2,280
Net Profit – Dept. A: 10,950, Dept. B: 1,920]

18. From the following details prepare Department Trading Account and Profit and Loss Account.

	Dept. A ₹	*Dept. B* ₹
Opening Stock	9,000	8,400
Total Purchases	27,000	21,600
Total Sales	42,000	36,000
Closing Stock	10,800	4,800
Wages	800	—
Credit Sales	5,000	6,000

[Ans: Gross Profit – Department A: 16,000, Department B: 10,800]

19. From the following details, prepare departmental Trading and Profit and Loss Accounts.

	Cloth (₹)	*Readymade (₹)*
Opening Stock	18,000	16,000
Purchases	54,000	42,000
Sales	1,04,000	1,32,000
Closing Stock	1,00,000	68,000

Other Information:

(a) Salaries: ₹ 60,000
(b) Rent: ₹21,000
(c) Goods transferred from Cloth to Readymade: ₹25,000
(d) Number of Employees Working in the Department – Cloth: 5, Readymade: 10
(e) Area Occupied by the Department – Cloth: 200 Sq. ft., Readymade: 500 Sq. ft.

[Ans: Gross Profit – Dept. Cloth: ₹1,57,000, Readymade: ₹1,17,000
Net Profit – Dept. Cloth: ₹1,31,000, Readymade: ₹62,000]

20. From the following information, prepare Departmental Trading and Profit and Loss Accounts for the year ending on 31st December 1996.

	(₹)		(₹)
Sales:		Purchases:	
Dept. I	5,00,000	Dept. I	1,00,000
Dept. II	7,00,000	Dept. II	1,50,000
Stock (01.01.1996):		Salaries	21,000
Dept. I	40,000		
Dept. II	60,000		
Rent	7,000	Advertisement	12,000
Insurance	6,000	Bank Charges	2400
Wages	8,000	Stationery	1500
Discount Allowed	1,500		

Additional Information:

(a) Stock on 31.12.1996 – Dept. I: ₹80,000; Dept. II: ₹1,12,000
(b) Wages are to be apportioned in the ratio of 3:2
(c) Salaries are to be apportioned in the ratio of 1:2
(d) Rent to be apportioned in the ratio 1:6

[Ans: Gross Profit – Dept I: ₹4,35,200, Dept. II: ₹5,98,800
Net Profit – Dept I: ₹4,17,450, Dept. II: ₹5,65,150]

21. A company has two departments A and B. Dept. A supplies goods to Dept. B at its usual selling price. From the following figures, prepare Departments' Trading Accounts for the year 1982.

	A ₹	*B* ₹
Opening Stock (1.1.1982)	30,000	—
Purchases	2,10,000	—
Transfer to B	50,000	50,000
Sales	2,00,000	60,000
Closing Stock (31.12.1982)	40,000	10,000

(April 2017/60522/BYA2C/CYA2A)

[Ans: Gross Profit – Dept. A: 50,000,
Dept. B: 20,000]

22. Ms Kavitha carries on a trading business. The business is divided into two departments. Following is the Trial Balance as on 31st March 2016. From the particulars given below, prepare Departmental Trading and Profit and Loss Accounts and balance sheet, as on 31st March 2016.

Debit	*(₹)*	*Credit*	*(₹)*
Opening Stock:		Sales:	
Dept. A	1,700	Dept. A	35,000
Dept. B	550	Dept. B	15,000
Salaries	2,700	Capital	15,000
Commission Paid	1,100	Creditors	6,000
Bank Charges	60	Bills Payable	1,125
Telegrams	300		
Discount Allowed	750		
Cash in Hand	1250		
Debtors	11,500		
Bills Receivable	2,500		
Furniture	500		
Rent	900		
Insurance	1,200		
Purchases:			
Dept. A	21,500		
Dept. B	12,500		
Office Expenses	1,400		
Advertisement	2,900		
Stationery	1,350		
Miscellaneous Expenses	450		
Investments	3,450		
Cash at Bank	3,565		
	72,125		**72,125**

Adjustments:

(a) Write off 10% depreciation on furniture

(b) Provide ₹150 for bad debts

(c) Closing stocks were – Dept. A: ₹2,000, Dept. B: ₹840

(d) Apportion the expenses in proportion to the sales of each department

[Ans: Gross Profit – Dept. A: ₹13,800, Dept. B: ₹2,790
Net Profit – Dept A: ₹4,483, Net Loss – Dept B: ₹1,203
Balance Sheet: ₹25,405]

23. A firm had two departments – cloth and readymade garments. The garments were made by the firm out of cloth supplied by the cloth department at its usual selling price. From the following information, prepare Departmental Trading and Profit and Loss Account and general Profit and Loss Account for the year ended 31st December 2015.

Particulars	*Cloth (₹)*	*Readymade (₹)*
Stock on 01.01.2014	2,50,000	50,000
Purchases	12,50,000	2,50,000
Sales	25,00,000	7,50,000
Transfer to Readymade Garments Department	2,50,000	—
Manufacturing Expenses	2,00,000	25,000
Selling Expenses	20,000	5,000
Stock on 31.12.2014	6,00,000	2,50,000

The stock in the readymade garments department may be considered as consisting 60% cloth and 40% other expenses. The Cloth Department earned gross profit @ 50% in 2014. General Expenses of the business as a whole came to ₹65,000 and this has to be apportioned on the basis of Sales Ratio.

[Ans: Gross Profit – Cloth: ₹16,50,000, Readymade: ₹4,25,000
Net Profit – Cloth: ₹15,80,000, Readymade: ₹4,05,000
Rate of Gross Profit for the year 2015: 60%
Opening Stock Reserve: ₹15,000
Closing Stock Reserve: ₹90,000
Net Profit: ₹19,10,000]

24. The "Cloth Centre" had two departments – Cloth department and Readymade department. The readymade department used the cloth supplied by cloth department at its usual selling price. From the following figures, prepare Departmental Trading Profit and Loss Account for the year 2010.

	Cloth Dept. ₹	*Readymade Dept.* ₹
Opening Stock	3,00,000	50,000
Purchases	20,00,000	15,000
Sales	22,00,000	4,50,000
Transfer to readymade dept	3,00,000	—
Manufacturing expenses	—	60,000
Selling Expenses	20,000	6,000
Closing Stock	2,00,000	60,000

The stock in the Readymade cloth department may be considered as consisting of 75% cloth and 25% other expenses. The cloth department earned gross profit @ 15% in the year 2009. The general expenses of the business as a whole came to ₹1,10,000.

(November 2011/60522/BYA2C)
[Ans: Gross Profit – Cloth Dept.: 4,00,000,
Readymade Dept.: 85,000
Rate of Gross Profit for 2009: 16%
Opening Stock Reserve: ₹5,625
Closing Stock Reserve: ₹7,200
Net Profit – Cloth Dept.: 3,80,000, Readymade Dept.: 79,000
Overall Net Profit: ₹3,47,425]

25. Balu of Kovai purchased goods for his three departments as follows:

Department A	300 pieces,	at a total cost of ₹5,100
Department B	1,400 pieces	
Department C	400 pieces.	

Sales at the three departments were as follows:

Department A	180 pieces at ₹15 per piece
Department B	1,500 pieces at ₹18 per piece
Department C	450 Pieces at ₹6 per piece

Balu informs that the rate of Gross Profit is the same in all departments. You are required to find out the cost of purchase for each department.

(November 2011/21604/ZZ2H/SY2C/SDEN)
[Ans: Rate of Gross Profit: 83.33%
Cost Price – Dept. A: ₹2.5, Dept. B: ₹3, Dept. C: ₹1
Cost of Purchase: Dept. A: ₹500,
Dept. B: ₹4,200, Dept. C: ₹400]

26. Ram Departmental Stores has two departments – A and B. From the following particulars, prepare Departmental Trading Account

Purchases:	Dept. A	1,000 Units	} At a total cost of ₹1,10,000
	Dept. B	2,000 Units	
Opening Stock:	Dept. A	400 Units	
	Dept. B	600 Units	
Sales:	Dept. A	900 Units @₹75 per unit	
	Dept. B	2,100 Units @ ₹45 per unit	

Assume that Gross Profit Rate is uniform for both the departments.

(DE-7934/24/May 2014)

[Ans: Closing Stock – Dept. A: 500 units, Dept. B: 500 units;
Total Gross Profit: ₹55,000;
G.P. Ratio: 33.33%
Cost Price – Dept. A: ₹50, Dept. B: ₹30
Purchases – Dept. A: ₹50,000, Dept. B: ₹60,000
Opening Stock – Dept. A: ₹20,000, Dept. B: ₹18,000
Closing Stock – Dept. A: ₹25,000, Dept. B: ₹15,000
Sales – Dept. A: ₹67,500, Dept. B: ₹94,500
Gross Profit – Dept. A: ₹22,500, Dept. B: ₹31,500]

27. The following purchases were made by a business house having three departments.

Dept. A	1,000 units	} at a total cost of ₹1,00,000
Dept. B	2,000 units	
Dept. C	2,400 units	

Stock on 1st January were:

Dept. A	120 units
Dept. B	80 units
Dept. C	152 units

Sales were:

Dept. A	1020 units at ₹20 each
Dept. B	1920 units at ₹22.50 each
Dept. C	2496 units at ₹25 each

The rate of gross profit is same in each case. Prepare Departmental Trading Account.

(April 2011/60522/BYA2C)/April 2007/
21604/ZZ2H/SY2C/SDEN)

[Ans: Closing Stock – Dept. A: 100 units,
Dept. B: 160 units, Dept. C: 56 Units
Total Gross Profit: ₹25,000;
G.P. Ratio: 20%
Cost Price – Dept. A: ₹16, Dept. B: ₹18, Dept. C: ₹20
Purchases – Dept. A: ₹16,000, Dept. B: ₹36,000. Dept. C: ₹48,000
Opening Stock – Dept. A: ₹1,920, Dept. B: ₹1,440, Dept. C: ₹3,040
Closing Stock – Dept. A: ₹1,600, Dept. B: ₹2,880. Dept. C: ₹1120
Sales – Dept. A: ₹20,400, Dept. B: ₹43,200, Dept. C: ₹62,400
Gross Profit – Dept. A: ₹4,080, Dept. B: ₹8,640, Dept. C: ₹12,480]

28. You are given the following particulars of a business having three departments.

Department	*Purchases*	*Opening Stock*	*Closing Stock*
P	3,000 units	400 units	200 units
Q	2,000 units	600 units	320 units
R	4,000 units	300 units	400 units

Additional information:

(a) The total cost of purchases was ₹1,84,000.
(b) Gross Profit Ratio Percentage is the same in each case.
(c) The purchase and sale prices are the same for the last 2 years
(d) Selling price per unit:
Dept. P = ₹40
Dept. Q = ₹50
Dept. R = ₹60

You are required to prepare Departmental Trading Account.

[Ans: Sales – Dept. P: 3,200 units, Dept. Q: 2,280 units,
Dept. R: 3,900 Units
Total Gross Profit: ₹2,76,000;
G.P. Ratio: 60%
Cost Price – Dept. P: ₹16, Dept. Q: ₹20, Dept. R: 24
Purchases – Dept. P: ₹48,000, Dept. Q: ₹40,000, Dept. R: ₹96,000
Opening Stock – Dept. P: ₹6,400, Dept. Q: ₹12,000,
Dept. R: ₹7,200
Closing Stock – Dept. P: ₹3,200, Dept. Q: ₹6,400, Dept. R: ₹9,600
Sales – Dept. P: ₹1,28,000, Dept. Q: ₹1,14,000, Dept. R: ₹2,34,000
Gross Profit – Dept. P: ₹76,800, Dept. Q: ₹68,400,
Dept. R ₹1,40,400]

29. Trading and profit & loss account of Janaki Radio and Gramophone Equipment Co., for the six months ended 31.3.1993 is presented to you in the following from.

	₹		₹
Radios (A)	1,40,700	Radios (A)	1,50,000
Gramophones (B)	90,600	Gramophones (B)	1,00,000
Spare Parts (C)	64,400	Spare Parts (C)	25,000
Salaries and Wages	48,000	Stock as on 31.3.1993	
Rent	10,800	Radios (A)	60,100
Sundry Expenses	11,000	Gramophones (B)	20,300
Profit	34,500	Spare parts (C)	44,600
	4,00,000		**4,00,000**

Prepare Departmental Accounts for each of the three departments A, B and C mentioned above after taking into account the following:

(i) Radios and Gramophones are sold at the showroom and spare parts at workshop.

(ii) Salaries and wages comprise as follows:

Showroom 3/4 and Workshop 1/4

It was decided to allocate the showroom salaries and wages in the ratio of 1:2 between the departments A and B.

(iii) The workshop rent is ₹500 per month. The rent is to be divided equally between the departments A and B.

(iv) Sundry expenses are to be allocated on the basis of the turnover of each department.

(U/ID 1884/JAB/CAA)

[Ans: Gross Profit – A: ₹69,400; B: ₹29,700; C: ₹5,200
Net Profit – A: ₹47,500
Net Loss – B: ₹2,200; C: ₹10,800]

30. S Ltd. carries on its business through five departments A, B, C, D and E.

The following information for 1998 is now made available to you:

Salaries and Commission ₹5,510, Rent and Rates ₹1,450, Miscellaneous Expenses ₹1,305, Insurance ₹580.

All these expenses are chargeable to each department in proportion to the cost of the articles sold in the respective department.

The following balances as on 31.3.1998 were ascertained.

	Dept. A ₹	*Dept. B* ₹	*Dept. C* ₹	*Dept. D* ₹	*Dept. E* ₹
Opening Stock at cost	5,000	3,000	2,500	4,000	4,500
Purchases	50,000	30,000	10,000	26,000	30,000
Sales	48,000	21,000	9,500	23,000	30,000
Closing Stock (at cost price)	6,000	4,000	3,500	3,500	5,500

Prepare the Profit and Loss Accounts to show the results of each department and also the combined results.

(October 2001/ 1860/NZA/NYA)

[Ans: Cost of goods sold ratio: 490:290:90:265:290
or 98:58:18:53:58
[Ans: Gross Profit – C: ₹500, E: ₹1,000
Gross Loss – A: ₹1,000, B: ₹8,000, D: ₹3,500
Salaries & Commission – A: ₹1895, B: ₹1121,
C: ₹348, D: 1,025, E: ₹1121
Rent & Taxes – A: ₹498, B: ₹295, C: ₹92, D: ₹270, E: ₹295
Miscellaneous Expenses – A: ₹449, B: ₹266,
C: ₹82, D: ₹242, E: ₹266
Insurance – A: ₹199, B: ₹118, C: ₹37, D: ₹108, E: ₹118
Net Loss – A: ₹4,041, B: ₹9,800, C: ₹59, D: ₹5,145, E: ₹800]

CHAPTER

19

Hire Purchase and Instalment Purchase Systems

Learning Objectives

After studying this chapter, you will be able to:

- Understand the Hire Purchase System and Instalment Purchase System.
- Calculate Interest, Cash Price and Instalment Price.
- Understand the Concept of Partial and Complete Repossession.

19.1 Introduction

Hire Purchase Act, 1972, defines hire purchase as "an agreement under which the goods are let on hire and the hirer has an option, either to hire or to purchase them, in accordance with the terms of the agreement". In hire purchase, the title of goods transfers only at the end of last instalment and any time before that, the parties can terminate the contract.

Hire purchase system allows the buyer to acquire possession of an asset or goods and the payment can be made in instalments. The legal title to the goods/assets vests with the vendor/seller till the final payment is made by the buyer. It is an agreement between the hire vendor and hire purchaser regarding the sale of goods or asset with certain conditions. A hire purchase agreement contains the following:

- Hire purchase price
- Cash price
- Rate of interest

- Number of instalments and amount per instalment
- Description of the goods to be sold
- Amount of down payment, if any

19.1.1 Features of Hire Purchase

- The buyer acquires the right to use the asset on signing the agreement.
- The legal title of the asset or goods vests with the seller.
- The buyer has to take utmost care of the products.
- The instalments paid are treated as hire charges and buyer can any time return the goods and revoke the contract.
- The seller reserves the right to repossess in the event of default, provided it is carried on with the approval of court.
- On repossession, the amount paid by buyer so far is added with the value of asset on date of repossession and is compared with HP price. If any surplus exists with the seller, the vendor will refund it.

19.1.2 Key Terms in Hire Purchase

1. **Cash price** – It is the original price of the asset.
2. **HP price** – It is the price payable by the hirer and includes interest at a given percentage.
3. **Down payment** – The payment made to the vendor at the time of signing the hire purchase contract is called down payment.
4. **Hire vendor** – The person who sells goods on hire purchase.
5. **Hirer/Hire purchaser –** The person who purchases goods on HP is called hire purchaser.

19.2 Instalment System

It is similar to hire purchase, except in terms of transfer of ownership. The ownership of the goods transfers to the buyer on payment of down payment. In the event of default, the vendor cannot repossess the asset but can only sue for recovery of amount.

Distinction between Hire Purchase and Instalment Systems

Hire Purchase	*Instalment System*
Agreement for hire or purchase	Agreement for sale
Ownership is transferred on final payment	Immediate transfer of ownership
The parties are hire vendor and hire purchaser	The parties are buyer and seller
Relationship is similar to bailor and bailee	The relationship is like debtor and creditor
Goods cannot be sold by buyer till he gets the ownership	Buyer can sell goods even if payment is not completed
Buyer is not liable for any damages, if he has taken precautions	The buyer will be responsible for losses, as the ownership is transferred to him
The contract can be terminated in the middle	The contract cannot be terminated
It is governed by Hire Purchase Act, 1972	It is governed by Sale of Goods Act

19.3 Accounting Procedure for Hire Purchase System

› 19.3.1 For High-value Goods

Goods of high-value like trucks, buses, machinery and other assets are covered in this category. It can be treated in

(i) Asset Accrual Method

(ii) Credit Purchase with Interest Method

Under asset accrual method, the assets purchased are assumed as gradually acquired on the basis of payment of cash price. Under credit purchase with interest method, it is assumed that the asset is acquired as soon as the possession is received. But generally, credit purchase with interest method is adopted.

I. Entries in the books of Hire Purchaser (Asset Accrual Method)

	Particulars	*Debit (₹)*	*Credit (₹)*
(i)	Asset A/c Dr.	xx	
	To Hire Vendor A/c		xx
	(On purchase of an asset, the down payment payable if any)		

(Contd.)

(ii)	Hire Vendor A/c	Dr.	xx	
	To Bank A/c			xx
	(Down payment made)			
(iii)	Asset A/c (Cash price in the instalment)	Dr.	xx	
	Interest A/c (Interest for the instalment)	Dr.		xx
	To Hire Vendor A/c			
	(For interest due at the end of the year)			
(iv)	Hire Vendor A/c	Dr.	xx	
	To Bank A/c			xx
	(On payment of instalment)			
(v)	Depreciation A/c	Dr.	xx	
	To Asset A/c			xx
	(Depreciation on asset at the end of the year)			
(vi)	Profit & Loss A/c	Dr.	xx	
	To Interest A/c			xx
	To Depreciation A/c			xx
	(On transferring depreciation & interest to P & L A/c at the end of the year)			

Entries (iii), (iv), (v) and (vi) are repeated for subsequent years

II. Entries in the books of Hire purchaser (Credit purchase with interest method)

	Particulars		*Debit (₹)*	*Credit (₹)*
(i)	Asset A/c	Dr.	xx	
	To Hire Vendor A/c			xx
	(On purchase of an asset, the cash price of asset)			
(ii)	Hire Vendor A/c	Dr.	xx	
	To Bank A/c			xx
	(Down payment made)			
(iii)	Interest A/c	Dr.	xx	
	To Hire Vendor A/c			xx
	(For interest due at the end of the year)			

(Contd.)

(iv)	Hire Vendor A/c	Dr.	xx	
	To Bank A/c			xx
	(On payment of instalment)			
(v)	Depreciation A/c	Dr.	xx	
	To Asset A/c			xx
	(Depreciation on asset at the end of the year)			
(vi)	Profit & Loss A/c	Dr.	xx	
	To Interest A/c			xx
	To Depreciation A/c			xx
	(On transferring depreciation and interest to P & L A/c at the end of the year)			

Entries (iii), (iv), (v) and (vi) are repeated for subsequent years.

Entries in the books of Hire Vendor

	Particulars		*Debit* (₹)	*Credit* (₹)
(i)	Hire Purchaser A/c	Dr.	xx	
	To Hire Sales A/c			xx
	(On hire sales, cash price to be recorded)			
(ii)	Bank A/c	Dr.	xx	
	To Hire Purchaser A/c			xx
	(On making down payment)			
(iii)	Hire Purchaser A/c	Dr.	xx	
	To Interest A/c			xx
	(Interest due at end of every year)			
(iv)	Bank A/c	Dr.	xx	
	To Hire Purchaser A/c			xx
	(On receipt of instalment)			
(v)	Interest A/c	Dr.	xx	
	To P & L A/c			xx
	(On transferring interest to P & L at the end of year)			

Calculation of Interest

Hire purchase price includes interest and is always higher than the cash price. Interest is charged as a compensatory fee for allowing the buyer to pay in instalments. Every instalment includes interest and it is necessary to find out the interest in each instalment to give appropriate accounting treatment. The following are the methods of interest calculation under various circumstances.

(i) Rate of Interest, Instalments and Cash Price are given:

The interest is calculated at the given percentage on outstanding amount and is deducted from instalment to arrive at the cash price component. The cash price arrived at is subtracted from outstanding cash price to calculate interest for the next period. In the last year, interest is calculated by subtracting outstanding cash price from instalment amount.

(ii) Rate of Interest not given:

The total interest is calculated by finding the difference between cash price and HP price. Then, it is divided among instalments in the proportion of outstanding balance at the beginning of each period.

(iii) Cash Price is not given:

In this situation, the interest will be calculated from last instalment instead of first instalment.

Interest for last instalment =
Instalment Amount × (Rate of Interest /100 + Rate)

For subsequent years:

Interest = (Current Instalment + Cash Price of Previous Instalments)
× (Rate of Interest/100 + Rate)

(iv) Instalments not given

Interest is calculated on the outstanding cash price balance at a given rate and added with cash price of each instalment.

Default and Repossession

If the buyer fails to make payment on stipulated date, it is called default and as per the features of Hire Purchase system, the vendor can take back the assets/goods. Repossession is the process of taking back the goods from the hire purchaser in the event of default. It can be of two types:

(a) Complete Repossession – Vendor takes away all the goods, it is called complete repossession.

(b) Partial Repossession – Only a part of the goods are taken away by vendor, after adjusting the value of instalments paid so far.

› 19.3.2 For Goods of Smaller Value

Hire purchase trading account is prepared when the vendor makes sales of smaller value. Separate accounts are maintained for each individual. In case of small-value goods, customers do not maintain any record, and only vendor needs to maintain proper accounts.

The accounting treatment can be as under:

(i) Debtors method

(ii) Stock and Debtors method

Hire Purchase Trading Account is prepared under debtors system. Under Stock & Debtors system, the following accounts are maintained:

(a) Hire Purchase Stock Account

(b) Stock at Shop Account

(c) Hire Purchase Debtors Account (Instalments Due Account)

(d) Stock with Customers Account

(e) Hire Purchase Adjustment Account

Proforma of HP Trading Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d:	xx	By Cash Received from Customers	xx
Stock at Shop	xx	By Goods Repossessed	xx
Stock with Customers (at cost)	xx	By Balance c/d:	xx
Instalments due but unpaid	xx	Stock at Shop	xx
To Cost of Goods Sold	xx	Stock with Customers (at cost)	xx
To Profit (Bal. fig.)	**xx**	Instalment due but unpaid	xx
		By Loss (Bal. fig.)	**xx**
	xx		xx

Points to be noted:

- If stock with customers (both opening and closing) is given at hire purchase price (i.e.) including profit, stock reserve has to be created in the respective opposite sides.
- Purchases have to be recorded at cost price. If, instead of purchase hire sales are given, profit has to be reduced by crediting in the trading account.

When Cash Price, HP Price and Rate of Interest are Given

✎ ILLUSTRATION 1:

Saleem purchased a motorcycle on hire purchase system. The cash price of the vehicle is ₹1,12,000, ₹30,000 being down payment and three instalments of ₹30,000 each. The interest is charged at 5% p.a. Calculate the Interest included in each instalment.

(Madras University, Apr. 2016, BPZ2A/F2A/G2A 1/2 figures)

Solution:

Calculation of Interest

Year	*Total Cash Price (₹)*	*Instalment (₹)*	*Interest (₹)*	*Cash Price (₹)*
Total Cash Price	1,12,000	—	—	—
(–) Down	30,000	30,000	—	30,000
	82,000			
(–) I Instalment	25,900	30,000	(82,000 × 5%) = 4,100	25,900
	56,100			
(–) II Instalment	27,195	30,000	(56,100 × 5%) = 2,805	27,195
	28,905			
(–) III Instalment	28,905	30,000	(30,000 – 28,095) = 1,095	28,905
	—	**1,20,000**	**8,000**	**1,12,000**

✎ ILLUSTRATION 2:

On 1st January 1993, a firm purchased a truck on instalment system. The cash price of the truck was ₹11,175 and the payment is to be made as follows:

₹3,000 on signing of the contract and balance in three equal instalments of ₹3,000 at the end of each year. Interest is charged at 5% p.a. The firm decided to write off annually 10% as WDV method. Calculate Amount of Interest.

(Madras Univ., Nov. 2012, BYZ2A)

Solution:

Calculation of Interest

Year	*Total Cash Price (₹)*	*Instalment (₹)*	*Interest (₹)*	*Cash Price (₹)*
Total Cash Price	11,175	—	—	—
(–) Down	3,000	3,000	—	3,000
	8,175			
(–) I Year	2,591	3,000	8,175 × 5% = 409	2,591
	5,584			
(–) II Year	2,721	3,000	5,584 × 5% = 279	2,721
	2,863			
(–) III Year	2,863	3,000	3,000 – 2,863 = 137	2,863
	—	**12,000**	**825**	**11,175**

✎ ILLUSTRATION 3:

On 1st January 2010, Chandran bought a machine from Kailash Ltd. under HP system. The cash price of the machine was ₹34,860 while the payment is to be made as follows:

₹10,000 as down payment and balance in three equal-instalments of ₹10,000 each at the end of each year and interest at 10% is charged. Calculate the Interest included in each instalment.

Solution:

Calculation of Interest

Year	*Total C P (₹)*	*Instalment (₹)*	*Interest (₹)*	*Cash Price (₹)*
Total Cash Price	34,860	—	—	—
(–) Down	10,000	10,000	—	10,000
	24,860			
(–) I Year	7,514	10,000	24,860 × 10% = 2,486	7,514
	17,346			

(Contd.)

(–) II Year	8,265	10,000	17,346 × 10% = 1,735	8,265
	9,081			
(–) III Year	9,081	10,000	(10,000 – 9,081) = 919	9,081
	—	**40,000**	**5,140**	**34,860**

✎ ILLUSTRATION 4:

S Printers purchased a printer from T Ltd. on 1st January 2009 on hire purchase system. The cash price of the printer was ₹74,500. The price is to be settled as ₹20,000 as down payment and three equal-instalments of ₹20,000 at the end of each year commencing from the year of purchase. The interest is charged at 5% p.a. Prepare Vendor Account.

Solution:

Calculation of Interest

Year	*Total C P (₹)*	*Instalment (₹)*	*Interest (₹)*	*Cash Price (₹)*
Total Cash Price	74,500	—	—	—
(–) Down	20,000	20,000	—	20,000
	54,500			
(–) I Year	17,275	20,000	54,500 × 5% = 2,725	17,275
	37,225			
(–) II Year	18,139	20,000	37,225 × 5% = 1,861	18,139
	19,086			
(–) III Year	19,086	20,000	(20,000–19,086) = 914	19,086
	—	**80,000**	**5,500**	**74,500**

T Ltd. Account

	Particulars	*(₹)*		*Particulars*	*(₹)*
01.01.2009	To Bank (down)	20,000	01.01.2009	By Printer A/c	74,500
31.12.2009	To Bank (I)	20,000	31.12.2009	By Interest	2,725
	To Balance c/d (Bal. fig.)	**37,225**			
		77,225			**77,225**
31.12.2010	To Bank (II)	20,000	01.01.2010	By Balance b/d	37,225
31.12.2010	**To Balance c/d (Bal. fig.)**	**19,086**	31.12.2010	By Interest	1,861
		39,086			**39,086**

(Contd.)

31.12.2011	To Bank (III)	20,000	01.01.2011	By Balance b/d	19,086
			31.12.2011	By Interest	914
		20,000			**20,000**

✎ ILLUSTRATION 5:

From the following particulars, calculate the Amount of Rebate that hires can avail if he wishes to purchase the goods.

Cash Price	₹36,000
Down Payment	₹ 3,000
Hire Purchase Price	₹39,000
No. of Instalments	24
Instalment Paid by Hire Purchases	18

(Madras Univ., Nov. 2016, BPZ2A/G2A/C2A/F2A)

Solution:

Cash Price = ₹36,000; HP Price = ₹39,000

∴ Interest = ₹3,000

Amount to be Paid in Instalments

= HP Price – Down Payment

= 39,000 – 3,000

= ₹36,000

Amount per Instalment = 36,000/24 = ₹1,500

Amount due = 6 instalments × 1,500 = ₹9,000

Rebate = (Interest × Balance of Instalments/Total Instalments) × 2/3

Rebate = 3,000 × 6/24 × 2/3 = ₹500

Amount to be paid = 9,000 – 500 = ₹8,500

When Cash Price not Given

✎ ILLUSTRATION 6:

Mr. X purchased a vehicle on hire purchase for ₹1,00,000 to be paid as follows:

On Signing the Agreement	₹12,000
At the end of First Year	₹17,000
At the end of Second year	₹16,000
At the end of Third year	₹55,000

The vendor charged 10% interest p.a. on cash value unpaid each year. Calculate the Cash Value of the vehicle.

(Madras Univ., Apr. 2016, B.Com.(CS), Adapted)

Solution:

Calculation of Interest

Year	*Instalment (₹)*	*Interest (₹)*	*Cash Price (₹)*
III Year	55,000	55,000 × 10/110 = 5,000	50,000
II Year	16,000	(16,000 + 50,000) × 10/110 = 6,000	10,000
I Year	17,000	(17,000 + 10,000 + 50,000) × 10/110 = 7,000	10,000
Down	**12,000**	—	12,000
	1,00,000	**18,000**	**82,000**

✎ ILLUSTRATION 7:

A firm purchased machinery on 1st July 1990, on hire purchase system. It immediately paid ₹10,000 as down-payment and agreed to pay three more half-yearly instalments of ₹8,200, ₹7,440 and ₹6,300. The first instalment was paid on 31st December 1990. The vendor charged interest at 10% p.a. Calculate the Cash Price of the Asset.

Solution:

Calculation of Cash Price

Year	*Instalment (₹)*	*Interest @ 10%*	*Cash Price (₹)*
III Half Year	6,300	6,300 × 5/105 = 300	6,000
II Half Year	7,440	(6,000 + 7,440) × 5/105 = 640	6,800
I Half Year	8,200	(6,000 + 6,800 + 8,200) × 5/105 = 1,000	7,200
Down Payment	10,000	No Interest	10,000
	31,940	**1940**	**30,000**

Note: For down-payment, no interest. Instalment is paid on half-yearly basis. But interest is given at 10%p.a. Therefore, half-yearly interest is taken as 10 × 6/12 = @ 5% for half year.

✎ ILLUSTRATION 8:

Madhu & Co. purchased two trucks from 'V' motors for ₹9,00,000. It was agreed that ₹1,00,000 to be paid as down payment and balance in four equal

instalments of ₹2,00,000 each, at an interval of 2 years. Interest is charged at 10% p.a. at yearly rates. Calculate interest and cash price of the trucks.

Solution:

Since instalments are paid at two-year intervals, interest needs to be compounded.

∴ Interest is 21/121 for all the instalments.

Calculation of Interest

Year	*Instalment (₹)*	*Interest (₹)*	*Cash Price (₹)*
8th Year	2,00,000	2,00,000 × 21/121 = 34,711	1,65,289
6th Year	2,00,000	(2,00,000 + 1,65,289) × 21/121 = 63,397	1,36,603
4th Year	2,00,000	(2,00,000 + 1,36,603 + 1,65,289) × 21/121 = 87,105	1,12,895
2nd Year	2,00,000	(2,00,000 + 1,12,895 + 1,36,603 + 1,65,289) × 21/121 = 1,06,699	93,301
Down Payment	1,00,000	—	1,00,000
	9,00,000	**2,91,912**	**6,08,088**

✎ ILLUSTRATION 9:

Kavitha purchased a machine on hire purchase system. She has to pay ₹1,600 down payment and ₹800, ₹600 and ₹1,400 at the end of first, second and third years respectively. Assuming interest is charged at 5% p.a. Calculate cash price of machine.

(Madras Univ., Nov. 2014, BYA2A adapted)

Solution:

Calculation of Interest

Year	*Instalment (₹)*	*Interest (₹)*	*Cash Price (₹)*
III Year	1,400	1,400 × 5/105 = 67	1,333
II Year	600	(600 + 1,333) × 5/105 = 92	508
I Year	800	(800 + 508 + 1,333) × 5/105 = 126	674
Down	1,600	—	1,600
	4,400	**285**	**4,115**

Rate of Interest not Given

✎ ILLUSTRATION 10:

Mr. Raja purchased a truck on hire purchase system. ₹3,000 to be paid down and ₹6,000 each as instalment at the end of each year for five years. The cash price of the truck is ₹30,000. Calculate the Amount of Interest in each instalment.

(Madras Univ., Nov. 2013, BYA2A)

Solution:

Calculation of Interest

HP Price	₹33,000	[3,000 + 6,000 × 5 year]
Cash Price	₹30,000	
Interest	₹ 3,000	

HP Price	**33,000**
(–) Down Payment	3,000
Amount due in 1st year	30,000
(–) I Instalment	6,000
Amount due in 2nd year	24,000
(–) II Instalment	6,000
Amount due in 3rd year	18,000
(–) III Instalment	6,000
Amount due in 4th year	12,000
(–) IV Instalment	6,000
Amount due in 5th year	6,000

Interest divided in the ratio 5:4:3:2:1

I Year	3,000 × 5/15 = ₹1,000
II Year	3,000 × 4/15 = ₹800
III Year	3,000 × 3/15 = ₹600
IV Year	3,000 × 2/15 = ₹400
V Year	3,000 × 1/15 = ₹200

✎ ILLUSTRATION 11:

On 1st January, Mohan purchased a machine on Hire Purchase under Hire–Purchase Agreement, which provided for an initial payment of ₹20,000

and the balance in 3 annual instalments of ₹20,000 each. The cash price of the machine is ₹60,000. Calculate the Amount of Interest included in each instalment.

Solution:

Calculation of Interest

Particulars	*(₹)*
Total Price of the Machine	80,000
Less: Down Payment	20,000
Amount Outstanding in beginning of I year	60,000
Less: First Instalment	20,000
Amount Outstanding in beginning of II year	40,000
Less: Second Instalment	20,000
Amount Outstanding in beginning of III year	20,000

Since Rate of Interest is not given, the total interest of ₹20,000 is divided according to ratio of outstanding balances (i.e.) 3:2:1.

Calculation of Interest

Particulars	*Interest (₹)*
At the end of I Year	20,000 × 3/6 = 10,000
At the end of II Year	20,000 × 2/6 = 6,667
At the end of III Year	20,000 × 1/6 = 3,333

✎ ILLUSTRATION 12:

Mr. Velu purchased a machine on hire purchase basis. The cash price of the machine was ₹1,80,000. The agreement provided that the hire purchaser had to pay ₹40,000 as down payment and the balance in four annual instalments of ₹40,000 each. Prepare Vendor Account in the books of buyer.

(Madras Univ., Apr. 2015, BPZ2A/F2A/G2A 1/10 figures)

Solution:

Calculation of Interest

(No rate of interest given. Hence, Ratio Method)

Total HP Price = ₹2,00,000

Cash Price = ₹1,80,000

∴ Interest = ₹20,000

Particulars	*(₹)*
HP Price	2,00,000
(–) Down	40,000
Amount due in First Year	1,60,000
(–) I Instalment	40,000
Amount due in Second Year	1,20,000
(–) II Instalment	40,000
Amount due in Third Year	80,000
(–) III Instalment	40,000
Amount due in Fourth Year	40,000

Interest of ₹20,000 to be divided in 4:3:2:1

Year	*Interest (₹)*
I Year	20,000 × 4/10 = 8,000
II Year	20,000 × 3/10 = 6,000
III Year	20,000 × 2/10 = 4,000
IV Year	20,000 × 1/10 = 2,000

Hire Vendor Account

Particulars	*(₹)*	*Particulars*	*(₹)*
I Year		**I Year**	
To Bank (Down)	40,000	By Machinery	1,80,000
To Bank (I instalment)	40,000	By Interest	8,000
To Balance c/d (Bal. fig.)	**1,08,000**		
	1,88,000		**1,88,000**
II Year		**II Year**	
To Bank (II instalment)	40,000	By Balance b/d	1,08,000
To Balance c/d (Bal. fig.)	**74,000**	By Interest	6,000
	1,14,000		**1,14,000**
III Year		**III Year**	
To Bank	40,000	By Balance b/d	74,000
To Balance c/d (Bal. fig.)	**38,000**	By Interest	4,000
	78,000		**78,000**

(Contd.)

IV Year		**IV Year**	
To Bank	40,000	By Balance	38,000
		By Interest	2,000
	40,000		**40,000**

When Instalments are not Given

✎ **ILLUSTRATION 13:**

Lotha transport purchased four mini-trucks costing ₹2,00,000 each, on HP system. The payment is to be made ₹2,00,000 down and the balance in four equal instalments together with interest @ 8% p.a. Calculate Interest and Instalment.

Solution:

Year	*Total Cash Price (₹)*	*Instalment (₹)*	*Interest (₹)*	*Cash Price (₹)*
Total Cash Price	8,00,000	—	—	—
(–) Down	2,00000	2,00,000	—	2,00,000
	6,00,000			
(–) I Year	2,00,000	2,48,000	6,00,000 × 8% = 48,000	2,00,000
	4,00,000			
(–) II Year	2,00,000	2,32,000	4,00,000 × 8% = 32,000	2,00,000
	2,00,000			
(–) III Year	2,00,000	2,16,000	2,00,000 × 8% = 16,000	2,00,000
	—	**8,96,000**	**96,000**	**8,00,000**

Annuity Method

✎ **ILLUSTRATION 14:**

Mr. B purchased a machinery on 1st January 2010 for ₹2,40,000, payable in three equal instalments along with interest, at a rate of 5% p.a. Calculate the Cash Price, considering the present value of annuity of 1 rupee for three years @ 5% is ₹2.72325.

Solution:

₹2,40,000 in three instalments

∴ ₹80,000 in each instalment

Cash Price = Instalment × Annuity Factor

= 80,000 × 2.72325

Cash Price = ₹2,17,860

∴ Interest = ₹2,40,000 – 2,17,860

= ₹22,140

Journal and Ledger Preparation

✎ **ILLUSTRATION 15:**

On 1st April 2008, machinery was purchased on Hire Purchase system. The cash price of machinery was ₹69,720. The amount payable was ₹20,000 on signing the contract and ₹20,000 annually for three years at the end of each year. The hire vendor has charged 10% interest per annum. The asset is depreciated at 10% p.a. under straight-line method. Pass Journal Entries in the books of both the parties.

Solution:

Calculation of Interest

Year	*Total C P (₹)*	*Instalment (₹)*	*Interest (₹)*	*Cash Price (₹)*
Total Cash Price	69,720	—	—	—
(–) down	20,000	20,000	—	20,000
	49,720			
(–) I Year	15,028	20,000	49,720 × 10% = 4,972	15,028
	34,692			
(–) II Year	16,530	20,000	34,692 × 10% = 3,470	16,530
	18,162			
(–) III Year	18,162	20,000	(20,000 – 18,162) = 1,838	18,162
	—	**80,000**	**10,280**	**69,720**

Journal Entries in the books of Purchaser

		2008–09		*2009–10*		*2010–11*	
Date	*Particulars*	*Debit (₹)*	*Credit (₹)*	*Debit (₹)*	*Credit (₹)*	*Debit (₹)*	*Credit (₹)*
01.04	Machinery A/c Dr.	69,720		—		—	
	To Hire Vendor A/c		69,720		—		—
	(Being machinery purchased)						

(Contd.)

01.04	Hire Vendor A/c Dr.	20,000		—		—	
	To Bank A/c		20,000		—		—
	(Being down payment made]						
31.03	Interest A/c Dr.	4,972		3,470		1,838	
	To Hire Vendor A/c		4,972		3,470		1,838
	(Being interest due at the end of the year)						
31.03	Hire Vendor A/c Dr.	20,000		20,000		20,000	
	To Bank A/c		20,000		20,000		20,000
	(Being instalment paid)						
31.03	Depreciation A/c Dr.	6,972		6,972		6,972	
	To Asset A/c		6,972		6,972		6,972
	(Being depreciation on asset at the end of the year)						
31.03	Profit & Loss A/c Dr.	11,944		10,442		8,810	
	To Interest A/c		4,972		3,469		1,838
	To Depreciation A/c		6,972		6,972		6,972
	(Being depreciation & interest transferred to P & L A/c at the end of the year)						

Journal entries in the books of Hire Vendor

			2008–2009		*2009–2010*		*2010–2011*	
Date	*Particulars*		*Debit (₹)*	*Credit (₹)*	*Debit (₹)*	*Credit (₹)*	*Debit (₹)*	*Credit (₹)*
01.04	Hire Purchaser A/c	Dr.	69,720					
	To Hire Sales A/c			69,720	—	—	—	—
	(Being hire sales made)							
01.04	Bank A/c	Dr.	20,000					
	To Hire purchaser A/c			20,000	—	—	—	—
	(Being down payment made)							
31.03	Hire purchaser A/c	Dr.	4,972		3,470		1,838	
	To Interest A/c			4,972		3,470		1,838
	(Being Interest due at end of every year)							

(Contd.)

31.03	Bank A/c Dr.	20,000		20,000		20,000	
	To Hire Purchaser A/c		20,000		20,000		20,000
	(Being instalment received)						
31.03	Interest A/c Dr.	4,972		3,470		1,838	
	To P & L A/c		4,972		3,470		1,838
	(Being interest transferred to P & L at the end of year)						

✎ ILLUSTRATION 16:

On 1st January 2001, K.A.S. Transport Ltd. purchased from Delhi Motors, three trucks costing ₹50,000 each, under hire purchase system. Payment was to be made ₹30,000 down and the reminder in three equal annual instalments together with interest at 9%. Calculate interest for each year. Give Journal Entries in the books of buyer and vendor, assuming the buyer depreciates the truck at 10% per annum under Written Down Value Method.

Year	*Total Cash Price (₹)*	*Instalment (₹)*	*Interest (₹)*	*Cash Price (₹)*
Total Cash Price	1,50,000	—	—	—
(–) down	30,000	30,000	—	30,000
	1,20,000			
(–) I Year	40,000	50,800	1,20,000 × 9% = ₹10,800	40,000
	80,000			
(–) II Year	40,000	47,200	80,000 × 9% = ₹7,200	40,000
	40,000			
(–) III Year	40,000	43,600	40,000 × 9% = ₹3,600	40,000
	—	**1,71,600**	**₹21,600**	**1,50,000**

Solution:

Journal Entries in the books of Buyer

Date	*Particulars*	*2001*		*2002*		*2003*	
		Debit (₹)	*Credit (₹)*	*Debit (₹)*	*Credit (₹)*	*Debit (₹)*	*Credit (₹)*
01.01	Truck A/c Dr.	1,50,000					
	To Hire Vendor A/c		1,50,000				

(Contd.)

01.01	Hire Vendor A/c Dr.	30,000					
	To Bank A/c		30,000				
31.12	Interest A/c Dr.	10,800		7,200		3,600	
	To Hire Vendor A/c		10,800		7,200		3,600
31.12	Hire Vendor A/c Dr.	50,800		47,200		43,600	
	To Bank A/c		50,800		47,200		43,600
31.12	Depreciation A/c Dr.	15,000		13,500		12,150	
	To Truck A/c		15,000		13,500		12,150
31.12	P & L A/c Dr.	25,800		20,700		15,750	
	To Interest		10,800		7,200		3,600
	To Depreciation		15,000		13,500		12,150

Journal Entries in the books of Hire Vendor

		2001		*2002*		*2003*	
Date	*Particulars*	*Debit (₹)*	*Credit (₹)*	*Debit (₹)*	*Credit (₹)*	*Debit (₹)*	*Credit (₹)*
01.01	Hire Purchaser A/c Dr.	1,50,000		—		—	
	To Hire Sales A/c		1,50,000		—		—
	(Being hire sales made)						
01.01	Bank A/c Dr.	30,000		—		—	
	To Hire Purchaser A/c		30,000		—		—
	(Being down payment made)						
31.12	Hire Purchaser A/c Dr.	10,800		7,200		3,600	
	To Interest A/c		10,800		7,200		3,600
	(Being interest due at end of every year)						
31.12	Bank A/c Dr.	40,000		40,000		40,000	
	To Hire Purchaser A/c		40,000		40,000		40,000
	(Being instalment received)						
31.12	Interest A/c Dr.	10,800		7,200		3,600	
	To P & L A/c		10,800		7,200		3,600
	(Being interest transferred to P & L at the end of year)						

✎ ILLUSTRATION 17:

Shyam purchased a T.V. set on hire purchase basis for ₹5,000 on 1st January 2008 and makes the payment in the following order:

Particulars	*(₹)*
Down Payment	1,000
First Instalment after one year of the agreement	2,000
Second Instalment after two years of the agreement	1,000
Third Instalment after three years of the agreement	1,000
The Cash Price of the T.V. Set	4,400

Prepare Ledger Accounts in the books of both parties, assuming that the hire purchaser depreciates the TV at 5% p.a. on straight-line method. The accounts are closed on 31st December every year.

Solution:

Calculation of Interest	**(₹)**
Total Instalment Amount:	
On signing the agreement	1,000
Three Instalments	4,000
	5,000
Cash Price	4,400
Total Interest	600

Since rate of interest is not given, the total interest of ₹600 is divided according to outstanding instalment balances ratio, i.e. 4:2:1.

Calculation of Interest

Particulars	*Instalment Outstanding (₹)*	*Interest (₹)*
At the end of I Year	4,000	600 × 4/7 = 343
At the end of II Year	2,000	600 × 2/7 = 171
At the end of III Year	1,000	600 × 1/7 = 86

In the books of Buyer
TV Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.2008	To Hire Vendor A/c	4,400	31.12.2008	By Depreciation A/c	220
			31.12.2008	By Balance c/d	4,180
		4,400			**4,400**
01.01.2009	To Balance b/d	4,180	31.12.2009	By Depreciation A/c	220
			31.12.2009	By Balance c/d	3,960
		4,180			**4,180**
01.01.2010	To Balance b/d	3,960	31.12.2010	By Depreciation A/c	220
			31.12.2010	By Balance c/d	3,740
		3,960			**3,960**

Hire Vendor Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.2008	To Cash A/c	1,000	01.01.2008	By TV A/c	4,400
31.12.2008	To Cash A/c	2,000	31.12.2008	By Interest A/c	343
31.12.2008	To Balance c/d	1,743			
		4,743			**4,743**
31.12.2009	To Cash	1,000	01.01.2009	By Balance b/d	1,743
31.12.2009	To Balance c/d	914	31.12.2009	By Interest	171
		1.914			**1,914**
31.12.2010	To Cash	1,000	01.01.2010	By Balance b/d	914
			31.12.2010	By Interest	86
		1,000			**1,000**

In the books of Hire Vendor
Hire Purchaser Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.2008	To Sales	4,400	01.01.2008	By Cash (Down Payment)	1,000
31.12.2008	To Interest	343	31.12.2008	By Cash (I – Instalment)	2,000
			31.12.2008	By Balance b/d	1,743
		4,743			**4,743**

(Contd.)

01.01.2009	To Balance b/d	1,743	31.12.2009	By Cash (II – Instalment)	1,000
31.12.2009	To Interest	171	31.12.2009	By Balance c/d	914
		1,914			**1,914**
01.01.2010	To Balance b/d	914	31.12.2010	By Cash (III – Instalment)	1,000
31.12.2010	To Interest	86			
		1,000			**1,000**

Complete Repossession

✎ **ILLUSTRATION 18:**

ABC Ltd. purchased a machinery on 1st January 2010 on hire purchase system. The cash price of the machinery was ₹29,800. The terms of the agreement were to pay ₹8,000 half-yearly over two years, the first payment to be made on 30th June 2010. The rate of interest was 6% p.a. ABC Ltd. wrote off depreciation @ 10 % p.a. under WDV method and the accounts were closed on 30th June every year. The hire purchaser could not pay the instalment due on 30th June 2011 and the vendor took possession of the machinery. Prepare necessary Ledger Accounts to ascertain the loss suffered by ABC Ltd.

(Madras Univ., Apr. 2016, BYA2C/CYA2A, B.Com., Nov. 1981)

Solution:

Calculation of Interest

Year	*Total Cash Price (₹)*	*Instalment (₹)*	*Interest (₹)*	*Cash Price (₹)*
Total Cash Price	29,800	—	—	—
(–) I Instalment	7,106	8,000	29,800 × 3/100 = 894	7,106
	22,694			
(–) II Instalment	7,319	8,000	22,694 × 3/100 = 681	7,319
	15,375			
(–) III Instalment	7,539	8,000	15,375 × 3/100 = 461	7,539
	7,836			
(–) IV Instalment	7,836	8,000	(8,000 – 7,836) = 164	7,836
		32,000	**2,200**	**29,800**

Hire Vendor Account

Date	*Particulars*	*(₹)*		*Particulars*	*(₹)*
30.6.2010	To Bank	8,000	01.01.2010	By Machinery	29,800
30.6.2010	**To Balance c/d (Bal. fig.)**	**22,694**	30.06.2010	By Interest	894
		30,694			**30,694**
31.12.2010	To Bank	8,000	01.07.2010	By Balance b/d	22,694
30.06.2011	**To Machinery A/c**	**15,836**	31.12.2010	By Interest	681
	(transfer) (Bal. fig.)		30.06.2011	By Interest	461
		23,836			**23,836**

Machinery Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.2010	To Hire Vendor A/c	29,800	30.06.2010	By Depreciation (29,800 × 10% × 6/12)	1,490
				By Balance	28,310
		29,800			**29,800**
01.07.2010	To Balance b/d	28,310	30.06.2011	By Depreciation (28,310 × 10%)	2,831
			30.06.2011	By Hire Vendor A/c	15,836
			30.06.2011	**By Loss on Repossession (Bal. fig.)**	**9,643**
		28,310			**28,310**

✎ ILLUSTRATION 19:

Robert purchased a machine on HP system on 1st January 2010. The terms provided that ₹12,700 to be paid at the end of each year for four years and interest is charged at 5% p.a. and is included in the instalments. Show Machinery Account in the books of Robert, who defaulted the third payment. The vendor repossessed the machinery after providing 10% depreciation p.a. on reducing balance method.

(Madras Univ., Nov. 2014, BYA2A, Apr. 2015, B.Com., Apr. 2007)

Solution:

Calculation of Interest

No. of Instal-ments	*Instalment Amount (₹)*	*Interest (₹)*	*Cash Price (₹)*
IV	12,700	12,700 × 5/105 = 605	12,095
III	12,700	(12,700 + 12,095) × 5/105 = 1,181	11,519
II	12,700	(12,700 + 11,519 + 12,095) × 5/105 = 1,729	10,971
I	12,700	(12,700 + 10,971 + 11,519 + 12,095) × 5/105 = 2,252	10,448
	50,800	**5,767**	**45,033**

In the books of Robert
Hire Vendor Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.2010	To Bank	12,700	01.01.2010	By Machine A/c	45,033
	To Balance c/d (Bal. fig.)	**34,585**	31.12.2010	By Interest	2,252
		47,285			**47,285**
31.12.2011	To Bank	12,700	01.01.2011	By Balance b/d	34,585
	To Balance c/d	23,614	31.12.2011	By Interest	1,729
		36,314			**36,314**
31.12.2012	To Machine A/c	24,795	01.01.2012	By Balance b/d	23,614
	(transfer)			By Interest	1,181
		24,795			**24,795**

Machinery Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.2010	To Hire Vendor A/c	45,033	31.12.2010	By Depreciation	4,503
				By Balance c/d (Bal. fig.)	**40,530**
		45,033			**45,033**
01.01.2011	To Balance b/d	40,530	31.12.2011	By Depreciation	4,053
				By Balance c/d (Bal. fig.)	**36,477**
		40,530			**40,530**

(Contd.)

01.01.2012	To Balance b/d	36,477	31.12.2012	By Depreciation	3,648
				By Vendor A/c	24,795
				By P & L A/c (loss) (Bal. fig.)	**8,034**
		36,477			**36,477**

✎ ILLUSTRATION 20:

On 1st January 2013, Kannan purchased a machinery from Kathir on hire purchase system. Cash price of machinery was ₹3,60,000. Down payment was fixed at ₹92,880 and five annual instalments of ₹60,000 to be paid on 31st December every year. Depreciation is charged at 15% p.a. on straight-line method. Kathir charged interest @ 4% p.a.

Kannan failed to pay the second instalment and the vendor took possession of machine after charging depreciation @ 15% annually under straight-line method.

Prepare Machinery Account and Kathir Account in the books of Kannan.

(Madras Univ., Nov. 2015, BYA2A 1/2 figure)

Solution:

Calculation of Interest

Year	*Total C P (₹)*	*Instalment (₹)*	*Interest (₹)*	*Cash Price (₹)*
Total Cash Price	3,60,000	—	—	—
(–) Down	92,880	92,880	—	92,880
	2,67,120			
(–) I Instalment	49,315	60,000	2,67,120 × 4% = 10,685	49,315
	2,17,805			
(–) II Instalment	51,288	60,000	2,17,805 × 4% = 8,712	51,288
	1,66,517			
(–) III Instalment	53,339	60,000	1,66,517 × 4% = 6,661	53,339
	1,13,178			
(–) IV Instalment	55,473	60,000	1,13,178 × 4% = 4,527	55,473
	57,705			
(–) V Instalment	57,705	60,000	60,000 – 57,705 = 2,295	57,705
		3,92,880	**32,880**	**3,60,000**

Kathir Account (Hire Vendor)

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.2013	To Bank (Down)	92,880	01.01.2013	By Machinery	3,60,000
31.12.2013	To Bank (Instalment)	60,000	31.12.2013	By Interest	10,685
31.12.2013	**To Balance c/d (Bal. fig.)**	**2,17,805**			
		3,70,685			**3,70,685**
31.12.2014	To Machinery A/c (transfer)	2,26,517	01.01.2014	By Balance b/d	2,17,805
			31.12.2014	By Interest	8,712
		2,26,517			**2,26,517**

Machinery Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.2013	To Hire Vendor A/c	3,60,000	31.12.2013	By Depreciation	54,000
			31.12.2013	**By Balance c/d (Bal. fig.)**	**3,06,000**
		3,60,000			**3,60,000**
01.01.2014	To Balance b/d	3,06,000	31.12.2014	By Depreciation	54,000
			31.12.2014	By Vendor A/c	2,26,517
				By P & L A/c (Bal. fig.) (Loss on Repossession)	**25,483**
		3,06,000			**3,06,000**

✎ ILLUSTRATION 21:

Radha purchased a machine for ₹4,00,000 on 1st January 2010. Down payment was fixed at ₹1,00,000 and ₹1,15,000 at the end of first year, ₹1,10,000 in second year, and ₹1,05,000 in third year. Interest is charged at 5%. Radha's depreciation @ 10% p.a. on WDV method and Radha could not pay the second instalment. Vendor took possession of the machine. Give necessary Journals and Ledger in the books of Radha.

Solution:

Calculation of Interest

Year	*Total C P*	*Instalment*	*Interest*	*Cash Price*
Total Cash Price	4,00,000	—	—	—
(–) Down	1,00,000	1,00,000	—	1,00,000
	3,00,000			
(–) I Year	1,00,000	1,15,000	3,00,000 × 5% = 15,000	1,00,000
	2,00,000			
(–) II Year	1,00,000	1,10,000	2,00,000 × 5% = 10,000	1,00,000
	1,00,000			
(–) III Year	1,00,000	1,05,000	1,05,000 – 1,00,000 = 5,000	1,00,000
	—	**4,30,000**	**30,000**	**4,00,000**

In the books of Radha
Hire Vendor Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.2010	To Bank (down)	1,00,000	01.01.2010	By Machine	4,00,000
31.12.2010	To Bank (I Instalment)	1,15,000	31.12.2010	By Interest	15,000
	To Balance c/d	2,00,000			
		4,15,000			**4,15,000**
31.12.2011	To Machinery A/c (transfer)	2,10,000	01.01.2011	By Balance b/d	2,00,000
			31.12.2011	By Interest	10,000
		2,10,000			**2,10,000**

Machinery Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.2010	To Hire Vendor A/c	4,00,000	31.12.2010	By Depreciation	40,000
				By Balance c/d (Bal. fig.)	**3,60,000**
		4,00,000			**4,00,000**

(Contd.)

01.01.2011	To Balance b/d	3,60,000	31.12.2011	By Depreciation	36,000
			31.12.2011	By Hire Vendor A/c	2,10,000
			31.12.2011	**By P & L A/c (loss) (Bal. fig.)**	**1,14,000**
		3,60,000			**3,60,000**

Date	*Particulars*		*2010*		*2011*	
			Debit (₹)	*Credit (₹)*	*Debit (₹)*	*Credit (₹)*
01.01	Machine A/c	Dr.	4,00,000		—	
	To Hire Vendor			4,00,000		—
	(Being Machine purchased)					
01.01	Hire Vendor A/c	Dr.	1,00,000		—	
	To Bank A/c			1,00,000		—
	(Being down payment made)					
31.12	Interest A/c	Dr.	15,000		10,000	
	To Hire Vendor A/c			15,000		10,000
	(Being interest due at year end)					
31.12	Hire Vendor A/c	Dr.	1,15,000		—	
	To Bank A/c			1,15,000		—
	(Being instalment paid)					
31.12	Depreciation A/c	Dr.	40,000		36,000	
	To Machine A/c			40,000		36,000
	(Being depreciation provided)					
31.12	P & L A/c	Dr.	55,000		46,000	
	To Interest A/c			15,000		10,000
	To Depreciation A/c			40,000		36,000
	(Being depreciation and interest transferred to P&L A/c)					
31.12	Hire Vendor A/c	Dr.	—		2,10,000	
	To Machine A/c			—		2,10,000
	(Being machinery repossessed)					
31.12	P & L A/c	Dr.	—		1,14,000	
	To Machine A/c			—		1,14,000
	(Being loss on repossession)					

✎ ILLUSTRATION 22:

Kiran purchased a truck for ₹84,000 on 1st January 2014. ₹20,000 was paid as down payment and four instalments of ₹20,000 each to be paid at the end of each year. Interest is charged at 10% p.a. Kiran depreciated the truck at 15% p.a. on WDV method. The accounts are closed on 31st December.

Kiran, after making payment for first instalment, failed to pay second instalment and the vendor took possession of the truck. The vendor, after spending ₹4,000 on repairs, sold the truck for ₹70,000. Prepare Ledger Account in the books of both the parties.

(Madras Univ., Nov. 2013, BPZ2A/F2A/G2A/C2A/SBAML)

Solution:

Calculation of Interest

Year	*Total C P (₹)*	*Instalment (₹)*	*Interest (₹)*	*Cash Price (₹)*
Total Cash Price	84,000	—	—	—
(–) Down	20,000	20,000	—	20,000
	64,000			
(–) I Year	13,600	20,000	64,000 × 10% = 6,400	13,600
	50,400			
(–) II Year	14,960	20,000	50,400 × 10% = 5,040	14,960
	35,440			

In the books of Kiran
Hire Vendor Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.2014	To Bank A/c (down)	20,000	01.01.2014	By Truck	84,000
31.12.2014	To Bank A/c	20,000	31.12.2014	By Interest	6,400
	(Instalment)				
	To Balance c/d (Bal. fig.)	**50,400**			
		90,400			**90,400**
31.12.2015	**To Truck A/c (transfer) (Bal. fig.)**	**55,440**	01.01.2015	By Balance b/d	50,400
			31.12.2015	By Interest	5,040
		55,440			**55,440**

Truck Account

Date	*Particulars*	**(₹)**	*Date*	*Particulars*	**(₹)**
01.01.2014	To Hire Vendor	84,000	31.12.2014	By Depreciation (15%)	12,600
			31.12.2014	**By Balance c/d (Bal. fig.)**	**71,400**
		84,000			**84,000**
01.01.2015	To Balance b/d	71,400	31.12.2015	By Depreciation	10,710
			31.12.2015	By Vendor A/c	55,440
			31.12.2015	**By P & L A/c (Bal. fig.) (Loss)**	**5,250**
		71,400			**71,400**

In the books of Hire Vendor
Kiran Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.2014	To Hire Sales	84,000	01.01.2014	By Bank (down payment)	20,000
31.12.2014	To Interest	6,400	31.12.2014	By Bank (I)	20,000
			31.12.2014	**By Balance c/d (Bal. fig.)**	**50,400**
		90,400			**90,400**
01.01.2015	To Balance b/d	50,400	31.12.2015	By Repossessed Stock (seized value)	55,440
31.12.2015	To Interest	5,040			
		55,440			**55,440**

Repossessed Stock Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.12.2015	To Kiran A/c	55,440	31.12.2015	By Cash (sales)	70,000
	To Repairs	4,000			
	To P & L A/c (Bal. fig.) (Profit)	**10,560**			
		70,000			**70,000**

Partial Repossession

✎ ILLUSTRATION 23:

Vivek purchased four machines of ₹35,000 each on hire purchase system. The hire purchase price of the machine ₹1,50,000 payable, ₹37,500 on signing the contract, and balance in three equal instalment of ₹37,500 each. Depreciation is charged at 10% p.a. on straight-line method. Down payment and first instalment were paid but Vivek defaulted second instalment. The vendor took possession of three machines, leaving one machine with buyer. Vendor took the machines after depreciating machines at 20% p.a. under WDV method. The vendor spent ₹3,000 on repairs and sold the machine for ₹87,500.

Give Ledger Accounts in the books of both the parties.

Solution:

(i) Calculation of Interest

HP Price	₹1,50,000
(–) Cash Price	₹1,40,000
Interest	₹10,000

(ii) Calculation of Ratio (₹)

HP Price of Machine	1,50,000
(–) Down Payment	37,500
Amount Outstanding in I Year	1,12,500
(–) I Instalment	37,500
Amount Outstanding in II Year	75,000
(–) II Instalment	37,500
Amount Outstanding in III Year	37,500

Ratio = 3:2:1

∴ Interest for I Year $10,000 \times 3/6 = ₹5,000$

Interest for II Year $10,000 \times 2/6 = ₹3,333$

Interest for III Year $10,000 \times 1/6 = ₹1,667$

Calculation of Value of Machines

Value of machine taken away (3 machines)	*(₹)*	*Value of machine left (1 machine)*	*(₹)*
Cash Price	1,05,000	Cash Price	35,000
(–) Depreciation @ 20% I year	21,000	(–) I year Depreciation	3,500
	84,000		31,500
(–) II Year Depreciation	16,800	(–) II Year	3,500
Value of Machines	**67,200**		**28,000**

Ledger in the books of Vivek
Hire Vendor Account

	Particulars	*(₹)*		*Particulars*	*(₹)*
I Year	To Cash (down)	37,500	I Year	By Machines	1,40,000
	To Cash (I)	37,500		By Interest	5,000
	To Balance c/d (Bal. fig.)	**70,000**			
		1,55,000			**1,55,000**
II Year	To Machine A/c	67,200	II Year	By Balance b/d	70,000
	To Balance c/d (Bal. fig.)	**6,133**		By Interest	3,333
		73,333			**73,333**

Machine Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
I year	To Hire Vendor A/c	1,40,000	I year	By Depreciation	14,000
				By balance c/d	1,26,000
		1,40,000			**1,40,000**
II Year	To Balance b/d	1,26,000	II Year	By Depreciation	12,600
				By Vendor A/c	67,200
				By P&L A/c (Loss)	18,200
				By Balance c/d	28,000
		1,26,000			**1,26,000**

In the books of Hire Vendor
Vivek A/c

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
I year	To Hire Sale A/c	1,40,000	I Year	By Cash (down)	37,500
	To Interest	5,000		By Cash (I)	37,500
				By Balance c/d (Bal. fig.)	**70,000**
		1,55,000			**155,000**
II Year	To Balance b/d	70,000	II Year	By Repossessed Stock A/c	67,200
	To Interest	3,333		By Balance c/d	6,133
		73,333			**73,333**

Repossessed Stock A/c

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
	To Vivek A/c	67,200		By Bank (sale)	87,500
	To Bank (Repairs)	3,000			
	To P&L A/c (Profit)	17,300			
		87,500			**87,500**

Hire Purchase Trading Account

✎ ILLUSTRATION 24:

Mrs. Urvasi sells products on hire purchase. From the following information, prepare Hire Purchase Trading Account for the year ending 31st December 2016.

Date	*Particulars*	*(₹)*
01.01.2006	Stock out on hire at cost	2,50,000
	Instalment due (customer still paying)	51,000
	Stock at shop	60,000
31.12.2006	Goods repossessed	2,400
	Cash received during the year	8,50,000
	Purchases	7,20,000
	Stock out on hire at cost	2,30,000
	Instalments due	90,000
	Stock at shop	1,10,000

Solution:

Hire Purchase Trading Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Stock out on Hire (at cost)	2,50,000	By Cash A/c	8,50,000
To Instalment Due	51,000	By Goods Repossessed	24,000
To Stock at Shop	60,000	By Balance c/d:	
To Purchases	7,20,000	Stock out Cost	2,30,000
To Profit (Bal. fig.)	**2,23,000**	Instalment Due	90,000
		Stock at Shop	1,10,000
	13,04,000		**13,04,000**

✎ ILLUSTRATION 25:

From the following details of a trader who sells goods on hire purchase system with 20% profit on cost, prepare Hire Purchase Trading Account.

Date	*Particulars*	*(₹)*
01.04.1996	Stock out on hire purchase	90,000
	Stock in hand at shop	12,000
	Instalments overdue	8,000
31.03.1997	Stock on hire at HP price	96,000
	Stock in hand	16,000
	Instalments overdue	14,000
	Purchases	13,000
	Cash received	1,36,800

(University of Madras, B.Com.(CS), ICE, Oct. 2001, 1/20 times)

Solution:

HP Trading Account for the Year Ended 31.03.1997

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d:		By Cash	1,36,800
Stock Out HP	90,000	By Stock Reserve (90,000 × 20/120)	15,000
Stock at Shop	12,000	By Balance c/d:	
Instalments Due	8,000	Stock Out on Hire	96,000
To Purchase	1,30,000	Stock in Hand	16,000
To Stock Reserve (96,000 × 20/120)	16,000	Instalments Due	14,000
To Profit (Bal. fig.)	**21,800**		
	2,77,800		**2,77,800**

✎ ILLUSTRATION 26:

The following details relate to a trader who sells goods on hire purchase at cost plus 60%. Prepare relevant Ledger Accounts.

Date	*Particulars*	*(₹)*
01.01.2003	Stock with customers at selling price	21,600
31.12.2003	Goods sold on hire purchase	87,120
	Cash received	57,720
	Stock with customers at selling price	48,000
	Instalment due	5,000

(University of Madras, B.Com., Nov.2005, B.Com.(CS), Apr.2007)

Solution:

Stock with Customers Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	21,600	**By Instalments Due A/c (Bal. fig.)**	**60,720**
To Stock at Shop (hire sales)	87,120	By Balance c/d	48,000
	1,08,720		**1,08,720**

Instalments Due Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d (Bal. fig.)	**2,000**	By Cash	57,720
To Stock with Customer (transfer)	60,720	By Balance c/d	5,000
	62,720		**62,720**

Shop Stock Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	—	By Stock with Customer (at cost)	54,450
To Purchases (Bal. fig.)	**54,450**	By Balance c/d	—
	54,450		**54,450**

Hire Purchase Trading Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d:		By Cash	57,720
Stock with Customers	21,600	By Balance b/d:	
Instalments Due	2,000	Stock with Customers	48,000
To Purchases	54,450	Instalments Due	5,000

(Contd.)

To Stock Reserve (48,000 × 60/160)	18,000	By Stock Reserve (21,600 × 60/160)	8,100
To Profit (Bal. fig.)	**22,770**		
	1,18,820		**1,18,820**

Stock and Debtors System

✎ **ILLUSTRATION 27:**

Seashore Trading Company sells goods on hire price, the price cost plus 25%. From the following, compute Profit for the year 2011 under Stock and Debtors System.

Stock with hire purchases customers at HP price on 1st January 2011	₹45,000
Instalments due on 1st January 2011	₹5,400
HP Sales for the year at HP Price	₹2,89,500
Cash Received during the year	₹2,94,900
Value of Repossessed Goods (Instalment due ₹6,000)	₹5,100
Instalments due on 31st December 2011	₹3,300

Solution:

Hire Purchase Debtors Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	5,400	By Repossessed Goods	6,000
To HP Stock A/c (Bal. Fig.)	**2,98,800**	By Cash	2,94,900
		By Balance c/d	3,300
	3,04,200		**3,04,200**

Hire Purchase Stock Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	45,000	By HP Debtors A/c	2,98,800
To Good Sold on HP	2,89,500	By Balance c/d	35,700
	3,34,500		**3,34,500**

Hire Purchase Adjustment Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Stock Reserve (35,700 × 25/125)	7,140	By Stock Reserve (45,000 × 25/125)	9,000
To Loss on Repossession (6,000 – 5,100)	900	By Loading on Sales (2,89,500 × 25/125)	57,900
To Profit (Bal. fig.)	**58,860**		
	66,900		**66,900**

✎ ILLUSTRATION 28:

Seetha Traders sells goods at cost plus 25% on hire purchase system. The transaction details pertaining to the year 2015 are provided below, from which you are required to prepare Ledger Accounts under Stock and Debtor System to ascertain Profit.

Balances on 1st January 2015	(₹)
Stock at shop	3,75,000
Stock with customer on HP price	4,50,000
Instalments unpaid	25,000
Transactions during the year:	
Purchases	6,25,000
Goods out on HP	10,87,500
Instalments received	7,50,000
Balance as on 31st December 2015	
Stock at shop	3,12,500
Stock with customers	**?**
Instalments unpaid	37,500

Solution:

(i) Hire Purchase Debtors Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	25,000	By Cash A/c	7,50,000
To HP Stock A/c (Bal. fig.)	**7,62,500**	By Balance c/d	37,500
	7,87,500		**7,87,500**

(ii) Hire Purchase Stock Account
(Stock with Customers)

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	4,50,000	By HP Debtors A/c	7,62,500
To Goods out on HP	10,87,500	**By Balance c/d (Bal. fig.)**	**7,75,000**
	15,37,500		**15,37,500**

(iii) Shop Stock Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	3,75,500	By Goods on HP A/c (10,87,500 × 100/125)	8,70,000
To Purchases (Bal. fig.)	**8,07,500**	By Balance c/d	3,12,500
	11,82,500		**11,82,500**

(iv) Hire Purchase Adjustment Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Stock Reserve (7,75,000 × 25/125)	1,55,000	By Loading on HP Sale (10,87,500 × 25/125)	2,17,500
To Profit (Bal. fig.)	**1,52,500**	By Stock Reserve (4,50,000 × 25/125)	90,000
	3,07,500		**3,07,500**

✎ ILLUSTRATION 29:

Simpson Company Ltd., which sells a patent product on hire purchase terms, has the following transactions for the year ended 31st December 1998. The gross profit is 25% on selling price:

Date	*Particulars*	*(₹)*
01.01.1998	Stock out on Hire purchase price	40,000
	Stock on hand (at shop)	5,000
	Instalments due (customers still paying)	3,000
31.12.1998	Stock out on Hire at hire purchase price	46,000
	Stock on hand (at shop)	7,000
	Instalments due (customers still paying)	5,000
	Cash received in instalments during the year	80,000

Prepare the necessary accounts to find out Gross Profit of Simpson Company Ltd., for the year ended 31st December 1998.

Solution:

Hire Purchase Stock Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.1998	To Stock Out on Hire	40,000		By H.P. Debtors A/c (Transfer from H.P. Debtors)	82,000
	To Shop Stock A/c (Bal. fig.)	**88,000**			
	Goods sold on H.P.				
	Transfer to Shop:		31.12.1998	By Stock out on hire	46,000
	Profit (88000 × 25/125) = 22,000				
	Cost = 66,000				
	88,000				
		1,28,000			**1,28,000**

Hire Purchase Debtors Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.1998	To Balance b/d	3,000		By Cash Received in Instalment	80,000
	To H.P. Stock (Bal. Fig.)	**82,000**	31.12.1998	By Balance c/d	5,000
		85,000			**85,000**

Shop Stock Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.1998	To Balance b/d	5,000		By H.P. Stock A/c (cost only)	66,000
	To Purchase (Bal. fig.)	**68,000**	31.12.1998	By Balance c/d	7,000
		73,000			**73,000**

Hire Purchase Adjustment Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To H.P. Stock A/c		By H.P. Stock A/c	
(Cl. Stock Loading)	11,500	(Loading)	22,000
(46000 × 25/100)		(88000 × 25/100)	
To Gross Profit	20,500	By H.P. Stock	
		(Op. Stock Loading)	
		(40000 × 25/100)	10,000
	32,000		**32,000**

Instalment Purchase System

In instalment system, the ownership of goods transfers to the buyer immediately, on signing the agreement. As the ownership is transferred immediately, the vendor has no right to repossess the goods sold even if there is a default in payment, but only can sue for unpaid balances. Under this method, the total interest is transferred to 'Interest Suspense' account. The amount of interest accrued at every instalment is transferred to interest account.

Journal Entries in the books of Buyer

	Particulars		*Debit (₹)*	*Credit (₹)*
(i)	Asset A/c	Dr.	xx	
	Interest Suspense A/c	Dr.	xx	xx
	To Vendor A/c			
	(On purchase of an asset, the total value of asset)			
(ii)	Vendor A/c	Dr.	xx	
	To Bank A/c			xx
	(Down payment made)			
(iii)	Interest A/c	Dr.	xx	
	To Interest Suspense A/c			
	(For interest due at the end of the year)			
(iv)	Vendor A/c	Dr.	xx	
	To Bank A/c			xx
	(On payment of instalment)			

(Contd.)

(v)	Depreciation A/c	Dr.	xx	
	To Asset A/c			xx
	(Depreciation on asset)			
(vi)	Profit & Loss A/c	Dr.	xx	
	To Interest A/c			xx
	To Depreciation A/c			xx
	(On transferring, depreciation and interest to P & L A/c)			

Entries (iii), (iv), (v) and (vi) are repeated for subsequent years.

Entries in the books of Vendor

	Particulars		*Debit (₹)*	*Credit (₹)*
(i)	Hire Purchaser A/c	Dr.	xx	
	To Sales A/c (cash price)			xx
	To Interest Suspense A/c			xx
	(On hire sales)			
(ii)	Bank A/c	Dr.	xx	
	To Hire Purchaser A/c			xx
	(Down payment)			
(iii)	Interest Suspense A/c	Dr.	xx	
	To Interest A/c			xx
	(Interest due at end of every year)			
(iv)	Bank A/c	Dr.	xx	
	To Hire Purchases A/c			xx
	(On receipt of instalment)			
(v)	Interest A/c	Dr.	xx	
	To P & L A/c			xx
	(On transferring interest to P & L at the end of year)			

✎ ILLUSTRATION 30:

Yuvaraj purchased a car on instalment system from MS Traders for ₹2,88,000. It was agreed that ₹72,000 will be paid as down payment and three annual instalments of ₹72,000 each. The cash price was ₹2,68,200 with interest @ 5% p.a. Yuvaraj depreciated the car at 10% p.a. on WDV method. Pass Journal Entries in the books of both the parties.

Solution:

Calculation of Interest

Year	*Total C P (₹)*	*Instalment (₹)*	*Interest (₹)*	*Cash Price (₹)*
Total Cash Price	2,68,200	—	—	—
(–) Down	72,000	72,000	—	72,000
	1,96,200			
(–) I Instalment	62,190	72,000	9,810	62,190
	1,34,010			
(–) II Instalment	65,299	72,000	6,701	65,299
	68,711			
(–) III Instalment	68,711	72,000	3,289	68,711
	—	**2,88,000**	**19,800**	**2,68,200**

Journal Entries in the books of Yuvaraj

	Particulars		*I Year*		*II Year*		*II Year*	
			Debit (₹)	*Credit (₹)*	*Debit (₹)*	*Credit (₹)*	*Debit (₹)*	*Credit (₹)*
(i)	Car A/c	Dr.	2,68,200		—		—	
	Interest Suspense A/c	Dr.	19,800		—		—	
	To MS Traders A/c			2,88,000		—		—
	(Being car purchased)							
(ii)	MS Traders A/c	Dr.	72,000		—		—	
	To Cash A/c			72,000		—		—
	(Being down payment made)							
(iii)	Interest A/c	Dr.	9,810		6,701		3,289	
	To Interest Suspense A/c			9,810		6,701		3,289
	(Being interest due adjusted)							
(iv)	MS Traders A/c	Dr.	72,000		72,000		72,000	
	To Cash A/c			72,000		72,000		72,000
	(Being instalment paid)							

(Contd.)

(v)	Depreciation A/c	Dr.	26,820		24,138		21,724	
	To Car A/c			26,820		24,138		21,724
	(Being depreciation provided)							
(vi)	P & L A/c	Dr.	36,630		30,839		25,005	
	To Interest			9,810		6,701		3,289
	To Depreciation			26,820		24,138		21,724
	(Being interest and depreciation transferred to P&L A/c)							

Entries in the books of MS Traders

	Particulars	*I Year*		*II Year*		*II Year*	
		Debit (₹)	*Credit (₹)*	*Debit (₹)*	*Credit (₹)*	*Debit (₹)*	*Credit (₹)*
(i)	Yuvaraj A/c Dr.	2,88,000		—		—	
	To Car A/c		2,68,200		—		—
	To Interest Suspense A/c		19,800		—		—
	(Being car sold)						
(ii)	Cash A/c Dr.	72,000		—		—	
	To Yuvaraj A/c		72,000		—		—
	(Being down payment made)						
(iii)	Interest Suspense A/c Dr.	9,810		6,701		3,289	
	To Interest A/c		9,810		6,701		3,289
	(Being interest due)						
(iv)	Cash A/c Dr.	72,000		72,000		72,000	
	To Yuvaraj A/c		72,000		72,000		72,000
	(Being instalment paid)						
(v)	Interest A/c Dr.	9,810		6,701		3,289	
	To P & L A/c		9,810		6,701		3,289
	(Being interest transfer to P&L)						

■ Theory Questions ■

Short-Answer Questions

1. What is Hire Purchase?
2. What is Instalment System?
3. Who is a Hire Vendor?
4. Who is a Hire Purchaser?
5. What is Hire Purchase Trading A/c?
6. What is Repossession?
7. What are the Types of Repossession?
8. What is Complete Repossession?
9. What is Partial Repossession?
10. What is Interest Suspense Account?

Long-Answer Questions

1. Differentiate Hire Purchase System from Instalment Systems.
2. Explain the Types of Repossession.
3. What are the accounts to be opened under Stock and Debtors System?

■ Exercise Problems ■

Rate of Interest, Cash Price and Instalments are Given

1. Ravi purchased a two-wheeler on hire purchase system. The cash price of the vehicle is ₹15,980, payable as: ₹4,000 down and three instalments of ₹5,000, ₹6,000 and ₹2,000 payable at the end of first, second, and third year respectively. Calculate Interest included in each instalment at 5% p.a.

(Madras Univ., Apr. 2014, BPZ2A/G2A/C2A/F2A/SBAML; B.com (CS) 2004, 2005; IDE, May 2012)

[Ans: I Year: ₹599; II Year: ₹379; III Year: ₹42]

2. The Madras Motor Company purchased a motorcar from Bengaluru Motor Company on hire purchase agreement on 1st January 2010, paying cash of ₹20,000 on agreement and three instalments of ₹20,000 each on 31st December each year. The cash price of the car is ₹74,500 and interest is charged at 5% p.a.

   The Madras Motor Company writes off 10% p.a. depreciation on WDV method. Calculate interest.

   (Madras Univ., Apr. 2012, BPZ2A/F2A/C2A/G2A/SBAML)

   [Ans: I Year: ₹2,725; II Year: ₹1,861; III Year: ₹914]

3. On 1.1.2004, A purchased machinery on hire purchases system. The payment is to be made ₹4,000 down (on signing of the contract) and ₹4,000 annually for 3 years. The cash price of the machinery is ₹14,900 and rate of interest is 5%. Calculate the Interest in each year's instalment.

(April 2006 21503/PZ2A)

[Ans: 1st Year Interest: ₹545
2nd Year Interest: ₹372.25
3rd Year Interest: ₹182.75]

4. On 1.1.1993, a firm purchased a truck on instalment system. The cash price of the truck was ₹11,175 and payment was to be made as follows: ₹3,000 was to be paid on signing of the agreement and the balance in three instalments of ₹3,000 each at the end of each year. Interest at 5% charged by the vendor. The firm has decided to write off 10% annually on the diminishing balance of the cash price. Give Ledger Accounts in the books of the purchaser and hire vendor.

(October 2012/U/ID 1884/JAB/CAA)

[Ans: I Year Interest: ₹409
II Year Interest: ₹279
III Year Interest: ₹137
Total Interest: ₹825]

Rate of Interest Not Given

5. Mr. Rahul purchased a machine on hire purchase basis. The cash price of the machine was ₹18,000. As per the terms of the agreement, the buyer had to pay ₹4,000 on signing the agreement and balance in four instalments of ₹4,000 each, payable at the end of each year. Prepare Vendor Account in the books of the buyer.

(Madras Univ., Apr. 2015, BPZ2A/F2A/G2A/C2A/SBAML)

**[Ans: I Year: ₹800; II Year: ₹600;
III Year: ₹400; IV Year: ₹200]**

6. Charles bought a machine for ₹32,000, whose cash price was ₹25,600 The amount is paid in four equal instalments of ₹8,000 each, at the end of each year. Calculate the Amount of Interest for every instalment.

**[Ans: I Year: ₹2,560; II Year: ₹1,920;
III Year: ₹1,280; IV Year: ₹640]**

7. Gulam purchased a car under hire purchase system from Azad, whose cash price was ₹3,10,000. The amount is to be settled as follows:

Down payment	₹60,000
At the end of first year	₹1,00,000
At the end of second year	₹1,00,000
At the end of third year	₹1,00,000

Calculate Interest for each year.

**[Ans: I Year: ₹25,000; II Year: ₹16,667;
III Year: ₹8,333; Ratio: 3:2:1]**

8. On 1st January 2004, Kannan purchased a machinery under hire purchase system. ₹9,000 to be paid on delivery and the balance in 5 instalments of ₹18,000 each payable annually on 31st December. The price of the machine was ₹90,000. Calculate Interest paid in each year.

**(Madras Univ., IDE, May 2012, UCZA/UCWA/YA/XB/
URMA/UCVB 1/3 Figures)**

**[Ans: I Year: ₹3,000; II Year: ₹2,400; III Year: ₹1,800;
IV Year: ₹1,200; V Year: ₹600]**

9. A radio set with cash price of ₹1,620 was acquired on hire purchase system payable in three equal instalments of ₹600 each. Calculate Interest.

(Bengaluru University, Dec. 2005)

[Ans: I Year: ₹90; II Year: ₹60; III Year: ₹30]

10. Mohan purchased a car for a cash price of ₹2,56,000 which is sold on hire purchase system for ₹3,20,000. The amount is payable in four equal yearly instalments of ₹80,000 each. The first payment is made at the end of the first year. Calculate the Amount of Interest to be charged every year.

(November 2011 21604/ZZ2H/SY2C/SDEN)

[Ans: I Year Interest: ₹25,600
II Year Interest: ₹19,200
III Year Interest: ₹12,800
IV Year Interest: ₹6,400]

Cash Price Not Given

11. Vidyut purchased a two-wheeler for ₹1,50,000, which is to be paid as follows:

On signing the agreement	₹18,000
I Year	₹25,500
II Year	₹24,000
III Year	₹82,500

The hire vendor charged interest @ 10% p.a. on unpaid cash value each year. Calculate Interest and Cash Price.

(Madras Univ., B.Com., 1984, 1986, 1988 adapted)

[Ans: I Year: ₹10,500; II Year: ₹9,000;
III Year: ₹7,500; Cash Price: ₹1,23,000]

12. Mr. X purchased a truck on 1st January 2012. The terms of agreement provided that ₹1,20,000 as down payment, ₹1,05,000 on 31.12.2012, ₹1,05,000 on 31.12.2013 and ₹90,000 on 31.12.2014. The interest is charged @ 20% p.a. Calculate the Cash Price and Interest.

[Ans: III Year: ₹15,000; II Year: ₹30,000;
I Year: ₹42,500; Cash Price: ₹3,32,500]

13. Joshwa purchased three cars on hire purchase system. ₹1,00,000 down and ₹80,000 at the end of second, fourth and sixth year. Interest is charged at 15% at two yearly rests on unpaid balance. Calculate Interest in each instalment.

[Ans: II Year Interest: ₹27,399, IV Year Interest: 19,508,
VI Year Interest: ₹10,435

14. Calculate the Cash Price of the machine from the following:

Particulars	*(₹)*
Hire purchase price of machine	50,000
Down payment	10,000
Four annual instalments at the end of each year	10,000

Rate of interest is 5% p.a.

(Madras University, BBA, Nov. 2008, B.C.A/B.Sc April 2002)

[Ans: Cash Price: ₹45,459 Interest: I Year: ₹1,773; II Year: ₹1,362; III Year: ₹930; IV Year: ₹476]

15. Calculate cash price of an asset from following details:

Down payment	₹4,500
I Instalment	₹4,200
II Instalment	₹3,900
III Instalment	₹3,600
IV Instalment	₹3,300

Rate of interest is 10% p.a.

(Bengaluru University, Dec. 2005)

[Ans: I Year: ₹1,200; II Year: ₹900; III Year: ₹600; IV Year: ₹300]

Instalments not Given

16. Raga Transport Co. purchased 5 buses costing ₹5,00,000 each from UV Automobiles. The term of the agreement provided that ₹3,00,000 was to be paid down and balance in four equal instalments together with interest @ 20% p.a. Calculate Interest and Instalments.

[Ans: I Year: ₹4,40,000; II Year: ₹3,30,000; III Year: ₹2,20,000; IV Year: ₹1,10,000]

17. Mrs. Ratna purchased a photocopier machine from P Ltd. by agreeing to pay ₹1,00,000 on signing the contract. The cash price of the machine is ₹5,50,000. The balance amount to be settled in three equal instalments of ₹1,50,000 each together with interest @ 12% p.a. Calculate Interest and Instalment.

[Ans: I Year: ₹54,000; II Year: ₹36,000; III Year: ₹18,000;]

18. On 1st April 2012, A Transport Company purchased a lorry from Automobile Supply Co. Ltd., on hire-purchase basis, the cash price being ₹6,00,000. ₹150,000 on signing the contract and balance in three annual instalments of ₹1,50,000 each on 31st March every year. In addition to it, interest at 5% per annum was also payable to vendors on outstanding balances. Compute Interest and Instalments.

[Ans: I Year: ₹22,500; II Year: ₹15,000; III Year: ₹7,500;]

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

(November 2011: 60522/BYA2C)

[Ans: Total Interest: ₹50,000
I Year Interest: ₹20,000
II Year Interest: ₹15,000
III Year Interest: ₹10,000
IV Year Interest: ₹5,000]

20. X purchased a machine under Hire purchase system. According to the terms of the agreement ₹60,000 was to be paid on signing of the contract. The balance was to be paid in four annual instalments of ₹37,500 each plus interest. The cash price was ₹2,10,000. Interest is chargeable on outstanding balance at 20% per annum. Calculate Interest for each year and the Instalment Amount.

[Ans: Total Interest 1st year: ₹30,000; 2nd year: ₹22,500;
3rd year: ₹15,000; 4th year: ₹7,500;
Total Instalment ₹1st year: ₹67,500; 2nd year: ₹60,000;
3rd year: ₹52,500; 4th year: ₹45,000]

Annuity Method

21. Sonia purchased a machinery on HP system and the amount is payable in 10 annual instalments of ₹65,000 each. The present value of annuity of ₹1 for 10 years at 5% rate of interest is ₹7.7217. Compute Cash Price and Interest under Annuity Basis.

[Ans: Cash Price: ₹5,01,911; Interest: ₹1,48,089]

22. On 1st April 2014, a manufacturing company buys on hire-purchase system, a machinery for ₹1,20,000, payable by three equal annual instalments combining principal and interest, the rate of interest was 5% per annum. Calculate the Amount of Cash Price and Interest. The present value of an annuity of one rupee for three years at 5% interest is ₹2.72325.

[**Ans: Cash Price: ₹1,08,930; Interest: ₹11,070]**

Journal and Ledgers

23. Mr. Raghu purchased a motor truck from Mr. Balu, whose cash price is ₹56,000 on 1st January 2005. ₹15,000 is paid on signing the contract and the balance is to be paid in three equal annual instalments of ₹15,000 each. The rate of interest is 5% per annum. Calculate the amount of interest included in each instalment. Pass Journal Entries in the books of both the parties.

(Madras University, Apr. 2016, BPZ2A/F2A/G2A, Modified)

[Ans: Interest I Year: ₹2,050; II Year: ₹1,403; III Year: ₹547]

24. David bought a machine for ₹1,60,000, whose cash price was ₹1,28,000. The amount is paid in four equal instalments of ₹40,000 each, at the end of each year. Calculate the amount of interest for every instalment. Pass Journal Entries and Open Ledger Accounts in the books of vendor.

[Ans: I Year: ₹12,800; II Year: ₹9,600;
III Year: ₹6,400; IV Year: ₹3,200]

25. On 1.1.2001, TVS Limited purchased a TV on hire purchase system, the terms of agreement are:

(a) Cash price of the TV ₹8,000
(b) Down payment ₹2,000
(c) Balance to be paid in three equal instalments of ₹2,000 each plus interest.
(d) Interest is charged at 10% p.a.
(e) Depreciation is written off at 10% p.a. under WDV method.

Show necessary Ledger Account in the books of both the parties.

(Thiruvalluvar University, Nov. 2012)

[Ans: I Year: ₹600; II Year: ₹400; III Year: ₹200;
Balance of Machinery at the end of 3rd year: ₹5,832]

26. The Madras Motor Company purchased a motorcar from Bengaluru Motor Company on hire purchase agreement on 1st January 2010, paying cash of ₹1,10,000 on agreement and three instalments of ₹1,10,000 each on 31st December each year. The cash price of the car is ₹4,09,750 and interest is charged at 5% p.a.

The Madras Motor Company writes off 10% p.a. depreciation on WDV method. Journalise in the books of both the parties and necessary Ledger Accounts.

(Madras Univ., Apr. 2012, BPZ2A/F2A/C2A/G2A/SBAML)

[Ans: Interest: I Year: ₹14,988; II Year: ₹10,237;
III Year: ₹5,025
Depreciation: I Year: ₹40,975; II Year: ₹36,878;
III Year: ₹33,190]

27. Rajesh purchased a machine on HP system. He pays ₹5,000 down and ₹4,000, ₹3,500 and ₹3,000 at the end of 1st, 2nd and 3rd year respectively. Interest is charged at 10% p.a. Calculate the cash price of the machine. Prepare Ledger Accounts in the books of Hire purchaser.

(Madras Univ., IDE, May 2012, UCZA/WA/YA/XB/VB (2 times))

[Ans: I Year: ₹878; II Year: ₹566; III Year: ₹273
Cash Price: 13,783]

28. On 1st April 2008, Gopinath & Co. acquired a machine on hire purchase. The terms of the contract are;

(a) Cash price of the machine ₹1,00,000
(b) ₹40,000 to be paid down.
(c) Balance amount to be paid in 3 equal instalments plus interest @ 18% p.a.
(d) Depreciation at 10% p.a. on Straight Line Method.

You are required to show:

Relevant ledgers in the books of Gopinath & Co. for three years assuring accounts are closed on 31st March every year.

(Annamalai University, 2012, B.Com., B.Com.(IB), MM)

[Ans: I Year: ₹10,800; II Year: ₹7,200; III Year: ₹3,600;
Balance of Machinery at the end of 3rd year: ₹70,000]

Complete Repossession

29. Mega Transport Ltd. purchased from Maruti Motors, three trucks costing ₹1,00,000 each, on hire purchase system. Payment to be made as ₹75,000 down and balance in three equal instalments together with interest @ 10% p.a.

Mega transport writes off depreciation @ 20% on diminishing balance method. It paid the instalment due for first year but failed to pay second instalment. The vendor took possession of all the three trucks after spending ₹30,000 on getting the trucks, and sold them for ₹2,50,000.

Prepare necessary Ledger Account in the books of both the parties for two years.

(Madras Univ., Apr. 2014, BPZ2A/G2A/C2A/F2A/SBAML)

[Ans: Interest: I Year: ₹22,500; II Year: ₹15,000; III Year: ₹7,500 Value of truck repossessed: ₹1,65,000; Loss on repossession: ₹27,000; Profit on resale: ₹55,000]

30. On 1st April 2015, Roshni acquired three trucks from a dealer on hire purchase basis, cash price of which was ₹15,00,000. The terms of payment being: ₹4,00,000 cash down; ₹4,90,000 at the end of the first year; ₹4,60,000 at the end of the second year; and ₹4,00,000 at the end of third year. The dealer charged interest @ 10% per annum.

Roshni depreciated the truck at 10% per annum on Written Down Value Method. After having made the down payment and having paid the first instalment on 31 March 2016, she could not pay the second instalment on 31st March 2017. The hire-vendor took possession of the truck and after spending ₹30,000 on the repairs of the truck, sold it for ₹10,00,000. Prepare the Ledger Accounts in the books of both the parties.

[Ans: Interest: I Year: ₹1,10,000; II Year: ₹72,000; III Year: ₹68,000; Value of truck repossessed: ₹7,92,000; Loss on repossession: ₹4,23,000; Profit on resale: ₹1,78,000]

31. A machinery is sold on hire purchase. The terms of payment are four annual instalments of ₹60,000 at the end of each year, commencing from the date of agreement. Interest is charged @ 20% and is included in the annual payment of ₹60,000. Show Machinery Account and Hire Vendor Account in the books of purchaser, who defaulted in the payment of third yearly payment, whereupon the vendor repossessed the machinery. The purchaser provides depreciation on the machinery @ 10% p.a. on diminishing balance method.

[Ans: Interest: I Year: ₹31,065; II Year: ₹25,278; III Year: ₹18,333; IV Year: ₹10,000; Value of truck repossessed: ₹1,10,000; Loss on repossession: ₹3,232]

32. P Purchased a truck on hire-purchase system for ₹56,000 payment to be made ₹15,000 as down payment and rest in three instalments of ₹15,000 each at the end of the year. Rate of interest is charged at 5% per annum. Buyer is depreciating the assets at 10% p.a. on Written Down Value Method. Because of financial difficulties, P after having paid down payments and first instalment at the end of the 1st year, could not pay 2nd instalment and seller took possession of the truck.

Seller after expending ₹357 on repairs of the asset sold it away for ₹30,110. Open Ledger Account in the books of both parties to record the transactions.

(April 2007 21604/ZZ2H/SY2C/SDEN)

[Ans: Value of Truck on the date of default: ₹29,453;
Loss on surrender: ₹15,907;
Value of truck repossessed: ₹29,453;
Profit on sale of repossessed truck: ₹300]

33. M purchased a truck for ₹1,60,000 from N on 1.1.2003. payment to be made ₹40,000 down and ₹46,000 at the end of first year; ₹44,000 at the end of second year and ₹42,000 at the end of third year. Interest was to be charged at 5%. M depreciates the truck at 10% p.a. on W.D.V method.

M after having paid down payment and first instalment could not pay the second instalment. N took possession of the truck and after spending ₹4,000 on repairs of the asset, sold it away for ₹91,500.

Give Ledger Accounts in the books of both parties.

(April 2006 21503/PZ2A)

[Ans: 1st year interest: ₹6,000; 2nd year interest: ₹4,000;
3rd year interest: ₹2,000;
In the books of Hire Purchaser: Repossessed truck value: ₹84,000;
Loss on surrender: ₹45,600;
In the books of Hire Vendor: Profit on sale of repossessed truck: ₹3,500]

Partial Repossession

34. Geetha & Co. purchased 5 machines costing ₹2,00,000 each on HP system. The buyer agreed that 20% will be paid down and the balance in 4 annual equal instalments. After having paid the down payment and first instalment, Geetha & Co. failed to pay second instalment. The vendor took away 3 machines after depreciating at 20% p.a. on WDV method. Geetha & Co. depreciates @ 10% p.a. on WDV. Prepare necessary Ledger Account in the books of Geetha & Co. Rate of interest is 10% p.a.

[Ans: Interest: I Year: ₹80,000; II Year: ₹60,000;
III Year: ₹40,000; IV year: ₹20,000;
Value of Machines repossessed: ₹3,84,000;
Balance in Machinery A/c: ₹3,24,000;
Loss on repossession: ₹1,02,000]

35. Yuva Ltd. purchased four machines from Ratha Ltd., at a cost of ₹42,000 each. Yuva Ltd. agreed to pay ₹48,000 down and the balance amount in three equal annual instalments together with interest @ 15% p.a. Yuva Ltd. writes of depreciation @ 10% p.a. on WDV method.

The purchaser failed to pay the second instalment and the vendor took away two machines, leaving two machines with Yuva Ltd. after adjusting the amount due. Ratha Ltd., depreciated the asset at 15% p.a on WDV method. Ratha Ltd. spent ₹5,000 for servicing the machines and sold for ₹70,000. Open necessary Ledger Accounts in the books of both the parties.

[Ans: Interest: I Year: ₹18,000; II Year: ₹12,000; III Year: ₹6,000
Value of machines repossessed: ₹60,690;
Balance in Machinery A/c: ₹68,040;
Loss on repossession: ₹7,350;
Profit on resale: ₹4,310]

36. Tata Motors purchased six mini-trucks from Rane Motors at a cost of ₹1,20,000 each. Tata Motors agreed to pay ₹30,000 for each truck as down payment and ₹30,000 for each truck for four instalments, with interest being charged at 12% p.a. Tata Motors depreciates trucks @ 10% p.a. on WDV.

Having failed to pay the second instalment, Rane Motors took back four trucks, leaving two trucks with the purchasers. Rane Motors charged 20% p.a. depreciation on WDV method. They spent ₹8,000 for repairs and sold for ₹3,50,000. Prepare Ledger Account in the books of both the parties.

[Ans: Interest: I Year: ₹64,800; II Year: ₹50,976;
III Year: ₹35,493; IV year: ₹28,731;
Value of Machines repossessed: ₹3,07,200;
Balance in Machinery A/c: ₹1,94,400;
Loss on repossession: ₹81,600;
Profit on Resale: ₹34,800]

37. Raj purchased, on 1.1.2005, three machines costing ₹60,000 each under Hire purchase system from RMS Ltd. the down payment was fixed at ₹30,000 and balance is payable in three equal instalments together with interest at 10% p.a. Raj writes off depreciation at 20% under Straight Line Method. He paid the first instalment but could not pay the second. RMS Ltd., took back two machines after depreciating at 30% p.a. under WDV method. They spent ₹5,000 for repairs and sold them for ₹72,000. Give Ledger Account in the books of both the parties.

(Madras Univ., IDE, May 2012, PZA)

**[Ans: Interest: I Year: ₹15,000; II Year: ₹10,000;
III Year: ₹5,000
Value of Machines repossessed: ₹58,800;
Balance in Machinery A/c: ₹36,000; Loss on
repossession: ₹13,200; Profit on Resale: ₹8,200]**

38. Surya & Co purchased three machines, costing ₹50,000 each from Reema Ltd., on hire purchase system on 1st January 2012. The buyer paid ₹30,000 as down payment and agreed to pay five half-yearly payments of ₹30,000 each. The buyer failed to pay third instalment and the vendor repossessed one machine, leaving two machines with the buyer. The value of the repossessed machine was agreed to be at cash price less than 40%. The purchaser charges depreciation at 10% on WDV method. Reema Ltd. spent ₹1,000 for repairs and sold it for ₹22,500. Prepare necessary Ledger Accounts in the books of both the parties.

**[Ans: Interest in Instalments I: ₹10,000; II: ₹8,000; III: ₹6,000;
IV: ₹4,000; V: ₹2,000; Value of Machine Repossessed: ₹30,000;
Value of Machine with Buyer: ₹85,500;
Loss on Repossession: ₹12,750]**

39. Yuva purchased four machines of ₹70,000 each from Veda, on hire-purchase system. The down payment was agreed at ₹75,000 and remaining balance to be paid in three instalments of ₹75,000 each, at the end of each year. Yuva depreciated the machines @ 10% p.a. on straight-line method. Yuva could not pay the second instalment and therefore, the vendor repossessed three machines after depreciating them at 20% on WDV method. Veda repaired the machines by spending ₹15,600 and sold them for ₹1,75,000. Prepare Machine Account and Veda Account in the books of Yuva and necessary Ledgers in vendor's books. Round off Interest to nearest ten.

**[Ans: Interest in I Year: ₹10,000; II: ₹6,670; III: ₹3,330;
Value of Machine Repossessed: ₹1,34,400;
Value of Machine with Buyer: ₹56,000;
Loss on Repossession: ₹33,600;
Profit to Vendor: ₹25,000]**

40. Rock Star Cleaners purchased from the vendor two washing machine of ₹20,000 each on hire purchase system. The payment was to be made ₹10,000 down and the remainder in three equal instalments of ₹10,000 each, together with interest @ 10% p.a. Rock Star Cleaners write off depreciation @ 10% p.a. on w.d.v. They could not pay the second instalment. After negotiation, it was agreed that the vendor would have one machine with purchaser adjusting the value of other against amount due, treating the machine @ 20% depreciation on

diminishing balance. Show HP Vendor's Account and Machinery on HP in the books of Rock Star Cleaners.

[Ans: Interest I Year: ₹3,000; II Year: ₹2,000; III Year: ₹1,000; Value of Machine repossessed: ₹12,800; Loss on repossession: ₹3,400; Balance in Machine Account: ₹16,200]

Debtors System

41. Vinoba Limited sells goods to customers at a hire purchase price of cost plus 33⅓%. Prepare necessary Ledger Accounts to ascertain Profit earned during the year 1997.

Date	*Particulars*	*(₹)*
01.01.1997	Stock with customers at HP price	40,000
	Stock at shop	5,000
	Instalment due but unpaid	3,000
31.12.1997	Stock out on HP price	46,000
	Stock at shop	2,000
	Instalments due but unpaid	5,000
	Cash received during the year	80,000

(Madras University, B.Com. (IDE) – March 2000)

[Ans: Stock with Customer: ₹82,000; Stock at shop at cost: ₹66,000; Purchases: ₹63,000; Profit: ₹20,500]

42. XYZ Ltd. sells goods on hire purchase, the price being charged at cost plus 20%. Prepare HP Trading Account to compute the Profit for the year 2016.

Date	*Particulars*	*(₹)*
01.01.2016	Stock out with customers (at HP price)	2,81,250
	Stock at shop	37,500
	Instalments due	25,000
31.12.2016	Stock out with customers (at HP price)	3,00,000
	Stock at shop	50,000
	Instalments due	43,750
	Purchases during the year	4,06,250
	Cash received during the year	4,27,500

[Ans: Profit: ₹68,125]

43. Sindhu sells goods at cost plus 60% on HP system. Prepare Trading Account to find the Profit for the year ending 31st March 2003.

01.04	Goods out on HP price	32,000
31.12	Instalments not due and unpaid	72,000
	Instalment due and unpaid	4,000

The following transactions were carried out during the year.

(a) Good sold on HP price ₹1,60,000
(b) Cash received from customers ₹1,12,000
(c) Goods received back on default valued at (instalment due – ₹4,000) ₹800

(Madras University, B.Com (CS), Apr. 2004, Sep. 1993)

[Ans: Profit: ₹41,800]

44. Sundar sells goods on HP system at cost plus 60%. From the following prepare HP Trading A/c.

01st January	Goods on HP system at HP price	₹1,12,000
31st December	Instalment not due and unpaid	₹2,52,000
Instalments due and unpaid		₹14,000

The following transactions took place during the year.

(a) Goods sold on hire purchase price ₹5,60,000
(b) Cash received from customers at HP price ₹3,92,000
(c) Goods received back on default valued at [instalment due ₹14,000] ₹2,800

(Madras Univ., Nov. 2105, BYA2A Adapted)

[Ans: Profit: ₹1,46,300]

Stock & Debtors System

45. Kumar sells goods on HP system at a price being cost plus 33⅓%. From the details relating to the year 2017, prepare necessary Ledgers to ascertain Profit under Stock and Debtors System.

Date	*Particulars*	*(₹)*
01.01.2017	Stock out on hire at HP price	4,00,000
	Stock is hand at shop	50,000
	Instalments due (still paying)	30,000

(Contd.)

31.12.2017	Stock out on hire at HP price	4,60,000
	Stock in hand at shop	70,000
	Instalments due (sill paying)	50,000
	Cash received during the year	8,00,000

[Ans: Goods sold on HP: ₹8,80,000; Purchases: ₹6,80,000; Profit: ₹2,05,000]

46. Funstar & Co. sells goods on HP at cost plus 50%. Prepare necessary Ledger Account for the year ending 31.12.2015.

Date	*Particulars*	*(₹)*
01.01.2015	Stock with hire purchase customers at selling price	1,35,000
	Stock at shop at cost	2,70,000
	Instalments due	75,000
31.12.2015	Cash received from customers	9,00,000
	Repossessed goods (instalment due ₹30,000 valued at	7,500
	Instalments due	1,35,000
	Stock at shop at cost (excluding repossessed)	3,00,000
	Purchases	9,00,000

[Ans: Profit: ₹3,07,500]

47. Ramu sells products on H.P. terms, the price being cost plus 33⅓%. From the following particulars for the year ended 31.12.2010, prepare necessary Accounts on Stock and Debtors System to reveal the Profit earned.

₹		₹
1.1.2009	Stock out on hire at H.P price	16,00,000
	Stock in hand at shop	2,00,000
	Installment due (customers still paying)	1,20,000
31.12.2009	Stock out on hire at H.P price	18,40,000
	Stock in hand at shop	2,80,000
	Installment due (customers still paying)	2,00,000
	Cash received during the year	32,00,000

(November 2011: 60522/BYA2C)

[Ans: Hire Purchase Debtors Account: ₹32,80,000 (H.P. Stock A/c)
H.P. Stock A/c: ₹35,20,000 (Goods Sold on H.P)
Shop Stock A/c: ₹27,20,000 (Purchases)
HP Adjustment A/c: ₹8,20,000 (Profit)
Stock Reserve A/c Total: 8,60,000]

48. A trader sells goods on hire purchase adding 60% to cost. From the following particulars, prepare Trading Account and ascertain Profit and Loss made by him.

Date		₹
1st January 2005	Stock with customers at selling price	21,600
31st December 2005	Goods sold at hire purchase during the year at selling price	87,120
	Cash received during the year	57,720
	Stock with customers at selling price	48,000
	Instalments due but not received	5,000

(April 2006 21503/PZ2A)

[Ans: Opening Instalments due: ₹2,000;
Profit: ₹22,770]

49. Murugan Bros. have a hire purchase department which sells goods cost plus 50%. From the following particulars, prepare the Ledger Accounts for the year ending 30.12.2005.

Date		₹
Jan, 1	Stock at hire purchase customers (H.P. price)	27,000
	Stock at shop at cost	54,000
	Instalments due	15,000
Dec, 1	Cash received from customers	1,80,000
	Goods repossessed (instalment due ₹6,000 valued at)	1,500
	Instalments due from paying customers	27,000
	Closing Stock at Shop	61,500
	Goods purchased during the year	1,80,000

(November 2011 21604/ZZ2H/SY2C/SDEN)

[Ans: Shop Stock A/c: ₹1,74,000 (Goods Sold on HP)
Goods Sold on Hire Purchase A/c: ₹2,61,000 (HP Trading A/c)
Hire Purchase Stock A/c: ₹90,000

Hire Purchase Debtors A/c: ₹27,000
Hire Purchase Adjustment A/c: ₹61,500 (Profit)]

Instalment Systems

50. Prepare Interest Suspense Account in the books of hire purchaser under instalment system.

Cash price of the asset	₹40,000
Instalment price	₹47,000

Interest to be apportioned in the ratio 4:2:1

Date of purchase 1.4.2001

The books are closed on 31st March every year and payments are made at the end of each year. Pass Journal Entries.

(Bengaluru University, Dec. 2005)

[Ans: I Year: ₹4,000; II Year: ₹2,000; III Year: ₹1,000]

51. On 1st January 1990, Vasuki bought a machine from Jhony & Co. on instalment system whose cash price was ₹17,430. The payment is to be made as follows:

Down payment: ₹5,000, three instalments of ₹5,000 each at the end of each year. Interest is charged at 10% p.a. and Vasuki depreciates the assets by 15% on WDV method. Prepare Ledger Account in the books of Vasuki.

(University of Madras, B.Com., 1997 September)

[Ans: Interest I Year: ₹1,243; II Year: ₹867;
III Year: ₹460; Closing Balance of Machine: ₹10,704]

52. Fast Track Co. purchased two trucks from Metro Motors costing ₹5,00,000 each on instalment system basis. Fast Track Limited agreed to pay ₹4,00,000 as first instalment on 31st December 2012 and three more instalments of ₹2,42,000, ₹2,66,200 and ₹2,92,820 at the end of each year. Rate of Interest is 10%.

Fast Track depreciates the trucks @0% p.a. on WDV basis. Prepare necessary Ledger Accounts in the books of Fast Track.

[Ans: Interest I Year: ₹60,000; II Year: ₹66,000;
III Year: ₹48,400; IV Year: ₹26,620;
Closing Balance of Trucks: ₹5,12,000]

53. Mr Gopal purchased a two-wheeler from Yamaha Motors for ₹75,000 on instalment system. He agreed to pay ₹25,000 down and the balance

in four, annual equal instalments of ₹12,500 each, at the end of year together with an interest @ 20% p.a. on outstanding balance. Gopal depreciated the two-wheeler at 20% p.a. on WDV method. Pass Journal Entries in the books of Gopal.

[Ans: Interest: I Year: ₹10,000; II Year: ₹7,500; III Year: ₹5,000; IV Year: ₹2,500]

CHAPTER

20

Admission of a Partner

Learning Objectives

After studying this chapter, you will be able to understand the:

- Concept of Admission
- Meaning and Calculation of New Profit-sharing Ratio and Sacrificing Ratio.
- Accounting treatment of Goodwill as per Accounting Standards-10
- Need for Preparation of Revaluation Account
- Accounting Treatment of Reserves and Accumulated Profit/Losses

Partnership is a voluntary association of two or more persons, not exceeding ten in banking businesses and twenty in non-banking businesses. The Partnership Act, 1932 defines it as "the relationship between persons who have agreed to share the profits of a business carried on by all or any of them acting for all". The members are called 'Partners' and the business unit is called 'Firm'.

20.1 Partnership Deed

Even though it is optional for Partnership firms to have a legally written agreement between them, it is preferable to have such an agreement to avoid future disputes. A document containing the terms of agreement between the partners is called "Partnership Deed". It contains the clauses relating to Profit Sharing Ratio, Nature of Capital, Amount of Capital Contributed, Rate of Interest on Capitals and Drawings, Salary and Allowances to Partners, Procedure for Maintaining Accounts etc.

General Provisions in the absence of Partnership Deed

According to Section 13

- The profits or losses are distributed equally among the partners.
- No interest on drawings by partners.
- No interest on capital unless deed provides for it. If Deed allows interest, it should be provided out of profits only.
- Interest on loans advanced by partners (Except Capital) to be provided at 6% p.a.
- No salary or other allowances to be provided for.

20.2 Interest on Capital

Interest on capital is not mandatory unless otherwise the deed provides for it. If it is allowed by deed, generally the Interest on capital is provided on the capital at the beginning of the year. When Information on capital at the beginning is not available, it is calculated by subtracting Additional capital introduced, Interest on capital and Profits credited during the year and by adding Drawings and Interest on drawings.

Capital at the Beginning = Closing Capital + Drawings + Interest on Drawings – Additional Capital – Profits Credited during the year

✎ ILLUSTRATION 1:

From the following balance sheet of Adavan and Barani, calculate Interest on Capital at 6% p.a. for the year ending 31.12.1996.

Balance Sheet on 31.12.1996

Liabilities	₹	*Assets*	₹
A's Capital	40,000	Sundry Assets	84,000
B's Capital	32,000	Drawings 'A'	4,000
P & L Appropriation A/c (1996)	16,000		
	88,000		**88,000**

During the year 1996, A's drawings were ₹5,000 and B's drawings ₹8,000. Profits during the year 1996 were ₹24,000.

Solution:

Particulars	*Adavan (₹)*	*Barani (₹)*
Capital at the end	40,000	32,000
(+) Drawings	5,000	8,000
	45,000	**40,000**
(–) Profit already credited (24,000 – 16,000) in 1:1	4,000	4,000
Capitals at the Beginning	**41,000**	**36,000**
Interest on capital @ 6%	**2,460**	**2,160**

✎ ILLUSTRATION 2:

Rani and Veni having capitals of ₹1,50,000 and ₹80,000 respectively. The profit sharing ratio was 3:2 and the deed provided for interest on capital @ 6% p.a. Profit before such interest was ₹10,000. Show treatment of interest on capitals if

(a) The deed allows interest irrespective of profits.

(b) The deed is silent regarding the interest as a charge.

Solution:

Case (a): The deed allows interest irrespective of profits.

P & L Appropriation Account

Particulars	₹	*Particulars*	₹
To Interest on Capital:		By Net Profit	10,000
Rani: (1,50,000 × 6%)	9,000	By Loss to Capital A/c: 3,800 in 3:2	
Veni: (80,000 × 6%)	4,800	Rani	2,280
		Veni	1,520
	13,800		**13,800**

Case (b): The deed is silent regarding the interest as a charge.

P & L Appropriation Account

Particulars	₹	*Particulars*	₹
To Interest on Capital:		By Net Profit	10,000
Rani: (10,000 × 9,000)/13,800	6,522		
Veni: (10,000 × 4,800)/13,800	3,478		
	10,000		**10,000**

Interest on Drawings

- **When date of withdrawal not available**

  The interest is calculated on an average for six months.

- **When dates are available**

Nature of Drawings		*Method of Calculation of Interest*
If drawings are not Uniform		Product method as in Average Due date is followed.
If drawings are Uniform	Drawn at beginning of every month	**(Total drawings × Rate × 6.5)/12**
	Drawn at end of every month	**Total drawings × Rate × 5.5)/12**
	Drawn in middle of every month	**Total drawings × Rate × 6)/12**

✎ ILLUSTRATION 3:

Robert withdrew ₹2,500 per month from the firm. Calculate interest on drawings if:

(a) He withdrew at the beginning of every month.

(b) He withdrew at the end of every month.

(c) He withdrew in the middle of every month.

Rate of interest is 7% p.a.

Drawings	*Interest (₹)*
Drawn in the beginning of every month	(30,000 × 7% × 6.5)/12 = ₹1,137.5
Drawn at the end of every month	(30,000 × 7% × 5.5)/12 = ₹962.5
Drawn in the middle of every month	(30,000 × 7% × 6)/12 = ₹1,050

✎ ILLUSTRATION 4:

Dhruvan withdrew the following sums from the partnership firm. Calculate Interest @ 8% p.a. The accounts are closed on 31.12.2017.

Dates of Withdrawal	*Amount (₹)*
January 1	3,500
March 1	12,000
August 1	5,600
September 31	7,000

Solution:

Dates	*Months up to 31.12.2017*	*Amount (₹)*	*Product (₹)*
January 1	12	3,500	42,000
March 1	10	12,000	1,20,000
August 1	5	5,600	28,000
September 31	3	7,000	21,000
	Total		**2,11,000**

Interest on Drawings = (2,11,000 × 8% × 1)/12
= ₹1,406.67

20.3 Admission of a Partner

Sometimes, the existing partners in the firm may wish to admit a new partner for want of additional capital or administrative expertise. The new partner is not bound by the acts of the partners prior to his admission.

On admission of a new partner, the existing partnership deed comes to an end. A new deed is to be created with New Profit-sharing Ratio and other related terms. Before such reconstitution of a firm, a number of adjustments are made in the books of the firm. During such admission, the amount to be brought in by the new partner for his share of goodwill and capital is also determined. The following adjustments are made with regard to this:

Adjustments required on the admission of a partner

- Determining New Profit-sharing Ratio
- Valuation and adjustment of goodwill
- Adjustment of profit/loss arising from revaluation of assets and reassessment of liabilities
- Adjustment of accumulated profits, reserves and losses
- Adjustment for capital (if agreed)

20.4 New Profit-sharing Ratio

New Profit-sharing Ratio is the ratio in which all partners, including new or incoming partners, share future profits and losses of the firm. It is the ratio, which is agreed upon regarding sharing of profits and losses after the admission of new partner. The old partners sacrifice a part of their share to the new partner and hence the new ratio to be calculated.

New or incoming partner may acquire his share from old partners through any of the following alternatives:

1. In their old profit-sharing ratio
2. New ratio of old partners is given
3. A specified portion from some of the partners
4. Surrender of particular fraction of share

Case 1: When new or incoming partner acquires his shares from old or existing partners in their old profit-sharing ratio.

✎ ILLUSTRATION 5:

(When new partner's share is given)
A and B are partners, sharing profits in the ratio of 2:3. C is admitted for $1/4^{th}$ share in the profits. Calculate the New Profit-sharing Ratio.

Solution:

Old Ratio = 2:3
Assuming profit to be = 1

Remaining Share = $1 - \frac{1}{4} = \frac{3}{4}$

A's New Share = $\frac{2}{5} \times \frac{3}{4} = \frac{6}{20}$

B's New Share = $\frac{3}{5} \times \frac{3}{4} = \frac{9}{20}$

C's New Share = $\frac{5}{5} \times \frac{1}{4} = \frac{5}{20}$

Hence, the New Profit-sharing Ratio = **6:9:5**. Since only share of the new partner is given, it is assumed that C has acquired his share from A and B in their old profit-sharing ratio.

Case 2: When the share of a new partner is given and new ratio of old partners is given.

✎ ILLUSTRATION 6:

P and Q are partners. They admit R into their firm for 1/3rd share. In future, profit-sharing ratio between P and Q would be 3:1. Calculate the New Profit-sharing Ratio.

Solution:

Let the total share be = 1

Share of the incoming partner R = $\frac{1}{3}$

Remaining Share = $1 - \frac{1}{3} = \frac{2}{3}$

Existing partner's shares are being calculated by dividing remaining share in their future profit-sharing ratio (i.e.) 3:1 as below

$$\text{P's New Share} = \frac{3}{4} \times \frac{2}{3} = \frac{6}{12}$$

$$\text{Q's New Share} = \frac{1}{4} \times \frac{2}{3} = \frac{2}{12}$$

New Profit-sharing Ratio of P, Q and R = $\frac{6}{12} : \frac{2}{12} : \frac{4}{12}$

Case 3: When a new or incoming partner acquires his share from old partners in a particular fraction.

✎ ILLUSTRATION 7:

(Old partners' sacrificing ratio is given)

A and B are in a partnership, sharing profits and losses in the ratio of 5:3. C is admitted as a partner for 1/5th share, which takes 1/10th from A and 1/10th from B. Calculate the New Profit-sharing Ratio of partner.

Solution:

Old Profit-sharing Ratio of A and B = 5:3

C acquires his 1/10th share from A and 1/10th share from B

C's share of profit in the new firm = $\frac{1}{10} + \frac{1}{10} = \frac{2}{10}$ or $\frac{1}{5}$

A's share after sacrificing 1/10th share to C = $\frac{5}{8} - \frac{1}{10} = \frac{25-4}{40} = \frac{21}{40}$

B's share after sacrificing $\frac{1}{10}^{th}$ share = $\frac{3}{8} - \frac{1}{10} = \frac{15}{40} - \frac{4}{40} = \frac{11}{40}$

∴ New Ratio = 21.11.2008

Case 4: When a new partner acquires his share by surrender of particular fraction of their shares by old partner.

✎ ILLUSTRATION 8:

P and Q are partners in a firm, sharing profits and losses in the ratio of 2:3. P surrenders 2/5th of his share while R surrenders 1/5th of his share in favour of R, a new partner. Calculate the New Profit-sharing Ratio.

Solution:

P's Share = $\frac{2}{5}$

P surrenders in favour of R = $\frac{2}{5} \times \frac{2}{5} = \frac{4}{25}$

So, P's New Share = $\frac{2}{5} - \frac{4}{25} = \frac{10-4}{25} = \frac{6}{25}$

Q's Share = $\frac{3}{5}$

Q surrenders in favour of R = $\frac{3}{5} \times \frac{1}{5} = \frac{3}{25}$

So, Q's New Share = $\frac{3}{5} - \frac{3}{25} = \frac{15-3}{25} = \frac{12}{25}$

R's share is the sum of shares surrendered by P and Q is $\frac{4}{25} + \frac{3}{25} = \frac{7}{25}$

Hence, New Profit-sharing Ratio of P, Q and R is $\frac{6}{25}:\frac{12}{25}:\frac{7}{25}$.

✎ ILLUSTRATION 9:

A and B are sharing profits in the ratio of 3:2. They admit C into partnership for 1/3rd of the share in the future profit. Calculate the New Profit-sharing Ratio.

Solution:

Old Ratio = 3:2

Let the profit be ₹1

Remaining Share = $1 - \frac{1}{3} = \frac{2}{3}$

A's New Share = $\frac{3}{5} \times \frac{2}{3} = \frac{6}{15}$

B's New Share = $\frac{2}{5} \times \frac{2}{3} = \frac{4}{15}$

C's New Share = $\frac{5}{5} \times \frac{1}{3} = \frac{5}{15}$

Hence, New Profit-sharing Ratio = $\frac{6}{15}:\frac{4}{15}:\frac{5}{15}$ or 6:4:5.

✎ ILLUSTRATION 10:

X and Y are partners and their profit sharing ratio is 2:4. They admit Z into the firm with $\frac{1}{5}$ share in profit, which is borne by X. Find out the New Profit-sharing Ratio.

Solution:

Old Ratio = 2:4

Z's Share = $\frac{1}{5}$

Z's share of profit borne by X alone.

X's New Share = $\frac{2}{6} - \frac{1}{5} = \frac{10-6}{30} = \frac{4}{30}$

Y's New Share (no change) = $\frac{4 \times 5}{6 \times 5} = \frac{20}{30}$

Z's New Share = $\frac{1 \times 6}{5 \times 6} = \frac{6}{30}$

New Profit-sharing Ratio = 4:20:6 or 2:10:3

✎ ILLUSTRATION 11:

A and B are partners, sharing profits and losses in 4:5 ratio. C is admitted with $\frac{1}{6}$ share in profit, which A and B sacrifice equally. Find out the New Profit-sharing Ratio.

Solution:

Old Ratio = 4:5

C's Share = $\frac{1}{6}$

A and B sacrifice equally = $\frac{1}{6} \times \frac{1}{2} = \frac{1}{12}$

A's New Share = $\frac{4}{9} - \frac{1}{12} = \frac{16-3}{36} = \frac{13}{36}$

B's New Share = $\frac{5}{9} - \frac{1}{12} = \frac{20-3}{36} = \frac{17}{36}$

C's New Share = $\frac{1}{6} \times \frac{6}{6} = \frac{6}{36}$

New Profit-sharing Ratio = 13:17:6

✎ ILLUSTRATION 12:

P and Q are partners, sharing profit in 3:1 ratio. R is admitted into partnership with $\frac{1}{8}$th share. R acquires this share by the way of $\frac{1}{32}$ from A and $\frac{3}{32}$ from B. Find the New Profit-sharing Ratio.

Solution:

Old Ratio = 3:1

R's share is $\frac{1}{8}$

P's New Share = $\frac{3}{4}-\frac{1}{32}=\frac{24-1}{32}=\frac{23}{32}$

Q's New Share = $\frac{1}{4}-\frac{3}{32}=\frac{8-3}{32}=\frac{5}{32}$

R's Share = $\frac{1\times4}{8\times4}=\frac{4}{32}$

New Profit-sharing Ratio = 23:5:4

✎ ILLUSTRATION 13:

A and B are partners sharing their ratio at 2:3. C is admitted. A surrenders $\frac{1}{5}$th of his profit and B surrenders $\frac{2}{5}$th of his profit in favour of C. Calculate the New Profit-sharing Ratio.

Solution:

Old Ratio = 2:3

A's surrender of share in C's favour = $\frac{2}{5}\times\frac{1}{5}=\frac{2}{25}$

Hence, $\frac{2}{5}-\frac{2}{25}=\frac{10-2}{25}=\frac{8}{25}$

B's surrender of share in C's favour = $\frac{3}{5}\times\frac{2}{5}=\frac{6}{25}$

Hence, $\frac{3}{5}-\frac{6}{25}=\frac{15-6}{25}=\frac{9}{25}$

C's New Share

Surrender of share by A + B = $\frac{2}{25}+\frac{6}{25}=\frac{8}{25}$

Therefore, New Profit-sharing Ratio = 8:9:8

20.5 Calculation of Sacrificing Ratio

Sacrificing ratio is the ratio in which old or existing partners forego, i.e. sacrifice their share of profit in favour of the new or incoming partner. Therefore, sacrificing ratio can be defined as the ratio in which the new partner is given his share by the old partner; this share may be given to the new partner by the old partners, either equally or in agreed share. The purpose of sacrificing ratio is to determine the amount of compensation that new partner should pay to the old partners for the share of profits sacrificed by them. It is also used to share the goodwill brought in by the new partner. It is found out by finding the difference between old ratio and new ratio.

Sacrificing Ratio = Old Ratio – New Ratio

Circumstances in which sacrificing ratio may be used:

- when there is a change in profit-sharing ratio
- when a new partner is admitted

✎ ILLUSTRATION 14:

A and B are partners, sharing profits in the ratio of 1:3. A new partner C is admitted for $\frac{1}{8}$ of the profit. Compute the New Ratio and Sacrificing Ratio.

Solution:

Old Ratio = 1:3

C's Share = $\frac{1}{8}$

Let the profit be = 1

Remaining Share = $1 - \frac{1}{8} = \frac{7}{8}$

A's New Share = $\frac{1}{4} \times \frac{7}{8} = \frac{7}{32}$

B's New Share = $\frac{3}{4} \times \frac{7}{8} = \frac{21}{32}$

C's New Share = $\frac{1}{8} \times \frac{4}{4} = \frac{4}{32}$

New Profit-sharing Ratio = 7:21:4

A's Sacrificing Ratio = $\frac{1}{4} - \frac{7}{32} = \frac{8-7}{32} = \frac{1}{32}$

B's Sacrificing Ratio = $\frac{3}{4} - \frac{21}{32} = \frac{24-21}{32} = \frac{3}{32}$

Sacrificing Ratio = 1:3

Note: The sacrificing ratio is equal to the old ratio because the proportion of sacrifice is not given.

✎ ILLUSTRATION 15:

R and S are partners sharing profits in the ratio of 2:3. Q is admitted as a partner. The New Profit-sharing Ratio among R, S and Q is 3:5:2. Find out the Sacrificing Ratio.

Solution:

Sacrificing Ratio = Old Ratio – New Ratio

$$R = \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$$

$$S = \frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10}$$

Hence, Sacrifice Ratio = 1:1

Calculation of goodwill or adjustment for goodwill

Goodwill is the reputation of the firm in terms of rupee value. Some experts view goodwill as " the present value of a firm's anticipated excess earnings". It is the good name of the company earned over the years and has the ability to maintain or increase current profits.

Some of the factors influencing the value of goodwill of the firm are: quality of product, location of the firm, administrative ability of the management, type of business and type of customer.

Methods of Valuing Goodwill:

Goodwill is valued under three methods:

- Average Profit Method
- Super Profit Method
- Capitalisation Method

I. Average Profits Method

Goodwill = Average Profits × Number of Years of Purchase

$$\textbf{Average Profits} = \frac{\textbf{Total Profits for the Given Years}}{\textbf{Number of Years}}$$

This method is based on the assumption that a newly started business will not earn any profit during the initial year of operation.

✎ ILLUSTRATION 16:

Compute the Goodwill of the firm based on the three-year purchase of last four years average profit.

Profits during the last four years

	(₹)		(₹)
First Year	10,000	Third Year	18,000
Second Year	15,000	Fourth Year	16,000

Solution:

Calculation of Average Profit (Simple average)

First Year = 10,000

Second Year = 15,000

Third Year = 18,000

Fourth Year = 16,000

Total Profit = 59,000

$$\textbf{Average Profit} = \frac{\textbf{Total Profit}}{\textbf{Number of Years}}$$

$= 59,000/4$

$= ₹14,750$

Goodwill = Average Profit × No. of Years

$= 14,750 \times 3$

Goodwill = ₹44,250

Super Profit Method

Super profit is the excess amount of profit earned over the normal profit in the industry. To calculate goodwill under this method, the following information is needed:

(i) Capital employed

(ii) Normal or fair rate of return

(iii) Average profits after subtracting reasonable remuneration of partners

Goodwill = Super Profit × Number of Years of Purchase
Super Profit = Average Profit – Normal Profit
Normal Profit = Capital Employed × Normal Rate of Return

✎ ILLUSTRATION 17:

Calculate Goodwill under Super Profit Method. Profits for the past three years are as follows:

Year	(₹)
2000	25,000
2001	45,000
2002	65,000

The capital invested by the firm is ₹2,00,000. A normal rate of return is at 15%. Goodwill is based on 3 years' purchase.

Solution:

Step 1: Average Profit

Year	(₹)
2000	25,000
2001	45,000
2002	65,000
Total profit	1,35,000

$$\text{Average Profit} = \frac{\text{Total Profit}}{\text{No. of Years}}$$
$$= 45,000$$

Step 2: Normal Profit

$$\text{Normal Profit} = \text{Capital Employed} \times \text{Normal Rate of Return}$$
$$= 2,00,000 \times 15\%$$
$$= 30,000$$

Step 3: Super Profit

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit}$$
$$= 45,000 - 30,000$$
$$= ₹15,000$$

Step 4: Goodwill

$$\text{Goodwill} = \text{Super Profit} \times \text{Number of Years of Purchase}$$
$$= 15,000 \times 3$$
$$= ₹45,000$$

III. Capitalisation Method

Under this method, the value of goodwill is the difference between the value of business and net tangible assets. Value of business is calculated by dividing the actual profit by the normal rate of return. A net tangible asset is the difference between total assets (except goodwill) and the amount due to outsider.

$$\textbf{Value of Firm} = \frac{\textbf{Adjusted Actual Profit}}{\textbf{Normal Rate of Return}} \times 100$$

Net Tangible Assets = Total Assets (Except goodwill) – External Liabilities

Goodwill = Value of Firm – Net Tangible Assets

Capitalised Value of Profit

$$\text{(On Average profit)} = \frac{\text{Average profit}}{\text{Normal rate of return}}$$

$$\text{(On Super profit)} = \frac{\text{Super profit}}{\text{Normal rate of return}}$$

Net Tangible Assets = Total Asset – Outsiders Liabilities

✎ **ILLUSTRATION 18:**

Compute the Goodwill under Capitalisation Method on average profit and on super profit. Average profit of the firm is ₹30,000. The firm's capital is ₹2,00,000 and the normal rate of return in the industry is 10%. The tangible assets are ₹50,000.

Solution:

Calculation of goodwill under capitalisation method on average profit

Goodwill = Capitalised Value of Average Profit – Net Tangible Assets

$$\text{Capital Value of Profit} = \text{Average Profit/Normal Rate of Return}$$

$$= \frac{30{,}000}{10\%}$$

$$= ₹3{,}00{,}000$$

$$\text{Goodwill} = 3{,}00{,}000 - 50{,}000$$

$$= 2{,}50{,}000$$

(b) On Super Profit:

Super Profit = Average Profit – Normal Profit
= 30,000 – (2,00,000 × 10%)
= 30,000 – 20,000
Super Profit = 10,000

Capital Value of Profit = Super Profit/Normal Rate of Return

$$= \frac{10,000}{10\%}$$

= ₹1,00,000

Goodwill = Capitalised Value of Average Profit – Net Tangible Assets
= 1,00,000 – 50,000
Goodwill = ₹50,000

✎ ILLUSTRATION 19:

The following were the profit earned by Mr. Ram and Mr. Laxman for the past four years

Years	*(₹)*
2010	40,000
2011	60,000
2012	80,000
2013	1,20,000

You are required to value the Goodwill on the basics of 3 years' purchase of weighted average profit assigning weights of 1, 2, 3 and 4 respectively for four year

Solution:

Calculation of Weighted Average Profit

Years	*Annual Profit*	*Weights*	*Product*
2010	40,000	1	40,000
2011	60,000	2	1,20,000
2012	80,000	3	2,40,000
2013	1,20,000	4	4,80,000
		10	**8,80,000**

$$\text{Weighted Average Profit} = \frac{8,80,000}{10}$$
$$= ₹88,000$$

Calculation of Goodwill

$$\text{Goodwill} = \text{Weighted Average Profit} \times \text{No. of Years Purchase}$$
$$= 88,000 \times 3$$
$$= ₹2,64,000$$

Accounting treatment of Goodwill

As per AS-10 issued by ICAI, goodwill can be recorded in the books only if it is purchased by paying a Price. AS-10 is mandatory for companies and large commercial firms. Though it is not mandatory for firms, throughout this chapter AS-10 provisions are applied to enable the students to understand the practical applicability of the provision.

Treatment of Goodwill:

- Goodwill existing in the books is written off to the existing partners in old ratio.
- When new partner brings cash for goodwill, it should be credited to old partners in sacrificing ratio.
- When the new partner does not bring any cash, amount equal to his share of goodwill to be credited to old partners' capital account in sacrificing ratio and new partner's capital account to be debited.

I. Premium Method

(a) When Goodwill is received in cash

	Particulars	*Debit (₹)*	*Credit (₹)*
(i)	Cash A/c Dr.	xxx	
	To Goodwill A/c		xxx
	(Cash brought by new partner for goodwill)		
(ii)	Goodwill A/c Dr.	xxx	
	To Old Partners' Capital A/c		xxx
	(Amount brought in by new partner distributed to old partners in sacrificing ratio)		

(b) Goodwill received in cash and withdrawn by old partners

	Particulars	*Debit (₹)*	*Credit (₹)*
(i)	Cash A/c Dr.	xxx	
	To Goodwill A/c		xxx
	(Cash brought by new partner for goodwill)		
(ii)	Goodwill A/c Dr.	xxx	
	To Old Partners' Capital A/c		xxx
	(Amount brought in by new partner distributed to old partners in sacrificing ratio)		
(iii)	Old Partners' Capital A/c Dr.	xxx	
	To Cash A/c		xxx
	(Amount withdrawn by partners)		

II. Revaluation Method

When new partner does not bring cash for goodwill, this method is adopted. The old partners raise goodwill at its full value by adopting any of the previously discussed valuation methods. The goodwill already existing in the Balance Sheet, if any, is written off by debiting to Partners' Capital accounts in the Old ratio. Share of new partner in the goodwill is credited to old partners' capital accounts in the sacrificing ratio and new partner's capital account is debited with such amount. The journal entries related to this are:

	Particulars	*Debit (₹)*	*Credit (₹)*
(i)	Old Partners' Capital A/c Dr.	xxx	
	To Goodwill A/c		xxx
	(Existing value of Goodwill written off to old partners in old ratio)		
(ii)	New Partner's Capital A/c Dr.	xxx	
	To Old Partners' Capital A/c		xxx
	(Share of Goodwill of new partner distributed to old partners in sacrificing ratio		

✎ ILLUSTRATION 20:

A and B are partners sharing profits in the ratio 2:3. They admit C into the firm. C has to bring in ₹50,000 as capital for his ¼ share. Goodwill is valued at ₹60,000 when the new partner is admitted. Pass entries when

(a) There is no goodwill appearing in the books

(b) There is goodwill of ₹20,000 appearing in the books.

Solution:

Journal Entries
In the books of the Firm

(a) There is no goodwill appearing in the books

S. No.	*Particulars*		*Debit (₹)*	*Credit (₹)*
1.	Cash A/c	Dr.	50,000	
	To C's Capital A/C			50,000
	(Being cash brought in by C for his capital)			
2.	C's Capital A/c (60,000 × 1/4)	Dr.	15,000	
	To A's Capital A/c			6,000
	To B's Capital A/c			9,000
	(Being goodwill of ₹15,000 adjusted)			

(b) There is goodwill of ₹ 20,000 appearing in the books.

S. No.	*Particulars*		*Debit (₹)*	*Credit (₹)*
1.	Cash A/c	Dr.	50,000	
	To C's Capital A/c			50,000
	(Being cash brought in by C for his capital)			
2.	A's Capital A/c	Dr.	8,000	
	B's Capital A/c	Dr.	12,000	
	To Goodwill A/c			20,000
	(Being existing goodwill of ₹20,000 written of its old partner in old ratio)			
3.	C's Capital	Dr.	15,000	
	To A's Capital A/c			6,000
	To B's Capital A/c			9,000
	(Being goodwill of ₹15,000 adjusted through capitals account)			

✎ ILLUSTRATION 21:

X and Y are partners sharing profits in the ratio of 3:1. Z is admitted with 1/3 share in profit, paying a premium of goodwill of ₹6,000. No goodwill appears in the books. Pass Journal Entries.

Solution:

Journal Entries
In the books of the Firm

S. No.	*Particulars*		*Debit (₹)*	*Credit (₹)*
1.	Cash A/c	Dr.	6,000	
	To Premium for Goodwill A/c			6,000
	(Being cash brought by Z for goodwill)			
2.	Premium for Goodwill A/c	Dr.	6,000	
	To X's Capital A/c			4,500
	To Y's Capital A/c			1,500
	(Being goodwill brought in by Z shared by old partners in sacrificing ratio of 3:1)			

✎ ILLUSTRATION 22:

Assume in illustration 18, that the goodwill is withdrawn by old partners, Pass entry for the same.

Solution:

After passing entry 1 and 2

S. No.	*Particulars*		*Debit (₹)*	*Credit (₹)*
1.	X's Capital A/C	Dr.	4,500	
	Y's Capital A/C	Dr.	1,500	
	To Cash A/C			6000
	(Being goodwill withdrawn by old partners in cash.)			

✎ ILLUSTRATION 23:

Goodwill appear in books

A and B are partners sharing profits in the ratio of 2:3. They admit C into partnership. C pays a premium of ₹4,000 for 1/4th share of profit. The new ratio is 3:3:2. Goodwill appears in the books at ₹4,000. Journalise.

Solution:

Calculation of Sacrificing Ratio

Sacrificing Ratio = Old Share – New Share

$$\text{A's Sacrifice} = \frac{2}{5} - \frac{3}{8} = \frac{16-15}{40} = \frac{1}{40}$$

$$\text{B's Sacrifice} = \frac{3}{5} - \frac{3}{8} = \frac{24-15}{40} = \frac{9}{40}$$

Hence, Sacrifice Ratio of A and B = 1:9

Journal Entries in the books of the Firm

S. No.	*Particulars*		*Debit (₹)*	*Credit (₹)*
1.	Cash A/c	Dr.	4,000	
	To Goodwill A/C			4,000
	(Being amount of goodwill brought in by C)			
2.	Goodwill A/c	Dr.	4,000	
	To A's Capital A/c			400
	To B's Capital A/c			3,600
	(Being amount credited in sacrificing ratio, i.e. 1:9)			
3.	A's Capital A/C	Dr.	1,600	
	B's Capital A/C	Dr.	2,400	
	To Goodwill A/c			4,000
	(Being old value of goodwill written off in old ratio)			

III. Memorandum Method

✎ ILLUSTRATION 24:

P and G are partners in ratio of 2:3. They admitted R into partnership with 1/4th of share. The new partner does not bring any amount in the goodwill—the goodwill that will appear in the books for ₹60,000. After R's admission, goodwill is valued at ₹85,000. Pass journal entries.

Solution:

Calculation of New Profit-sharing Ratio

Let the profit be = 1

Share of R = 1/4

$$\text{Balance of Profit} = 1 - 1/4 = \frac{3}{4}$$

$$\text{A's New Share} = \frac{2}{5} \times \frac{3}{4} = \frac{6}{20}$$

$$\text{B's New Share} = \frac{3}{5} \times \frac{3}{4} = \frac{9}{20}$$

$$\text{C's New Share} = \frac{1}{4} \times \frac{5}{5} = \frac{5}{20}$$

New Profit-sharing Ratio = 6:9:5

Journal Entries in the books of the Firm

S. No.	*Particulars*		*Debit (₹)*	*Credit (₹)*
1.	A's Capital A/c	Dr.	24,000	
	B's Capital A/c	Dr.	36,000	
	To Goodwill A/c			60,000
	(Being existing goodwill written off in old ratio)			
2.	C's Capital A/c	Dr.	21,250	
	To A's Capital A/c			8,500
	To B's Capital A/c			12,750
	(Being new partner share of goodwill 85,000 × 1/4 = 21,250, credited to old partners in sacrificing ratio)			

✎ ILLUSTRATION 25:

X and Y are partners in a firm with a capital of ₹30,000 and ₹34,000 respectively. They decided to admit R into the firm, with a capital of ₹32,000. R is given 1/5th share in future profit and losses. Give Journal Entries.

Solution:

Calculation of Value of Hidden Goodwill

B brought Capital for 1/5th Share = 32,000

Hence, Capital = $32{,}000 \times \frac{5}{1}$

Total Capital = ₹1,60,000

But, Actual Capital of X, Y and R = 30,000 + 34,000 + 32,000

= ₹96,000

The difference between total capital and actual capital can be taken as goodwill

Goodwill = ₹1,60,000 – 96,000 = ₹64,000

Journal Entries

S. No	*Particulars*		*Debit (₹)*	*Credit (₹)*
1.	Cash A/c	Dr.	32,000	
	To P's Capital A/C			32,000
	(Being amount of capital brought in by R)			
2.	P's Capital A/c	Dr.	12,800	
	To X's Capital A/C			6,400
	To Y's Capital A/C			6,400
	(Being goodwill entered and credited to old partners in sacrificing ratio, i.e., equally)			

20.6 ADJUSTMENT FOR REVALUATION OF ASSETS AND LIABILITIES

The value of assets and liabilities keep on changing and to avoid undue gain/loss to the incoming new partner, the assets and liabilities need to be revalued at the time of admission of new partner. The profit or loss arising from such revaluation is distributed to the old partners in the old ratio. The revaluation of assets and liabilities can take place in two forms:

(a) Assets and liabilities are revalued and revised values are recorded in the balance sheet of newly reconstituted firm. In this case, the following entries are passed:

	Particulars		*Debit (₹)*	*Credit (₹)*
(i)	Assets A/c	Dr.	xxx	
	Liabilities A/c	Dr.	xxx	
	To Revaluation A/c			xxx
	(Increase in assets and decrease in liabilities are recorded here)			
(ii)	Revaluation A/c	Dr.	xxx	
	To Assets A/c			xxx
	To Liabilities A/c			xxx
	(Decrease in assets and increase in liabilities are recorded here)			
(iii)	Old Partners' Capital A/c	Dr.	xxx	
	To Revaluation A/c			xxx
	(Revaluation profit to old partners in old ratio)			
(iv)	Revaluation A/c	Dr.	xxx	
	To Old Partners' Capital A/c			xxx
	(Revaluation loss to old partners in old ratio)			

(b) **Assets and Liabilities are revalued but revised values are not recorded:**

When the partners agree among themselves that the revised values of assets and liabilities are not going to be recorded, a Memorandum Revaluation Account needs to be prepared. The memorandum revaluation account is prepared in two parts.

The first part is the same as the normal revaluation account. In the second part, the entries are reversed, (i.e.) items placed in the debit side of the revaluation account are credited and vice versa. Profit or loss that arises in the second part is distributed to all partners (including new partner) in the new ratio. In the new balance sheet, assets and liabilities appear at original values.

Proforma of Revaluation Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Items Contributing Loss:		By Items Contributing Profit:	
Decrease in Assets	xxx	Increase in Assets	xxx
Increase in Liabilities	xxx	Decrease in Liabilities	xxx
Unrecorded Liabilities	xxx	Unrecorded Assets	xxx
To Profit (Bal. fig.) (To old partners in old ratio)	**xxx**	**By Loss (Bal. fig.) (To old partners in old ratio)**	**xxx**
	xxx		**xxx**

✎ ILLUSTRATION 26:

Sayee and Sekar are partners in the ratio 5:3. In view of Subbu's admission, they decide to revalue their assets and liabilities indicated below:

(a) To increase the value of buildings by ₹32,000.

(b) To bring into record at ₹14,000 investments, which have not so far been brought into account.

(c) To decrease the stock by ₹12,000 and furniture by ₹11,000.

(d) To write off sundry creditors by ₹11,000.

Prepare Revaluation Account.

[Madras Univ., Nov. 2006, B.Com./B.Com.(CS)]

Solution:

Revaluation Account

Particulars	**(₹)**	*Particulars*	**(₹)**
To Stock	12,000	By Buildings	32,000
To Furniture	11,000	By Investments	14,000
To Profit (Bal. fig.)		By Creditors	11,000
Sekar 21,250			
Sayee 12,750	**34,000**		
	57,000		**57,000**

✎ ILLUSTRATION 27:

K, L & M share profits and losses in the ratio of 5:3:2. As from 1st April 2004, Q is admitted into the partnership and following adjustments were agreed upon:

(a) Increase the value of premises by ₹48,000.

(b) Depreciate stock by ₹4,000, furniture by ₹1,000 and machinery by ₹4,600.

(c) Provide for an outstanding liability of ₹200.

Prepare Revaluation Account.

[Madras Univ., B.Com./B.Com.(CS), Apr. 2007, modified]

Solution:

Revaluation Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Stock	4,000	By Premises	48,000
To Furniture	1,000		
To Machinery	4,600		
To O/S Liability	200		
To Profit (Bal. fig.)			
K 19,100			
L 11,460			
M 7,640	**38,200**		
	48,000		**48,000**

✎ ILLUSTRATION 28:

Memorandum Revaluation Account

Sankar and Madhavan are partners, sharing profits and losses in the ratio of 3:4. The firm's Balance Sheet, as on 31st December 2010, was as follows:

Balance Sheet as on 31.12.2010

Liabilities	**(₹)**	*Assets*		**(₹)**
Creditors	37,000	Cash in Hand		8,000
Outstanding Wages	8,000	Debtors	40,000	
		(–) Reserve for Bad Debts	3,000	37,000

(Contd.)

Capital:			Bills Receivable	12,000
Sankar	48,000		Stock	16,000
Madavan	40,000	88,000	Investments	20,000
			Furniture	6,000
			Building	34,000
		1,33,000		**1,33,000**

On 31st December 2010, Karan was admitted into the partnership for 1/4th share of profit with ₹12,000 as capital. On the same date, the assets were revalued as follows, but the partners agreed to show the assets and liabilities at book value.

(a) Value of furniture as ₹4,800

(b) The building was valued at ₹50,000

(c) Provision for doubtful debts ₹5,500

(d) Unrecorded investments valued at ₹6,400

(e) Unrecorded liability ₹2,500 has been noticed

Prepare Memorandum Revaluation Account.

Solution:

Karan's Share = 1/4

Remaining Share = 3/4

New Ratio = Remaining Share × Old Ratio

Sankar's New Ratio = 3/4 × 3/7 = 9/28

Madavan's New Ratio = 3/4 × 4/7 = 12/28

Karan's Share = 1/4 = 7/28

New Profit-sharing Ratio = 9:12:7

Memorandum Revaluation Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Provision for Doubtful Debts	2,500	By Buildings	16,000
To Furniture	1,200	By Investments	6,400
To Liability A/c	2,500		

(Contd.)

To Profit:					
Sankar's Capital	6,943				
Madavan's Capital	9,257	16,200			
		22,400			**22,400**
To Buildings A/c		16,000	By Provision for Doubtful Debts		2,500
To Investments		6,400	By Furniture		1,200
			By Liability		2,500
			By Loss:		
			Sankar's Capital	5,207	
			Madavan's Capital	6,943	
			Karan's Capital	4,050	16,200
		22,400			**22,400**

20.7 Adjustment for Accumulated Profits and Reserves

On admission of a new partner, the accumulated profits and reserves appearing in the balance sheet are to be distributed to the old partners in the old ratio, as new partner deserves no share in such reserves or profits. Similarly, if undistributed losses exist, it should also be debited to partners' capital accounts in the old ratio. After the transfer of accumulated profits or losses to old partners, they do not appear in the balance sheet of reconstituted firm. The entries to be passed are:

	Particulars	*Debit (₹)*	*Credit (₹)*
(i)	Accumulated Profits/Reserves A/c Dr.	xxx	
	To Old Partners' Capital A/c		xxx
	(Accumulated reserves and profits in old ratio)		
(ii)	Old Partners' Capital A/c Dr.	xxx	
	To Accumulated Losses A/c		xxx
	(Accumulated losses in old ratio)		

› 20.7.1 Adjustment for Capitals

Sometimes, the partners' capital accounts need to be reconstituted on admission of new partner. This may occur in the following ways:

When new partner brings in cash for capital in proportion to his share of profits in future:

Under this situation, the contribution of new partner is determined on the basis of adjusted capitals of old partners. The total adjusted capitals of old

partners are raised to the full value, based on which, the new partner's share is determined. The new partner has to bring cash equal to his share.

When old partners' capitals are adjusted in proportion with new partner's capital:
The amount of capital brought in by new partner is taken as the base with which total capital of the firm is calculated and share of capital of old partners is arrived at. After comparing it with the adjusted capitals, the partners may have to bring in cash or excess capital is paid off.

Comprehensive Problems

✎ ILLUSTRATION 29:

A, B and C are in partnership, sharing profits and losses in the ratio 6:5:3. They agreed to take D into partnership and give him 1/8th share.

Balance Sheet on the date of admission

Liabilities	(₹)	*Assets*	(₹)
Creditors	18,900	Cash in Hand	1,890
Bills Payable	6,300	Debtors	26,460
General Reserve	10,500	Stock	29,400
A's Capital	35,400	Furniture	7,350
B's Capital	29,850	Land & Buildings	45,150
C's Capital	14,550	Goodwill	5,250
	1,15,500		**1,15,500**

The admission was subject to following adjustments:

(a) Furniture to be depreciated by ₹920 and stock to be depreciated by 10%.

(b) Provision for outstanding repairs to be made at ₹1,320.

(c) Value of land and buildings to be appreciated upto ₹59,850.

(d) Value of Goodwill to be brought up to ₹14,000.

(e) D should bring in ₹14,700 as his capital.

(f) That after making the above adjustments, the capital accounts of old partners be adjusted on the basis of proportion of D's capital to his share in the business (i.e.) actual cash to be paid off or brought in by old partners as the case may be.

Prepare Revaluation Account and Balance Sheet of new firm.

[Madras Univ., B.CS., Oct. 2003; B.Com./B.Com.(CS), Apr. 2005; Periyar Univ., B.Com., Oct. 2005; Adapted]

Solution:

(i) Calculation of New Profit-sharing Ratio

D's Share = 1/8

Remaining Share = 7/8

A's New Ratio = Remaining Share × Old Ratio

= 7/8 × 6/14 = 42/112

B's Share = 7/8 × 5/14 = 35/112

C's Share = 7/8 × 3/14 = 21/112

D's Share = 1/8 × 14/14 = 14/112

∴ **New Profit-sharing Ratio = 42:35:21:14**

= 6:5:3:2

(ii) Adjustment for Capital

D's Capital = ₹12,950 for 2/16 share

∴ Total Capital = 12,950 × 16/2 = ₹1,03,600

A's Share of Capital = 1,03,600 × 6/16 = ₹38,850

B's Share of Capital = 1,03,600 × 5/16 = ₹32,375

C's Share of Capital = 1,03,600 × 3/16 = ₹19,425

- Even though D brings 14,700 for capital, his share of goodwill ₹1,750 (14,000 × 1/8 = 1,750) is adjusted through his capital account as he does not bring cash for goodwill and remaining capital taken as the base.

Revaluation Account

Particulars		*(₹)*	*Particulars*	*(₹)*
To Furniture A/c		920	By Land & Building A/c	14,700
To Stock		2,940		
To Provision for Repairs		1,320		
To Profit (Bal. fig.)				
A's Capital	**4,080**			
B's Capital	**3,400**			
C's Capital	**2,040**	**9,520**		
		14,700		**14,700**

Capital Account

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	*D* (₹)	*Particulars*	*A* (₹)	*B* (₹)	*C* (₹)	*D* (₹)
To Goodwill	2,250	1,875	1,125		By Balance b/d	35,400	29850	14,550	—
To A's Capital	—	—	—	750	By Reval. A/c	4,080	3,400	2040	—
To B's Capital	—	—	—	625	By D's Capital A/c	750	625	375	—
To C's Capital	—	—	—	375	By Reserve	4,500	3,750	2,250	—
To Balance c/d	38,850	32,375	19,425	12,950	**By Bank (Bal. fig.)**	—	—	**1,335**	**14,700**
To Bank A/c (Bal. fig.)	**3,630**	**3,375**							
	47,730	**37,625**	**20,550**	**14,700**		**44,730**	**37,625**	**20,550**	**14,700**

Balance Sheet

Liabilities		(₹)	*Assets*		(₹)
Creditors		18,900	Land & Buildings		59,850
Bills Payable		6,300	Furniture (7,350 – 920)		6,430
Provision for Repairs		1,320	Debtors		26,460
Capital A/c:			Stock	29,400	
A	38,850		(–) Depreciation	2,940	26,460
B	32,375				
C	19,425		Cash (1,890 + 14,700		
D	12,950	1,03,600	+ 1,335 – 3,630 – 3,375)		10,920
		1,30,120			**1,30,120**

✎ ILLUSTRATION 30:

The balance sheet of P, Q and R, sharing profits and losses in the ratio of 3:2:1, is given below.

Balance Sheet

Liabilities	(₹)	*Assets*		(₹)
Capital A/c:		Buildings		1,50,000
A	2,00,000	Machinery		2,65,000
B	2,00,000	Furniture		15,000
C	1,00,000	Stock		1,01,500
Contingency Reserve	60,000	Debtors	1,00,000	
Creditors	90,000	(–) Provision for Bad Debts	1,500	98,500
		Bank		20,000
	6,50,000			**6,50,000**

S was admitted into the partnership on the following terms:

(a) Machinery is valued at ₹2,50,000 and building is revalued at ₹1,83,500.

(b) Provision for bad debts to be raised to 5% on debtor.

(c) Contingency reserve is not required hereafter.

(d) S brings ₹75,000 as his share for capital.

(e) Goodwill is valued at ₹1,50,000 for the firm and it was agreed that S to bring his share of goodwill, which is credited to old partners.

(f) New Profit-sharing Ratio of the firm is 3:3:2:2.

Prepare Revaluation Account, Capital Accounts and Balance Sheet.

Solution:

(i) **Calculation of Sacrificing Ratio**

Sacrificing Ratio = Old Ratio – New Ratio

SR (P) = 3/6 – 3/10 = 12/60

SR (Q) = 2/6 – 3/10 = 2/60

SR (R) = 1/6 – 2/10 = –2/60 (Gaining)

(ii) S's Share of Goodwill = 1,50,000 × 2/10 = ₹30,000

(iii) Since R is gaining, his capital account will be debited with ₹5,000 (30,000 × 2/12)

(12 + 2 – 2 = 12)

And P & Q's capital will be credited, ₹35,000 in sacrificing ratio (12:2)

Revaluation Account

Particulars		*(₹)*	*Particulars*	*(₹)*
To Provision for Bad Debts		3,500	By Buildings	33,500
To Machinery		15,000		
To Profit:				
P's Capital	7,500			
Q's Capital	5,000			
Rs' Capital	2,500	15,000		
		33,500		**33,500**

Capital Account

Particulars	*P* (₹)	*Q* (₹)	*R* (₹)	*S* (₹)	*Particulars*	*P* (₹)	*Q* (₹)	*R* (₹)	*S* (₹)
To P & O's Capital	—	—	5,000	—	By Balance b/d	2,00,000	2,00,000	1,00,000	—
To Balance c/d (Bal. fig.)	**2,67,500**	**2,30,000**	**1,07,500**	**75,000**	By Bank	—	—	—	75,000
					By Reserve	30,000	20,000	10,000	—
					By Revaluation A/c	7,500	5,000	2,500	—
					By R's Capital	4,286	714	—	—
					By Goodwill	25,714	4,286	—	—
	2,67,500	**2,30,000**	**1,12,500**	**75,000**		**2,67,500**	**2,30,000**	**1,12,500**	**75,000**

Balance Sheet

Liabilities		(₹)	*Assets*		(₹)
Creditors		90,000	Buildings		1,83,500
Capital A/c:			Machinery		2,50,000
P	2,67,500		Furniture		15,000
Q	2,30,000		Stock		1,01,500
R	1,07,500		Debtors	1,00,000	
S	75,000	6,80,000	(–) Provision for Bad Debts	5,000	95,000
			Bank (20,000 + 75,000 + 30,000)		1,25,000
		7,70,000			**7,70,000**

✎ ILLUSTRATION 31:

A and B are sharing profits in proportion of 3:1 on 31st December 1998. Their balance sheet stood as follows:

Balance Sheet as on 31.12.1998

Liabilities	(₹)	*Assets*	(₹)
Creditors	37,500	Bank	22,500
General Reserve	4,000	Bills Receivable	3,000
A's Capital	30,000	Debtors	16,000
B's Capital	16,000	Stock	20,000
		Furniture	1,000
		Building	25,000
	87,500		**87,500**

They admit C into partnership on 1st January 1999 subject to the following terms:

(a) C pays ₹10,000 as capital for a fifth share in future profits.

(b) The goodwill account to be raised in the books of the new firm for ₹20,000.

(c) Stock and furniture to be reduced by 10% and 5% reserve for doubtful debts be created.

(d) Buildings to be appreciated by 20%.

Prepare Revaluation Account, Capital Account, and Balance Sheet of new firm.

[Madras Univ., Apr. 2001, B.Com.; Nov. 2004, B.Com.; Nov. 2005, B.Com./B.Com.(CS); Apr. 2014, B.Com./B.Com.(AF)-doubled; Apr. 2016, BPZ2A/BPP2A/BPG2A/BPC2A;Madras Univ., IDE, May 2012, UCZA/WA/YA/XB/VB/URMA]

Solution:

Calculation of New Profit-sharing Ratio:

C's Share = 1/5
Remaining Share = 4/5
A's New Ratio = $4/5 \times 3/4 = 3/5$
B's New Ratio = $4/5 \times 1/4 = 1/5$
∴ NPSR = 3:1:1

Revaluation Account

Particulars		*(₹)*	*Particulars*	*(₹)*
To Stock		2,000	By Buildings	5,000
To Furniture		100		
To Provision For Debts		800		
To Profit: (Bal. fig.)				
A's Capital	**1,575**			
B's Capital	**525**	**2,100**		
		5,000		**5,000**

Partners' Capital Account

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	*Particulars*	*A* (₹)	*B* (₹)	*C* (₹)
To A's Capital	—	—	3,000	By Balance b/d	30,000	16,000	—
To B's Capital	—	—	1,000	By Cash	—	—	10,000
				By Revaluation A/c	1,575	525	—
To Balance c/d (Bal. fig.)	**37,575**	**18,525**	**6,000**	By Reserve	3,000	1,000	—
				By C's Capital	3,000	1,000	—
	37,575	**18,525**	**10,000**		**37,575**	**18,525**	**10,000**

Balance Sheet as on 01.01.1999

Liabilities	(₹)	*Assets*		(₹)
Creditors	37,500	Cash at Bank	22,500	
		(+) C's Capital	10,000	32,500
Capital:		Bills Receivable		3,000
A	37,575			
B	18,525	Stock	20,000	
		(–) Depreciation	2,000	18,000
C	6,000	Debtors	16,000	
		(–) Provision for Bad Debts	800	15,200
		Furniture	1,000	
		(–) Depreciation	100	900
		Building	25,000	
		(+) Appreciation Value	5,000	30,000
	99,600			**99,600**

■ *Theory Questions* ■

Short-Answer Questions

1. Define Partnership.
2. What is Goodwill?
3. Who is a Dormant Partner?
4. What is Revaluation Account?
5. What is Sacrificing Ratio?

6. What is Memorandum Revaluation Account?
7. What is Fluctuating Capital?
8. What is a Partnership Deed?
9. Write down the formulae for calculation of goodwill under: (i) Average Profits Method (ii) Super Profits Method
10. Write the adjustments to be made during the admission of a partner.

Long-Answer Questions

11. Explain the accounting treatment of goodwill on admission of a partner.
12. Discuss the factors affecting Goodwill.
13. Give the contents of a Partnership Deed.

■ *Exercise Problems* ■

1. Prepare Capital A/c of Gokul under fluctuating method based on following data:

Particulars	₹
Capital on 1.1.2007	8,00,000
Drawings during 2007	1,60,000
Interest on drawings	4,000
Share of profit for 2007	84,000
Interest on capital	48,000
Salary	72,000

[Madras Univ., IDE, May 2012, UCZA/WA/YAXB/UCVB]

[Ans: ₹8,40,000]

2. Show how the following items will appear in the capital accounts of the partners, Ramu and Somu when their capitals are fluctuating.

	Ramu (₹)	*Somu (₹)*
Capital on 1.1.2007	8,00,000	7,00,000
Drawings during the year	1,60,000	1,40,000
Interest at 5% on drawings	4,000	2,000

(Contd.)

Share of profit	84,000	66,000
Interest on capital	48,000	42,000
Salary	72,000	Nil

[Univ of Madras (IDE) May 2017, UGRMA]

[Ans: Ramu: ₹8,40,000; Somu: ₹6,66,000]

Interest on Capital

3. From the following Balance Sheet of A and B, calculate Interest on Capital at 5% p.a. for the year ending 31.12.1996.

Balance Sheet on 31.12.1996

Liabilities	₹	*Assets*	₹
A's Capital	20,000	Sundry Assets	42,000
B's Capital	16,000	Drawings 'A'	2,000
P & L Appropriation A/c (1996)	8,000		
	44,000		**44,000**

During the year 1996, A's drawings were ₹2,000 and B's drawings ₹6,000. Profits during the year 1996 were ₹12,000.

[Univ. of Madras, Nov. 2015, BYA2C]

[Ans: Interest on Capital: A = ₹900, B = ₹1,000
Opening Capital: A = ₹18,000, B = ₹20,000]

4. The Balance Sheet of Kalai and Vani as on 31.12.2016, after adjustment of Profit and Drawings for the year is given. Calculate Interest on Capital on opening capital.

Balance Sheet

Liabilities	₹	*Assets*	₹
Kalai's Capital	8,00,000	Land	3,20,000
Vani's Capital	9,60,000	Building	1,76,000
Creditors	6,40,000	Other Assets	9,60,000
P & L Appropriation A/c	4,80,000	Kalai's Drawings	1,60,000
	28,80,000		**28,80,000**

During the year the profits were ₹8,00,000. Drawings of Vani were ₹2,40,000. Interest to be charged at 5% p.a.

[Ans: Interest on Drawings: Kalai: ₹32,000; Vani: ₹52,000]

5. On 31st March 2016, the capitals of Mala, Neela and Kala (After adjustment for drawings and profits) were ₹2,00,000, ₹1,50,000 and ₹1,00,000 respectively. The partners were entitled to an interest on capital @ 5% p.a. The drawings during the year were:

Mala - ₹50,000, Neela - ₹37,500 and Kala - ₹22,500. The net profit during the year - ₹3,00,000. The profit sharing ratio was 3:2:1.

Calculate Interest on Capitals.

[Ans: Interest on capital – Mala: ₹5,000; Neela: ₹4,375; Kala: ₹3,625]

6. Uma and Rama having capitals of ₹1,00,000 and ₹60000 respectively. The profit sharing ratio was 2:3 and the deed provided for interest on capital @ 6% p.a.. Profit before such interest was ₹7,000. Show treatment of interest on capitals if:

(a) The deed allows interest irrespective of capitals.

(b) The deed is silent regarding the interest as a charge.

[Ans: Case (a): Interest on capital – Uma: ₹5,000; Rama: ₹3,000; Loss – Uma: ₹400; Rama: ₹600
Case (b): Interest on capital – Uma: ₹4,375; Rama: ₹2,625]

Interest on Drawings

7. A, B and C are partners of a firm and you are provided the following details:

(a) A withdrew ₹2,000 from the firm at the beginning of every month.

(b) B withdrew ₹5,000 at the end of every month.

(c) C withdrew ₹4,000 in the middle of every month.

Calculate Interest on Drawings @ 15% p.a

[Ans: Interest on Drawings: (a) ₹1,950; (b) ₹4,125; (c) ₹3,600]

8. Mohana withdrew ₹5,000 per month from the firm. The rate of interest is 10%. Calculate interest on drawings if:

(a) She withdrew at the beginning of every month.

(b) She withdrew at the end of every month.

(c) She withdrew in the middle of every month.

[Ans: Interest on Drawings: (a) ₹3,250; (b) ₹3,000; (c) ₹2,750]

9. Bala and Sena are partners started business, sharing profits and losses equally with capitals of ₹1,20,000 and ₹80,000 respectively. Their drawings during the year are as follows:

Bala's drawings:

Date of withdrawal	*Amount (₹)*
31.03.1993	2,000
30.04.1993	2,400
01.07.1993	1,800
01.12.1993	5,600

Sena drew ₹800 at the end of each month. The deed provides interest on capitals and drawings at 6%. Calculate Interest on Capital and Drawings.

[Univ. of Madras, April 2016, BYA2C]

[Ans: Interest on drawings – Bala: ₹268; Sena: ₹264
Interest on capitals – Bala: ₹7,200; Sena: ₹4,800]

Profit Sharing Ratio

10. Sheela and Neela were sharing profits and losses in the ratio of 4:3. Kamala was admitted into the partnership with 1/5 share in profits. Calculate New Profit-sharing Ratio.

(Madras Univ. B.Com./B.Com.(CS), Apr. 2008)

[Ans: 16:12:7]

11. P and Q were partners, sharing profits in the ratio of 7:3. R was admitted for 3/7 of profits. Calculate New Profit-sharing Ratio of partners.

(Madras Univ., Apr. 2016, BPZ2A/BPF2A/
SBAML/BPC2A/BPG2A)

[Ans: 28:12:30 (OR) 14:6:15]

12. P and Q were partners sharing 2:1. R was admitted for $1/4^{th}$ share which he acquired equally from both P and Q. Calculate the New Profit-sharing Ratio and Sacrificing Ratio.

[Alagappa Univ., April 2011, B.Com.(CA)]

[Ans: Sacrificing Ratio – 1:1; New Ratio – 13:5:6]

13. A and B are partners in a business sharing profits in the ratio of 5:3. They decide to admit C into the firm, giving him $1/6^{th}$ share. Calculate New Profit-sharing Ratio and Sacrificing Ratio of the partners.

[Madras Univ., Apr. 2017, B.Com., CPZ2A/CPG2A/CPC2A]

[Ans: New Profit Ratio – 25:15:8, Sacrificing Ratio – 5:3]

14. Raja and Kesavan were partners in a firm, sharing profits in the ratio of 2:3. They admitted Doss to 1/3 share. What would be the New Ratio in the following cases?

(a) If Doss receives his share equally from existing partners.

(b) If he acquires 3/12 from Raja and 1/12 from Kesavan.

[Ans: (a) New ratio – 7:13:10, (b) New Ratio – 9:31:20]

15. A and B are partners sharing profits in the ratio of 2:3. They admit 'C' for $1/4^{th}$ share. He takes $1/20^{th}$ share from A and $4/20^{th}$ from B. Calculate New Ratio of partners.

[Madras Univ., UDE, May 2017, UCZA/ WA/YA/XB/UCVB, adapted]

[Ans: 7:8:5]

16. A and B share profits in the ratio of 7:3. They admit C for $1/5^{th}$ share in the firm. Calculate the New Profit-sharing Ratio.

[Ans: New Ratio – 14:6:5]

17. P and Q share profits in the ratio of 3:7. R was admitted as a partner. P surrendered $1/3^{rd}$ of his share and Q surrendered $1/7^{th}$ of his share in favour of R. Calculate New Ratio.

[Univ. of Madras, Nov. 14, BYA2C Adapted]

[Ans: New Ratio – 1:3:1]

18. X and Y are partners sharing profits and losses in the ratio of 5:3. 'C' enters into the partnership and he acquires 4/20 from A and 2/20 from 'B'. Compute New Profit-sharing Ratio and Sacrificing Ratio.

[Univ. of Madras, April 2014, BYA2C, adapted]

[Ans: New Ratio – 17:11:12]

19. A and B were sharing profits/losses in the ratio of 3:5. They admit 'C' into the firm giving him $1/6^{th}$ share. Calculate New Ratio and Sacrificing Ratio of partners.

[Alagappa Univ., Nov. 2015, B.Com.(CS)]

[Ans: Sacrificing Ratio – 3:5; New Ratio – 15:25:8]

20. A, B and C were partners of a firm sharing 4:3:2. D is admitted into partnership for 1/8th share and brings ₹90,000. The partners decide to adjust their capital according to the New Profit-sharing Ratio. Calculate New Profit-sharing Ratio and the New Capitals of the partners:

[Ans: New Ratio – 28:21:14:9
New Capital: A – ₹2,80,000, B – ₹2,10,000,
C – ₹1,40,000, D – ₹90,000]

21. A and B are partners, sharing profits in the ratio of 3:2. After C getting admitted to the partnership, the new ratio is decided at 5:3:2. Calculate Sacrificing Ratio.

[Madras Univ., B.Com./B.Com.(CS), Nov. 2007]

[Ans: Sacrificing Ratio – 1:1]

22. A and B are partners, sharing profits and losses in the ratio 5:3. They admit C as partner and C acquires 3/20 from A and 1/20 from B. Find out New Profit-sharing Ratio and Sacrificing Ratio.

[Madras Univ., Apr. 2015, BYA2A]

[Ans: New Ratio – 19:13:8, Sacrificing Ratio – 3:1]

23. A, B and C were sharing profits in the ratio of 4:3:2. D was admitted on 1st January with 1/3 interest in the business. Calculate the new ratio and sacrificing ratio. What will be the New Ratio and Sacrificing Ratio if D takes 1/5 in profits of the business.

[Madras Universtiy, Nov. 2015, BYA2C]

[Ans: Case A: New Ratio – 8:6:4:9; Sacrificing Ratio – 4:3:2
Case B: New Ratio – 16:12:8:9; Sacrificing Ratio – 4:3:2]

24. A and B are partners, whose profit sharing ratio is 3:2. A and B's capitals are ₹12,000 and ₹5,400 respectively. C is admitted for 1/3 share of profits, with a capital of ₹7,500. Adjust the capitals in new ratio. Pass Journal and prepare Capital Account.

[Ans: NPSR – 6:4:5, Total Capital – ₹22,500,
A to be paid off ₹3,000 and B to bring in ₹600]

Valuation and Treatment of Goodwill

25. Goodwill is valued on the basis of three years of average profits of the preceding four year. The profits for four years were:

2005: ₹32,000; 2006: ₹40,000; 2007: ₹36,000; 2008: ₹52,000. Compute Goodwill.

[Ans: Goodwill: ₹1,20,000]

26. Calculate Goodwill at three years' purchase of last five year's average profit. The profits were:

1991: ₹9,600; 1992: ₹14,400; 1993: ₹20,000; 1994: ₹6,000; 1995: ₹10,000

[Madras Univ., Nov. 2012, BYA2A]

[Ans.: Average Profit: ₹12,000, Goodwill: ₹36,000]

27. From the given figures, compute the value of Goodwill at three years purchase of four years average profit.

Year	*Profit (₹)*
1998	17,000
1999	20,000
2000	22,000
2001	26,000
2002	30,000

[Madras Univ., IDE, May 2012, PZA]

[Ans: Goodwill: ₹69,000]

28. Goodwill is valued on the basis of three years purchase of average profits of the preceding four years. The profits of previous four years were:

Year	*Profit* ₹
2001	16,000
2002	20,000
2003	18,000
2004	26,000

Find the value of Goodwill.

[Univ. of Madras April 2007; ZZ2H/SY2C/SDEN]
[Ans: Average Profit: ₹20,000
Goodwill: ₹60,000]

29. P and Q are partners and their total investment as capital is ₹1,50,000 and they expect a return of 10% as a norm in the industry. The actual profit for the year was ₹30,000. Calculate Goodwill at three years' purchase of super profits.

[Ans: Super Profit: ₹15,000; Goodwill: ₹45,000]

30. A firm earned net profits during last three years as follows:

I Year	₹3,60,000
II Year	₹4,00,000
III Year	₹4,40,000

The capital investment of the firm is ₹12,00,000. A fair return on capital having regard to risk involved is 10%. Calculate the value of Goodwill on the basis of three years' purchase of super profits.

[Ans: Goodwill: ₹8,40,000]

31. A firm has made an average profit of ₹50,000 during the past few years. The normal rate of return in similar type of business is 10%. The firm has net tangible assets of ₹3,50,000. Find out the value of Goodwill by capitalisation of super profits method.

[Univ. of Madras, April 2006, PZ2A]

[Ans: Super Profit: ₹15,000; Goodwill: ₹1,50,000]

32. A firm earns ₹1,20,000 as its annual profits. Its rate of normal profit being 10%. The assets of the form amounted to ₹14,40,000 and liabilities to ₹4,80,000. Find out Goodwill by capitalisation method.

[Alagappa Univ., Nov. 2015, B.Com.(CS)]

[Ans: Goodwill: ₹2,40,000]

33. A firm earns ₹1,80,000 as annual profits, the rate of normal profit being 10%. The assets of the firm amount to ₹21,60,000 and liabilities to ₹7,20,000. Find out the value of Goodwill by capitalisation method.

[Ans: Goodwill: ₹3,60,000]

34. K and S are partners, sharing profits and losses in the ratio of 4:3. R is admitted into partnership firm, who brings in ₹3,000 for goodwill and ₹15,000 for capital. No goodwill account exists in the books and old partners withdrew the amount of goodwill. The new ratio is agreed at 3:3:1. Pass Journal Entries.

[Ans: Entire goodwill brought in by R, ₹3,000, should be credited to K, as S does not sacrifice profits]

35. A and B are partners, sharing profits in the ratio of 3:2. They admit C into partnership and C pays a premium of ₹10,000 for 1/4 share of profit. No goodwill account appears in the books. They withdrew the amount of goodwill. Journalise.

[Madras Univ., Nov. 2013, BYA2A]

[Ans: Goodwill: A = ₹6,000, B = ₹4,000]

36. M and N are partners sharing profits and losses in the ratio of 1:3. They admit 'O' as partner who pays ₹40,000 as capital. The new ratio is 1:3:1. The goodwill is valued at 2 year purchase of 4 years average profit. The profits were ₹18,000, ₹12,000, ₹20,000 and ₹10,000. Calculate Goodwill value and pass Journal Entries to record the above.

[Alagappa Univ., May 2017, B.Com.]

[Ans: Sacrificing Ratio – 1:3; Goodwill: ₹30,000;
O's Share of goodwill: 6,000]

37. P and Q are in partnership, sharing profits in the ratio of 3:1. They admit S for $1/4^{th}$ share. But S was unable to bring any amount for goodwill. Goodwill was raised at ₹48,000 and written off after admission. Give Journal Entries.

[Madras Univ., Nov. 2013, BYA2A]

38. Mala and Vimala are partners, sharing profits in the ratio of 2:1. Radha is admitted into the partnership for $1/4^{th}$ share. Her share of goodwill was fixed as ₹18,000. Pass journal entries in the following cases:

(a) When the goodwill is received in cash and retained in the business.

(b) When the amount of goodwill is raised at full value and then written back.

(c) The goodwill is received in cash and withdrawn by existing partner.

[Ans: (a) Mala and Vimala's capital a/c is credited ₹18,000
in the ratio 2:1,
(b) Goodwill to be raised at ₹72,000 credited to
Mala and Vimala in 2:1 and written off by debiting
Mala, Vimala and Radha in 2:1:1,
(c) Mala and Vimala are credited ₹18,000 in 2:1
ratio and debited with the same amount
in 2:1 as they withdrew]

39. Arun and Darun share profits in the ratio of 2:3. Varun is admitted into the partnership and the new ratio between them is 2:5:3. Varun brings ₹3,000 as goodwill, which is to be retained. Pass Journal Entries.

[Madras Univ., Nov. 2014, BYA2A]

[Ans: Sacrificing Ratio 2:1 – Good will: Arun = ₹2,000
Darun = ₹1,000]

40. Sankar and Sekar are partners sharing profits and losses in the ratio of 5:3. They admit Sarathy into partnership. Sarathy brings ₹12,000 as premium for goodwill. The new ratio being 3:2:1. Goodwill A/c appears at its full value in the books. Journalise.

[Madras Univ., November 2011, BYA2C]

41. Kalavathi and Malathi are partners, sharing profits and losses in the ratio of 4:3. Leela is admitted for 1/3 profits. Goodwill of the firm is valued at two years' purchase of three years' average profit, which have been ₹44,000, ₹56,000 and ₹68,000. Give journal entries if:

(a) There is no goodwill in the books of the firm.

(b) The goodwill account appears at ₹28,000.

(c) The goodwill already exists in books at ₹1,68,000.

[Madras Univ., Apr. 2012, BPZ2A/BPF2A/BPG2A/BPC2A/SBAML]

42. X and Y are partners with capitals of ₹26,000 and ₹22,000 respectively. Z is admitted in partnership with $1/4^{th}$ share and he brings in ₹25,000 as his share of capital. Give Journal Entries for goodwill.

[Ans: Hidden Goodwill: ₹27,000
(25,000 × 4 = 1,00,000 – 22,000 – 26,000 – 25,000]

Revaluation of Assets and Liabilities

43. M and N are partners sharing profits and losses in the ratio of 5:3. On admission of a new partner 'O' they decide to revalue the assets and liabilities of the firm as under:

(a) Increase the value of building by ₹22,000.

(b) Unrecorded investment of ₹4,000 to be brought into Account.

(c) Decrease the value of stock by ₹2,000 and furniture ₹1,000.

(d) Write off sundry creditors by ₹1,000.

Give Journal Entries and prepare Revaluation Account.

[Alagappa Univ., April 2011, B.Com.(CA)]

[Ans: Revaluation profit: ₹24,000]

44. Sridevi and Cynthia were partners, sharing profits and losses in the ratio of 3:2. They decided to admit Jothi into the partnership and revalue their assets and liabilities as indicated:

(a) To bring into record, investment of ₹18,000, which had not so far been recorded.

(b) To depreciate stock, furniture and machinery by ₹18,000, ₹6,000 and ₹30,000 respectively.

(c) To provide for workmen compensation of ₹24,000.

Prepare Revaluation Account.

[Madras Univ., Apr. 2008, B.Com./B.Com.(CS)]

[Ans: Revaluation Loss: ₹60,000]

45. Atul and Mithun share profits in the ratio of 5:3. On 1st January 2016, they decided to admit Tarun as a partner for 1/4 share. On account of this the following revaluations were undertaken:

(a) Appreciate plant by ₹40,000.

(b) Depreciate stock to ₹4,000, furniture by ₹2,000 and building by ₹8,000.

(c) A liability for ₹6,000 to be created against bills discounted.

Prepare Memorandum Revaluation Account.

[Madras Univ., Nov. 2013, BPZ2A/G2A/F2A/ C2A/SBAML (adapted)]

[Ans: NPSR: 15:9:8, Revaluation Profit: A: ₹12,500, B: ₹7,500; Memorandum Revaluation Loss: ₹20,000 debited to A: ₹9,375, B: ₹5,625, C: ₹5,000]

Comprehensive Problems

46. Arul, Babu and Charu are equal partners On 31st December 1994, their balance sheet was as follows:

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital:		Buildings	1,95,000
Arul	1,68,000	Furniture	24,000
Babu	1,26,000	Stock	1,14,000
Charu	60,000	Debtors	1,08,000
Creditors	60,000	Cash	6,000
Bills Payable	33,000		
	4,47,000		**4,47,000**

On the date of balance sheet, Durai was admitted into the partnership for 1/4th share of profits, subject to following adjustments:

(a) Durai brings in cash of ₹90,000 for goodwill and ₹1,50,000 as capital.

(b) Half of the goodwill shall be withdrawn by old partner.

(c) To depreciate stock and furniture by 10%.

(d) To create a provision of 5% on debtors.

(e) A liability for bills discounted to be created at ₹10,800.

(f) Building to be valued at ₹2,70,000.

Give necessary Journal Entries, Ledger Accounts and Balance Sheet in the books of partners.

[Madras Univ., Nov. 2012, B.Com./B.Com.(AF) etc., 1/10 times, BPZ2A/BPF2A/SBAML/BPC2A/BPG2A]

[Ans: Revaluation Profit: ₹45,000; Capital A/cs: Arul: ₹1,98,000, Babu: ₹1,56,000, Charu: ₹90,000; Durai: ₹1,50,000; Balance Sheet Total: ₹6,97,800]

47. The balance sheet of Murali and Kannan on 31st January 2016 was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capitals:		Fixed Assets:	
Murali	80,000	Land & Buildings	60,000
Kannan	60,000	Furniture	4,000
General Reserve	40,000	Stock	16,000
Creditors	30,000	Debtors	1,20,000
Billing Payable	10,000	Cash	8,000
		P & L A/c	12,000
	2,20,000		**2,20,000**

They shared profits and losses in the ratio of 3:1 and they admitted Balan into the partnership subject to the following terms.

(a) Balan will be given 1/4th of profits.

(b) ₹42,000 will be brought in by Balan, of which ₹20,000 will be for his share of goodwill, which will be retained in the business.

(c) Depreciation on furniture is 15%.

(d) Stock is valued at ₹13,000.

(e) To keep 50% of the reserve as provision for bad debts.

Pass Journal Entries, prepare necessary Ledger Account and Balance Sheet as on date of admission.

[Ans: Revaluation Loss: ₹3,600; Capital A/cs: Murali: ₹98,300, Kannan: ₹66,100, Balan: ₹22,000; Balance Sheet Total: ₹2,26,400]

48. L & M are partners sharing profits and losses in the ratio of 3:1. Their balance sheet as on 31st March 2011 was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Bills Payable	10,000	Plant	80,000
Creditors	30,000	Stock	35,000
General Reserve	50,000	Debtors	60,000
L's Capital	50,000	Cash	5,000
M's Capital	40,000		
	1,80,000		**1,80,000**

N is admitted for 1/3rd of share in future and he is to bring an amount equal to his share in the total capital of the newly constituted firm, subject to the following terms:

(a) Stock to be increased to ₹40,000 and plant to be depreciated by 5%.

(b) 10% of general reserve to be allotted for provision for doubtful reserve.

(c) Unrecorded liability for outstanding insurance ₹500 is to be brought into account.

(d) N to bring amount equal to his share in firm's goodwill, valued at three years' purchase of average profits of last four years, which were:

2006-07: ₹25,000; 2007-08: ₹40,000; 2008-09: ₹5,000 (loss)

2009-10: ₹20,000

Open necessary accounts and Balance Sheet of new firm.

[Ans: New Ratio – 3:1:2 ; Revaluation Profit: ₹500;
Capital of L: ₹89,125, M: ₹66,375, N: ₹77,750;
Balance Sheet Total: ₹2,73,750]

49. The following is the balance sheet of A and B as at 31st March 2013, on which date, C was admitted as a partner.

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital:		Debtors	11,000
A	10,000	Buildings	8,000
B	8,000	Machinery	10,000
Creditors	12,000	Stock	12,000
General Reserve	16,000	Cash at Bank	9,000
Workmen Compensation Fund	4,000		
	50,000		**50,000**

A and B shared profits in the ratio of 3:2. The following terms of admission are agreed upon.

(a) Building and stock revalued at ₹18,000 and ₹16,000 respectively.
(b) Workmen compensation fund determined at ₹2,000.
(c) C brought in as his share of goodwill ₹10,000 in cash.
(d) C was to bring further cash as would make his capital equal to 20% of combined capital of A and B (after adjustments).
(e) The future ratio is 2:2:1.

Prepare Revaluation Account, Capital Account and Balance Sheet.

[Madras Univ., Nov. 2014, BPZ2A/BPF2A/SBAML/BPC2A/BPG2A]

[Ans: Revaluation Profit: ₹16,000;
Capital A/c: A – ₹39,200, B – ₹20,800, C – ₹12,000;
Balance Sheet: ₹86,000]

50. A and B are partners in a firm. They share profits and losses in the ratio of 3:1. Their balance sheet is as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital:		Buildings	1,00,000
A	80,000	Plant	25,000
B	40,000	Stock	40,000
Reserve	40,000	Debtors	70,000
Creditors	60,000	Cash	5,000
Bills Payable	20,000		
	2,40,000		2,40,000

C is admitted into partnership for $1/5^{th}$ share on following terms:

(a) Building is revalued at ₹1,20,000.
(b) Plant is depreciated to 80%.
(c) Provision for doubtful debts is made at 5%.
(d) Stock revalued at ₹30,000.
(e) C should introduce 50% of adjusted capitals of A and B. Prepare the necessary Ledgers and Balance Sheet of new firm.

[Madras Univ., Apr. 2015, BPZ2A/BPF2A/
SBAML/BPC2A/BPG2A]

[Ans: Revaluation Profit: ₹1,500;
Capital A/cs: A – ₹1,11,125; B – ₹50,375;
C – ₹80,750; Balance Sheet – ₹3,22,250]

51. A and B are partners, sharing profits in the ratio of 3:1. Their balance sheet was as under on 31st December 2005.

Liabilities		*(₹)*	*Assets*		*(₹)*
Capital:			Stock		10,000
A	30,000		Prepaid Insurance		1,000
B	20,000	50,000	Debtors	8,000	
			(–) Provision	500	7,500
Salary Outstanding		5,000	Cash		18,500
Creditors		40,000	Machinery		22,000
			Buildings		30,000
			Furniture		6,000
		95,000			**95,000**

'C' is admitted as a new partner introducing a capital of ₹20,000 for 1/4 share in future profits, subject to the following adjustments:

(a) Stock to be depreciated by 5% and furniture by 10%.

(b) The provision for doubtful debts should be increased to ₹1,000.

Prepare Revaluation Account and Balance Sheet after adjustments.

[Madras Univ., Apr. 2015, BYA2A]

[Ans: NPSR – 9:3:4 ; Revaluation Profit: ₹13,400 ;
Capital A/c: A – ₹40,050, B – ₹23,350,
C – ₹20,000; Balance Sheet: ₹1,28,400]

52. From the following Balance Sheet of A and B who share profits in the ratio of 3:2. Prepare Revaluation A/c, Capital A/c and Balance Sheet after 'C's admission.

Balance Sheet

Liabilities	₹	*Assets*	₹
Creditors	15,000	Buildings	30,000
A's capital	20,000	Stock	15,000
B's capital	25,000	Debtors	10,000
		Bank	5,000
	60,000		**60,000**

On the date of above Balance Sheet 'C' was admitted on following terms:

(a) He will pay ₹25,000 as capital.

(b) 'C' to pay ₹10,000 as goodwill for 1/5th share in the profits of the firm.

(c) The assets are revalued as under:

Buildings – ₹40,000 ; Debtors – ₹9,000 ; Stock – ₹14,000.

[IDE, Univ. of Madras, May 2017, UCZA/WA/YA/XB]

[Ans: Revaluation Profit: ₹8,000; A's Capital: ₹30,800; B's Capital: ₹32,200; C's Capital: ₹25,000; Balance Sheet: ₹1,03,000]

53. Albert and Barath are partners, sharing profits and losses in the ratio of 2:1. The balance sheet on 31st December 2017 was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	65,900	Cash	1,200
Capital A/c:		Debtors	9,700
A	30,000	Stock	20,000
B	20,000	Machinery	35,000
		Buildings	50,000
	1,15,900		**1,15,900**

They decided to admit Chandar into partnership for 1/3rd share with following conditions:

(a) Chandar to bring ₹15,000 as capital.

(b) The value of stock and machinery to be depreciated by 10%.

(c) 5% provision for doubtful debts to be created on debtors.

(d) Value of buildings be appreciated by ₹9,600.

Prepare necessary Ledger Account and Balance Sheet.

(Madras Univ., BYA2A, Apr. 2012 (Adapted)

[Ans: New Ratio – 4:2:3; Revaluation Profit: ₹3,615; Capital Account: A – ₹32,410; B – ₹21,205, C – ₹15,000; Balance Sheet: ₹1,34,515]

54. P and N are partners, sharing profits and losses in the ratio of 7:5. Their balance sheet as on 31st December 2010 was as under:

Liabilities	*(₹)*	*Assets*		*(₹)*
Capital Account:		Land & Buildings		1,60,000
P	1,20,000	Plant		40,000
N	1,00,000	Investments		80,000
Reserve Fund	40,000	Stock		44,000
Creditors	64,000	Debtors	20,000	
Bills Payable	27,200	(–) Provision for Bad Debts	800	19,200
		Cash		8,000
	3,51,200			**3,51,200**

They desired to admit 'R' into partnership with effect from 1st January 2011, subject to following terms:

(a) 'R' shall bring a capital of ₹80,000 for 1/3rd profits.

(b) Goodwill was valued at ₹1,44,000.

(c) Land was to be revalued at ₹1,80,000 and investments at ₹1,00,000.

(d) Stock to be depreciated by ₹8,000.

(e) Provision for doubtful debts to be increased to ₹1,200.

(f) An amount of ₹2,000 included in creditors is no longer payable.

Show Revaluation Account, Capital Account and Balance Sheet.

(Madras Univ., Apr. 2012, BPZ2A/BPF2A/ BPC2A/BPG2A/SBAML (1/2 figure)

[Ans: Revaluation Profit: ₹33,600; Capital Account: P – ₹1,90,933; N – ₹1,50,667, R – ₹32,000; Balance Sheet: ₹4,62,800]

55. Prasanna and Nirmala were sharing profits and losses in the ratio of 7:5. Their Balance Sheet as on 31.12.2004 was as under:

Liabilities	₹	*Assets*	₹
Sundry Liabilities	32,000	Land	80,000
Capital:		P & M	20,000
Prasanna	60,000	Investment	40,000
Nirmala	50,000	Stock	22,000

(Contd.)

Reserve fund	20,000	Debtors	10,000	
		(–) Provision	400	9,600
Bills payable	13,600	Cash		4,000
	1,75,600			**1,75,600**

On the above date they admit Parimala for 1/3rd share of profits on following terms:

(a) Parimala shall bring in a capital of ₹40,000.
(b) Goodwill was valued at ₹72,000.
(c) Land was to be revalued at ₹90,000 and investments at ₹50,000.
(d) Stock to be written down by ₹4,000.
(e) Provision for doubtful debts to be increased to ₹600.
(f) Creditors include ₹1,000, no longer payable.

Show necessary Ledgers and Balance Sheet after admission of partner.

[Alagappa Univ., May 2017, B.Com.]

[Ans: Revaluation Profit: ₹16,800;
Prasanna's Capital: ₹95,467; Nirmala's Capital: ₹75,333;
Parimala's Capital: ₹16,000; Balance Sheet: ₹2,31,400]

CHAPTER

21

Retirement, Retirement Cum Admission and Death of Partner

Learning Objectives

After studying this chapter, you will be able to:

- Understand the theoretical background of partners retirement.
- Acquaint with the procedure of treatment of goodwill and calculation of gaining ratio.
- Understand the modes of settlement.
- Solve problems on retirement.

Section 32(1) of Partnership Act of 1932 allows a partner to retire from a partnership, due to personal issues or in accordance with the agreement made among partners. A partner can retire with the consent of partners or by giving notice at a reasonable time. At the time of retirement of a partner, the old firm is terminated and a new firm is constituted with the continuing partners themselves or with admission of a new partner.

21.1 Adjustments Required

The accounting treatment during the retirement of a partner is almost the same as the admission of a partner. In addition to the regular adjustments, the terms of settlement to the retiring partner need to be arrived at. A retiring partner may be settled immediately, paid in part by transferring the balance to his/her loan account or by transferring entire amount to loan account with an agreed rate of interest.

21.2 New Profit-sharing Ratio

› 21.1.1 When the Deed is Silent on the New Ratio after Retirement

In such a case, the mutual profit sharing ratio continues to be the same among the continuing partners.

✎ ILLUSTRATION 1:

X, Y, and Z are sharing profits and losses in the ratio 4:3:2. Y retires from the firm. Calculate new profit-sharing ratio, and gaining ratio.

Solution:

Since nothing is mentioned about the new ratio, the given ratio is only considered, i.e. 4:2 = 2:1.

∴ Gaining ratio is also presumed to be 2:1.

› 21.1.2 Continuing Partners Purchase the Retiring Partner's Share in Specified Ratio

In this case, multiplying the retiring partner's share with the agreed acquiring ratio gives the gaining ratio. The gaining ratio arrived at, is added with the old ratio of the continuing partners, to decide the new ratio.

✎ ILLUSTRATION 2:

P, Q and R are sharing profits and losses in the proportion of 5:3:2. P retires and his share is taken up by Q and R in the ratio of 2:1. Calculate New Ratio.

Solution:

P's share = 5/10

Q's gain = 5/10 × 2/3 = 10/30

R's gain = 5/10 × 1/3 = 5/30

New Ratio = Old Ratio + Gaining Ratio

New Ratio (Q) = 3/10 + 10/30 = 9/30 + 10/30 = 19/30

New Ratio (R) = 2/10 + 5/30 = 6/30 + 5/30 = 11/30

New Profit-sharing Ratio = 19:11

✎ ILLUSTRATION 3:

A, B and C were partners in a firm, sharing profits and losses in the ratio of 5:4:1. 'A' retires from the firm. Calculate New Profit-sharing Ratio.

(Madras University, April 2016, BYA2C/CYA2A)

Solution:

Since nothing is mentioned about the new ratio or the gaining ratio, the partners will continue in the same ratio leaving retiring partner's share.

∴ New profit-sharing ratio = 4:1

21.3 GAINING RATIO

Due to the retirement of partner/partners, the continuing partners' share of profit increases. The ratio of such increase is called gaining ratio. This is calculated by subtracting the old ratio from new ratio.

Gaining Ratio = New Ratio – Old Ratio

Difference between Sacrificing and Gaining Ratios

Sacrificing Ratio	*Gaining Ratio*
1. Computed at the time of admission of a new partner.	Calculated during retirement of an existing partner.
2. It denotes the surrender of share of profit of old partners towards new partner.	It denotes the gaining of continuing partners after retirement.
3. Calculated to ascertain the compensation to be given to old partners.	Calculated to determine the compensation to the retiring partners.

✎ ILLUSTRATION 4:

X, Y and Z are partners, sharing profits and losses in the ratio 4:3:2. 'Y' retires, and X and Z agree to share future profits in the ratio of 5:3. Find out the Gaining Ratio.

(Madras Univ., Nov. 2015, BPZ2A/BPF2A/BPC2A/BPG2ASBAML)

Solution:

Gaining Ratio = New Ratio – Old Ratio

Gaining Ratio (of X) = 5/8 – 4/9 = (45/72) – (32/72) = 13/72

Gaining Ratio (of Z) = 3/8 – 2/9 = (27/72) – (16/72) = 11/72

∴ Gaining Ratio = 13:11

✎ ILLUSTRATION 5:

R, S and Q are partners with the ratio of 7:8:5. Q retires from the firm and the account due to him was fixed at ₹1,00,000. Calculate the New Ratio and Gaming Ratios, if:

(a) R contributes ₹60,000 and S contributes ₹40,000 to acquire Q's share.

(b) R pays ₹30,000 and S pays ₹70,000 to clear retiring partner's dues.

Solution:

Given, Old Ratio = 7:8:5

Case (a)

R contributes ₹60,000 and S contributes ₹40,000.
R and S acquire Q's share in the ratio of 3:2.

R's Gain = Q's Share × Acquiring Ratio
= 5/20 × 3/5 = 3/20
S's Gain = 5/20 × 2/5 = 2/20

∴ Gaining Ratio = 3:2

Calculation of New Ratio

New Ratio = Old Ratio + Gaining Ratio
New Ratio (R) = 7/20 + 3/20 = 10/20
New Ratio (S) = 8/20 + 2/20 = 10/20
New Ratio = 10:10 = 1:1

Case (b)

R contributes ₹30,000 and S pays ₹70,000
They acquire in the ratio of 3:7

R's Gain = Q's Share × Acquiring Ratio
= 5/20 × 3/10 = 15/200
S's Gain = 5/20 × 7/10 = 35/200
Ratio = 15:35 = 3:7
New Profit-sharing Ratio = Old Ratio + Gaining Ratio
R's New Ratio = 7/20 + 15/200
= (70/200) + (15/200) = 85/200
S's New Share = 8/20 + 35/200
= (80/200) + (35/200) = 115/200
New Profit-sharing Ratio = 85:115
= 17:23

21.4 Treatment of Goodwill

Since goodwill is the value of reputation of the business over the years, the retiring partner is entitled to his share of goodwill, which is to be credited to his capital account. The treatment of goodwill on retirement is as follows:

(a) When no goodwill appears in books

Under this situation, the value of goodwill is raised at the time of retirement. The retiring partner's share of goodwill is calculated and shared by the continuing partners in their gaining ratio.

Continuing Partner's Capital A/c	Dr.	xxx	
To Retiring Partner's Capital A/c			xxx

(Being retiring partner's share of goodwill credited to his account)

(b) When goodwill already appears in the books

The goodwill appearing in the books is written off to all partners in old ratio. The share of retiring partner alone is calculate and treated as said above.

(i) Partners' Capital A/c	Dr.	xxx	
To Goodwill A/c			xxx
(Being goodwill written off)			
(ii) Continuing Partner's Capital A/c	Dr.	xxx	
To Retiring Partner's Capital A/c			xxx
(Being retiring partner's share of goodwill credited to his account)			

Self-generated Goodwill as an Asset

Goodwill is an intangible asset that is used to value the firm when critical decisions are made like admission, retirement, settlement, etc., However, this value is generated based on assumptions like past years profits and no of years of purchase. This is called 'Self-Generated Goodwill' and accounting for the same is not allowed as per Accounting Standard 26 – Intangible assets and Ind AS 38 – Intangible assets

According to the standard, an intangible must go through the research stage and development stage. Since there is no research stage for this goodwill, the same cannot be recognised in the books as per AS 26 and Ind AS 38. Thus, only capital adjustment is possible for the purpose of accommodating the goodwill in the books.

✎ ILLUSTRATION 6:

A, B and C are in partnership, sharing profits and losses in the ratio 3:2:1. 'A' retires from the firm. The goodwill of the firm is fixed at ₹24,000. Pass journal entries for goodwill when,

(a) the goodwill is recorded in books.

(b) goodwill is raised and written off.

(Madras Univ., Nov. 2012, BPZ2A/C2A/P2A/G2A/SBAML)

Solution:

(a) A's Capital A/c	Dr.	₹12,000	
To B's Capital A/c			₹8,000
To C's Capital A/c			₹4,000

(Being goodwill raised in books and retiring partner's goodwill shared by continuing partners)

(b)	Goodwill A/c	Dr.	₹24,000	
	To A's capital a/c			₹12,000
	To B's capital a/c			₹8,000
	To C's capital a/c			₹4,000
	(Being goodwill raised in books)			
	B's Capital A/c	Dr.	₹16,000	
	C's Capital A/c	Dr.	₹8,000	
	To Goodwill A/c			₹24,000
	(Being goodwill written off)			

✎ ILLUSTRATION 7:

R, S and T are partners, sharing profits and losses in the ratio of 3:2:1. R decided to retire from the business, while S and T continue the business, sharing profits and losses in the ratio 3:2. The goodwill of the firm is valued at ₹25,000. Pass entries for goodwill, when R's share of goodwill is given to him without raising goodwill account. **(Madras Univ., Apr. 2014, BYA2A)**

Solution:

Given,

Old Ratio = R:S:T = 3:2:1
New Ratio = S:T = 3:2
Gaining Ratio = NR – OR
Gaining Ratio (S) = 3/5 – 2/6 = 18 – 10/30 = 8/30
Gaining Ratio (T) = 2/5 – 1/6 = 12 – 5/30 = 7/30
∴ Gaining Ratio = 8:7

Particulars		*Dr.*	*Cr.*
S's Capital A/c	Dr.	6,667	
T's Capital A/c	Dr.	5,833	
To R's Capital A/c			12,500
(Being goodwill of retiring partner debited to other partners)			

Comprehensive Sums

✎ ILLUSTRATION 8:

Chitra, Mitra and Uthra are partners with a sharing ratio of 1/3, 1/2 and 1/6 respectively. Their Balance Sheet, as on 31st December 2010 was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	50,000	Buildings	1,00,000
Loan	30,000	Machinery	80,000

(Contd.)

Reserve Fund	32,000	Furniture		20,000
Capitals:		Stock		50,000
Chitra	60,000	Debtors	36,000	
Mitra	80,000	(–) Provision	1,000	35,000
Uthra	50,000			
		Cash		17,000
	3,02,000			**3,02,000**

Uthra retires on 3rd December 2010, subject to the following terms:

(a) Goodwill is valued at ₹48,000.

(b) Machinery to be depreciated by 10% and furniture by 5%.

(c) Stock to be appreciated by 15%.

(d) To appreciate buildings by 10%.

(e) Reserve for doubtful debts to be raised to ₹4,000.

Prepare necessary Ledgers and show the Balance Sheet of the new firm.

(Madras Univ., Nov. 2013/Apr. 2013, BY A2A, 1/2 figures)

Solution:

Revaluation Account

Particulars		*(₹)*	*Particulars*	*(₹)*
To Machinery		8,000	By Stock	7,500
To Furniture		1,000	By Building	10,000
To Provision for Doubtful debts		3,000		
To Profit (Bal. fig.)				
Chitra	**1,833**			
Mitra	**2,750**			
Uthra	**917**	**5,500**		
		17,500		**17,500**

Capital Account

Particulars	*Chitra (₹)*	*Mitra (₹)*	*Uthra (₹)*	*Particulars*	*Chitra (₹)*	*Mitra (₹)*	*Uthra (₹)*
To Uthra's Loan A/c	—	—	64,250	By Balance b/d	60,000	80,000	50,000
To Uthra's Capital	3,200	4,800	—	By Reserve	10,667	16,000	5,333

(Contd.)

To Balance c/d (Bal. fig.)	**69,300**	**93,950**	—	By Revaluation	1,833	2,750	917
				By Chitra and Mitra Capital (Goodwill)	—	—	8,000
	72,500	**98,750**	**64,250**		**72,500**	**98,750**	**64,250**

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*
Chitra's Capital A/c	69,300	Building	1,10,000
Mitra's Capital A/c	93,950	Machinery	72,000
Uthra's Loan A/c	64,250	Furniture	19,000
Creditors	50,000	Stock	57,500
Loan A/c	30,000	Debtors (36,000 – 4,000)	32,000
		Cash	17,000
	3,07,500		**3,07,500**

✎ ILLUSTRATION 9:

Neela and Mala are partners with the ratio 3:2. The Balance Sheet is as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital A/c:		Machinery	3,00,000
Neela	3,00,000	Stock	2,40,000
Mala	2,25,000	Debtors	2,25,000
Reserve	2,25,000	Bank	90,000
Sundry Creditors	1,12,500	Cash	7,500
	8,62,500		**8,62,500**

Mala retires on the following terms:

(a) To depreciate machinery by 7.5% and stock by 15%.

(b) A provision for bad debts is to be made at 5% on debtors and 2% reserve against creditors.

(c) The goodwill of the firm is valued as ₹3,75,000.

Prepare Revaluation Account, Partner's Capital Account and Balance Sheet, after Mala's retirement.

(Madras Univ., BBM, Mar. 1997, 1/10 figures)

Solution:

Revaluation Account

Particulars	*(₹)*	*Particulars*		*(₹)*
To Machinery	22,500	By Reserve on Creditors		2,250
To Stock	36,000	**By Loss (Bal. fig.)**		
To Provision for Doubtful Debts	11,250	**Neela**	**40,500**	
		Mala	**27,000**	**67,500**
	69,750			**69,750**

Capital Accounts

Particulars	*Neela (₹)*	*Mala (₹)*	*Particulars*	*Neela (₹)*	*Mala (₹)*
To Revaluation Loss	40,500	27,000	By Balance b/d	3,00,000	2,25,000
To Mala's Capital (goodwill)	1,50,000	—	By Reserve	1,35,000	90,000
To Loan A/c	—	4,38,000	By Neela's Capital (goodwill)	—	1,50,000
To Balance c/d	2,44,500	—			
	4,35,000	**4,65,000**		**4,35,000**	**4,65,000**

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*
Neela's Capital	2,44,500	Machinery (3,00,000 – 22,500)	2,77,500
Mala's Loan	4,38,000	Stock (2,40,000 – 36,000)	2,04,000
Creditors (1,12,500 – 2,250)	1,10,250	Debtors (2,25,000 – 11,250)	2,13,750
		Bank	90,000
		Cash	7,500
	7,92,750		**7,92,750**

✎ ILLUSTRATION 10:

A, B and C are partners, sharing profits and losses in the ratio 4:3:3. Their Balance Sheet as on 31st March 2015 is as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
A's Capital	1,40,000	Land & Buildings	1,40,000
B's Capital	1,00,000	Plant	1,00,000
C's Capital	60,000	Furniture	60,000
Creditors	1,00,000	Stock	40,000
		Debtors	40,000
		Cash	20,000
	4,00,000		**4,00,000**

B retires on the above date, on the following conditions:

(a) Land and buildings are revalued at ₹1,60,000.

(b) To depreciate plant and furniture by 10%.

(c) To create provision for doubtful debts at 5% on debtors.

(d) Goodwill is to be valued at ₹32,000 and B's share to be adjusted in the capital accounts of A and C and their new ratio is 3:2.

(e) B to be paid ₹10,000 in cash and balance is to be transferred to Loan Account.

(f) The capital of the new firm is to be fixed at ₹1,92,000 between A and C in the ratio 3:2. Due to this, actual cash to be brought in or paid off as the case may be.

Prepare necessary Accounts and new Balance Sheet of the firm.

Solution:

Gaining Ratio = New Ratio – Old Ratio
Gaining Ratio (A) = 3/5 – 4/10 = 6/10 – 4/10 = 2/10
Gaining Ratio (C) = 2/5 – 3/10 = 4/10 – 3/10 = 1/10
Gaining Ratio = 2:1

Revaluation Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Plant	10,000	By Land & Buildings	20,000
To Furniture	6,000		

(Contd.)

To Provision on Debtors		2,000		
To Profit (Bal. fig.)				
A	**800**			
B	**600**			
C	**600**	**2,000**		
		20,000		**20,000**

Capital Account

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	*Particulars*	*A* (₹)	*B* (₹)	*C* (₹)
To B's Capital A/c	6,400	—	3,200	By Balance b/d	1,40,000	1,00,000	60,000
To Cash	—	10,000	—	By Revaluation	800	600	600
To Loan	—	1,00,200	—	By A & C's Capital (goodwill)	—	9,600	—
To Cash (Bal. fig.)	**19,200**	**—**	**—**	**By Cash A/c (Bal. fig.)**	**—**	**—**	**19,400**
To Balance c/d	1,15,200	—	76,800				
	1,40,800	**1,10,200**	**80,000**		**1,40,800**	**1,10,200**	**80,000**

Balance Sheet as on 31.3.2015

Liabilities	*(₹)*	*Assets*	*(₹)*
A's Capital	1,15,200	Land & Building	1,60,000
C's Capital	76,800	Plant	90,000
B's Loan	1,00,200	Furniture	54,000
Creditors	1,00,000	Stock	40,000
		Debtors	38,000
		Cash (20,000 + 19,400 – 10,000 – 19,200)	10,200
	3,92,200		**3,92,200**

Calculation of Capital:

Total Capital = ₹1,92,000

A's Capital = ₹1,92,000 × 3/5 = 1,15,200

C's Capital = ₹1,92,000 × 2/5 = 76,800

✎ ILLUSTRATION 11:

K, L and M are partners with a ratio 5:3:2. The Balance Sheet as on 31st December 2006 as under.

Liabilities	*(₹)*	*Assets*		*(₹)*
Creditors	31,000	Cash at Bank		40,000
Reserve Fund	20,000	Debtors	31,500	
		(–) Provision	500	31,000
Capital: K	80,000	Stock		20,000
L	60,000	Machinery		50,000
M	30,000	Buildings		80,000
	2,21,000			**2,21,000**

M retires on 1st January 2007, subject to following conditions:

(a) To appreciate buildings by 10%.

(b) Goodwill is to be raised at ₹20,000.

(c) The retiring partner shall be paid immediately.

Prepare Revaluation Account and Capital Account.

(Madras Univ., Nov. 2015, BPZ2A/F2A/C2A/G2A/SBAML)

Solution:

Revaluation Account

Particulars		*(₹)*	*Particulars*	*(₹)*
To Profit:			By Buildings	8,000
K	4,000			
L	2,400			
M	1,600	8,000		
		8,000		**8,000**

Capital Account

Particulars	*K (₹)*	*L (₹)*	*M (₹)*	*Particulars*	*K (₹)*	*L (₹)*	*M (₹)*
To Cash A/c	—	—	39,600	By Balance b/d	80,000	60,000	30,000
To M's Capital	2,500	1,500	—	By Revaluation	4,000	2,400	1,600

(Contd.)

To Balance c/d (Bal. fig.)	**91,500**	**66,900**	—	By K & L Capital	—	—	4,000
				By Reserve	10,000	6,000	4,000
	94,000	**68,400**	**39,600**		**94,000**	**68,400**	**39,600**

21.5 RETIREMENT CUM ADMISSION

✎ ILLUSTRATION 12:

Sathya, Udaya and Vidhya are partners, sharing profits in the ratio 3:2:1. Their Balance Sheet was as follows:

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*
Sathya's Capital A/c	2,10,000	Goodwill	60,000
Udaya's Capital A/c	1,50,000	Fixed Assets	2,70,000
Vidhya's Capital A/c	90,000	Current Assets	2,40,000
Current Liabilities	1,38,000	Cash	18,000
	5,88,000		**5,88,000**

Udaya retires from the firm, whose interest was valued at ₹2,40,000. Sathya and Vidhya purchased Udaya's share, by bringing in cash in their profit-sharing ratio.

On retirement of Udaya, her son Vasu was admitted into the business on the following conditions:

(a) Vasu brings in ₹1,50,000 for 1/4 share, which he obtained from Sathya.

(b) Goodwill was valued at nil and was written off.

(c) Fixed assets are to be valued at ₹4,20,000 before Vasu's admission.

(d) The capitals of Sathya and Vidhya are to be adjusted on the basis of Vasu's capital, according to the new profit-sharing ratio.

Prepare Revaluation Account, Capital Account and Balance Sheet after Vasu's admission.

Solution:

Capital Account
(At the time of retirement)

Particulars	*Sathya (₹)*	*Udaya (₹)*	*Vidhya (₹)*	*Particulars*	*Sathya (₹)*	*Udaya (₹)*	*Vidhya (₹)*
To Goodwill A/c	67,500	—	22,500	By Balance c/d	2,10,000	1,50,000	90,000
To Cash A/c	—	2,40,000	—	By Goodwill (hidden)	—	90,000	—
To Balance c/d (Bal. fig.)	**2,55,000**	**—**	**1,05,000**	By Cash A/c	1,12,500	—	37,500
	3,22,500	**2,40,000**	**1,27,500**		**3,22,500**	**2,40,000**	**1,27,500**

Revaluation Account
(At the time of admission)

Particulars		*(₹)*	*Particulars*	*(₹)*
To Profit:			By Fixed assets	1,50,000
Sathya's Capital	1,12,500			
Vidhya's Capital	37,500	1,50,000		
		1,50,000		1,50,000

Capital Account
(At the time of admission)

Particulars	*Sathya (₹)*	*Vidhya (₹)*	*Vasu (₹)*	*Particulars*	*Sathya (₹)*	*Vidhya (₹)*	*Vasu (₹)*
To Goodwill A/c	45,000	15,000	—	By Balance b/d	2,55,000	1,05,000	—
To Cash (Bal. fig.)	**22,500**	**—**	**—**	By Revaluation A/c	1,12,500	37,500	—
To Balance c/d (Bal. fig.)	**3,00,000**	**1,50,000**	**1,50,000**	By Cash	—	22,500	1,50,000
	3,67,500	**1,65,000**	**1,50,000**		**3,67,500**	**1,65,000**	**1,50,000**

Working Notes:

Ratio of Sathya and Vidhya after Udaya's retirement = 3:1

Vasu gets 1/4 share from Sathya.

∴ New profit ratio = 2:1:1

Vasu brings ₹1,50,000 for 1/4 share. Hence, total capital of the firm is ₹6,00,000.

∴ Capital of Sathya = 6,00,000 × 2/4 = 3,00,000
Capital of Vidhya = 6,00,000 × 1/4 = 1,50,000
Capital of Vasu = 1,50,000

Balance Sheet

Liabilities		*(₹)*	*Assets*	*(₹)*
Capital A/c:			Cash	78,000
Sathya	3,00,000		Current Assets	2,40,000
Vidhya	1,50,000		Fixed Assets	4,20,000
Vasu	1,50,000	6,00,000		
Current Liabilities		1,38,000		
		7,38,000		**7,38,000**

Cash Account

Particulars	*(₹)*	*Particulars*	(₹)
To Balance b/d	18,000	By Udaya's Capital	2,40,000
To Vidhya's Capital	22,500	By Sathya's Capital	22,500
To Vasu's Capital	1,50,000	**By Balance c/d (Bal. fig.)**	**78,000**
To Sathya's Capital	1,12,500		
To Udaya's Capital	37,500		
	3,40,500		**3,40,500**

✎ ILLUSTRATION 13:

P and Q are partners, sharing profits and losses equally. On 31st March 2010, P decided to retire and he was replaced by R, who was admitted from 1st April 2011 for 1/3 share of profit, on the following conditions:

(a) Investment to be taken by the retiring partner at book value.

(b) To increase the value of building by ₹26,500.

(c) To value goodwill at ₹24,000.

(d) Q and R to introduce sufficient capital to settle retiring partner and leave a cash balance of ₹23,500 and balance of capital of new partners to be in their new profit-sharing ratio.

Prepare necessary Accounts and show the Balance Sheet after admission of R.

Balance Sheet as on 31.03.2010

Liabilities	*(₹)*	*Assets*	*(₹)*
P's Capital	1,73,750	Cash	52,800
Q's Capital	1,53,600	Debtors	77,200
Creditors	32,000	Investments	38,400
Bills Payable	15,000	Furniture	29,950
		Buildings	1,28,000
		Goodwill	48,000
	3,74,350		**3,74,350**

Solution:

Revaluation Account

Particulars		*(₹)*	*Particulars*	*(₹)*
To Profit:			By Buildings	26,500
P's Capital	13,250			
Q's Capital	13,250	26,500		
		26,500		**26,500**

Capital Account

Particulars	*P* *(₹)*	*Q* *(₹)*	*R* *(₹)*	*Particulars*	*P* *(₹)*	*Q* *(₹)*	*R* *(₹)*
To Goodwill	24,000	24,000	—	By Balance b/d	1,73,750	1,53,600	—
To P's Capital	—	32,000		By Re-valuation	13,250	13,250	—
To Bank	1,56,600			By Q's Capital	32,000		—
To Investments	38,400	—	—	By Bank	—	90,583	1,00,717
To Balance c/d	—	2,01,433	1,00,717				
	2,19,000	**2,57,433**	**1,00,717**		**2,19,000**	**2,57,433**	**1,00,717**

Cash Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	52,800	By P's Capital	1,56,600
To Q's Capital	90,583	**By Balance c/d (Bal. fig.)**	**87,500**
To R's Capital	1,00,717		
	2,44,100		**2,44,100**

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*
Q's Capital	2,01,433	Buildings	1,54,500
R's Capital	1,00,717	Furniture	29,950
Creditors	32,000	Debtors	77,200
Bills Payable	15,000	Cash	87,500
	3,49,150		**3,49,150**

Working Notes:

Calculation of capitals of Q & R

Value of Net Assets = Goodwill + Debtors + Furniture + Buildings + Cash – Creditors – Bills payable

= 64,000 + 77,200 + 29,950 + 1,54,500 + 23,500 – 32,000 – 15,000

Total Capital of Q & R = ₹3,02,150

Q's Capital = 3,02,150 × 2/3 = ₹2,01,433

R's Capital = 3,02,150 × 1/3 = ₹1,00,717

21.6 Death of a Partner

Death of a partner is similar to retirement, except that, his dues are paid to his executors. The deceased partner's executor will be paid according to the terms of deed. Generally, he is entitled to:

(a) the capital standing to the credit of the deceased partner

(b) his share of goodwill

(c) his share of profit according to the terms agreed

(d) his share of profit on revaluation of assets and liabilities

(e) his share in the accumulated reserves

(f) salary due, if any

(g) interest on capital

(h) share in the joint life policy

At the same time, his account will be charged with his share of loss on revaluation, share in accumulated losses and interest on drawings, if any.

The settlement may be made as a lump-sum payment or in instalments, along with the agreed rate of interest.

✎ ILLUSTRATION 14:

Following is the Balance Sheet of Raj, Dev and Vasu as on 31st December 2009.

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital:			
Raj	20,000	Cash	10,400
Dev	10,000	Debtors	12,000
Vasu	10,000	Stock	8,000
Reserve	6,400	Plant	12,000
Creditors	4,000	Goodwill	8,000
	50,400		**50,400**

Vasu died on 14th March 2010. Under the terms of partnership deed the executors of decreased partner were entitled to the:

(a) amount standing to the credit partner's capital account,

(b) interest on capital balance at 5% p.a.,

(c) share of goodwill, on the basis of twice the average of the past three-years' profit, and

(d) share of profits from the closing of the last financial year to the date of death, on the basis of average of three completed years' profits before death.

Profit for 2007, 2008 and 2009 were ₹12,000, ₹14,000 and ₹16,000 respectively. Profits were shared in the ratio of capitals.

Draw up Vasu's Account, to be rendered to his executives.

(Madras Univ., Nov. 2012, Nov. 2014, BYA2A)

Solution:

Working Notes:

1. **Calculation of Average Profit**

$$\text{Average Profit} = \frac{12,000 + 14,000 + 16,000}{3}$$

$$= ₹14,000$$

2. **Calculation of Vasu's share of profit**

Number of days Vasu is in business = 31 + 28 + 14 days

= 73 days

Share of Profit = 14,000 × 1/4 × 73/365

= ₹700

3. **Calculation of Goodwill**

Goodwill = Average Profits × 2 years

= 14,000 × 2

Goodwill = ₹28,000

Vasu's Share = 28,000 × 1/4 = ₹7,000 to be shared by Raj and Dev in the ratio 2:1

Vasu's Capital Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Goodwill	2,000	By Balance b/d	10,000
To Executor's A/c	17,400	By Reserve (6,400 × 1/4)	1,600
		By Raj's Capital (7,000 × 2/3)	4,667
		By Dev's Capital (7,000 × 1/3)	2,333
		By P & L Appropriation A/c	700
		By Interest on Capital (10,000 × 5/100 × 23/365)	100
	19,400		**19,400**

✎ ILLUSTRATION 15:

Ravi, Ramesh and Raja were in partnership with an agreed profit-sharing ratio of 6:1:1. Their Balance Sheet on 31st December 2009 was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	1,50,000	Plant	3,00,000
Capital:		Debtors	2,10,000
Ravi	3,00,000	Stock	1,20,000
Ramesh	1,80,000	Bank	1,50,000
Raja	1,50,000		
	7,80,000		**7,80,000**

Raja died on 30th September 2010 and the deed provided the following:

(a) The deceased partner to be given his share of profit till date of death, on the basis of last year's profits. The profits for the last four years were as follows:

2006: ₹4,80,000; 2007: ₹3,60,000; 2008: ₹2,40,000; 2009: ₹1,20,000.

(b) Raja will be entitled to his share of goodwill of the firm, calculated at 1 year purchase of last 4 years of profit.

(c) On the date of his death, the plant was revalued at ₹2,90,000 and provision for doubtful debts to be created at ₹5,000; ₹10,000 included in creditors is no longer a liability.

Prepare Raja's Capital Account to compute the amount to be transferred to his Executor's Account.

Solution:

Working Notes:

1. **Calculation of Profit**

Profit for 9 months = ₹1,20,000 × 9/12

= ₹90,000

Raja's Share = ₹90,000 × 1/8 = ₹11,250

2. **Calculation of Goodwill**

$$\text{Average Profit} = \frac{4,80,000 + 3,60,000 + 2,40,000 + 1,20,000}{4}$$

= ₹3,00,000

Raja's Share of Goodwill = ₹3,00,000 × 1/8

= ₹37,500 (to be shared by Ravi & Ramesh in 6:1)

Revaluation Account

Particulars	*(₹)*	*Particulars*		*(₹)*
To Plant	10,000	By Creditors		10,000
To Provision on Debtors	5,000	By Loss:		
		Ravi	3,750	
		Ramesh	625	
		Raja	625	5,000
	15,000			**15,000**

Raja's Capital Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Revaluation	625	By Balance c/d	1,50,000
To Executor A/c (Bal. fig.)	**1,98,125**	By Ravi's Capital	32,143
		By Ramesh's Capital	5,357
		By P & L Appropriation A/c	11,250
	1,98,750		**1,98,750**

✎ ILLUSTRATION 16:

Nikhil and Mathew were partners. The profits are divided as Nikhil: 1/2; Mathew: 1/3 and reserve: 1/6. Their partnership deed provided that on death of a partner, his executor is entitled to:

(a) capital to his credit

(b) his share of reserves

(c) his portion of profits from the beginning of the year to date of death, based on average profits of three preceding completed years.

(d) his share of goodwill, based on the total profits of three preceding years.

Their Balance Sheet on 31st December 2013 was as follows:

Balance Sheet

Liabilities	*(₹)*	*Assets*	*(₹)*
Nikhil's Capital	56,700	Stock	6,30,000
Mathew's Capital	37,800	B/R	12,600
Reserve	18.900	Investments	31,500
Creditors	18,900	Cash	25,200
	1,32,300		**1,32,300**

The profits the last years were ₹26,460, ₹24,570 and ₹28,350. Mathew died on 1st May 2014. Show up his Executor's Account.

Solution:

Working Notes:

1. **Calculation of Profit**

$$\text{Average Profit} = \frac{26{,}460 + 24{,}570 + 28{,}350}{3}$$

$$= ₹26{,}460$$

$$\text{Mathew's Share of Profit} = 26{,}460 \times 2/5 \times 4/12$$

$$= ₹3{,}528$$

2. **Calculation Goodwill**

Goodwill = Total Profits of last 3 years
= ₹26,460 + 24,570 + 28,350
= ₹79,380

Mathew's Share of Goodwill = 79,380 × 2/5
= ₹31,752

Mathew's Capital Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Executor's A/c	80,640	By Balance c/d	37,800
		By Reserve	7,560
		By Nikhil's Capital A/c	31,752
		By P & L Appropriation	3,528
	80,640		**80,640**

✎ ILLUSTRATION 17:

Ram, Raja and Ravi were partners, with sharing ratio of 3:2:5 respectively. Their Balance Sheet on 31st December 2016 stood as follows:

Balance Sheet

Liabilities		*(₹)*	*Assets*	*(₹)*
Creditors		2,75,000	Goodwill	1,25,000
General Reserve		1,50,000	Buildings	5,00,000
Capital:			Furniture	1,50,000
Ram	7,50,000		Plant & Machinery	7,50,000
Raja	6,25,000		Stock	2,00,000
Ravi	3,75,000	17,50,000	Debtors	2,50,000
			Cash	2,00,000
		21,75,000		**21,75,000**

Ravi died on 1st June 2017. It was agreed that,

(a) Goodwill to be valued at 2 years purchase of average profit of last four years. The profits were as follows:

2013: ₹3,25,000; 2014: ₹3,00,000; 2015: ₹4,00,000; and 2016: ₹3,75,000.

(b) To revalue machinery at ₹7,00,000; furniture at ₹2,00,000 and buildings at ₹6,25,000.

(c) The deceased partner's share of profit will be based on the last year's profit.

(d) A sum of ₹12,000 to be paid immediately out of the balance transferred to Executor's Account.

Pass necessary Journal Entries and prepare Ravi's Executor's Account.

Solution:

Working Notes:

1. **Calculation of Goodwill**

$$\text{Average Profits} = \frac{3,25,000 + 3,00,000 + 4,00,000 + 3,75,000}{4}$$

$$= ₹3,50,000$$

$$\text{Goodwill} = ₹3,50,000 \times 2$$

$$= ₹7,00,000$$

$$\text{Ravi's Share in Goodwill} = 7,00,000 \times 5/10$$

$$= ₹3,50,000$$

2. **Calculation of Share of Profit**

Profit is on basis of profit of 2016.

$$\text{Ravi's Share of Profit} = ₹3,75,000 \times 5/12 \times 5/10$$

$$= ₹78,125$$

3. **Journal Entries**

S. No.	*Particulars*		*Debit (₹)*	*Credit (₹)*
1.	Furniture A/c	Dr.	50,000	
	Buildings A/c	Dr.	1,25,000	
	To Revaluation A/c			1,75,000
	(Being profit items on revaluation recorded)			
2.	Revaluation A/c	Dr.	50,000	
	To Plant A/c			50,000
	(Being reduction in value of plant recorded in Revaluation Account)			
3.	Revaluation A/c	Dr.	1,25,000	
	To Ravi's Capital A/c			31,500
	To Raja's Capital A/c			25,000
	To Ravi's Capital A/c			62,500
	(Being profit on revaluation transferred to Partner's Capital Account)			

(Contd.)

4.	Ram's Capital A/c	Dr.	2,10,000	
	Raja's Capital A/c	Dr.	1,40,000	
	Reserve A/c	Dr.	75,000	
	To Ravi's Capital A/c			4,25,000
	(Being Ravi's share of reserve and goodwill transferred to Capital Account)			
5.	P & L Appropriation A/c	Dr.	78,125	
	To Ravi's Capital A/c			78,125
	(Being Ravi's share of profit till date of death transferred to Capital Account)			
6.	Ravi's Capital A/c	Dr.	62,500	
	To Goodwill			62,500
	(Being Goodwill written off)			
7.	Ravi's Capital A/c	Dr.	8,78,125	
	To Ravi's Executor A/c			8,78,125
	(Being amount due to deceased partner transferred to his Executors Account)			

4. **Revaluation Account**

Particulars		*(₹)*	*Particulars*	*(₹)*
To Plant & Machinery		50,000	By Furniture	50,000
To Profit (Bal. fig.):			By Buildings	1,25,000
Ram	**37,500**			
Raja	**25,000**			
Ravi	**62,500**	**1,25,000**		
		1,75,000		**1,75,000**

5. **Ravi's Capital Account**

Particulars	*(₹)*	*Particulars*	*(₹)*
To Goodwill	62,500	By Balance b/d	3,75,000
To Executor's A/c (Bal. fig.)	**8,78,125**	By Revaluation A/c	62,500
		By Ram's Capital A/c	2,10,000
		By Raja's Capital A/c	1,40,000
		By P & L Appropriation A/c	78,125
		By Reserve (1,50,000 × 5/10)	75,000
	9,40,625		**9,40,625**

21.7 JOINT LIFE POLICY

In order to meet out the cash requirement at the time of settlement to the executor of the deceased partner, the partners may opt to take an insurance policy–either a Joint Life Policy or Individual Policies. They pay an amount called premium to the insurance company to keep the policies alive. Since the Joint Life Policy is an asset to the firm, the profit or loss arising out of the policy is to be distributed among the partners including deceased partner. The claim received shall be credited to the Partners' Capital Account in their profit-sharing ratio.

In case individual policies are taken, the deceased partner shall be entitled not only for his sum assured but also a share from the surrender values of other partners' policies too.

› 21.7.1 Treatment of Joint Life Policy (JLP)

1. The premium is treated as an expense:

The premium paid is treated as an expense and charged to the Profit and Loss Account every year. The claim amount received on the death of a partner is distributed to the partners in their profit-sharing ratio. The journal entries related to this are:

	Particulars		*Debit* (₹)	*Credit* (₹)
(a)	**When premium is paid:**			
	Joint Life Policy Premium A/c	Dr.	xxx	
	To Bank A/c			xxx
	(on the date of payment)			
	Profit & Loss A/c	Dr.	xxx	
	To JLP Premium A/c			xxx
	(at the end of the year to charge to P & L)			
(b)	**Amount received at the time of death of insured**			
	Bank A/c	Dr.	xxx	
	To JLP A/c			xxx
	(Being cash received as claim)			
(c)	**Received claim is distributed**			
	JLP A/c	Dr.	xxx	
	To Partner's Capital A/c			xxx
	(Being claim amount distributed among partners.)			

✎ ILLUSTRATION 18:

Logu, Maha and Nanda were in a partnership, sharing profits and losses in the ratio 2:1:1. Individual life policies for ₹1,00,000, ₹50,000, and ₹50,000 were taken on Logu, Maha and Nanda respectively. The premium paid is charged to Profit and Loss Account and the accounts are closed on 31st December every year.

Nanda died on 31st March 2013. On this date, surrender values are 30% of the amount of policies. The deed agreed that the executor of deceased partner was entitled to:

(a) the capital of deceased partner in the last Balance Sheet.

(b) interest on the capital @ 9% p.a.

(c) the share of profit will be calculated on the basis of last year's profit.

(d) his share in the insurance policies.

(e) the interest on drawings to be charged at an average rate of 3%.

Nanda's capital as per Balance Sheet on 31st December 2012 was ₹3,00,000. He withdrew ₹40,000 during the year 2013 till the date of his death. The profit for the previous year was ₹2,00,000. Prepare Nanda's Capital Account.

Solution:

Nanda's Capital Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Interest on Drawings A/c	1,200	By Balance b/d	3,00,000
To Drawings A/c	40,000	By Interest on Capital	6,750
To Nanda's Executor A/c (Bal. fig.)	**3,01,800**	By P & L Suspense A/c	12,500
		By Life Policy A/c	23,750
	3,43,000		**3,43,000**

Working Notes:

1. Interest on Capital = ₹3,00,000 × 9/100 × 3/12 = ₹6,750
2. Interest on Drawings = ₹40,000 × 3/100 = ₹1,200
3. Nanda's Share of Profit:

   Profit for 3 months = 2,00,000 × 3/12 = ₹50,000

   (Based on last year profit)

   Nanda's Share = ₹50,000 × 1/4 = ₹12,500

4. Share in Life Polices:

   In case of individual life policies, the policy amount of deceased partner will be received in full and the policy of other partners will receive the surrender values.

Nanda's Sum Assured	₹50,000
Surrender Value of Logu (1,00,000 × 30%)	₹30,000
Surrender Value of Maha (50,000 × 30%)	₹15,000
Total Value of Life Policy	₹95,000

Nanda's Share = 95,000 × 1/4 = ₹23,750

✎ ILLUSTRATION 19:

M, N and O are partners with a profit sharing ratio 4:3:2. They took a Joint Life Policy on 1st April 2014 for ₹4,50,000 and the premium amount was fixed at ₹20,000. N died on 8th March 2016 and the claim amount was received on 31st March 2016. Pass Journal Entries.

Solution:

	Particulars	*2014–2015*		*2015–2016*	
		Debit (₹)	*Credit (₹)*	*Debit (₹)*	*Credit (₹)*
01.04	JLP* Premium A/c Dr.	20,000		20,000	
	To Bank A/c		20,000		20,000
31.03	P & L A/c Dr.	20,000		20,000	
	To JLP Premium A/c		20,000		20,000
	Bank A/c Dr.	—	—	4,50,000	
	To JLP A/c				4,50,000
	(Being claim received)				
	JLP A/c Dr.	—	—	4,50,000	—
	To M				2,00,000
	To N				1,50,000
	To O				90,000
	(Being claim received distributed)				

*Joint Life Policy

2. Premium treated as an asset (JLP A/c recorded at surrender value)

The Joint Life Policy is treated as an asset, as the policy has a surrender value at the end of second year. Surrender value is the amount paid by an insurance company before the maturity of policy/death of assured, and their sum is arrived at depending upon the years of premium paid and the amount of premium paid, if the partners opt to surrender the policy. Under this method, the premium paid is debited to the Joint Life Policy Account. At the end of each year, the policy is adjusted to its surrender value and the difference between the book value and surrender value is transferred to the Profit and Loss Account. The JLP A/c is shown at its surrender value in the Balance Sheet as an asset. The amount received on the death of the insured is credited in the JLP Account and then distributed to the partners.

Journal Entries

	Particulars		*Debit (₹)*	*Credit (₹)*
i.	**For payment of premium:**			
	JLP A/c	Dr.	xxx	
	To Bank A/c			xxx
	(Being annual premium paid)			
ii.	**At the end of the year**			
	Profit & Loss A/c	Dr.	xxx	
	To JLP A/c			xxx
	(For the difference between book value & surrender value)			
iii.	**For claim received**			
	Bank A/c	Dr.	xxx	
	To JLP A/c			xxx
	(Amount received from Insurance Company)			
iv.	JLP A/c	Dr.	xxx	
	To Partner's Capital A/c			xxx
	(Distribution of claim amount to partners)			

✎ ILLUSTRATION 20:

Arul, Bala and Chandru were partners, sharing profits and losses in the ratio 3:2:1. On 1st January 2012, they took out a policy for ₹4,00,000 at an annual premium of ₹25,000. On 1st April 2015, Bala died and the policy amount was received on 30th April 2015. The surrender values of policy on 31st December every year were:

2012: Nil ; 2013: ₹5,000; 2014: ₹8,000

Show the Ledger Accounts.

Solution:

Joint Life Policy Account

Date	*Particulars*	*Amount (₹)*	*Date*	*Particulars*	*Amount (₹)*
01.01.2012	To Bank A/c (Premium)	25,000	31.12.2012	By P & L A/c	25,000
		25,000			**25,000**
01.01.2013	To Bank A/c (Premium A/c)	25,000	31.12.2013	**By P & L A/c (Bal. fig.)**	**20,000**
				By Balance c/d	5,000
		25,000			**25,000**
01.01.2014	To Balance b/d	5,000	31.12.2014	By P & L A/c	22,000
	To Bank A/c	25,000		By Balance c/d	8,000
		30,000			**30,000**
01.01.2015	To Balance b/d	8,000	30.04.2015	By Bank A/c	4,00,000
	To Bank	25,000			
	To Capital A/c:				
	Arul 1,83,500				
	Bala 1,22,333				
	Chandru 61,167	3,67,000			
		4,00,000			**4,00,000**

3. Premium is treated as an asset and reserve account is maintained.

	Particulars		*Debit (₹)*	*Credit (₹)*
i.	**For payment of premium**			
	JLP A/c	Dr.	xxx	
	To Bank A/c			xxx
	(Being annual premium paid)			
ii.	**At the end of the year**			
	(i) P & L Appropriation A/c	Dr.	xxx	
	To JLP Reserve A/c			xxx
	(Amount of premium paid)			
	(ii) JLP Reserve A/c	Dr.	xxx	
	To JLP A/c			xxx
	(Difference between book value and surrender value)			

(Contd.)

iii.	**On death of a partner**			
	(i) JLP Reserve A/c	Dr.	xxx	
	To JLP A/c			xxx
	(With the amount standing to the credit of JLP Reserve Account)			
	(ii) Bank A/c	Dr.	xxx	
	To JLP A/c			xxx
	(For the amount received from Insurance Company)			
	(iii) JLP A/c	Dr.	xxx	
	To Partners Capital A/c			xxx
	(Amount of claim distributed to partners)			

✎ ILLUSTRATION 21:

For the data given in previous illustration, prepare necessary Ledger Accounts.

Solution:

Joint Life Policy Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
01.01.2012	To Bank A/c (premium)	25,000	31.12.2012	By JLP Reserve A/c	25,000
		25,000			**25,000**
01.01.2013	To Bank A/c (premium A/c)	25,000	31.12.2013	By JLP Reserve A/c	20,000
				By Balance c/d	5,000
		25,000			**25,000**
01.01.2014	To Balance b/d	5,000	31.12.2014	By JLP Reserve A/c	22,000
	To Bank A/c	25,000		By Balance c/d	8,000
		30,000			**30,000**
01.01.2015	To Balance b/d	8,000	30.04.2015	By JLP Reserve (transfer)	8,000
	To Bank A/c	25,000			
	To Partners Capital A/c (1,87,500 + 1,25,000 + 62,500)	3,75,000		By Bank A/c	4,00,000
		4,08,000			**4,08,000**

Joint Life Policy Reserve Account

Date	*Particulars*	*(₹)*	*Date*	*Particulars*	*(₹)*
31.31.2012	To JLP A/c	25,000	31.12.2012	By P & L Appropriation A/c	25,000
		25,000			**25,000**
31.12.2013	To JLP A/c To Balance c/d	20,000 5,000	31.12.2013	By P & L Appropriation A/c	25,000
		25,000			**25,000**
31.12.2014	To JLP A/c To Balance c/d	22,800 8,000	01.01.2014 31.12.2014	By Balance b/d By P & L Appropriation A/c	5,000 25,000
		30,000			**30,000**
30.04.2015	To JLP A/c (transfer)	8,000	01.01.2015	By Balance c/d	8,000
		8,000			**8,000**

■ *Theory Questions* ■

Short-Answer Questions

1. Who is a Retiring Partner?
2. What is Gaining Ratio?
3. What are Accumulated Reserves?
4. What is Executor's Account?
5. What is a Joint Life Policy?

Long-Answer Questions

1. Brief the treatment of goodwill during retirement of a partner.
2. Differentiate Sacrificing Ratio from Gaining ratio.
3. What are the payments to which a deceased partner's executor is entitled to?
4. What is a Joint Life Policy? Discuss its treatment in partnership.

■ *Exercise Problems* ■

New Ratio and Gaining Ratio

1. Mala, Nithya and Oviya are in a partnership. Their profit sharing ratio is 4:2:1. Find the New Ratio when:

(a) Mala retires

(b) Nithya retires

(c) Oviya retires

[Ans: New Ratio: (a) 2:1, (b) 4:1, (c) 2:1]

2. X, Y and Z are in a partnership with a ratio of 2:3:1. X retires. Calculate New Ratio and Gaining Ratio.

[Ans: New Ratio: 3:1, Gaining Ratio: 3:1]

3. A, B and C are in partnership with sharing ratio 7:3:5. 'A' retires, and 'B' and 'C' purchase his share in the ratio of 2:3. Find New Ratio and Gaining Ratio.

[Ans: New Ratio: 29:46, Gaining Ratio: 2:3]

4. Calculate the Gaining Ratio.

Old ratio of A, B and C is 3: 2: 1. B retires and the new ratio between A and C is 7: 3.

(Univ. of Madras, April 2006/PZ2A)

[Ans: Gaining Ratio: 12:18]

5. Amar, Akbar and Ali are in partnership with profit sharing ratio being 8:7:3. Akbar retires and Amar and Ali take his share equally. Calculate New Ratio and Gaining Ratio.

[Ans: New Ratio 23:13, Gaining Ratio: 1:1]

6. Ram, Gopal and Kannan were partners sharing profits in the ratio 1/2:1/3:1/6. Gopal retires. Find Gaining Ratio.

(Alagappa Univ., April 2011, B.Com.(CA), Bharathiay University 2001)

[Ans: New Ratio: 3:1; Gaining Ratio: 3:1]

7. A, B and C sharing profits in the ratio 2:2:1. B retires and the new profit ratio agreed between the continuing partners A and C is 4:3. Calculate Gaining Ratio.

(Alagappa Univ., Nov. 2015, B.Com.(CS))

[Ans: Gaining Ratio: 3:4]

Treatment of Goodwill

8. P, Q and R are in a partnership firm, sharing profits and losses in the ratio of 1:2:3. The value of goodwill is ascertained at ₹36,000. 'C' retires from the firm. Pass Journal Entries for the following:

(a) Goodwill is raised and written off.

(b) The retiring partner's share of goodwill is only given to him and contributed by existing partners.

9. The profits of a firm for the past three years were: ₹42,000; ₹86,000 and ₹64,000. The goodwill of the firm is valued at two-years' purchase of average profits of past three years. R, S and T are the partners with the ratio 2:1:1. S retires. Pass Journal Entries, if:

(a) Total goodwill is raised and written off.

(b) Only S's share is raised and written off.

10. A. B and C are in partnership sharing profits and losses in the ratio 3:2:1. 'A' decides to retire from the business 'B' and 'C' continue the business sharing Profits and Losses in their previous ratio. The goodwill of the firm is valued at ₹24,000. Pass Entries for Goodwill when,

(a) The goodwill is raised and is written off.

(b) A's share of goodwill is given to him without raising goodwill account.

(Univ. of Madras, November 2011/BYA2C)

11. L, M and N share profits and losses equally. M retires and his share of goodwill is estimated at ₹12,000. Pass Journal Entries.

12. X, Y and Z are partners and the agreed profit-sharing ratio is 3:2:1. Y plans to retire. The value of goodwill in the books appears at ₹30,000. Pass Journal Entries, if:

(a) The revised value of goodwill is fixed at ₹48,000.

(b) The goodwill is valued at ₹24,000.

13. S, R, M and N are partners in a firm, sharing profits and losses in the ratio of 2:1:2:1. N decides to retire and the goodwill is valued at ₹57,000. The remaining partners agreed to share profits and losses equally. Pass Journal Entries for the treatment of goodwill, without opening a goodwill account.

14. P, Q and R share profits in the ratio 2:3:1. R retires from the firm, following which, P and Q decide to share profits in the ratio 3:5.

Goodwill was valued at ₹24,000. No goodwill account is raised. Pass Journal Entries for retiring partner's share.

[Ans: Gaining Ratio: 1:3 Amount to be debited to goodwill of: P: ₹1000, Q: ₹3000, R: ₹4,000]

Revaluation Account

15. Sri, Arun and Geetha were partners with profit-sharing ratio of 4:3:1. Arun decides to retire on 31st March 2016, on which date the assets and liabilities were revalued as under:

(a) Land value appreciated by ₹40,000.

(b) Buildings costing ₹3,00,000 to be appreciated by 5%.

(c) Stock and furniture to be depreciated by ₹3,000 and ₹5,000 respectively.

(d) An amount of ₹2,500 included in creditors is no longer payable.

(e) A provision of ₹1,500 to be made for doubtful debts.

Prepare Revaluation Account.

[Ans: Revaluation Profit: ₹48,000]

16. K, L and M share Profits and Losses in the ratio of 5:3:2. As from 1st April 2004, L retires and for that purpose the following adjustments were agreed upon:

(a) Increase the value of premises by ₹48,000.

(b) Depreciate stock by ₹4,000, furniture by 1,000 and machinery by ₹4,600.

(c) Provide for an outstanding liability ₹200.

Prepare Revaluation Account.

(Univ. of Madras/April 2007/ZZ2H/SY2C/SDEN)

[Ans: Revaluation Profit: ₹38,200; P's Share: ₹19,100 Q's Share: ₹11,460; R's Share: ₹7,640]

17. U, V and W share profits in the ratio 1/3,1/2 and 1/6 respectively. Their Balance Sheet on 31st December 2012 was as follows.

Liabilities	*(₹)*	*Assets*	*(₹)*
Loans	20,000	Land & Buildings	60,000
Creditors	30,000	Machinery	40,000

(Contd.)

Reserve Fund	20,000	Furniture & Fixtures	14,000
Capital A/c:		Stock	24,000
U	40,000	Debtors 20,000 (–) Provision 1,000	19,000
V	25,000	Cash	8,000
W	30,000		
	1,65,000		**1,65,000**

V retires on 1st January 2013, on the following terms:

(a) Furniture and machinery to be depreciated by 5% and 10% respectively.

(b) Building to be appreciated by 10% and stock by 10%.

(c) Reserve for doubtful debts to be raised to ₹2,000.

Prepare Revaluation Account.

[Ans: Revaluation Profit: ₹2,700]

18. A, B and C were in partnership, sharing profits and losses equally on 1.1.2003. 'A' retired when the firms Balance Sheet was as under:

Liabilities	₹	*Assets*	₹
Creditors	6,928	Land & Building	4,200
Capital A/c:		Plant & Machinery	6,980
A	8,000	Investments	8,915
B	6,800	Debtors	8,000
C	7,800	Cash	1,433
	29,528		**29,528**

According to the deed, assets were revalued as under:

Land & Building – ₹5,800; Plant & Machinery – ₹6,564; Investments – ₹8,400; Goodwill was valued at ₹9,600.

Pass necessary Journal Entries and Prepare Revaluation A/c.

(Alagappa University, April 2011, B.Com(CA))

[Ans: Revaluation Profit: ₹669; Share of Goodwill: ₹3,200]

19. Vinu, Vivek and Adhi share profits and losses in the ratio of 2:1:1. Adhi decided to retire from 1st January 2017. The following revaluation took place.

(a) Unrecorded liability of ₹2,000 was brought into account.

(b) Unrecorded investment of ₹10,000 was brought into account.

(c) Furniture to depreciated by ₹2,000 and stock by ₹4,000 respectively.

(d) To appreciate land by ₹10,000. The partners decided not to record the revised values in the Balance Sheet of the reconstituted firm.

Prepare Memorandum Revaluation Account.

[Ans: Revalued Profit: ₹12,000;
Distributed to Vinu: ₹6,000; Vivek: ₹3,000; Adhi: ₹3,000;
Memorandum Revaluation Loss: ₹12,000;
₹8,000 to Vinu and ₹4,000 to Vivek]

Comprehensive Problems

20. Radhika, Nivetha and Swetha were carrying on business with the ratio 5:3:2 respectively. Their Balance Sheet on 31st March 2014 was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital A/cs:		Premises	2,25,000
Radhika	3,00,000	Furniture	67,650
Nivetha	1,80,000	Stock	2,09,000
Swetha	1,05,000	Debtors	80,700
Sundry Creditors	93,540	Bills Receivable	30,000
Bills Payable	8,235	Cash	74,425
	6,86,775		**6,86,775**

Swetha announced her retirement on the above date on following terms:

(a) To appreciate premises by 25% and to depreciate furniture by 10%.

(b) To create a 5% provision for doubtful debts on debtors.

(c) Goodwill to be raised at ₹1,80,000 and written off on retirement.

(d) Swetha needs to be settled immediately and for this purpose, the other two partners to bring in cash of ₹60,000 each.

(e) The future ratio is agreed at 3:2.

Prepare necessary Ledger and Balance Sheet after retirement.

[Ans: Revaluation Profit: ₹45,450
Capital Account: Radhika: ₹3,64,725; Nivetha: ₹2,35,635
Swetha to be paid: ₹1,50,090 Balance Sheet Total: ₹7,02,135]

Hint: **Write off g/w in new ratio**.

21. Kesavan retired from a partnership firm on 1st January 2013. The amount due to Kesavan is settled in three equal instalments, with interest at 5%. The amount due to Kesavan amounted to ₹30,000. Prepare the loan account of Kesavan.

[Ans: Interest 2013: ₹1,500, 2014: ₹1,000, 2015: ₹500]

22 Mani, Madhan and Mohan were partners with a profit sharing ratio 3:5:2 respectively. Their Balance Sheet on 31st December 2016 was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital A/c:		Goodwill	28,750
Mani	62,500	Land & Buildings	37,500
Madhan	50,000	Machinery	17,500
Mohan	25,000	Motor Van	50,000
Sundry Creditors	20,000	Stock	25,000
Reserve Fund	25,000	Debtors	30,000
Bills Payable	12,500	Cash	6,250
	1,95,000		**1,95,000**

On 31st December 2016, Mohan retired and the following adjustments have been agreed upon regarding this:

(a) Assets and liabilities are revalued as:
Debtors – ₹25,000 ; Stock – ₹22,500 ;
Land & Buildings – ₹62,500 ;
Machinery – ₹15,000 ; Motor van – ₹47,500 ;
Creditors – ₹15,000.

(b) Goodwill was revalued at ₹25,000.

(c) Mani and Madhan to contribute additional capital of ₹25,000 and ₹12,500 respectively.

(d) Amount due to the retiring partner is to be transferred to his loan account.

Pass Journal Entries, prepare necessary Ledger Account and Balance Sheet.

[Ans: Revaluation Profit: ₹17,500, Mohan's Loan A/c: ₹32,750, Capital A/c: Mani: ₹89,750, Mohan: ₹66,250, Balance Sheet Total: ₹2,16,250]

23. L, M and N share profits equally. N retired from the firm on 31st December 2017. Their Balance Sheet stood as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital A/c:		Premises	3,20,000
L	4,00,000	Furniture	4,00,000
M	3,20,000	Stock	2,00,000
N	2,40,000	Debtors	2,40,000
Creditors	3,20,000	Cash	1,20,000
	12,80,000		**12,80,000**

It was agreed that:

(a) Furniture to be valued at ₹3,52,000.

(b) To create a reserve of 5% on debtors.

(c) The goodwill of the firm is valued at ₹3,24,000.

(d) The partners agreed that the assets and liabilities continue to appear at the same old values.

Prepare Memorandum Revaluation Account, other necessary accounts and Balance Sheet.

[Ans: Revaluation Loss: ₹60,000; N's Loan: ₹3,28,000; L's Capital: ₹3,56,000; M's Capital: ₹2,76,000; B/S Total: ₹12,80,000]

24. Komal, Kamal and Vimal carried on partnership with a ratio 1:2:3. Their balance on 31st December 2006 was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	75,000	Machinery	5,00,000
Outstanding Expenses	50,000	Stock	2,50,000
Capital A/c:		Debtors	2,50,000
Komal	5,00,000	Cash	2,50,000
Kamal	3,75,000		
Vimal	2,50,000		
	12,50,000		**12,50,000**

Kamal retired from the firm and the following terms were agreed upon at the time of retirement:

(a) To revalue machinery at ₹7,50,000 and stock at ₹2,25,000.
(b) Bad debts were estimated at ₹37,500 and to be written off.
(c) The goodwill was fixed at ₹3,75,000 but Goodwill Account not to be created.
(d) The remaining partners decided to share profits and losses equally.
(e) Amount due to retiring partner to be retained in the business @ 16% p.a. interest.

Give Journal Entries and prepare necessary Ledgers and Balance Sheet.

[Ans: Revaluation Profit: ₹1,87,500,
Kamal's Loan A/c: ₹5,62,500,
Balance Sheet: ₹14,37,500,
Komal's Capital ₹4,06,250,
Vimal's Capital ₹3,43,750]

25. Mala, Yuva and Sumi shared the profits and losses in the ratio of their capitals. Their Balance Sheet as on 31st December 2000 was as follows:

Liabilities	*(₹)*	*Assets*		*(₹)*
Sundry Creditors	13,800	Cash		11,000
Capital A/c:		Debtors	10,000	
		(–) Reserve	200	9,800
Mala	40,000	Stock		16,000
Yuva	30,000	Machinery		17,000
Sumi	20,000	Buildings		50,000
	1,03,800			**1,03,800**

Yuva retired from the firm on following terms:

(a) Depreciation @ 6% on stock.
(b) Reserve on debtors to be raised to 5%.
(c) Outstanding legal charges ₹1,540 to be created.
(d) To appreciate buildings by 20%.
(e) Value of goodwill was fixed at ₹21,600. Yuva's share is to be adjusted with the remaining partners' accounts. Their future ratio would be 5:3.
(f) The total capital of the new firm is fixed at ₹56,000. It is to be distributed to Mala and Sumi in their profit-sharing ratio, after adjusting for goodwill.

Pass Journal Entries and prepare Balance Sheet.

(Bharathidasan University, B.Com., Nov. 2002)

[Ans: Revaluation Profit: ₹7,200, Yuva's Loan A/c: ₹39,600, Mala's Capital A/c: ₹35,000, Sumi: ₹21,000, Balance Sheet Total: ₹1,10,940, Cash paid to Mala: ₹4,300, Cash Received from Sumi: ₹2,700]

26. Priya, Guna and Abi were in a partnership with profit-sharing ratio 3:2:1. On 1st January 1990, Guna retired; on which date, the Balance Sheet was as follows:

Liabilities	*(₹)*	*Assets*		*(₹)*
Capital A/c:		Machinery		6,00,000
Priya	3,00,000	Patents		60,000
Guna	2,40,000	Debtors	2,00,000	
Abi	2,00,000	(–) Provision	10,000	1,90,000
Reserve	60,000	Stock		2,00,000
Creditors	1,40,000	Cash		30,000
Bills Payable	1,00,000			
Outstanding Liabilities	40,000			
	10,80,000			**10,80,000**

The following adjustments need to be made:

(a) To value goodwill at ₹2,40,000.

(b) The value of outstanding liabilities to be brought down to ₹30,000.

(c) Machinery to be valued at 10% less than book value and the patents at ₹80,000.

(d) Total capital of the new firm is fixed at ₹6,00,000, to be contributed by remaining partners, in profit-sharing ratio.

(e) Retiring partner to be paid ₹5,000 in cash and balance to Loan Account.

Show the effect of retirement and prepare Balance Sheet of new firm.

(Madras University, B.Com.,1993 September 1993)

[Ans: Revaluation Loss: ₹30,000; Guna's Laon A/c: ₹3,25,000; Cash to be brought by Priya: ₹1,95,000; Cash to be paid to Abi: ₹35,000; Blalance sheet: ₹11,95,000]

27. A, B and C are partners in a firm sharing profits and losses in the ratio on 1/3:1/2:1/6 respectively. Their Balance Sheet as on 31.12.2010 was as follows:

Liabilities	₹	*Assets*		₹
Sundry creditors	25,000	Buildings		50,000
Loan payable	15,000	Machinery		40,000
Reserve fund	16,000	Furniture		10,000
Capital: A	30,000	Stock		25,000
B	40,000	Debtors	18,000	
C	25,000	Less: Provision	500	17,500
		Cash		8,500
	1,51,000			**1,51,000**

C retires on 31.12.2010 subject to the followings conditions:

(a) Goodwill of the firm is valued at ₹24,000.

(b) Machinery to be depreciated by 10%.

(c) Furniture to be depreciated by 5%.

(d) Stock to be appreciated by 15% and buildings to be appreciated by 10%.

(e) Reserve for doubtful debts to be raised to ₹2,000.

Prepare necessary Ledger Accounts and show the Balance Sheet of the new firm.

(December 2016: U/ID 22201/UCZA/UCWA/ UCYA/UCXB/URMA/UCVB)

[Ans: Revaluation Profit: ₹2,750 (A: ₹917, B: ₹1,375, C: ₹458)
C's Loan Account: ₹32,125
Capital Accounts: A: ₹34,650, B: ₹46,975
Balance Sheet: 1,53,750
C's Share of Goodwill: ₹4,000 to be shared by A and B in the Gaining Ratio: 2:3]

28. Sunder, Suresh and Sankar were three partners sharing profits and losses in the ratio of 3:2:1 respectively. On 31.2.1999 their Balance Sheet stood as follows:

Liabilities	₹	*Assets*		₹
Creditors	1,90,000	Cash at Bank		25,000
Bills Payable	50,000	Debtors	1,60,000	
General Reserve	1,20,000	Less: Bad Debt Reserve	5,000	1,55,000
Sunder's Capital	4,00,000	Stock		2,50,000
Suresh's Capital	3,00,000	Machinery		4,30,000
Sankar's Capital	2,50,000	Premises		4,50,000
	13,10,000			**13,10,000**

Suresh retires on that date subject to the following adjustments:

(a) To raise reserve for bad debts by ₹19,500.
(b) Goodwill of the firm is to be valued at ₹1,80,000.
(c) Depreciate machinery by 10%.
(d) To increase the value of stock by ₹30,000.
(e) To increase the premises value by 10%.

Sunder and Sankar decided to write off firm's goodwill. Their New Profit sharing ratio is 3: 2. Prepare Revaluation A/c, Capital A/c, and Balance Sheet.

(October 2011 1860/NZA/NYA)

[Ans: Revaluation Profit: ₹12,500;
Suresh's Loan A/c: ₹4,04,167; Sunder's Capital A/c: ₹4,48,250;
Sankar's Capital A/c: ₹2,30,083; Balance Sheet: ₹13,22,500]

29. A, B and C were partners, sharing profits in the proportion of 1/2, 1/3 and 1/6 respectively. The firm's Balance Sheet as on 31.3.2010 stood as under:

Liabilities	₹	*Assets*		₹
Sundry Creditors	19,000	Cash		2,500
Bills Payable	5,000	Debtors	1,600	
Reserve Fund	12,000	Less: Provision	500	15,500
Capital Account:		Stock		25,000
A	40,000	Motor Van		8,000
B	30,000	Plant and Machinery		35,000
C	25,000	Factory Building		45,000
	1,31,000			**1,31,000**

B retires on that date to the following adjustments:

(a) The goodwill of the firm to be valued at ₹18,000.
(b) Plant to be depreciated by 10% and motor van by 15%.
(c) Stock to be appreciated by 20% and buildings by 10%.
(d) Provision for doubtful debts to be increased by ₹1,950.
(e) Liability for workmen's compensation to the extent of ₹1,650 is to be taken into account.

It was agreed that A and C will share in future in the ratio of A – 3/5 and C – 2/5. Prepare Memorandum Revaluation Account, Capital Accounts and Balance Sheet.

(Univ. of Madras/April 2011 60522/BYA2C)

[Ans: Revaluation Profit: ₹1,200, A: ₹600, B: 400, C: ₹200
B's Share of Goodwill: ₹6,000 to be shared by
A and C (1,800 and 4,200)
B's Loan A/c: ₹40,400; A's Capital A/c: ₹44,800
C's Capital A/c: ₹23,000; Balance Sheet: ₹1,33,850]

30. Arun and Balu are partners sharing profits and losses in the ratio 3:2. The Balance Sheet on 1.1.1995 was as follows:

Balance Sheet

Liabilities	₹	*Assets*	₹
Capital: Arun	20,000	Machinery	20,000
Balu	15,000	Stock	16,000
Reserve	15,000	Debtors	15,000
Creditors	7,500	Bank	6,500
	57,500		**57,500**

Balu retires from the business due to illness. The following revaluations were made:

(a) Goodwill valued at ₹25,000.
(b) Depreciate machinery by 7.5% and stock by 15%.
(c) Bad debts reserve is raised at 5% on debtors
(d) A Sum of ₹150 included in the creditors is no longer liable.

Prepare Balance Sheet after retirement.

(Thiruvalluvar University, Nov. 2012)

[Ans: Revaluation Loss: ₹4,500; Arun's Capital: ₹16,300;
Balu's Loan: 29,200; Balance Sheet: ₹52,850]

31. A and B are in a partnership, sharing profits and losses equally. 'A' decided to retire and in his place, 'C' joined on the same day with 1/3rd share of profit. The Balance Sheet on 31st December 2016 was as under:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital A/c:		Goodwill	2,00,000
A	6,80,000	Buildings	4,14,000
B	3,64,000	Furniture	2,84,000
Creditors	1,80,000	Debtors	3,22,000
Reserve	2,00,000	Cash	2,20,000
Bills Payable	16,000		
	14,40,000		**14,40,000**

Goodwill was valued at ₹5,40,000 on 31st December 2016. The building was valued at ₹4,80,000. It was decided that the partners, excluding the retiring partner but including new partner, to introduce additional cash sufficient to pay off the retiring partner after leaving a cash balance of ₹2,00,000 for working capital. B and C had to introduce capital, based on their profit-sharing ratio. 'A' agreed to contribute half of C's capital. Prepare necessary Ledger Accounts and Balance Sheet of B and C.

[Ans: B's New Capital: ₹7,26,667, C's Capital: ₹3,63,333, C's Capital, contributed by A: ₹1,81,667, Amount paid to A: ₹8,01,333, Balance Sheet Total: ₹12,86,000]

32. P and Q are equal partners in a firm and their Balance Sheet on 31st December 2017 is as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital A/c:		Goodwill	1,35,000
P	4,59,000	Land & Buildings	2,79,450
Q	3,80,700	Furniture	1,91,700
Creditors	1,21,500	B/R	41,850
Outstanding Expenditures	10,800	Debtors	1,75,500
		Cash at Bank	1,48,500
	9,72,000		**9,72,000**

P decided to retire on this date and his son W joins the firm for 1/3 share of profit.

(a) To value goodwill at ₹3,64,500.

(b) Land and buildings valued at ₹3,24,000.

(c) Q and W to introduce cash to settle amount due to P and to leave a cash balance of ₹1,35,000 for working capital. Q and W to bring the cash required in their profit-sharing ratio.

(d) P agreed to gift half of his son's capital.

Prepare necessary Ledger Accounts and Balance Sheet.

[Ans: Revaluation Profit: ₹44,550
Cash to be bought in by Q: ₹3,37,275
W: ₹1,22,625 (half will be by A)
Payment to P: ₹4,73,400 (after adjusting his gift to son)
Capital of the new firm: ₹7,35,750
Balance Sheet Total: ₹8,68,050]

Death of a Partner

33. The Balance Sheet of Ram and Rahim on 31st March 2010 was as under:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital A/c:		Bills Receivable	2,00,000
Ram	9,00,000	Investments	5,00,000
Rahim	6,00,000	Debtors	2,00,000
Reserve Fund	3,00,000	Cash	12,00,000
Creditors	3,00,000		
	21,00,000		**21,00,000**

The deed provided that:

(i) The accounts will be closed on 31st March every year.

(ii) The profits to be divided as:
Ram: 1/2, Rahim: 1/3 and Reserve: 1/6.

In the event of death of a partner, the executors are entitled to:

(a) The capital at his credit.

(b) Share of profit to date of death from last Balance Sheet date, based on the average profit of last three completed years.

(c) His share of goodwill, based on total profits of last three years.

(d) The profits for last 3 years were 2009–2010: ₹4,50,000; 2008–2009: ₹3,90,000; 2007–2008: ₹4,20,000.

Rahim died on 1st August 2010. Prepare Rahim's Executor Account.

(Madras Univ., B.Com., Nov. 2004 (ICE), Nov. 2006, Oct. 1999, Oct. 1995,1/10 figures)

[Ans: Amount payable to Executor A/c: ₹12,80,000]

34. Kumar and Sundar share profits and losses in the ratio 3:2. A joint life policy is taken for ₹2,25,000. The annual premium was ₹13,200, which was charged to Profit and Loss Account. Sundar died on 1st April 2012. The date of the last Balance Sheet was 31st December 2011. His executor is entitled to:

(a) Sundar's capital
(b) interest on capital @ 3% p.a
(c) his share of profit based on previous years' profit
(d) interest on drawings to be charged at 2% on amount irrespective of period.
(e) the net profits for the last three years were 2009: ₹60,000; 2010: ₹75,000 and 2011: ₹90,000 respectively.
(f) Sundar's capital: ₹1,20,000
(g) his drawings amounted to ₹15,000.

[Ans: Interest on Capital: ₹900
Interest on Drawings: ₹300, Share of Profit: ₹9,000
Amount payable to Executor: ₹2,04,600]

35. Raman, Raghman and Robin were equal partners. On 1.4.02 Robin died. On that date the following arrangements were agreed:

(a) To increase the value of assets by ₹20,000.
(b) To reduce the value of stock by ₹6,000.
(c) Provision for bad debts not necessary (existing Reserve ₹900).
(d) To create goodwill for ₹9,000.
(e) The Profit of the firm from 1.1.2002 to 31.3.2002 was ₹15,000.
(f) Robin's capital ₹20,000

Calculate the amount payable to the heirs of Robin and give journal entries

(Univ. of Madras April 2007/ZZ2H/SY2C/SDEN)

[Ans: Revaluation profit: ₹14,900;
Amount payable to Executors of Robin: ₹32,966]

36. X, Y and Z were partners sharing profits equally. Z died on 31.3.1991. The Balance Sheet of the firm as on 31.12.1990 was as under:

Liabilities	₹	*Assets*	₹
X's Capital	1,80,000	Goodwill	81,000
Y's Capital	1,50,000	Buildings	1,80,000

(Contd.)

Z's Capital	1,26,000	Investment (at cost)		48,000
Reserve fund	36,000	Debtors	1,08,000	
		(–) Provision	10,800	97,200
Investment fluctuation fund	1,26,000	Stock		1,68,000
Creditors	93,600	Bank		24,000
	5,98,200			**5,98,200**

On the date of death, it was found that,

(a) Debtors were all good.
(b) Stocks were valued at ₹1,50,000.
(c) Investments were valued at ₹45,000 and were taken over by X at that value.
(d) Buildings were valued at ₹3,42,000.
(e) A liability for workmen's compensation for ₹18,000 was to be provided for.
(f) Goodwill was to be valued at one year's purchase of average profits of last 5 years.
(g) Z' share of profit upto the date of death was to be calculated on the basis of last year's profit.

The profit of last 5 years were as under:

1986 – ₹69,000; 1987 – ₹75,000; 1988 – ₹48,000;

1989 – ₹60,000; 1990 – ₹72,000.

Prepare Revaluation Account, Capital Account and Balance Sheet of remaining partners.

(Univ. of Madras, Nov. 2014, BYA2C, 1/2 figures)

[Ans: Revaluation profit: ₹1,46,400; Amount payable to Executors of Z: ₹1,87,400; Capital A/c of X: ₹1,58,000; Y: ₹1,73,000; Balance Sheet: ₹6,30,000]

Joint Life Policy

37. X and Y are partners, sharing profits and losses in the ratio 3:2. They took a Joint life Policy for ₹3,00,000 on 1st April 2012 and the premium was ₹13,000 p.a. The surrender value of the policy was 2012: Nil; 2013: ₹4,000; 2014: ₹9,000; 2015: ₹14,500. Y died on 10th October 2015 and the claim amount was received on 31st December 2015. The accounts are closed on 31st December every year. The premium paid is treated as expense and charged to Profit and Loss Account. Pass Journal Entries.

38. P, Q and R share profits and losses in the ratio 2:5:3. They took a joint life policy on 1st January 2011 for ₹10,00,000 with an annual premium of ₹40,000. The surrender values of the policy was 2011: Nil; 2012: ₹10,000; 2013: ₹25,000; 2014: ₹45,000; 2015: ₹60,000. On 15th October 2015, P died and the claim was received on 31st December 2015. Write up Joint Life Policy Account, and Joint Life Policy Reserve Account, if,

(a) premium is treated as asset

(b) premium is treated as asset and reserve is maintained.

CHAPTER

22

Dissolution of Partnership Firm

Learning Objectives

After studying this chapter, you will be able to understand the:

- Meaning of Dissolution of Partnership and Partnership Firm
- Modes of Dissolution of Partnership Firm
- Accounting Treatment of Dissolution
- Garner versus Murray Rule
- Fixed Capital Method and Fluctuating Capital Method
- Accounting Treatment for Insolvency of All Partners

22.1 Dissolution

Dissolution of a partnership firm means complete closure of the business. Section 39 of the Indian Partnership Act, provides that "the dissolution of the partnership between all the partners of a firm is called the dissolution of a firm." Under dissolution, the relationship between all the partners ceases to exist. Once a partnership firm is dissolved, all the assets will be realised and the liabilities will be paid off. The remaining, if any, will be shared by the partners in their profit-sharing ratio.

22.2 Modes of Dissolution

A partnership firm may be dissolved in any one of the following ways:

1. **Dissolution by Agreement:** A partnership is based on agreement among partners. A partnership firm can be dissolved by mutual consent of all the partners.

2. **Compulsory Dissolution:** Compulsory dissolution of a partnership firm takes place under the following situations:

   (i) If one or more partners is declared insolvent by a competent Court.
   (ii) If the number of partners exceeds the maximum limit of 20.
   (iii) When a citizen of an enemy country becomes a partner.
   (iv) If the business of the firm is operating against public interest.
   (v) If the business carried out by the firm is illegal and against the law.

3. **Dissolution on Happening of Certain Events:** A partnership firm may get dissolved in the following cases:

   (i) On the expiry of the period for which it was formed;
   (ii) On the death of a partner;
   (iii) On the resignation of a partner;
   (iv) On the completion of the venture agreed upon.

4. **Dissolution by Notice:** A partnership is a written agreement among partners. If any one of the partners is not willing to continue in the partnership firm, he may give a notice, in writing, to the other partners, stating his intention to dissolve the business. The partnership stands dissolved from the date, which he has mentioned in the notice.

5. **Dissolution by Court:** The Court has the power to order dissolution of a partnership firm. The circumstances in which the Court can order dissolution are:

   (i) A partner becomes of unsound mind.
   (ii) A partner gets disabled permanently.
   (iii) A partner transfers/sells his share to a third party, without the consent of other partners.
   (iv) A partner is found guilty of misconduct.
   (v) A partnership firm suffers continuous losses.
   (vi) On any other grounds, which the Court thinks is just, fair and equitable.

22.3 Settlement of Accounts on Dissolution

Section 48 of the Indian Partnership Act provides that the following rules, which should be observed for settlement of accounts after dissolution, subject to agreement by partners.

Losses: Losses, including deficiency of capital, shall be paid first out of profits, next out of capital and lastly, if necessary, by the partners individually, in the proportions in which they are entitled to share profits.

Assets: The assets of the firm, including any sums contributed by the partners to make up deficiency of capital, shall be applied in the following manner and order:

(i) In paying the debts of the firm to third parties;
(ii) In paying each partner ratably what is due to him from the firm for advances are distinguished from capital;
(iii) In paying to each partner ratably what is due to him as capital;
(iv) The residue, if any, shall be divided among the partners in the proportions in which they are entitled to share profits.

22.4 Accounting Entries Regarding Dissolution

1. **For Closing Assets Accounts**

		(₹)
Realisation A/c	Dr.	
To Stock A/c		
To Debtors A/c		
To Investments A/c (Transferred at book value)		
To Joint Life Policy A/c		
To Furniture A/c		
To Plant A/c		
To Land & Building A/c		
To Goodwill A/c		

Note: All assets (**except Cash, Bank, Debit balance of Capital Accounts, Profit & Loss A/c [Debit balance]**) should be transferred to realisation account, at balance sheet values.

2. **For Closing Liabilities Accounts [All liabilities to third parties]**

		(₹)	(₹)
Creditors A/c	Dr.		
Bills Payable A/c	Dr.		
Loan from Partner's Wife A/c	Dr.		
Bank Overdraft A/c	Dr.		
Outstanding Expenses A/c	Dr.		
To Realisation A/c			

Note: Partner's Loan should not be transferred to realisation account.

3. **For Realising Assets**

For Realising Assets					
When sold for cash			*When assets are taken away by one of the partners*		
	(₹)	*(₹)*		*(₹)*	*(₹)*
Bank/ Cash A/c Dr.	xxx		Partner's Capital or Current A/c Dr.	xxx	
To Realisation A/c		xxx	To Realisation A/c		xxx

4. **For Discharging Liabilities**

For Discharging Liabilities					
When paid in cash			*When one of the partners discharges the liabilities*		
	(₹)	*(₹)*		*(₹)*	*(₹)*
Realisation A/c	xxx		Realisation A/c Dr.	xxx	
To Bank/Cash A/c		xxx	To Partner's Capital A/c		xxx

5. **For Expenses on Dissolution**

For Expenses on Dissolution					
When expenses are paid in cash			*When expenses are paid by any partner*		
	(₹)	*(₹)*		*(₹)*	*(₹)*
Realisation A/c	xxx		Realisation A/c Dr.	xxx	
To Bank/Cash A/c		xxx	To Partner's Capital A/c		xxx

6. **For Treatment of Free Reserves**

	(₹)
Reserve A/c Dr.	
Contingency Reserve A/c (Credit Balance)	
To Partner's Capital A/c	

7. **For Treatment of Accumulated Losses**

	(₹)
Partner's Capital A/c Dr.	
To Profit & Loss A/c (Debit Balance)	

8. **For Closing Realisation Account**

For Closing Realisation Account						
For profit on realisation				*For loss on realisation*		
		(₹)	*(₹)*		*(₹)*	*(₹)*
Realisation A/c	Dr.	xxx		Partner's Capital A/c	Dr.	xxx	
To Partner's Capital A/c			xxx	To Realisation A/c			xxx

9. **For Payment of Partner's Loan**

		(₹)
Partner's Loan A/c	Dr.	
To Bank/Cash A/c		

10. **For Closing Accumulated Loss (Debit Balance of P & L A/c)**

		(₹)
Partner's Capital or Current A/c	Dr.	
To Profit & Loss A/c		

11. **For Closing of Current Accounts**

For Closing of Current Accounts						
If current accounts show credit balance				*If current accounts show debit balance*		
		(₹)	*(₹)*		*(₹)*	*(₹)*
Partner's Current A/c	Dr.	xxx		Partner's Capital A/c	Dr.	xxx	
To Partner's Capital A/c			xxx	To Partner's Current A/c			xxx

12. **For Closing Capital Accounts**

For Closing Capital Accounts						
If capital accounts show debit balance				*If capital accounts show credit balance*		
		(₹)	*(₹)*		*(₹)*	*(₹)*
Bank/Cash A/c	Dr.	xxx		Partner's Capital A/c	Dr.	xxx	
To Partner's Capital A/c			xxx	To Bank/Cash A/c			xxx

13. **Treatment of Goodwill on Dissolution**
    (i) If Goodwill appears in the balance sheet, it should be transferred to realisation account at book value.

Goodwill Account

Treatment of Goodwill					
Sale of Goodwill for cash			*Partner agreed to taken over the Goodwill*		
	(₹)	*(₹)*		*(₹)*	*(₹)*
Bank/Cash A/c Dr.	xxx		Partner's Capital A/c Dr.	xxx	
To Realisation A/c		xxx	To Realisation A/c		xxx

14. **Treatment of Unrecorded Assets**

When Unrecorded Assets are Realised					
For cash			*Taken away by a partner*		
	(₹)	*(₹)*		*(₹)*	*(₹)*
Bank/Cash A/c Dr.	xxx		Partner's Capital A/c Dr.	xxx	
To Realisation A/c		xxx	To Realisation A/c		xxx

15. **Treatment of Unrecorded Liabilities**

When Unrecorded Liabilities are Paid					
In cash			*By a partner*		
	(₹)	*(₹)*		*(₹)*	*(₹)*
Realisation A/c Dr.	xxx		Realisation A/c Dr.	xxx	
To Bank/ Cash A/c		xxx	To Partner's Capital A/c		xxx

✎ ILLUSTRATION 1:

What Journal Entries would you pass in the event of dissolution of partnership?

(a) Unrecorded Assets realised for Cash ₹50,000

(b) Unrecorded Liability paid ₹20,000

Solution:

Journal Entries

Realisation of Unrecorded Assets for Cash			
		(₹)	*(₹)*
Cash A/c	Dr.	50,000	
To Realisation A/c			50,000
(Being unrecorded assets realised for cash)			

Payment of Unrecorded Liabilities			
		(₹)	*(₹)*
Realisation A/c	Dr.	20,000	
To Cash A/c			20,000
(Being liabilities paid off)			

✎ ILLUSTRATION 2:

Pass Journal Entries for the following, in the event of dissolution.

(a) Unrecorded Assets taken over by Partner A ₹25,000

(b) Unrecorded Liability taken over by Partner B ₹10,000

Solution:

Journal Entries

Unrecorded Assets taken over by Partner A			
		(₹)	*(₹)*
A's Capital A/c	Dr.	25,000	
To Realisation A/c			25,000
(Being unrecorded assets taken over by Partner A)			

Unrecorded Liabilities paid by Partner B			
		(₹)	*(₹)*
Realisation A/c	Dr.	10,000	
To B's Capital A/c			10,000
(Being unrecorded liabilities paid by Partner B)			

✎ ILLUSTRATION 3:

Pass Journal Entries for the following, in the event of dissolution.

(a) Bank loan ₹12,000 is paid in cash

(b) Stocks worth ₹18,000 is taken over by Partner D

(c) Dissolution expenses paid by Partner A ₹2,200

Solution:

Journal Entries

Bank Loan paid in Cash			
		(₹)	*(₹)*
Realisation A/c	Dr.	12,000	
To Cash A/c			12,000
(Being bank loan paid in cash)			

Stock taken over by Partner D			
		(₹)	*(₹)*
D's Capital A/c	Dr.	18,000	
To Realisation A/c			18.000
(Being stock taken over by Partner D)			

Dissolution Expenses paid by Partner A			
		(₹)	*(₹)*
Realisation A/c	Dr.	2,200	
To A's Capital A/c			2,200
(Being dissolution expenses paid by Partner D)			

✎ ILLUSTRATION 4:

X, Y, and Z are partners sharing profits and losses in the ratio of 3:2:1. Y became insolvent.
Realisation Loss ₹30,000
Capital Ratio of X and Z – 5:3
Deficiency in Y's Capital Account ₹20,000
Prepare Y's Capital Account by applying Garner versus Murray Rule.

Solution:

Y's Capital Account

	(₹)		(₹)
To Balance b/d	20,000	**By X's & Z's Capital A/c (Bal. fig.)**	**30,000**
To Realisation A/c 30,000 × 2/6	10,000	**X 30,000 in the ratio of 5:3 = 18,750**	
		Z 30,000 in the ratio of 5:3 = 11,250	
	30,000		**30,000**

✎ ILLUSTRATION 5:

A, B and C are equal partners. 'A' became insolvent. Realisation loss amounted to ₹60,000.

Pass necessary Journal Entries as per Garner versus Murray Rule.

Solution:

Journal Entries

Realisation Loss Transferred to Partner's Capital Account			
		(₹)	(₹)
A's Capital A/c	Dr.	20,000	
B's Capital A/c	Dr.	20,000	
C's Capital A/c	Dr.	20,000	
To Realisation A/c			60,000
(Being realisation loss transferred to capital accounts of the partners)			

Cash Brought in by the Solvent Partners for Loss on Realisation			
		(₹)	(₹)
Cash A/c	Dr.	40,000	
To B's Capital A/c			20,000
To C's Capital A/c			20,000
(Being realisation loss brought in cash by the solvent partners)			

✎ ILLUSTRATION 6:

P, Q and R were partners sharing profits and losses in the ratio of 2:2:1. R became insolvent. Realisation loss amounted to ₹40,000.

	(₹)
P's Capital (Cr)	20,000
Q's Capital (Cr)	10,000
R's Capital (Overdrawn)	10,000

Pass necessary Journal Entries as per Garner versus Murray Rule, assuming capitals are fixed. Also, prepare R's capital account.

Solution:

Journal Entries

Realisation Loss transferred to Partners' Capital Accounts			
		(₹)	(₹)
P's Capital A/c	Dr.	16,000	
Q's Capital A/c	Dr.	16,000	
R's Capital A/c	Dr.	8,000	
To Realisation A/c			40,000
(Being realisation loss transferred to capital accounts of the partners)			

Cash Brought in by the Solvent Partners for Loss on Realisation			
		(₹)	(₹)
Cash A/c	Dr.	32,000	
To P's Capital A/c			16,000
To Q's Capital A/c			16,000
(Being realisation loss brought in cash by the solvent partners)			

R's Capital Account

	(₹)		(₹)
To Balance b/d	10,000	**By P's & Q's Capital A/c (Bal. fig.)**	**18,000**
To Realisation	8,000	**P 18,000 in the ratio of 2:1 – 12,000**	
		Q 18,000 in the ratio of 2:1 – 6,000	
	18,000		**18,000**

✎ ILLUSTRATION 7:

A, B and C are partners sharing profits and losses in the ratio of 5:3:2. C became insolvent and was able to contribute only 40 paisa in the rupee. Prepare C's capital account, assuming that the capitals are fluctuating. Apply Garner versus Murray Rule.

A's Capital (Credit Balance) ₹25,000
B's Capital (Credit Balance) ₹15,000
C's Capital (Debit Balance) ₹10,000
Realisation Loss amounted to ₹15,000
General Reserve ₹5,000

Solution:

C's Capital Account

	(₹)		*(₹)*
To Balance b/d	10,000	**By General Reserve**	**1,000**
To Realisation	3,000	**By Cash (12000 × .40)**	**4,800**
		By A's & B's Capital A/c (Bal. fig.)	
		A 7,200 in the ratio of 5:3 = 4,500	
		B 7,200 in the ratio of 5:3 = 2,700	**7,200**
	13,000		**13,000**

✎ ILLUSTRATION 8:

X, Y, and Z share profits in proportion of 2:1:1. On the date of dissolution, their balance sheet was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
X's Capital	4,000	Sundry Assets	30,000
Y's Capital	10,000		
Z's Capital	10,000		
Creditors	6,000		
Total	**30,000**	**Total**	**30,000**

The assets were realised for cash ₹50,000. Creditors were settled in full. Realisation expenses amounted to ₹2,000, paid by partner X.

Pass necessary Journal Entries and prepare the necessary ledger accounts to close the books of the firm.

Solution:

Journal Entries

Transfer of Assets (except Bank) to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Realisation A/c	Dr	30,000	
To Sundry Assets			30,000
(Being assets transferred to realisation account at book values)			

Transfer of Third-Party Liabilities to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Creditors A/c	Dr	6,000	
To Realisation A/c			6,000
(Being liabilities transferred to realisation account)			

For Realisation of Assets for Cash			
		(₹)	*(₹)*
Cash A/c	Dr.	50,000	
To Realisation A/c			50,000
(Being assets sold for cash)			

Payment of Liabilities			
		(₹)	*(₹)*
Realisation A/c	Dr.	6,000	
To Cash A/c			6,000
(Being liabilities paid off)			

Realisation Expenses Paid by Partner X			
		(₹)	*(₹)*
Realisation A/c	Dr.	2,000	
To X's Capital A/c			2,000
(Being realisation expenses paid by partner X)			

Realisation Account

	(₹)		(₹)
To Sundry Assets	30,000	By Creditors	6,000
To Cash	6,000	By Cash	50,000
To X's Capital	2,000		
To Profit (Bal. fig.)	**18,000**		
	56,000		**56,000**

Profit on Realisation Transferred to Partners' Capital Account

		(₹)	(₹)
Realisation A/c	Dr.	18,000	
To X's Capital A/c			9,000
To Y's Capital A/c			4,500
To Z's Capital A/c			4,500
(Being profit on realisation transferred to partner's capital account)			

Capital Accounts

	X (₹)	*Y* (₹)	*Z* (₹)		*X* (₹)	*Y* (₹)	*Z* (₹)
To Cash (Bal. fig.)	15,000	14,500	14,500	By balance b/d	4,000	10,000	10,000
				By Realisation	2,000	—	—
				By Realisation	9,000	4,500	4,500
	15,000	**14,500**	**14,500**		**15,000**	**14,500**	**14,500**

For Settlement of Accounts:			
X's Capital A/c	Dr.	15,000	
Y's Capital A/c	Dr.	14,500	
Z's Capital A/c	Dr.	14,500	
To Cash Account			44,000
(Being cash settlement made to partners)			

Cash Account

	(₹)		(₹)
To Realisation A/c	50,000	By Realisation A/c	6,000
		By X's Capital A/c	15,000
		By Y's Capital A/c	14,500
		By Z's Capital A/c	14.500
	50,000		**50,000**

✎ ILLUSTRATION 9:

A, B and C are in a partnership, sharing profits and losses in the proportion of 3:2:1. Their Balance Sheet, as on 31st December 1996, stood as follows:

Liabilities		*(₹)*	*Assets*	*(₹)*
Capital Accounts:			Land & Buildings	5,500
A:	4,000			
B:	2,000			
C:	500	6,500		
Creditors		3,500	Stock in trade	2,000
			Debtors	1,000
			Cash in Hand	1,500
Total		**10,000**	**Total**	**10,000**

They agree to dissolve partnership as from 31st December 1996. 'A' agrees to take over the stock and debtors for ₹1,500 and ₹700 respectively. Land and building are sold for cash at ₹2,700.

Pass Journal Entries and prepare necessary ledger account.

(April 2017/60522 BYA2C/CYZA)

Solution:

Journal Entries

Transfer of Assets (except Bank) to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Realisation A/c	Dr.	8,500	
To Land & Buildings A/c			5,500
To Stock in Trade A/c			2,000
To Debtors A/c			1,000
(Being assets transferred to realisation account at book value)			

Transfer of Third-Party Liabilities to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Creditors A/c	Dr.	3,500	
To Realisation A/c			3,500
(Being liabilities transferred to realisation account)			

Realisation of Land for Cash			
		(₹)	*(₹)*
Cash A/c	Dr.	2,700	
To Realisation A/c			2,700
(Being land sold for cash)			

Assets taken over by Partner A			
		(₹)	*(₹)*
A's Capital A/c		2,200	
To Realisation A/c			2,200
(Being assets taken over by A)			

Payment of Liabilities			
		(₹)	*(₹)*
Realisation A/c	Dr.	3,500	
To Cash A/c			3,500
(Being liabilities paid off)			

Realisation Account

	(₹)		*(₹)*
To Land & Buildings A/c	5,500	By Creditors A/c	3,500
To Stock in Trade	2,000	By A's Capital A/c	2,200
To Debtors A/c	1,000	By Cash A/c	2,700
To Cash A/c	3,500	**By Loss (Bal. fig.)**	
		A: 1,800	
		B: 1,200	
		C: 600	**3,600**
	12,000		**12,000**

Loss on Realisation Transferred to Partner's Capital Accounts			
		(₹)	*(₹)*
A's Capital A/c	Dr.	1,800	
B's Capital A/c	Dr.	1,200	
C's Capital A/c	Dr.	600	
To Realisation A/c			3,600
(Being loss on realisation transferred to partner's capital account)			

Capital Accounts

	A (₹)	*B* (₹)	*C* (₹)		*A* (₹)	*B* (₹)	*C* (₹)
To Realisation A/c	1,800	1,200	600	By Balance b /d	4,000	2,000	500
To Realisation A/c	2,200	—	—	**By Cash A/c (Bal. fig.)**	—	—	**100**
To Cash A/c (Bal. fig.)	—	**800**	—				
	4,000	**2,000**	**600**		**4,000**	**2,000**	**600**

Settlement of Accounts:			
B's Capital A/c	Dr.	800	
To cash A/c			800
(Being cash settlement made to 'B')			
Cash received from 'C' as final settlement.			
Cash A/c	Dr.	100	
To C's Capital A/c			100
(Being cash received from 'C' as final settlement)			

Cash Account

	(₹)		(₹)
To Balance b/d	1,500	By Realisation A/c	3,500
To Realisation A/c	2,700	By B's Capital A/c	800
To C's Capital A/c	100		
	4,300		**4,300**

✎ ILLUSTRATION 10:

Ram, Rahim and Suresh are partners sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet, as on 31st December 1994, was as follows:

Liabilities	(₹)	*Assets*	(₹)
Creditors	12,000	Machinery	25,000
General Reserve	3,000	Stock	11,000
Ram's Capital	20,000	Debtors	9,500
Rahim's Capital	15,000	Goodwill	13,000
Suresh's Capital	10,000	Cash	1,500
Total	**60,000**	**Total**	**60,000**

On the above date, the firm was dissolved. The assets realised, except cash, amounted to ₹60,000. The creditors were settled at ₹11,500. Dissolution

expenses amounted to ₹800. Pass necessary Journal Entries and prepare Realisation Account, Partners' Capital Accounts and Cash Account.

(November 2011/60522/BYA2C)

Solution:

Journal Entries

Transfer of Assets (except Cash) to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Realisation A/c	Dr.	58,500	
To Machinery A/c			25,000
To Stock A/c			11,000
To Debtors A/c			9,500
To Goodwill A/c			13,000
(Being assets transferred to realisation account at book values)			

Transfer of Third-Party Liabilities to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Creditors A/c	Dr.	12,000	
To Realisation A/c			12,000
(Being liabilities transferred to realisation account)			

Realisation of Assets for Cash			
		₹	₹
Cash A/c	Dr	60,000	
To Realisation A/c			60,000
(Being assets sold for cash)			

Payment of Liabilities			
		(₹)	*(₹)*
Realisation A/c	Dr.	11,500	
To Cash A/c			11,500
(Being liabilities paid off)			

Dissolution Expenses Paid in Cash			
		(₹)	*(₹)*
Realisation A/c	Dr.	800	
To Cash A/c			800
(Being dissolution expenses paid)			

Transfer of Reserves to Partners' Capital Accounts in their Sharing Ratio

		(₹)	(₹)
General Reserve A/c	Dr.	3,000	
To Ram's Capital A/c			1,500
To Rahim's Capital A/c			1,000
To Suresh's Capital A/c			500
(Being reserves transferred to partner's capital account)			

Realisation Account

	(₹)		(₹)
To Machinery A/c	25,000	By Creditors A/c	12,000
To Stock A/c	11,000	By Cash A/c	60,000
To Debtors A/c	9,500		
To Goodwill A/c	13,000		
To Cash A/c	11,500		
To Cash A/c	800		
To Profit (Bal. fig.)	**1,200**		
	72,000		**72,000**

Transfer of Realisation Profit to Partners' Capital Accounts in their sharing ratio

		(₹)	(₹)
Realisation A/c	Dr.	1,200	
To Ram's Capital A/c			600
To Rahim's Capital A/c			400
To Suresh's Capital A/c			200
(Being profit on realisation transferred to partner's capital account)			

Capital Accounts

	Ram (₹)	*Rahim* (₹)	*Suresh* (₹)		*Ram* (₹)	*Rahim* (₹)	*Suresh* (₹)
To Cash (Bal. fig.)	22,100	16,400	10,700	By Balance b/d	20,000	15,000	10,000
				By General Reserve	1,500	1,000	500
				By Realisation	600	400	200
	22,100	**16,400**	**10,700**		**22,100**	**16,400**	**10,700**

Final Settlement to Partners			
		(₹)	*(₹)*
Ram's Capital A/c	Dr.	22,100	
Rahim's Capital A/c	Dr.	16.400	
Suresh's Capital A/c	Dr.	10,700	
To Cash A/c			49,200
(Being final settlement made to partners)			

Cash Account

	(₹)		*(₹)*
To Balance b/ d	1,500	By Cash A/c	11,500
To Realisation A/c	60,000	By Cash A/c	800
		By Ram's Capital A/c	22,100
		By Rahim's Capital A/c	16,400
		By Suresh's Capital A/c	10,700
	61,500		**61,500**

✎ ILLUSTRATION 11:

Rajesh and Suman were partners sharing profits and losses equally. Their balance sheet, as on 31st December 2015, was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Rajesh's Capital	10,000	Land	8,000
Suman's Capital	6,000	Machinery	8,000
Creditors	3,000	Debtors	3,000
General Reserve	3,000	Furniture	2,000
		Cash	1,000
Total	**22,000**	**Total**	**22,000**

The firm was dissolved. The assets were realised as follows: Land ₹30,000; Machinery ₹6,000; Debtors ₹2,000; Furniture ₹1,000. Expenses of dissolution amounted to ₹500 was paid by Rajesh.

Pass necessary Journal Entries and prepare Realisation Account, Partners' Capital Account and Cash Account.

Solution:

Journal Entries

Transfer of Assets (except Bank) to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Realisation A/c	Dr.	21,000	
To Land A/c			8,000
To Machinery A/c			8,000
To Debtors A/c			3,000
To Furniture A/c			2,000
(Being assets transferred to realisation account at book values)			

Transfer of Third-Party Liabilities to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Creditors A/c	Dr.	3,000	
To Realisation A/c			3,000
(Being liabilities transferred to realisation account)			

Realisation of Assets for Cash			
		(₹)	*(₹)*
Cash A/c	Dr.	39,000	
To Realisation A/c			39,000
(Being assets sold for cash)			

Payment of Liabilities			
		(₹)	*(₹)*
Realisation A/c	Dr.	3,000	
To Cash A/c			3,000
(Being liabilities paid off)			

Dissolution Expenses Paid by Rajesh			
		(₹)	*(₹)*
Realisation A/c	Dr.	500	
To Rajesh's Capital A/c			500
(Being dissolution expenses paid by Rajesh)			

Transfer of Reserves to Partners' Capital Accounts in their Sharing Ratio

		(₹)	(₹)
General Reserve A/c	Dr.	3,000	
To Rajesh's Capital A/c			1,500
To Suman's Capital A/c			1,500
(Being reserves transferred to partner's capital account)			

Realisation Account

	(₹)		(₹)
To Land A/c	8,000	By Creditors A/c	3,000
To Machinery A/c	8,000	By Cash A/c	39,000
To Debtors A/c	3,000		
To Furniture A/c	2,000		
To Cash A/c	3,000		
To Rajesh A/c	500		
To Profit (Bal. fig.)	**17,500**		
	42,000		**42,000**

Profit on Realisation Transferred to Partners' Capital Accounts

		(₹)	(₹)
Realisation A/c	Dr.	17,500	
To Rajesh's Capital A/c			8,750
To Suman's Capital A/c			8,750
(Being profit on realisation transferred to partner's capital account)			

Capital Accounts

	Rajesh (₹)	*Suman* (₹)		*Rajesh* (₹)	*Suman* (₹)
To Cash (Bal. fig.)	**20,750**	**16,250**	By Balance b/d	10,000	6,000
			By General Reserve	1,500	1,500
			By Realisation	8,750	8,750
			By Realisation	500	
	20,750	**16,250**		**20,750**	**16,250**

Final Settlement to Partners			
		(₹)	*(₹)*
Rajesh's Capital A/c	Dr.	20,750	
Suman's Capital A/c	Dr.	16,250	
To Cash A/c			37,000
(Being final settlement made to partners)			

Cash Account

	(₹)		*(₹)*
To Balance b/ d	1,000	By Realisation A/c	3,000
To Realisation A/c	39,000	By Ram's Capital A/c	20,750
		By Rahim's Capital A/c	16,250
	40,000		**40,000**

✎ ILLUSTRATION 12:

Prabu, Ramesh and Saleem are partners, sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet, as on 31st December 2016, was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	48,000	Plant	1,00,000
General Reserve	12,000	Stock	44,000
Prabhu's Capital	80,000	Debtors	38,000
Ramesh's Capital	60,000	Land	52,000
Saleem's Capital	40,000	Cash	6,000
Total	**2,40,000**	**Total**	**2,40,000**

On the above date, the firm was dissolved. The assets except cash realised ₹2,40,000. The creditors were settled at ₹45,000. Dissolution expenses amounted to ₹2,000. Pass necessary Journal Entries and prepare Realisation Account, Partners' Capital Account and Cash Account.

Solution:

Journal Entries

Transfer of Assets (except Cash) to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Realisation A/c	Dr.	2,34,000	
To Plant A/c			1,00,000
To Stock A/c			44,000
To Debtors A/c			38,000
To Land A/c			52,000
(Being assets transferred to realisation account at book values)			

Transfer of Third-Party Liabilities to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Creditors A/c	Dr.	48,000	
To Realisation A/c			48,000
(Being liabilities transferred to realisation account)			

Realisation of Assets for Cash			
		(₹)	*(₹)*
Cash A/c	Dr	2,40,000	
To Realisation A/c			2,40,000
(Being assets sold for cash)			

Payment of Liabilities			
		(₹)	*(₹)*
Realisation A/c	Dr.	45,000	
To Cash A/c			45,000
(Being liabilities paid off)			

Dissolution Expenses Paid in Cash			
		(₹)	*(₹)*
Realisation A/c	Dr.	2,000	
To Cash A/c			2,000
(Being dissolution expenses paid)			

Transfer of Reserves to Partners' Capital Accounts in Their Sharing Ratio

		(₹)	(₹)
General Reserve A/c	Dr.	12,000	
To Prabu's Capital A/c			6,000
To Ramesh's Capital A/c			3,600
To Saleem's Capital A/c			2,400
(Being reserves transferred to partner's capital account)			

Realisation Account

	(₹)		(₹)
To Plant A/c	1,00,000	By Creditors A/c	48,000
To Stock A/c	44,000	By Cash A/c	2,40,000
To Debtors A/c	38,000		
To Land A/c	52,000		
To Cash A/c	45,000		
To Cash A/c	2,000		
To Profit (Bal. fig.)	**7,000**		
	2,88,000		**2,88,000**

Transfer of Realisation Profit to Partners' Capital Accounts in their Sharing Ratio

		(₹)	(₹)
Realisation A/c	Dr.	7,000	
To Prabu's Capital A/c			3,500
To Ramesh's Capital A/c			2,100
To Saleem's Capital A/c			1,400
(Being profit on realisation transferred to partner's capital account)			

Capital Accounts

	Prabu (₹)	*Ramesh* (₹)	*Saleem* (₹)		*Prabu* (₹)	*Ramesh* (₹)	*Saleem* (₹)
To Cash (Bal. fig.)	**89,500**	**65,700**	**43,800**	By Balance b /d	80,000	60,000	40,000
				By General Reserve	6,000	3,600	2,400
				By Realisation	3,500	2,100	1,400
	89,500	**65,700**	**43,800**		**89,500**	**65,700**	**43,800**

Final Settlement to Partners			
		(₹)	*(₹)*
Prabu's Capital Account A/c	Dr.	89,500	
Ramesh's Capital Account A/c	Dr.	65,700	
Saleem's Capital Account A/c	Dr.	43,800	
To Cash A/c			1,99,000
(Being final settlement made to partners)			

Cash Account

	(₹)		*(₹)*
To Balance b/ d	6,000	By Cash A/c	45,000
To Realisation A/c	2,40,000	By Cash A/c	2,000
		By Prabu's Capital A/c	89,500
		By Ramesh's Capital A/c	65,700
		By Saleem's Capital A/c	43,800
	2,46,000		**2,46,000**

✎ ILLUSTRATION 13:

Raman and Suraj share profits and losses equally. Their balance sheet, as on 31st December 2014, was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Raman's Capital	50,000	Land	40,000
Suraj's Capital	30,000	Machinery	40,000
Creditors	15,000	Debtors	15,000
General Reserve	15,000	Furniture	10,000
		Cash	5,000
Total	**1,10,000**	**Total**	**1,10,000**

The firm was dissolved. The assets were realised for cash: Land ₹1,50,000; Machinery ₹30,000; Debtors ₹10,000; and Furniture ₹5,000. Expenses of dissolution amounted to ₹2,500, paid by Raman.

Pass necessary Journal Entries and prepare Realisation Account, Partners' Capital Account and Cash Account.

Solution:

Journal Entries

Transfer of Assets (except Cash) to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Realisation A/c	Dr.	1,05,000	
To Land A/c			40,000
To Machinery A/c			40,000
To Debtors A/c			15,000
To Furniture A/c			10,000
(Being assets transferred to realisation account at book values)			

Transfer of Third-Party Liabilities to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Creditors A/c	Dr	15,000	
To Realisation A/c			15,000
(Being liabilities transferred to realisation account)			

Realisation of Assets for Cash			
		(₹)	*(₹)*
Cash A/c	Dr.	1,95,000	
To Realisation A/c			1,95,000
(Being assets sold for cash)			

Payment of Liabilities			
		(₹)	*(₹)*
Realisation A/c	Dr.	15,000	
To Cash A/c			15,000
(Being liabilities paid off)			

Dissolution Expenses Paid by Raman			
		(₹)	*(₹)*
Realisation A/c	Dr.	2,500	
To Raman's Capital A/c			2,500
(Being dissolution expenses paid by Raman)			

Transfer of Reserves to Partners' Capital Accounts in Their Sharing Ratio

		(₹)	(₹)
General Reserve A/c	Dr.	15,000	
To Raman's Capital A/c			7,500
To Suraj's Capital A/c			7,500
(Being reserves transferred to partner's capital account)			

Realisation Account

	(₹)		(₹)
To Land A/c	40,000	By Creditors A/c	15,000
To Machinery A/c	40,000	By Cash A/c	1,95,000
To Debtors A/c	15,000		
To Furniture A/c	10,000		
To Cash A/c	15,000		
To Raman A/c	2,500		
To Profit (Bal. fig.)	**87,500**		
	2,10,000		**2,10,000**

Profit on Realisation transferred to Partners' Capital Accounts

		(₹)	(₹)
Realisation A/c	Dr	87,500	
To Raman's Capital Account A/c			43,750
To Suraj's Capital Account A/c			43,750
(Being profit on realisation transferred to partner's capital account)			

Capital Accounts

	Raman (₹)	*Suraj* (₹)		*Raman* (₹)	*Suraj* (₹)
To Cash (Bal. fig.)	1,03,750	81,250	By Balance b/d	50,000	30,000
			By General Reserve	7,500	7,500
			By Realisation	43,750	43,750
			By Realisation	2,500	—
	1,03,750	**81,250**		**1,03,750**	**81,250**

Final Settlement to Partners			
		(₹)	*(₹)*
Raman's Capital Account A/c	Dr.	1,03,750	
Suraj's Capital Account A/c	Dr.	81,250	
To Cash A/c			1,85,000
(Being final settlement made to partners)			

Cash Account

	(₹)		*(₹)*
To Balance b/ d	5,000	By Realisation A/c	15,000
To Realisation A/c	1,95,000	By Raman's Capital A/c	1,03,750
		By Suraj's Capital A/c	81,250
	2,00,000		**2,00,000**

✎ ILLUSTRATION 14:

Rahima, Rajeeya and Salima are partners, sharing profits and losses equally. Their balance sheet, as on 31st December 2013, was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	36,000	Land	75,000
Bank Loan	9,000	Furniture	33,000
Rahima's Capital	60,000	Debtors	28,000
Rajeeya's Capital	45,000	Bills Receivable	39,000
Salima's Capital	30,000	Cash	5,000
Total	**1,80,000**	**Total**	**1,80,000**

On the above date, the firm was dissolved. The assets were realised as follows: Land ₹1,50,000; Furniture ₹30,000; Debtors 25,000 and Bills Receivable 35,000. Dissolution expenses amounted to ₹5,000.

Pass necessary Journal Entries and prepare Realisation Account, Partners' Capital Account and Cash Account.

Solution:

Journal Entries

Transfer of Assets (except Cash) to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Realisation A/c	Dr.	1,75,000	
To Land			75,000
To Furniture			33,000
To Debtors			28,000
To Bills Receivable			39,000
(Being assets transferred to realisation account at book value)			

Transfer of Third-Party Liabilities to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Creditors A/c	Dr.	36,000	
Bank Loan A/c	Dr.	9,000	
To Realisation A/c			45,000
(Being liabilities transferred to realisation account)			

Realisation of Assets for Cash			
		(₹)	*(₹)*
Cash A/c	Dr.	2,40,000	
To Realisation A/c			2,40,000
(Being assets sold for cash)			

Payment of Liabilities			
		(₹)	*(₹)*
Realisation A/c	Dr.	45,000	
To Cash A/c			45,000
(Being liabilities paid off)			

Dissolution Expenses Paid in Cash			
		(₹)	*(₹)*
Realisation A/c	Dr.	5,000	
To Cash A/c			5,000
(Being dissolution expenses paid)			

Realisation Account

	(₹)		(₹)
To Land A/c	75,000	By Creditors A/c	36,000
To Furniture A/c	33,000	By Bank Loan A/c	9,000
To Debtors A/c	28,000	By Cash A/c	2,40,000
To Bills Receivable A/c	39,000		
To Cash A/c	45,000		
To Cash A/c	5,000		
To Profit (Bal. fig.)	**60,000**		
	2,85,000		**2,85,000**

Transfer of Realisation Profit to Partners' Capital Accounts in their Sharing Ratio

		(₹)	(₹)
Realisation A/c	Dr.	60,000	
To Rahima's Capital Account A/c			20,000
To Rajeeya's Capital Account A/c			20,000
To Salima's Capital Account A/c			20,000
(Being profit on realisation transferred to partner's capital account)			

Capital Accounts

	Rahima (₹)	*Rajeeya* (₹)	*Salima* (₹)		*Rahima* (₹)	*Rajeeya* (₹)	*Salima* (₹)
To Cash (Bal. fig.)	**80,000**	**65,000**	**50,000**	By Balance b /d	60,000	45,000	30,000
				By Realisation	20,000	20,000	20,000
	80,000	**65,000**	**50,000**		**80,000**	**65,000**	**50,000**

Final Settlement to Partners

		(₹)	(₹)
Rahima's Capital Account A/c	Dr.	80,000	
Rajeeya's Capital Account A/c	Dr.	65,000	
Salima's Capital Account A/c	Dr.	50,000	
To Cash A/c			1,95,000
(Being final settlement made to partners)			

Cash Account

	(₹)		(₹)
To Balance b/d	5,000	By Cash A/c	45,000
To Realisation A/c	2,40,000	By Cash A/c	5,000
		By Rahima's Capital A/c	80,000
		By Rajeeya's Capital A/c	65,000
		By Salima's Capital A/c	50,000
	2,45,000		**2,45,000**

✎ ILLUSTRATION 15:

A, B and C are in a partnership, sharing profits and losses in the ratio of 4:2:2. Their Balance Sheet, as on 31st December 2014, stood as follows:

Liabilities	(₹)	*Assets*	(₹)
Capitals:		Land & Buildings	11,000
A	8,000		
B	4,000		
C	1,000		
Creditors	7,000	Stock	4,000
		Debtors	2,000
		Cash in Hand	3,000
	20,000		**20,000**

On 31st December 2014, they agreed to dissolve the partnership on the following terms. Land and Building was sold for cash ₹25,000.

Mr. A agrees to take over the stock and debtors for ₹3,000 and ₹1,400.

Pass Journal Entries and prepare the necessary Ledger Accounts.

Solution:

Journal Entries

Transfer of Assets (except Cash) to Realisation Account at Balance Sheet Values			
		(₹)	(₹)
Realisation A/c	Dr.	17,000	
To Land & Buildings A/c			11,000
To Stock A/c			4,000
To Debtors A/c			2,000
(Being assets transferred to realisation account at book values)			

Transfer of Third-Party Liabilities to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Creditors A/c	Dr.	7,000	
To Realisation A/c			7,000
(Being liabilities transferred to realisation account)			

Realisation of Assets for Cash			
		(₹)	*(₹)*
Cash A/c	Dr.	25,000	
To Realisation A/c			25,000
(Being land and buildings sold for cash)			

Assets taken over by Partner A			
		(₹)	*(₹)*
A's Capital A/c	Dr.	4,400	
To Realisation A/c			4,400
(Being stock and debtors taken over by Partner A)			

Payment of Liabilities			
		(₹)	*(₹)*
Realisation A/c	Dr.	7,000	
To Cash A/c			7,000
(Being liabilities paid off)			

Realisation Account

	(₹)		*(₹)*
To Land & Buildings	11,000	By Creditors	7,000
To Stock	4,000	By Cash	25,000
To Debtors	2,000	By A's Capital	4,400
To Cash	**7,000**		
To Profit (Bal. fig.)	**12,400**		
	36,400		**36,400**

Transfer of Profit on Realisation to Partners Capital Accounts

		(₹)	(₹)
Realisation A/c	Dr.	12,400	
To A's Capital A/c			6,200
To B's Capital A/c			3,100
To C's Capital A/c			3,100
(Being profit on realisation transferred to partner's capital account)			

Capital Accounts

	A (₹)	*B* (₹)	*C* (₹)		*A* (₹)	*B* (₹)	*C* (₹)
To Realisation	4,400	—	—	By Balance b /d	8,000	4,000	1,000
To Cash (Bal. fig.)	**9,800**	**7,100**	**4,100**	By Realisation	6,200	3,100	3,100
	14,200	**7,100**	**4,100**		**14,200**	**7,100**	**4,100**

Final Settlement to Partners

		(₹)	(₹)
A's Capital Account A/c	Dr.	9,800	
B's Capital Account A/c	Dr.	7,100	
C's Capital Account A/c	Dr.	4,100	
To Cash A/c			21,000
(Being final settlement made to partners)			

Cash Account

	(₹)		(₹)
To Balance b/ d	3,000	By Realisation	7,000
To Realisation A/c	25,000	By A's Capital A/c	9,800
		By B's Capital A/c	7,100
		By C's Capital A/c	4,100
	28,000		**28,000**

22.5 Garner Versus Murray Rule

A partnership is a written agreement among the partners. A partner is said to be insolvent if he is unable to pay off his debts owed in the normal course of business. In other words, the partner's liability will be more than his assets. Any competent Court can declare the partner as insolvent. Once a partner becomes insolvent, he may not be in a position to pay off his debit balance of his capital account. Any amount brought in by sale of his private estate will be credited to his capital account. The amount, which is irrecoverable from the insolvent partner, is a loss to the firm. According to Garner versus Murray, when a partner becomes insolvent and the partnership firm suffers any loss during the year:

(i) All the solvent partners should bring cash equal to their share of the loss on realisation.

(ii) The deficiency of the insolvent partner must be borne by the solvent partners in the ratio of their capitals. The capital ratio will depend on whether the capital accounts are maintained under fixed or fluctuating method.

Note: In case a partner is having a debit balance on his capital account and is not insolvent, then he cannot be called upon to bear the loss, on account of the insolvency partner.

The rule of Garner versus Murray is applicable in case of insolvency of one or more partners but not all the partners.

› 22.5.1 Fixed Capital Method

Under this method, the original capital shown in the balance sheet of the solvent partners will be taken as the basis for sharing the deficiency of the insolvent partner.

› 22.5.2 Fluctuating Capital Method

Under this method, the ratio of the solvent partners will be ascertained after taking into account, the adjustment of free reserves, accumulated profits and losses, interest on capital, drawings and unrecorded assets and liabilities. However, realisation of profit or loss should not be taken into consideration while calculating the fluctuating capital. The deficiency of the insolvent partner will be shared among the solvent partners, in the ratio of their capital shown at the end of the period.

Fluctuating Capital = Capital as per Balance Sheet + Reserves + Accumulated Profit + Interest on Capital + Asset taken over by Partner - Accumulated Losses – Drawings – Interest on Drawings – Liabilities taken over by Partner.

› 22.5.3 Application of Garner versus Murray Rule in India

As per our Indian Rule Application of Garner versus Murray,

- All the solvent partners should bear the deficiency of the insolvent partners, in their capital ratios.
- The solvent partners **need not** bring in cash equal to their share of realisation loss.
- Any deficiency of the insolvent partner should be transferred to the solvent partners' capital account, in their capital ratio.

Journal Entry

	L.F.	*Debit (₹)*	*Credit (₹)*
Solvent Partner's Capital A/c Dr.		xxx	
To Insolvent Partner's Capital A/c			xxx
(Being the deficiency of insolvent partner transferred to solvent partner's capital account)			

✎ ILLUSTRATION 16:

The Balance Sheet of X, Y, and Z, as on 31st December 2015, was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Sundry Creditors	10,000	Fixed Assets	40,000
Capitals:		Cash in Hand	10,000
X	25,000		
Y	25,000		
		Z's Capital	10,000
	60,000		**60,000**

X, Y, and Z share profits and losses in the ratio of 2:2:1. Mr. Z became insolvent. Fixed assets were sold for cash ₹20,000.

Pass necessary Journal Entries and prepare the Ledger Accounts in the books of the firm under Garner versus Murray Rule, assuming that the capitals are **FIXED**.

Solution:

Journal Entries

Transfer of Assets (except Cash) to Realisation Account at Balance Sheet Values			
		₹	₹
Realisation A/c	Dr	40,000	
To Fixed Assets			40,000
(Being assets transferred to realisation account at book value)			

Transfer of Third-Party Liabilities to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Creditors A/c	Dr.	10,000	
To Realisation A/c			10,000
(Being liabilities transferred to realisation account)			

Realisation of Assets for Cash			
		(₹)	*(₹)*
Cash A/c	Dr.	20,000	
To Realisation A/c			20,000
(Being fixed assets sold for cash)			

Payment of Liabilities			
		(₹)	*(₹)*
Realisation A/c	Dr.	10,000	
To Cash A/c			10,000
(Being liabilities paid off)			

Realisation Account

	(₹)		*(₹)*
To Fixed Assets	40,000	By Creditors	10,000
To Cash	10,000	By Cash	20,000
		By Loss (Bal. fig.)	**20,000**
	50,000		**50,000**

Loss on Realisation Transferred to Partners Capital Accounts			
		(₹)	*(₹)*
X's Capital Account A/c	Dr.	8,000	
Y's Capital Account A/c	Dr.	8,000	
Z's Capital Account A/c	Dr.	4,000	
To Realisation A/c			20,000
(Being loss on realisation transferred to partner's capital account)			

Cash Brought in by the Solvent Partners Equal to their Share of Loss on Realisation			
		(₹)	*(₹)*
Cash A/c	Dr.	16,000	
To X's Capital Account A/c			8,000
To Y's Capital Account A/c			8,000
(Being cash brought in by the solvent partners)			

Z's Capital Account

		Z *(₹)*			*Z* *(₹)*
To Balance b/d		10,000	**By X's & Y's Capital A/c (Bal. fig.)**		**14,000**
To Realisation		4,000	X 14,000 in the ratio of 1:1	7,000	
			Y 14,000 in the ratio of 1:1	7,000	
		14,000			**14,000**

Deficiency of Partner Z to be Borne by X & Y			
		(₹)	*(₹)*
X's Capital Account A/c	Dr.	7,000	
Y's Capital Account A/c	Dr.	7,000	
To Z's Capital A/c			14,000
(Being Z's loss borne by X & Y)			

Capital Accounts

	X (₹)	*Y* (₹)		*X* (₹)	*Y* (₹)
To Realisation	8,000	8,000	By Balance b/d	25,000	25,000
To Z's Capital Account	7,000	7,000	By Cash	8,000	8,000
To Cash (Bal. fig.)	**18,000**	**18,000**			
	33,000	**33,000**		**33,000**	**33,000**

Final Settlement to Partners

		(₹)	(₹)
X's Capital Account A/c	Dr.	18,000	
Y's Capital Account A/c	Dr.	18,000	
To Cash A/c			36,000
(Being final settlement made to partners)			

Cash Account

	(₹)		(₹)
To Balance b/ d	10,000	By Realisation	10,000
To Realisation A/c	20,000	By X's Capital A/c	18,000
To X's Capital A/c	8,000	By Y's Capital A/c	18,000
To Y's Capital A/c	8,000		
	46,000		**46,000**

✎ ILLUSTRATION 17:

X, Y and Z were partners sharing profits and losses equally. Their Balance Sheet, as on 31st December 2016, was as follows:

Liabilities	(₹)	*Assets*	(₹)
X's Capital	1,800	Cash	1,500
Y's Capital	1,200	Sundry Assets	900
		Z's Capital	600
	3,000		**3,000**

Sundry assets were realised for ₹600. Z became insolvent and his estate paid for ₹200. Pass Journal Entries and prepare Ledger Accounts, as per Garner versus Murray Rule, assuming that the capital is **FIXED**.

Solution:

Journal Entries

Transfer of Assets (except Cash) to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Realisation A/c	Dr.	900	
To Sundry Assets A/c			900
(Being assets transferred to realisation account at book values)			

Realisation of Assets for Cash			
		(₹)	*(₹)*
Cash A/c	Dr.	600	
To Realisation A/c			600
(Being assets sold for cash)			

Cash Received from Z by Sale of his Private Estate			
		(₹)	*(₹)*
Cash A/c	Dr.	200	
To Z's Capital A/c			200
(Being cash received from Z)			

Realisation Account

	(₹)		*(₹)*
To Sundry Assets A/c	900	By Realisation A/c	600
		By Loss (Bal. fig.)	
		X's Capital – 100	
		Y's Capital – 100	
		Z's Capital – 100	**300**
	900		**900**

Loss on Realisation Transferred to Partners' Capital Accounts in Their Sharing Ratio			
		(₹)	*(₹)*
X's Capital A/c	Dr.	100	
Y's Capital A/c	Dr.	100	
Z's Capital A/c	Dr.	100	
To Realisation A/c			300
(Being loss on realisation transferred to partner's capital account)			

Cash Brought in by the Solvent Partners for Their Loss on Realisation			
		(₹)	*(₹)*
Cash A/c	Dr.	200	
To X's Capital A/c			100
To Y's Capital A/c			100
(Being realisation loss brought in cash by the solvent partners)			

Z's Capital Account

	(₹)		*(₹)*
To Balance b /d	600	By Cash A/c	200
To Realisation A/c	100	**By X's & Y's Capital A/c** **X: 500 × 3/5 = 300** **Y: 500 × 2/5 = 200**	**500**
	700		**700**

Deficiency of Partner Z to be Borne by X & Y			
		(₹)	*(₹)*
X's Capital A/c	Dr.	300	
Y's Capital A/c	Dr.	200	
To Z's Capital A/c			500
(Being Z's loss borne by X & Y)			

Capital Account

	X (₹)	*Y* (₹)		*X* (₹)	*Y* (₹)
To Realisation	100	100	By Balance b /d	1,800	1,200
To Z's Capital A/c	300	200	By Cash	100	100
To Cash (Bal. fig.)	**1,500**	**1,000**			
	1,900	**1,300**		**1,900**	**1,300**

Final Settlement to Partners

		(₹)	(₹)
X's Capital Account A/c	Dr.	1,500	
Y's Capital Account A/c	Dr.	1,000	
To Cash A/c			2,500
(Being final settlement made to partners)			

Cash Account

	(₹)		(₹)
To Balance b/ d	1,500	By X's Capital A/c	1,500
To Realisation A/c	600	By Y's Capital A/c	1,000
To Z's Capital A/c	200		
To X's Capital A/c	100		
To Y's Capital A/c	100		
	2,500		**2,500**

✎ ILLUSTRATION 18:

P, Q and R were partners sharing profits and losses equally. Their Balance Sheet, as on 31st December 2017, was as follows.

Liabilities	(₹)	*Assets*	(₹)
P's Capital	3,600	Cash	3,000
Q's Capital	2,400	Sundry Assets	1,800
		R's Capital	1,200
	6,000		**6,000**

Sundry assets were realised for ₹1,200. R became insolvent and his estate paid for ₹400. Pass Journal Entries and prepare Ledger Account, as per Garner versus Murray Rule, assuming that the capitals are **FIXED**.

Solution:

Journal Entries

Transfer of Assets (except Cash) to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Realisation A/c	Dr.	1,800	
To Sundry Assets			1,800
(Being assets transferred to realisation account at book values)			

Realisation of Assets for Cash			
		(₹)	*(₹)*
Cash A/c	Dr.	1,200	
To Realisation A/c			1,200
(Being assets sold for cash)			

Cash Received from R by sale of his Private Estate			
		(₹)	*(₹)*
Cash A/c	Dr.	400	
To R's Capital A/c			400
(Being cash received from R)			

Realisation Account

	(₹)		*(₹)*
To Sundry Assets	1,800	By Realisation	1,200
		By Loss (Bal. fig.)	
		P's Capital 200	
		Q's Capital 200	
		R's Capital 200	**600**
	1,800		**1,800**

Loss on Realisation Transferred to Partners' Capital Accounts in their Sharing Ratio			
		(₹)	*(₹)*
P's Capital A/c		200	
Q's Capital A/c		200	
R's Capital A/c		200	
To Realisation A/c			600
(Being loss on realisation transferred to partner's capital account)			

Cash Brought in by the Solvent Partners for their Loss on Realisation			
		(₹)	*(₹)*
Cash A/c	Dr.	400	
To P's Capital			200
To Q's Capital			200
(Being realisation loss brought in cash by the solvent partners)			

R's Capital Account

	(₹)		*(₹)*
To Balance b /d	1,200	By Cash	400
To Realisation	200	**By X's & Y's Capital A/c (Bal. fig.)**	
		X = 1,000 × 3/5 = 600	
		Y = 1,000 × 2/5 = 400	**1,000**
	1,400		**1,400**

Deficiency of Partner R to be Borne by P & Q			
		(₹)	*(₹)*
P's Capital A/c	Dr.	600	
Q's Capital A/c	Dr.	400	
To R's Capital A/c			1,000
(Being R's loss borne by P & Q)			

Capital Accounts

Particulars	*P* (₹)	*Q* (₹)	*Particulars*	*P* (₹)	*Q* (₹)
To Realisation	200	200	By Balance b /d	3,600	2,400
To R's Capital A/c	600	400	By Cash	200	200
To Cash (Bal. fig.)	**3,000**	**2,000**			
	3,800	**2,600**		**3,800**	**2,600**

Final Settlement to Partners

		(₹)	(₹)
P's Capital A/c	Dr.	3,000	
Q's Capital A/c	Dr.	2,000	
To Cash A/c			5,000
(Being final settlement made to partners)			

Cash Account

	(₹)		(₹)
To Balance b/ d	3,000	By P's Capital A/c	3,000
To Realisation A/c	1,200	By Q's Capital A/c	2,000
To R's Capital A/c	400		
To P's Capital A/c	200		
To Q's Capital A/c	200		
	5,000		**5,000**

Garner versus Murray – Fluctuating Capital

✎ ILLUSTRATION 19:

T, U and V are equal partners. The balance sheet of T, U and V, as on 31st March 2016, was as follows:

Liabilities	(₹)	*Assets*	(₹)
T's Capital	2,00,000	Furniture	1,60,000
U's Capital	1,20,000	Plant & Machinery	80,000
General Reserve	1,20,000	Stock	1,60,000

(Contd.)

Sundry Creditors	1,60,000	Sundry Debtors	80,000
		Cash	48,000
		V's Capital	72,000
	6,00,000		**6,00,000**

Mr. V was declared insolvent and it was decided to dissolve the partnership. However, cash realised from V's private estate amounted to ₹16,000. The assets realised were as follows:

Sundry Debtors ₹60,000; Furniture ₹1,12,000; Stock ₹1,28,000; Plant & Machinery ₹56,000. The dissolution expenses, amounted to ₹20,000, were paid in cash.

Pass Journal Entries and prepare the necessary Ledger Accounts under Garner versus Murray Rule, assuming that the capitals are **FLUCTUATING**.

Solution:

Journal Entries

Transfer of Assets (except Cash) to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Realisation A/c	Dr.	4,80,000	
To Furniture			1,60,000
To Plant & Machinery			80,000
To Stock			1,60,000
To Sundry Debtors			80,000
(Being assets transferred to realisation account at book values)			

Transfer Third-Party Liabilities to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Creditors A/c	Dr.	1,60,000	
To Realisation A/c			1,60,000
(Being liabilities transferred to realisation account)			

For Realisation of Assets for Cash			
		(₹)	*(₹)*
Cash A/c	Dr.	3,56,000	
To Realisation A/c			3,56,000
(Being assets sold for cash)			

Payment of Liabilities			
		(₹)	*(₹)*
Realisation A/c	Dr.	1,60,000	
To Cash A/c			1,60,000
(Being liabilities paid off)			

Dissolution Expenses Paid in Cash			
		(₹)	*(₹)*
Realisation A/c	Dr.	20,000	
To Cash A/c			20,000
(Being dissolution expenses paid)			

Cash Brought in by Mr. V by Sale of his Private Estate			
		(₹)	*(₹)*
Cash A/c	Dr.	16,000	
To V's Capital A/c			16,000
(Being cash brought in by partner V by sale of his private estate)			

Transfer of Reserves to Partners' Capital Accounts in Their Sharing Ratio			
		(₹)	*(₹)*
General Reserve A/c	Dr.	1,20,000	
To T's Capital A/c			40,000
To U's Capital A/c			40,000
To V's Capital A/c			40,000
(Being reserves transferred to partner's capital account)			

Realisation Account

Particulars	*(₹)*	*Particulars*		*(₹)*
To Furniture	1,60,000	By Sundry Creditors		1,60,000
To Plant & Machinery	80,000	By Cash		3,56,000
To Stock	1,60,000	**By Loss (Bal. fig.)**		
To Sundry Debtors	80,000	**T's Capital**	**48,000**	
To Cash	20,000	**U's Capital**	**48,000**	
To Cash	1,60,000	**V's Capital**	**48,000**	**1,44,000**
	6,60,000			**6,60,000**

Realisation Loss Transferred to Partners Capital Account			
		(₹)	*(₹)*
T's Capital A/c	Dr.	48,000	
U's Capital A/c	Dr.	48,000	
V's Capital A/c	Dr.	48,000	
To Realisation A/c			1,44,000
(Being realisation loss transferred to capital account)			

Cash Brought in by the Solvent Partners for their Loss on Realisation			
		(₹)	*(₹)*
Cash A/c	Dr.	96,000	
To T's Capital			48,000
To U's Capital			48,000
(Being realisation loss brought in cash by the solvent partners)			

V's Capital Account

	(₹)		*(₹)*
To Balance b/d	72,000	By General Reserve	40,000
To Realisation A/c	48,000	By Cash	16,000
		By T & U's Capital	
		64,000 × 3/5 = 38,400	
		64,000 × 2/5 = 25,600	**64,000**
	1,20,000		**1,20,000**

V's deficiency to be borne by T and U in the ratio of 3:2.

V's Deficiency Borne by T & U			
		(₹)	*(₹)*
T's Capital A/c	Dr.	38,400	
U's Capital A/c	Dr.	25,600	
To V's Capital A/c			64,000
(Being V's deficiency borne by T & U)			

Capital Account

Particulars	*T* (₹)	*U* (₹)	*Particulars*	*T* (₹)	*U* (₹)
To Realisation A/c	48,000	48,000	By Balance b/d	2,00,000	1,20,000
To O's Capital	38,400	25,600	By Reserve	40,000	40,000
To Cash A/c (Bal. fig.)	**2,01,600**	**1,34,400**	By Cash	48,000	48,000
	2,88,000	**2,08,000**		**2,88,000**	**2,08,000**

Final Settlement made to Partners T & U			
		(₹)	(₹)
T's Capital A/c	Dr.	2,01,600	
U's Capital A/c	Dr.	1,34,400	
To Cash A/c			3,36,000
(Being final settlement made to partners)			

Cash Account

	(₹)		(₹)
To Balance b/d	48,000	By Realisation	20,000
To Realisation	3,56,000	By Realisation	1,60,000
To V's Capital	16,000	By T's Capital	2,01,600
To T's Capital	48,000	By U's Capital	1,34,400
To U's Capital	48,000		
	5,16,000		**5,16,000**

✎ ILLUSTRATION 20:

M, N and O were partners sharing profits and losses equally. Their Balance Sheet, as on 31st December 2012, was as follows:

Liabilities	(₹)	*Assets*	(₹)
M's Capital	50,000	Furniture	40,000
Ns Capital	30,000	Plant & Machinery	20,000
General Reserve	30,000	Stock	40,000
Sundry Creditors	40,000	Sundry Debtors	20,000
		Cash	12,000
		O's Capital	18,000
	1,50,000		**1,50,000**

Mr. 'O' is insolvent but his estate pays ₹4,000. It was decided to dissolve the partnership by mutual consent. The assets were realised as follows:

Sundry Debtors ₹15,000; Furniture ₹28,000; Stock ₹32,000; Plant & Machinery ₹14,000; The dissolution expenses amounted ₹5,000 were paid in cash.

Pass Journal Entries and prepare the necessary Ledger Accounts under Garner versus Murray Rule, assuming that the capitals are **FLUCTUATING**.

Solution:

Journal Entries

Transfer of Assets (except Cash) to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Realisation A/c	Dr.	1,20,000	
To Furniture A/c			40,000
To Plant & Machinery A/c			20,000
To Stock A/c			40,000
To Sundry Debtors A/c			20,000
(Being assets transferred to realisation account at book values)			

Transfer of Third-Party Liabilities to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Creditors A/c	Dr.	40,000	
To Realisation A/c			40,000
(Being liabilities transferred to realisation account)			

Realisation of Assets for Cash			
		(₹)	*(₹)*
Cash A/c	Dr.	89,000	
To Realisation A/c			89,000
(Being assets sold for cash)			

Payment of Liabilities			
		(₹)	*(₹)*
Realisation A/c	Dr.	40,000	
To Cash A/c			40,000
(Being liabilities paid off)			

Dissolution Expenses Paid in Cash			
		(₹)	*(₹)*
Realisation A/c	Dr.	5,000	
To Cash A/c			5,000
(Being dissolution expenses paid)			

Cash Received from Mr. O by Sale of his Private Estate			
		(₹)	*(₹)*
Cash A/c	Dr.	4,000	
To O's Capital A/c			4,000
(Being cash received from O)			

Transfer of Reserves to Partners' Capital Accounts in Their Sharing Ratio			
		(₹)	*(₹)*
General Reserve A/c	Dr.	30,000	
To M's Capital A/c			10,000
To N's Capital A/c			10,000
To O's Capital A/c			10,000
(Being reserves transferred to partner's capital account)			

Realisation Account

	(₹)			*(₹)*
To Furniture	40,000	By Sundry Creditors		40,000
To Plant & Machinery	20,000	By Cash		89,000
To Stock	40,000	**By Loss (Bal. fig.)**		**36,000**
To Sundry Debtors	20,000	**M's Capital**	**12,000**	
To Cash	5,000	**N's Capital**	**12,000**	
To Cash	40,000	**O's Capital**	**12,000**	
	1,65,000			**1,65,000**

Realisation Loss Transferred to Partners' Capital Accounts in Their Sharing Ratio			
		(₹)	*(₹)*
M's Capital A/c	Dr.	12,000	
N's Capital A/c	Dr.	12,000	
O's Capital A/c	Dr.	12,000	
To Realisation A/c			36,000
(Being loss on realisation transferred to partner's capital account)			

Cash Brought in by the Solvent Partners for Their Loss on Realisation			
		(₹)	*(₹)*
Cash A/c	Dr.	24,000	
To M's Capital A/c			12,000
To N's Capital A/c			12,000
(Being realisation loss brought in cash by the solvent partners)			

O's Capital Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	18,000	By General Reserve	10,000
To Realisation A/c	12,000	By Cash	4,000
		By M & N's Capitals	
		M: 16,000 × 3/5 = 9,600	
		N: 16,000 × 2/5 = 6,400	**16,000**
	30,000		**30,000**

O's deficiency to be borne in the ratio of 3:2

O's Deficiency to be Borne by M & N			
		(₹)	*(₹)*
M's Capital A/c	Dr.	9,600	
N's Capital A/c	Dr.	6,400	
To O's Capital A/c			16,000
(Being O's deficiency shared by M and N)			

Capital Account

Particulars	*M* (₹)	*N* (₹)	*Particulars*	*M* (₹)	*N* (₹)
To Realisation A/c	12,000	12,000	By Balance b/d	50,000	30,000
To O's Capital A/c	9,600	6,400	By Reserve A/c	10,000	10,000
To Cash (Bal. fig.)	**50,400**	**33,600**	By Cash A/c	12,000	12,000
	72,000	**52,000**		**72,000**	**52,000**

Cash Account

	(₹)		(₹)
To Balance b/d	12,000	By Realisation A/c	5,000
To Realisation A/c	89,000	By Realisation A/c	40,000
To O's Capital A/c	4,000	By M's Capital A/c	50,400
To M's Capital A/c	12,000	By N's Capital A/c	33,600
To N's Capital A/c	12,000		
	1,29,000		**1,29,000**

✎ ILLUSTRATION 21:

A, B, C and D were partners sharing profits in the ratio of 3:2:3:2. Their balance sheet on the date of dissolution was as follows:

Liabilities	(₹)	*Assets*	(₹)
A's Capital	10,000	Assets	17,000
B's Capital	5,000	C's Capital	6,360
Reserve	4,000	D's Capital	1,640
Creditors	6,000		
	25,000		**25,000**

On the above date, C becomes insolvent and was able to contribute only 50 paisa in a rupee. Assets realised were ₹12,500. Dissolution expenses amounted to ₹400.

Pass Journal Entries and prepare the necessary Ledger Accounts under Garner versus Murray Rule, assuming that the capitals are **FLUCTUATING**.

Solution:

Journal Entries

Transfer of Assets (except Cash) to Realisation Account at Balance Sheet Values			
		₹	₹
Realisation A/c	Dr.	17,000	
To Sundry Assets			17,000
(Being assets transferred to realisation account at book value)			

Transfer Third-Party Liabilities to Realisation Account at Balance Sheet Values			
		(₹)	*(₹)*
Creditors A/c	Dr	6,000	
To Realisation A/c			6,000
(Being liabilities transferred to realisation account)			

Realisation of Assets for Cash			
		(₹)	*(₹)*
Cash A/c	Dr.	12,500	
To Realisation A/c			12,500
(Being assets sold for cash)			

Payment of Liabilities			
		(₹)	*(₹)*
Realisation A/c	Dr.	6,000	
To Cash A/c			6,000
(Being liabilities paid off)			

Dissolution Expenses Paid in Cash			
		(₹)	*(₹)*
Realisation A/c	Dr.	400	
To Cash A/c			400
(Being dissolution expenses paid)			

Transfer of Reserves to Partners' Capital Accounts in Their Sharing Ratio			
		(₹)	*(₹)*
General Reserve A/c	Dr.	4,000	
To A's Capital A/c			1,200
To B's Capital A/c			800
To C's Capital A/c			1,200
To D's Capital A/c			800
(Being reserves transferred to partner's capital account)			

Realisation Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Assets A/c	17,000	By Creditors	6,000
To Cash A/c	6,000	By Cash	12,500
To Cash A/c	400	**By Loss (Bal. fig.)**	**4,900**
		A 1,470	
		B 980	
		C 1,470	
		D 980	
	23,400		**23,400**

Loss on Realisation Transferred to Partner's Capital Accounts			
		(₹)	*(₹)*
A's Capital A/c	Dr.	1,470	
B's Capital A/c	Dr.	980	
C's Capital A/c	Dr.	1,470	
D's Capital A/c	Dr.	980	
To Realisation A/c			4,900
(Being loss on realisation transferred to partner's capital account)			

Cash brought in by the solvent partners for their loss on realisation			
		(₹)	*(₹)*
Cash A/c	Dr.	2,450	
To A's Capital A/c			1,470
To B's Capital A/c			980
(Being realisation loss brought in cash by the solvent partners)			

Note: If some partner is having a debit balance on his capital account and is not insolvent then he cannot be called upon to bear loss on account of the insolvency of other partner. Since partner D is having a debit balance on his capital account, he cannot be called upon to bear the loss of the insolvent partner.

C's Capital Account

Particulars	*(₹)*	*Particulars*		*(₹)*
To Balance b/d	6,360	By Reserve		1,200
To Realisation A/c	1,470	By Cash ½ × 6,630		3,315
		By A's Capital	**2,184**	
		By B's Capital	**1,131**	**3,315**
	7,830			**7,830**

C's deficiency to be borne by A and B in the ratio of 11,200:5,800 = 56:29

Cash Received from C			
		(₹)	*(₹)*
Cash A/c	Dr.	3,315	
To C's Capital A/c			3,315
(Being cash received from C)			

C's Deficiency to be Borne by A & B			
		(₹)	*(₹)*
A's Capital A/c	Dr.	2,184	
B's Capital A/c	Dr.	1,131	
To C's Capital A/c			3,315
(Being C's deficiency borne by A & B)			

D's Capital Account

Particulars	*(₹)*	*Particulars*	*(₹)*
To Balance b/d	1,640	By Reserve	800
To Realisation A/c	980	**By Cash (Bal. fig.)**	**1,820**
	2,620		**2,620**

Cash Brought in by B

		(₹)	*(₹)*
Cash A/c	Dr.	1,820	
To D's Capital A/c			1,820
(Being cash brought in by Mr. D)			

Capital Accounts

	A *(₹)*	*B* *(₹)*		*A* *(₹)*	*B* *(₹)*
To Realisation A/c	1,470	980	By Balance b/d	10,000	5,000
To C's Capital	2,184	1,131	By Reserve	1,200	800
To Cash (Bal. fig.)	**9,016**	**4,669**	By Cash	1,470	980
	12,670	**6,780**		**12,670**	**6,780**

Final Settlement Made to Partners

		(₹)	*(₹)*
A's Capital A/c	Dr.	9,016	
B's Capital A/c	Dr.	4,669	
To Cash A/c			13,685
(Being final settlement made to partners)			

Cash Account

	(₹)		*(₹)*
To Realisation A/c	12,500	By Realisation A/c	6,000
To D's Capital A/c	1,820	By Realisation A/c	400
To C's Capital A/c	3,315	By A's Capital A/c	9,016
To A's Capital A/c	1,470	By B's Capital A/c	4,669
To B's Capital A/c	980		
	20,085		**20,085**

22.6 Insolvency of All Partners

When all the partners are declared insolvent, the creditors cannot be paid in full. The loss on account of insolvency of the partners will have to be borne by the creditors. Only the assets should be transferred to the Realisation Account. Cash received from the partners by sale of their private estate should also be taken into account. After making payment of realisation expenses, all the cash available will be paid to the creditors. Any balance remaining unpaid to the creditors will be transferred to an account called Deficiency Account. Similarly, any amount due to the partners or from the partners will also be transferred to the deficiency account. The deficiency account shall be automatically closed.

› 22.6.1 Procedure to be Followed when all the Partners are Insolvent

The following procedure is to be adopted when all the partners become insolvent.

1. Transfer all the assets to realisation account at book value.
2. Make entries for realisation of assets.
3. Make entries for cash brought in by the insolvent partners by sale of their private estate.
4. Make entries for payment of dissolution expenses.
5. Transfer accumulated profits or losses to partners' capital account in their sharing ratio.
6. Prepare realisation account to find profit or loss.
7. Transfer profit or loss, on realisation, to partners' capital accounts.
8. Prepare cash/bank account in order to ascertain the availability of cash for creditors.
9. Prepare creditors account to ascertain the unpaid balance and close the account by transferring the remaining balance to deficiency account.
10. Prepare partners' capital account and transfer the debit or credit balance to deficiency account.
11. Prepare the deficiency account to close the books of the firm.

Insolvency of all Partners

✎ ILLUSTRATION 22:

C, D and E were equal partners. Their balance sheet as on 31st March 2015 was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital:		Cash at Bank	3,120
C	8,000		
D	6,000		
E	1,000		
Sundry Creditors	20,000	Stock	15,630
Loan	10,000	Debtors	4,720
		Furniture	9,530
		Profit & Loss A/c	12,000
	45,000		**45,000**

The firm was dissolved due to insolvency of all the partners. The assets were realised as follows: Stock ₹10,900; Furniture ₹4,000; Debtors ₹4,100. Realisation expenses, amounted to ₹220, were paid in cash. C's private estate earned a surplus of ₹600.

Pass necessary Journal Entries and prepare the Ledger Accounts.

Solution:

Journal Entries

Transfer of Assets (except Bank) to Realisation Account at Balance Sheet Values			
Realisation A/c	Dr.	29,880	
To Stock A/c			15,630
To Debtors A/c			4,720
To Furniture A/c			9,530
(Being assets transferred to realisation account)			

Realisation of Assets for Cash			
Cash A/c	Dr.	19,000	
To Realisation A/c			19,000
(Being assets realised for cash)			

Realisation Expenses Paid in Cash			
Realisation A/c	Dr.	220	
To Cash A/c			220
(Being realisation expenses paid in cash)			

Cash Received from C by Sale of his Private Estate			
Cash A/c	Dr.	600	
To C's Capital A/c			600
(Being cash brought in by C through sale of his private estate)			

Transfer of Accumulated Losses to Partners' Capital Account			
C's Capital A/c	Dr.	4,000	
D's Capital A/c	Dr.	4,000	
E's Capital A/c	Dr.	4,000	
To Profit & Loss A/c			12,000
(Being accumulated losses to partners' capital account)			

Realisation Account

	(₹)			(₹)
To Stock A/c	15,630	By Cash A/c		19,000
To Debtors A/c	4,720	**By Loss (Bal. fig.)**		**11,100**
		C	**3,700**	
		D	**3,700**	
		E	**3,700**	
To Furniture A/c	9,530			
To Cash A/c	220			
	30,100			**30,100**

Loss on Realisation Transferred to Partners' Capital			
C's Capital A/c	Dr.	3,700	
D's Capital A/c	Dr.	3,700	
E's Capital A/c	Dr.	3,700	
To Realisation A/c			11,100
(Being loss on realisation transferred to partners' capital)			

Capital Account

	C (₹)	*D* (₹)	*E* (₹)		*C* (₹)	*D* (₹)	*E* (₹)
To Realisation A/c	3,700	3,700	3,700	By Balance b/d	8,000	6,000	1,000
To Profit & Loss A/c	4,000	4,000	4,000	By Cash A/c	600	—	—
To Deficiency A/c (Bal. fig.)	**900**	—	—	**By Deficiency A/c (Bal. fig.)**	—	**1,700**	**6,700**
	8,600	**7,700**	**7,700**		**8,600**	**7,700**	**7,700**

Partner C's Deficiency Transferred to Capital Account

C's Capital A/c	Dr.	900	
To Deficiency A/c			900
(Partner C's deficiency transferred to capital account)			

Partner D & E's Deficiency Transferred to Capital Account

Deficiency A/c	Dr.	8,400	
To D's Capital A/c			1,700
To E's Capital A/c			6,700
(Partners D & E's deficiency transferred to capital account)			

Cash Account

	(₹)		(₹)
To Balance b/d	3,120	By Realisation A/c	220
To Realisation A/c	19,000	**By Creditors & Loan A/c (Bal. fig.)**	**22,500**
		22,500 × 2/3 = 15,000	
		22,500 × 1/3 = 7,500	
To C's Capital A/c	600		
	22,720		**22,720**

Creditors and Loan Paid Off

Creditors A/c	Dr.	15,000	
Loan A/c	Dr.	7,500	
To Cash A/c			22,500
(Being creditors and loan paid off)			

Sundry Creditors Account

	(₹)		(₹)
To Cash A/c	15,000	By Balance b/d	20,000
To Deficiency A/c (Bal. fig.)	**5,000**		
	20,000		**20,000**

Sundry Creditors Account Deficiency Transferred to Deficiency Account

Sundry Creditors A/c	Dr.	5,000	
To Deficiency A/c			5,000
(Being sundry creditors deficiency transferred to deficiency account)			

Loan Account

	(₹)		(₹)
To Cash A/c	7,500	By Balance b/d	10,000
To Deficiency A/c (Bal. fig.)	**2,500**		
	10,000		**10,000**

Loan Account Deficiency Transferred to Deficiency Account

Loan A/c	Dr.	2,500	
To Deficiency A/c			2,500
(Being loan account deficiency transferred to deficiency account)			

Deficiency Account

	(₹)		(₹)
To D's Capital A/c	1,700	By Sundry Creditors A/c	5,000
To E's Capital A/c	6,700	By C's Capital A/c	900
		By Loan	2,500
	8,400		**8,400**

✎ ILLUSTRATION 23:

M, N and O were partners sharing profits and losses in the ratio of 1:1:1. Their balance sheet, as on 31st March 2014, was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital:		Cash at Bank	12,480
M	32,000		
N	24,000		
O	4,000		
Sundry Creditors	80,000	Stock	62,520
Loan	40,000	Debtors	18,880
		Furniture	38,120
		Profit & Loss A/c	48,000
	1,80,000		**1,80,000**

The firm was dissolved due to insolvency of all the partners. The assets were realised as follows: Stock ₹43,600; Furniture ₹16,000; Debtors ₹16,400. Realisation expenses, amounted to ₹880, were paid in cash. M's private estate earned a surplus of ₹2,400.

Pass necessary Journal Entries and prepare the Ledger Accounts.

Solution:

Journal Entries

Transfer of Assets (except Bank) to Realisation Account at Balance Sheet Values			
Realisation A/c	Dr.	1,19,520	
To Stock A/c			62,520
To Debtors A/c			18,880
To Furniture A/c			38,120
(Being assets transferred to realisation account)			

Realisation of Assets for Cash			
Cash A/c	Dr.	76,000	
To Realisation A/c			76,000
(Being assets realised for cash)			

Realisation Expenses Paid in Cash			
Realisation A/c	Dr.	880	
To Cash A/c			880
(Being the realisation expenses paid)			

Cash Received from M by Sale of his Private Estate			
Cash A/c	Dr.	2,400	
To M's Capital A/c			2,400
(Being cash brought in by M, by sale of his private estate)			

Transfer of Accumulated Losses to Partners' Capital Account			
M's Capital A/c	Dr.	16,000	
M's Capital A/c	Dr.	16,000	
O's Capital A/c	Dr.	16,000	
To Profit & Loss A/c			48,000
(Being accumulated losses to partners capital account)			

Realisation Account

	(₹)			(₹)
To Stock A/c	62,520	By Cash A/c		76,000
To Debtors A/c	18,880	**By Loss (Bal. fig.)**		**44,400**
		M	**14,800**	
		N	**14,800**	
		O	**14,800**	
To Furniture A/c	38,120			
To Cash A/c	880			
	1,20,400			**1,20,400**

Loss on Realisation Transferred to Partners' Capital			
M's Capital A/c	Dr.	14,800	
N's Capital A/c	Dr.	14,800	
O's Capital A/c	Dr.	14,800	
To Realisation A/c			44,400
(Losses on realisation transferred to partners' capital)			

Capital Account

	M (₹)	*N* (₹)	*O* (₹)		*M* (₹)	*N* (₹)	*O* (₹)
To Realisation A/c	14,800	14,800	14,800	By Balance b/d	32,000	24,000	4,000
To Profit & Loss A/c	16,000	16,000	16,000	By Cash A/c	2,400	—	—
To Deficiency A/c (Bal. fig.)	**3,600**	—	—	**By Deficiency A/c (Bal. fig.)**	—	**6,800**	**26,800**
	34,400	**30,800**	**30,800**		**34,400**	**30,800**	**30,800**

Partner M's Deficiency Transferred to Capital Account

M's Capital A/c	Dr.	3,600	
To Deficiency A/c			3,600
(Partner M's deficiency transferred to capital account)			

Partners N & O's Deficiency Transferred to Capital Account

Deficiency A/c	Dr.	33,600	
To N's Capital A/c			6,800
To O's Capital A/c			26,800
(Partners N & O's deficiency transferred to capital account)			

Cash Account

	(₹)		(₹)
To Balance b/d	12,480	By Realisation A/c	880
To Realisation A/c	76,000	**By Creditors & Loan A/c (Bal. fig.)**	**90,000**
		90,000 × 2/3 = 60,000	
		90,000 × 1/3 = 30,000	
To M's Capital A/c	2,400		
	90,880		**90,880**

Creditors and Loan Paid Off			
Creditors A/c	Dr.	60,000	
Loan A/c	Dr.	30,000	
To Cash A/c			90,000
(Being creditors and loan paid off)			

Sundry Creditors Account

	(₹)		*(₹)*
To Cash A/c	60,000	By Balance b/d	80,000
To Deficiency A/c (Bal. fig.)	**20,000**		
	80,000		**80,000**

Sundry Creditors Account Deficiency Transferred to Deficiency Account			
Sundry Creditors A/c	Dr.	20,000	
To Deficiency A/c			20,000
(Being sundry creditors deficiency transferred to deficiency account)			

Loan A/c

	(₹)		*(₹)*
To Cash A/c	30,000	By Balance b/d A/c	40,000
To Deficiency A/c (Bal. fig.)	**10,000**		
	40,000		**40,000**

Loan Account Deficiency Transferred to Deficiency Account			
Loan A/c	Dr.	10,000	
To Deficiency A/c			10,000
(Being loan account deficiency transferred to deficiency account)			

Deficiency Account

	(₹)		*(₹)*
To N's Capital A/c	6,800	By Sundry Creditors A/c	20,000
To O's Capital A/c	26,800	By M's Capital A/c	3,600
		By Loan	10,000
	33,600		**33,600**

✎ ILLUSTRATION 24:

K and M are in equal partnership. Their balance sheet, as on 31st March 2016, was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
K's Capital	10,800	Plant & Machinery	27,000
Sundry Creditors	70,200	Furniture	7,200
		Debtors	9,000
		Stock	10,800
		Cash	5,400
		M's Capital	21,600
	81,000		**81,000**

The firm was dissolved due to insolvency of both the partners. The assets were realised as follows: Plant and Machinery ₹12,600; Furniture ₹3,600; Debtors ₹9,000; and Stock ₹6,300. Realisation expenses amounted to ₹2,700. K's private estate is not sufficient even to pay his private liabilities, whereas in M's private estate, there is a surplus of ₹900.

Pass Journal Entries and prepare Realisation Account, Cash Account, Creditors Account, Capital Accounts and the Deficiency Account of the partners.

Solution:

Journal Entries

Transfer of Assets (except Cash) to Realisation Account at Balance Sheet Values			
Realisation A/c	Dr.	54,000	
To Plant & Machinery A/c			27,000
To Furniture A/c			7,200
To Debtors A/c			9,000
To Stock A/c			10,800
(Being assets transferred to realisation account)			

Realisation of Assets for Cash			
Cash A/c	Dr.	31,500	
To Realisation A/c			31,500
(Being realisation of assets for cash)			

Realisation Expenses Paid in Cash			
Realisation A/c	Dr.	2,700	
To Cash A/c			2,700
(Being realisation expenses paid)			

Cash Realised from M's Private Estate			
Cash A/c	Dr.	900	
To M's Capital A/c			900
(Being cash realised from M's private estate)			

Realisation Account

	(₹)		*(₹)*
To Plant & Machinery A/c	27,000	By Cash A/c	31,500
To Furniture A/c	7,200	**By Loss (Bal. fig.)**	
		K 12,600	
		M 12,600	**25,200**
To Debtors A/c	9,000		
To Stock A/c	10,800		
To Cash A/c	2,700		
	56,700		**56,700**

Loss on Realisation Transferred to Partners' Capital			
K's Capital A/c	Dr.	12,600	
M's Capital A/c	Dr.	12,600	
To Realisation A/c			25,200
(Losses on realisation transferred to partners' capital)			

Capital Account

	K *(₹)*	*M* *(₹)*		*K* *(₹)*	*M* *(₹)*
To Balance b/d	—	21,600	By Balance b/d	10,800	—
To Realisation A/c	12,600	12,600	By Cash A/c	—	900
			By Deficiency A/c (Bal. fig.)	**1,800**	**33,300**
	12,600	**34,200**		**12,600**	**34,200**

Partners K & M's Deficiency Transferred to Deficiency Account			
Deficiency A/c	Dr.	35,100	
To K's Capital A/c			1,800
To M's Capital A/c			33,300
(Partners K & M's deficiency transferred to deficiency account)			

Cash Account

	(₹)		*(₹)*
To Balance b/d	5,400	By Realisation A/c	2,700
To Realisation A/c	31,500	**By Creditors (Bal. fig.)**	**35,100**
To M's Capital A/c	900		
	37,800		**37,800**

Creditors Paid Off			
Creditors A/c	Dr.	35,100	
To Cash A/c			35,100
(Being creditors paid off)			

Sundry Creditors Account

	(₹)		*(₹)*
To Cash A/c	35,100	By Balance b/d	70,200
To Deficiency A/c (Bal. fig.)	**35,100**		
	70,200		**70,200**

Sundry Creditors Account Deficiency Transferred to Deficiency Account			
Sundry Creditors A/c	Dr.	35,100	
To Deficiency A/c			35,100
(Being sundry creditors deficiency transferred to deficiency account)			

Deficiency Account

	(₹)		*(₹)*
To K's Capital A/c	1,800	By Sundry Creditors A/c	35,100
To M's Capital A/c	33,300		
	35,100		**35,100**

✎ ILLUSTRATION 25:

C and D were partners, sharing profits and losses in the ratio of 3:2. Their balance sheet, as on 31st December 2015, was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
C's Capital	6,000	Land	5,000
Sundry Creditors	15,000	Buildings	4,000
		Stock	3,000
		Debtors	4,000
		Cash	2,000
		D's Capital	3,000
	21,000		**21,000**

Both the partners became insolvent and hence the firm was dissolved. The assets were realised for ₹5,650. Realisation expenses amounted to ₹200.

Pass Journal Entries and prepare necessary Ledger Accounts.

Solution:

Journal Entries

Transfer of Assets (except bank) to Realisation Account at Balance Sheet Values			
Realisation A/c	Dr.	16,000	
To Land			5,000
To Buildings			4,000
To Stock			3,000
To Debtors			4,000
(Being assets transferred to realisation account)			

Realisation of Assets for Cash			
Cash A/c	Dr.	5,650	
To Realisation A/c			5,650
(Being assets realised)			

Realisation Expenses Paid in Cash			
Realisation A/c	Dr.	200	
To Cash A/c			200
(Being realisation expenses paid)			

Realisation Account

	(₹)		(₹)
To Land A/c	5,000	By Cash A/c	5,650
To Buildings A/c	4,000	**By Loss (Bal. fig.)**	
		C: 10,550 × 3/5 = 6,330	
		D: 10,550 × 2/5 = 4,220	**10,550**
To Stock A/c	3,000		
To Debtors A/c	4,000		
To Cash A/c	200		
	16,200		**16,200**

Loss on Realisation Transferred to Partners' Capital			
C's Capital A/c	Dr.	6,330	
D's Capital A/c	Dr.	4,220	
To Realisation A/c			10,550
(Losses on realisation transferred to partners' capital)			

Capital Account

	C (₹)	*D* (₹)		*C* (₹)	*D* (₹)
To Balance b/d	—	3,000	By Balance b/d	6,000	—
To Realisation A/c	6,330	4,220	**By Deficiency A/c (Bal. fig.)**	**330**	**7,220**
	6,330	**7,220**		**6,330**	**7,220**

Partners C & D's Deficiency Transferred to Deficiency Account			
C's Capital A/c	Dr.	330	
D's Capital A/c	Dr.	7,220	
To Deficiency A/c			7,550
(Partners C & D's deficiency transferred to deficiency account)			

Cash Account

	(₹)		(₹)
To Balance b/d	2,000	By Realisation A/c	200
To Realisation A/c	5,650	**By Creditors (Bal. fig.)**	**7,450**
	7,650		**7,650**

Creditors Paid Off			
Creditors A/c	Dr.	7,450	
To Cash A/c			7,450
(Being creditors paid off)			

Sundry Creditors Account

	(₹)		*(₹)*
To Cash A/c	7,450	By Balance b/d	15,000
To Deficiency A/c (Bal. fig.)	**7,550**		
	15,000		**15,000**

Sundry Creditors Account Deficiency Transferred to Deficiency Account			
Sundry Creditors A/c	Dr.	7,550	
To Deficiency A/c			7,550
(Being sundry creditors deficiency transferred to deficiency account)			

Deficiency Account

	(₹)		*(₹)*
To C's Capital A/c	330	By Sundry Creditors A/c	7,550
To D's Capital A/c	7,220		
	7,550		**7,550**

✎ ILLUSTRATION 26:

Y and Z were partners. They share profits and losses in the ratio of 5:3. Their Balance Sheet, as on 31st March 2013, was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Y's Capital	4,800	Plant & Machinery	11,800
Sundry Creditors	31,200	Furniture	3,200
		Debtors	4,000
		Stock	5,000
		Cash	2,400
		Z's Capital	9,600
	36,000		**36,000**

The partnership firm was dissolved due to insolvency of both the partners. The assets were realised as follows: Plant & Machinery ₹5,600; Furniture ₹1,600; Debtors ₹4,000; and Stock ₹2,800. The cost of collecting and distributing the estate amounted to ₹1,200.

Y's private estate is not sufficient even to pay his private liabilities, whereas in Z's private estate, there is a surplus of ₹400.

Pass Journal Entries and prepare Realisation Account, Cash Account, Creditors Account, Capital Accounts and the Deficiency Account of the partners.

Solution:

Journal Entries

Transfer of Assets (except Bank) to Realisation Account at Balance Sheet Values			
Realisation A/c	Dr.	24,000	
To Plant & Machinery			11,800
To Furniture			3,200
To Debtors			4,000
To Stock			5,000
(Being assets transferred to realisation account)			
Realisation of Assets for Cash			
Cash A/c	Dr.	14,000	
To Realisation A/c			14,000
(Being assets realised)			
Realisation Expenses Paid in Cash			
Realisation A/c	Dr.	1,200	
To Cash A/c			1,200
(Being realisation expenses paid)			
Cash Realised from Z's Private Estate			
Cash A/c	Dr.	400	
To Z's Capital A/c			400
(Being cash realised from Z's private estate)			

Realisation Account

	(₹)		(₹)
To Plant & Machinery A/c	11,800	By Cash A/c	14,000
To Furniture A/c	3,200	**By Loss (Bal. fig.)**	
		Y: 11,200 × 5/8 = 7,000	
		Z: 5,600 × 3/8 = 4,200	**11,200**
To Debtors A/c	4,000		
To Stock A/c	5,000		
To Cash A/c	1,200		
	25,200		**25,200**

Loss on Realisation Transferred to Partners' Capital

Y's Capital A/c	Dr.	7,000	
Z's Capital A/c	Dr.	4,200	
To Realisation A/c			11,200
(Losses on realisation transferred to partners' capital)			

Capital Account

	Y (₹)	*Z* (₹)		*Y* (₹)	*Z* (₹)
To Balance b/d	—	9,600	By Balance b/d	4,800	—
To Realisation A/c	7,000	4,200	By Cash A/c	—	400
			By Deficiency A/c (Bal. fig.)	**2,200**	**13,400**
	7,000	**13,800**		**7,000**	**13,800**

Partners Y & Z's Deficiency Transferred to Deficiency Account

Y's Capital A/c	Dr.	2,200	
Z's Capital A/c	Dr.	13,400	
To Deficiency A/c			15,600
(Partners Y & Z's deficiency transferred to deficiency account)			

Cash Account

	(₹)		(₹)
To Balance b/d	2,400	By Realisation A/c	1,200
To Realisation A/c	14,000	**By Creditors (Bal. fig.)**	**15,600**
To Z's Capital A/c	400		
	16,800		**16,800**

Creditors Paid Off			
Creditors A/c	Dr.	15,600	
To Cash A/c			15,600
(Being creditors paid off)			

Sundry Creditors Account

	(₹)		(₹)
To Cash A/c	15,600	By Balance b/d	31,200
To Deficiency A/c (Bal. fig.)	**15,600**		
	31,200		**31,200**

Sundry Creditors Account Deficiency Transferred to Deficiency Account			
Sundry Creditors A/c	Dr.	15,600	
To Deficiency A/c			15,600
(Being sundry creditors deficiency transferred to deficiency account)			

Deficiency Account

	(₹)		(₹)
To Y's Capital A/c	2,200	By Sundry Creditors A/c	15,600
To Z's Capital A/c	13,400		
	15,600		**15,600**

■ *Theory Questions* ■

Short-Answer Questions

1. What do you understand by Dissolution of a Partnership Firm?
2. What is Realisation Account?
3. What is Fixed Capital?
4. What is Fluctuating Capital?
5. State the Rules of Garner versus Murray.
6. State the circumstances under which a partnership firm will be dissolved by Court.
7. State the circumstances under which a partnership firm may compulsorily be dissolved.
8. What Journal Entry will be passed in the following cases?
   (i) Unrecorded Assets realised for Cash
   (ii) Unrecorded Liabilities taken over by Partner
9. What do you understand by Insolvency?
10. Who is an Insolvent Partner?
11. Write a note on Insolvency of All Partners.

Long-Answer Questions

1. Explain the different methods in which a partnership firm may be dissolved.
2. Explain the rule laid down in 'Garner versus Murray'.
3. Explain the accounting treatment in case all partners of a firm are insolvent.
4. Distinguish between Fixed Capital and Fluctuating Capital.
5. State the application of Garner versus Murray Rule in India.

■ *Exercise Problems* ■

1. What Journal Entries would you pass in the event of dissolution of a partnership?

(a) Unrecorded Assets realised for Cash: ₹1,00,000

(b) Unrecorded Liability Paid: ₹40,000

[Ans: (a) Debit Cash A/c and Credit Realisation A/c,
(b) Debit Realisation A/c and Credit Cash A/c]

2. Pass Journal Entries for the following, in the event of dissolution.

(a) Unrecorded Assets taken over by Partner A: ₹50,000

(b) Unrecorded Liability taken over by Partner B: ₹20,000

[Ans: (a) Debit A's Capital A/c and Credit Realisation A/c,
(b) Debit Realisation A/c and Credit B's Capital A/c]

3. Pass Journal Entries for the following, in the event of dissolution.

(a) Bank loan of ₹24,000 is paid in cash

(b) Stock worth ₹36,000 is taken over by Partner D

(c) Dissolution expenses paid by Partner A: ₹4,400

[Ans: (a) Debit Realisation A/c and Credit Cash A/c,
(b) Debit D's Capital A/c and Credit Realisation A/c,
(c) Debit Realisation A/c and Credit A's Capital A/c]

4. X, Y and Z are partners sharing profits and losses in the ratio of 3:2:1. Y became insolvent.

Realisation Loss: ₹60,000

Capital Ratio of X and Z – 5:3

Deficiency in Y's Capital Account: ₹60,000

Prepare Y's Capital Account, applying Garner versus Murray Rule.

[Ans: Y's Deficiency to be shared by X and Y: ₹80,000
(X: ₹50,000, Y: ₹30,000)]

5. A, B and C are equal partners. A became insolvent. Realisation loss amounted to ₹1,20,000.

Pass necessary Journal Entries as per Garner versus Murray Rule.

[Ans: (i) Debit A's Capital, B's Capital and
C's Capital A/c: ₹40,000 each
Credit Realisation A/c: ₹1,20,000
(ii) Debit Cash A/c: ₹80,000
Credit B's Capital A/c and C's Capital A/c: ₹40,000 each]

6. P, Q and R were partners, sharing profits and losses in the ratio of 2:2:1. R became insolvent. Realisation loss amounted to ₹80,000.

	(₹)
P's Capital (Cr.)	40,000
Q's Capital (Cr.)	20,000
R's Capital (Overdrawn)	20,000

Pass necessary Journal Entries as per Garner versus Murray Rule, assuming capitals are fixed. Also prepare R's Capital Account.

[Ans: R's Deficiency to be shared by P and Q: ₹36,000 (P: ₹24,000, Q: ₹12,000)]

7. A, B and C are partners, sharing profits and losses in the ratio of 5:3:2. C became insolvent and was able to contribute only 80 paisa in the rupee. Prepare C's capital account, assuming that the capitals are fluctuating. Apply Garner versus Murray Rule.

A's Capital (Credit Balance) ₹50,000

B's Capital (Credit Balance) ₹30,000

C's Capital (Debit Balance) ₹20,000

Realisation Loss amounted to ₹30,000

General Reserve ₹10,000

[Ans: C's Deficiency to be shared by A and B: ₹4,800 (A: ₹3,000, B: ₹1,800)]

8. J, K and L share profits in proportion of 2:1:1. On the date of dissolution, their Balance Sheet was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
J's Capital	10,000	Sundry Assets	60,000
K's Capital	10,000		
L's Capital	6,000		
Creditors	34,000		
Total	**60,000**	**Total**	**60,000**

The assets realised ₹45,500. Creditors were paid in full. Realisation expenses amounted to ₹1,500. Pass Journal Entries and prepare the necessary Ledger Accounts in the books of the firm.

[Ans: Realisation Loss: ₹16,000 (J: ₹8,000, K: ₹4,000, L: ₹4,000)], Capital A/c – J: ₹2,000, K: ₹6,000, L: ₹2,000, Cash A/c: ₹45,500]

9. P, Q and R share profits in proportion of 2:1:1. On the date of dissolution, their Balance Sheet was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	24,000	Sundry Assets	50,000
P's Capital	10,000		
Q's Capital	10,000		
R's Capital	6,000		
Total	**50,000**	**Total**	**50,000**

The assets realised amounted to ₹35,500. Creditors were paid in full. Realisation expenses amounted to ₹1,500. Close the books of the firm.

[Ans: Realisation Loss: ₹16,000 (P: ₹8,000, Q: ₹4,000, R: ₹4,000), Capital A/c – P: ₹2,000, Q: ₹6,000, R: ₹2,000, Cash A/c: ₹35,500]

10. M, N and O were equal partners. On 31.12.2004, their position was as follows:

	₹		₹
M's Capital	4,000	Cash	3,000
N's Capital	1,200	O's Capital	400
		Loss on Realisation	1,800
	5,200		**5,200**

O is insolvent and can pay nothing. Close the books of the firm.

(April 2007/21604/ZZ2H/SY2C/SDEN)

[Ans: Cash paid to M: ₹3,400, Cash paid to N: ₹600, Cash received from O: ₹1,000, Cash A/c Total: ₹4,000]

11. Mr. A and B were partners, sharing profits and losses in the ratio of 3:2. The following was the balance sheet of A and B on 31st December 1995.

Liabilities	*(₹)*	*Assets*	*(₹)*
Sundry Creditors	38,000	Cash at Bank	11,500
Mrs. A's Loan	10,000	Stock in trade	6,000
B's Loan	15,000	Debtors	19,000
Reserve Fund	5,000	Fixture & Fittings	4,000

(Contd.)

A's Capital	10,000	Plant & Machinery	28,000
B's Capital	8,000	Investment	10,000
		P & L A/c	7,500
	86,000		**86,000**

The firm was dissolved on 31st December 1995 and the following were the results:

(a) A took over the investment at an agreed value of ₹8,000 and agreed to pay off Mrs. A's Loan.

(b) Other assets were realised for cash as follows:
Stock ₹5,000, Debtors ₹18,500, Fixtures & fittings ₹4,500 and Plant & Machinery ₹25,000

(c) Dissolution expenses were paid ₹1,100

(d) Sundry creditors were settled at ₹37,050

Journalise the entries to be made on dissolution.

[Ans: Realisation Loss: ₹6,150 (A: ₹3,690, B: ₹2,460), Capital A/c of A: ₹6,810; B: ₹4,540, Cash A/c: ₹64,500]

12. X, Y and Z, sharing profits in the proportion of 3:2:1, decided to dissolve the partnership on 31st December 1990. Their Balance Sheet on that date was as under:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital Accounts:		Leasehold Premises	12,500
X	30,000		
Y	10,000		
Z	10,000		
Bank Loan	11,500	Goodwill	30,000
Bills Payable	16,000	Machinery	30,850
Sundry Creditors	28,200	Stock	7,850
		Investment	6,000
		Joint Life Policy	12,000
		Sundry Debtors	5,000
		Cash at Bank	1,500
	1,05,700		**1,05,700**

The joint life-policy was surrendered for ₹10,000. The investment were taken over by Y for ₹8,000. X agreed to discharge the bank loan. The other assets were sold for ₹86,700. The expenses of realisation amount to ₹850.

Show the necessary Ledger Accounts including the accounts of the partners.

[Ans: Realisation Loss: ₹350 (X: ₹175, Y: ₹117, Z: ₹58), Cash A/c: ₹98,200]

13. Kamala, Radha and Vimala are partners, sharing profits and losses in the ratio of 3:2:1. Their balance sheet as on 31st December 1994 was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	6,000	Machinery	12,500
General Reserve	1,500	Stock	5,500
Kamala's Capital	10,000	Debtors	4,750
Radha's Capital	7,500	Goodwill	6,500
Vimala's Capital	5,000	Cash	750
	30,000		**30,000**

On the above date, the firm was dissolved. The assets realised, except cash, amounted to ₹30,000. The creditors were settled at ₹5,750. Dissolution expenses amounted to ₹400. Pass Necessary Journal Entries and prepare Realisation Account, Partner's Capital Account and Cash Account.

[Ans: Realisation Profit: ₹600 (Kamala: ₹300, Radha: ₹200, Vimala: ₹100), Capital A/c: Kamala: ₹11,050, Radha: ₹8,200, Vimala: ₹5,350, Cash A/c: ₹30,750]

14. Q, S and O are partners sharing Profits and Loss in the ratio of 2:2:1. The Balance Sheet as on 31st March 2003 was:

	₹	₹		₹	₹
Creditors		2,000	Cash		2,000
Q's Capital		5,000	Debtors	1,300	
S's Capital		2,000	Less: RBD	300	1,000
O's Capital		1,000	Stock		2,000
			Furniture		5,000
		10,000			**10,000**

They decided to dissolve the partnership. Assets realised ₹7,660. Creditors settled full. Expenses came to ₹60. Prepare Realisation Account.

(April 2007/21604/ZZ2H/SY2C/SDEN)

[Ans: Loss on Realization ₹400, Cash paid Q: 4,840, S: ₹1,840, O: 920, Cash A/c: ₹9,660]

15. L and M were partners sharing profits in the ratio of 3:2. On 1st July 2008 their Balance Sheet was as under:

Liabilities		₹	*Assets*	₹
Sundry creditors		20,000	Stock	12,000
Capital A/c			Debtors	15,000
L	5,000		Furniture	600
M	3,000	8,000	Cash	400
		28,000		**28,000**

The firm was dissolved on the above date. The assets realised only ₹16,000. Expenses came to ₹500. L's private estate could pay only ₹1,000. M has no surplus. Close the books of the firm by showing relevant Ledger Account.

(May 2010 Y/ID 22201/UCZA/UCWA/UCYA/UCXB/URMA/UCVB)

[Ans: Loss on Realisation: ₹12,100, L's Share: 7,260, M's Share: ₹4,840, Cash brought in by L: ₹1,260, M: ₹1,840, Cash A/c: ₹20,500]

16. X, Y and Z are sharing profits in proportion of 3:2:1 decide to dissolve partnership on 31.12.2009. Their Balance Sheet on that date was as under:

Liabilities	₹	*Assets*		₹
Capital:		Leasehold Premises		12,500
X	30,000	Goodwill		20,000
Y	10,000	Machinery		30,520
Z	10,000	Stock		7,550
Bank Loan	11,500	Investments		6,330
Leasehold Redemption Fund	6,000	Joint Life Policy		12,000
Life Policy Fund	12,000	Sundry Debtors	5,800	
Sundry Creditors	16,200	Less: Reserve	500	5,300
		Cash at Bank		1,500
	95,700			**95,700**

The joint life policy is surrendered for ₹10,000. The investments are taken over by Y for ₹8,000. X agreed to discharge the bank loan. The remaining assets are sold for ₹86,700. The expenses of realisation amount to ₹850.

Show the necessary Ledger Accounts including the accounts of the partners.

(November 2011 60530/BYA2A)

[Ans: Realisation Profit: ₹43,850 – (X: ₹21,925, Y: ₹14,617, Z: ₹7,308); Capital A/c – X: ₹63,425, Y: ₹16,617, Z: ₹17,308; Bank A/c: ₹98,200]

17. P, Q and R share profits in proportion of 1/2, 1/4 and 1/4 on the date of dissolution. Their Balance Sheet was as follows:

Liabilities	₹	*Assets*	₹
Creditors	14,000	Sundry Assets	40,000
P's Capital	10,000		
Q's Capital	10,000		
R's Capital	6,000		
	40,000		**40,000**

The assets realised ₹35,500, creditors were paid in full. Realisation expenses amounted to ₹1,500. Close the books of the firm.

(April 2011 60522/BYA2C)

[Ans: Realisation Loss: ₹6,000 – (P: ₹3,000, Q: ₹1,500, R: ₹1,500); Capital A/c – P: ₹7,000, Q: ₹8,500, R: ₹4,500; Bank A/c: ₹35,500]

18. Mala, Neela and Kala were partners sharing profits in the ratio of 3:2:1. Their Balance Sheet as on 31st December 2004 was as under:

Liabilities		₹	*Assets*		₹
Sundry Creditors		15,000	Plant and Machinery		16,000
Sheela's Loan		13,000	Stock		15,000
Repairs and Renewals Reserve		1,200	Sundry Debtors Less: Provisions	20,000 1,000	19,000
Capitals:			Prepaid insurance		400
Mala	10,000		Investments		3,000
Neela	15,000		Cash		2,800
Kala	2,000	27,000			
		56,200			**56,200**

On this date the firm was dissolved. The assets were realised as under:

Plant and Machinery ₹10,000; Stock ₹12,000; Sundry debtors ₹16,000. The investments were taken over by Mala at a value of ₹2,000. She also agreed to pay Sheela's loan. During the course of realisation it was found that a bill for ₹5,000 previously discounted, has to be paid.

Expenses of dissolution came to ₹800. Make Ledger Accounts of the firm.

(November 2011 21604/ZZ2H/SY2C/SDEN)

[Ans: Loss on Realisation: ₹19,200; Mala receives ₹12,000; Neela receives ₹9,000; Kala pays ₹1,000; Cash A/c: ₹41,800]

Garner versus Murray – Fixed Capital

19. M, N and O were equal partners. Their balance sheet, as on 31st December 2016, was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
M's Capital	900	Cash	750
N's Capital	600	Sundry Assets	450
		O's Capital	300
	1,500		**1,500**

Sundry assets were realised for ₹300. Mr. O became insolvent and his estate paid for ₹100. Pass Journal Entries and prepare Ledger Account as per Garner versus Murray Rule, assuming that the capitals are fixed.

[Ans: Realisation Loss: ₹150 (M: ₹50, N: ₹50, O: ₹50), O's Deficiency Shared with M: ₹150, N: ₹100, Capital A/c – M: ₹750, N: ₹500, Cash A/c: ₹1,250]

20. P, Q and R are equal partners. Their balance sheet as on 31st December 2013 was as follows:

	(₹)		*(₹)*
P's Capital	7,200	Cash	6,000
Q's Capital	4,800	Sundry Assets	3,600
		R's Capital	2,400
	12,000		**12,000**

Sundry assets were realised for ₹2,400. Mr. R became insolvent and his estate paid for ₹800. Pass Journal Entries and prepare Ledger

Account as per Garner versus Murray Rule, assuming that the capitals are fixed.

[Ans: Realisation Loss: ₹1,200 (P: ₹400, Q: ₹400, R: ₹400), R's Deficiency Shared with P: ₹1,200, Q: ₹800, Capital A/c – P: ₹6,000, Q: ₹4,000, Cash A/c: ₹10,000]

21. The following was the balance sheet of A, B and C who were in partnership sharing profits and losses as 3:2:1.

	₹	₹		₹	₹
A's Capital		15,000	Cash		500
B's Capital		10,000	Machinery		10,000
Reserve		6,000	Debtors	16,000	
A's Loan		5,000	Less: RBD	1,000	15,000
Creditors		10,000	Stock		12,000
			C's Capital		8,500
		46,000			**46,000**

The firm was dissolved. Assets other than cash realised ₹26,000. Expenses of winding up were ₹1,000. C was insolvent but ₹2,000 was realised from his estate. Apply Garner versus Murray decision and assume that the capital is fixed, prepare Ledger Accounts.

(April 2007/21604/ZZ2H/SY2C/SDEN)

[Ans: Realisation Loss: ₹12,000, (A: ₹6,000, B: ₹4,000, C: ₹2,000), C's Deficiency to be Borne by A and B: ₹7,500 (A: ₹4,500, B: ₹3,000), Cash Paid to A: ₹13,500, B: ₹9,000, Total of Cash A/c: ₹28,500]

Garner versus Murray – Fluctuating Capital

22. The following is the balance sheet of J, K and L. They share profits and losses equally.

Liabilities	*(₹)*	*Assets*	*(₹)*
J's Capital	1,00,000	Furniture	80,000
K's Capital	60,000	Plant & Machinery	40,000
General Reserve	60,000	Stock	80,000
Sundry Creditors	80,000	Sundry Debtors	40,000
		Cash	24,000
		L's Capital	36,000
	3,00,000		**3,00,000**

Mr. L is insolvent but his estate pays ₹8,000. It was decided to dissolve the partnership. The assets realised were as follows:

Sundry Debtors ₹30,000; Furniture ₹56,000; Stock ₹64,000; Plant & Machinery ₹28,000; The dissolution expenses amounted to ₹10,000.

Pass Journal Entries and prepare the necessary Ledger Accounts under Garner versus Murray Rule, assuming that the capitals are fluctuating.

[Ans: Realisation Loss: ₹72,000 (J: ₹24,000, K: ₹24,000, L: ₹24,000), L's Deficiency: ₹32,000, L's Deficiency Shared with J: ₹19,200, K: ₹12,800, Capital A/c – J: ₹1,00,800, K: ₹67,200, Cash A/c: ₹2,58,000]

23. The following is the balance sheet of P, Q and R. They share profits and losses equally.

Liabilities	*(₹)*	*Assets*	*(₹)*
P's Capital	25,000	Furniture	20,000
Q's Capital	15,000	Plant & Machinery	10,000
General Reserve	15,000	Stock	20,000
Sundry Creditors	20,000	Sundry Debtors	10,000
		Cash	6,000
		R's Capital	9,000
	75,000		**75,000**

R is insolvent but his estate pays ₹2,000. It is decided to dissolve the partnership.

The assets realised were as follows:

Sundry Debtors ₹7,500; Furniture ₹14,000; Stock ₹16,000; Plant & Machinery ₹7,000; The dissolution expenses amounted ₹2,500.

Pass Journal Entries and prepare the necessary Ledger Accounts under Garner versus Murray Rule, assuming that the capitals are fluctuating.

[Ans: Realisation Loss: ₹18,000 (P: ₹6,000, Q: ₹6,000, R: ₹6,000), R's Deficiency Shared with P: ₹4,800, Q: ₹3,200, Capital A/c – P: ₹25,200, Q: ₹16,800, Cash A/c: ₹64,500]

24. J, K, L and M were partners sharing profits in the ratio of 3:2:3:2. Their balance sheet as on 31st December 2016 was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
J's Capital	20,000	Furniture	17,000
K's Capital	10,000	Debtors	17,000
Reserve	8,000	L's Capital	12,720
Creditors	12,000	M's Capital	3,280
	50,000		**50,000**

On the above date, 'L' becomes insolvent and was able to contribute only 50 paisa in the rupee. Assets were realised as follows: Furniture ₹12,500, Debtors ₹12,500. Dissolution expenses amounted to ₹800.

Pass Journal Entries and prepare the necessary Ledger Accounts under Garner versus Murray Rule, assuming that the capitals are fluctuating.

[Ans: Realisation Loss: ₹9,800 (J: ₹2,940, K: ₹1,960,
L: ₹2,940, M: ₹1,960),
L's Deficiency Shared with – J: ₹4,368, K: ₹2,262],
M's Capital: 3,640,
Capital A/c – J: ₹18,032, L: ₹9,338,
Cash A/c: ₹40,170]

Insolvency of All Partners

25. The Balance Sheet of X, Y and Z who were sharing profits and losses $3/5^{th}$, $1/5^{th}$ and $1/5^{th}$ stood as follows on 31st December 2004, i.e. the dissolution date.

Liabilities	₹	*Assets*	₹
Bank Overdraft	28,000	Cash in hand	500
Sundry Creditors	24,500	Bills receivable	2,000
X's Capital	7,500	Debtors	12,000
Z's Capital	5,000	Stock	19,000
		Plant and Machinery	16,000
		Goodwill	5,000
		Y's capital account	10,500
	65,000		**65,000**

The assets realised ₹39,875 and after paying ₹1,000 for realisation expenses, the creditors were paid 75 paise in rupee. Prepare Realisation Account assuming that they are all insolvent.

(April 2006 21503/PZ2A)

[Ans: Realisation Loss: ₹15,125]

26. R and Q were equal partners. Their balance sheet as on 31st December 2017 was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital of R	9,600	Buildings	23,600
Sundry Creditors	62,400	Land	6,400
		Debtors	8,000
		Stock	10,000
		Cash	4,800
		Q's Capital	19,200
	72,000		**72,000**

Both the partners become insolvent. The assets were realised as follows:

Buildings ₹11,200, Land ₹3,200, Debtors ₹8,000 and Stock ₹5,600. Dissolution expenses amounted to ₹2,400. R's private estate is not sufficient even to pay his private liabilities, whereas in Q's private estate, there is a surplus of ₹800.

Prepare Realisation Account, Cash Account, Creditors Account, Capital Accounts and the Deficiency Account of the partners.

[Ans: Realisation Loss: ₹22,400 (R: ₹11,200, K: ₹11,200),
Balance Deficiency transferred to Creditors: ₹31,200,
Cash A/c: ₹33,600,
Deficiency A/c: ₹31,200]

27. J and K were partners sharing profits and losses equally. Their balance sheet as on 31st March 2014 was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
J's Capital	86,000	Plant	12,000
Sundry Creditors	80,000	Furniture	6,000
		Stock	6,000
		Debtors	12,000
		Cash	12,000
		K's Capital	1,18,000
	1,66,000		**1,66,000**

Both the partners become insolvent and it was decided to dissolve the business. The assets were realised as follows:

Plant ₹15,000, Machinery ₹4,800, Stock ₹5,100, Debtors ₹9,000. Realisation expenses amounted to ₹1,200, were paid in cash.

Pass Journal Entries and prepare necessary Ledger Accounts.

[Ans: Realisation Loss: ₹3,300 (J: ₹1,650, K: ₹1,650),
Balance Deficiency transferred to Creditors: ₹35,300,
Cash A/c: ₹45,900,
Deficiency A/c: ₹1,19,650]

28. A and B are partners sharing profits and losses equally. Their balance sheet as on 31st December 2017 was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital of A	1,200	Plant & Machinery	2,950
Sundry Creditors	7,800	Furniture	800
		Debtors	1,000
		Stock	1,250
		Cash	600
		B's Capital	2,400
	9,000		**9,000**

The firm was dissolved due to insolvency of both the partners. The assets were realised as follows: Plant & Machinery ₹1,400, Furniture ₹400, Debtors ₹1,000 and Stock ₹700. The cost of collecting and distribution of the estate amounted to ₹300. Cash brought in by B by sale of his private estate ₹100.

Prepare Realisation Account, Cash Account, Creditors Account, Capital Accounts and the Deficiency Account of the partners.

[Ans: Realisation Loss: ₹2,800 (A: ₹1,400, B: ₹1,400),
Balance Deficiency transferred to Creditors: ₹3,900,
Cash A/c Total: ₹4,200,
Deficiency A/c Total: ₹3,900]

29. Karthik and Maha were partners. They share profits and losses in the ratio of 1:2. Their Balance Sheet stood as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital: Karthik	11,200	Plant & Machinery	3,000
Sundry Creditors	7,800	Furniture	800
		Debtors	1,000
		Stock	1,200
		Cash	600
		Maha's Capital	12,400
	19,000		**19,000**

The assets were realised as follows:

Stock ₹1,000, Furniture ₹600, Debtors ₹1,000 and Plant & Machinery ₹2,400. Realisation expenses amounted to ₹500. Karthik's private estate is not sufficient even to pay his private liabilities, whereas in Maha's private estate, there is a surplus of ₹800.

Pass Journal Entries and prepare Realisation Account, Cash Account, Creditors Account, Capital Account and the Deficiency Account of the partners.

[Ans: Realisation Loss: ₹1,500
(Karthik: ₹500, Maha: ₹1,000),
Balance Deficiency transferred to Creditors: ₹1,900,
Cash A/c: ₹6,400,
Deficiency A/c: ₹12,600]

30. A, B and C were equal partners. Their balance sheet, as on 31st March 2014, was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Capital:		Cash	9,360
A	24,000		
B	18,000		
C	3,000		
Sundry Creditors	60,000	Stock	46,890
Loan	30,000	Debtors	14,160
		Furniture	28,590
		Profit & Loss A/c	36,000
	1,35,000		**1,35,000**

The firm was dissolved due to insolvency of all the partners. The assets were realised as follows: Stock ₹32,700, Furniture ₹12,000, Debtors ₹12,300.

Realisation expenses paid in cash ₹660. A's private estate earned a surplus of ₹1,800.

Pass necessary Journal Entries and prepare the Ledger Accounts

[Ans: Realisation Loss: ₹33,300
(A: ₹11,100, B: ₹11,100, C: ₹11,100),
Balance Deficiency transferred to Creditors: ₹15,000,
Cash A/c: ₹68,160,
Loan A/c: ₹7,500]

CHAPTER

23

Dissolution of Partnership: Piecemeal Distribution

Learning Objectives

After studying this chapter, you will be able to understand:

- Meaning of Piecemeal Distribution
- Methods of Piecemeal Distribution
- Procedure for solving the problems under Proportionate Capital Method
- Procedure for solving the problems under Maximum Loss Method

23.1 Piecemeal Distribution

In the event of dissolution of a partnership firm, all assets are to be realised and all liabilities are to be paid off. In reality, assets will be realised gradually and liabilities will be settled accordingly. As a result, the profit/loss on realisation cannot be ascertained until all the assets are realised and all the liabilities are finally settled.

The order of the payment will be as follows:

1. Realisation expenses
2. Provision for expenses that are to be made
3. Partner's loan; in case there is more than one partner, then in proportion to the amount of loan.
4. Partner's capital: The order of payment may be made in any one of the following two methods:
   (i) Proportionate Capital/Surplus Capital Method/Highest Relative Capital Method
   (ii) Maximum Loss Method

› 23.1.1 Proportionate Capital Method or Surplus Capital or Highest Relative Capital Method

As per this method, a partner whose capital is relatively in excess of their profit-sharing ratio is to be determined. This can be calculated by dividing partners' capital with their respective profit-sharing ratios. The lowest capital of the partners is to be taken as the base capital. To ascertain the surplus amount of capital by comparing the proportionate capital with actual capital,surplus amount of capital should be paid first. Any balance left, thereafter, is to be distributed in profit-sharing ratio. This ensures that Trial Balances of partners show their share of realisation of profit/loss in profit-sharing ratio.

› 23.1.2 Maximum Loss Method

As per this method, it is assumed that after each stage of realisation, there would be no further realisation. According to this method, each stage of realisation is assumed as the last and final realisation. After ascertaining, the actual amount payable to the partner's should be compared with the available amount. The difference is then considered as Maximum Loss. This is to be distributed among the partners, in their profit-sharing ratio. This should be done until the final realisation of assets.

✎ **ILLUSTRATION 1:**

Calculate Absolute Surplus from the following:

	X	*Y*	*Z*
Capital	50,000	30,000	20,000
Profit-sharing Ratio	3	2	1

Solution:

Statement showing Absolute Surplus

	X *3*	*Y* *2*	*Z* *1*
Capital	50,000	30,000	20,000
Less: Taking Y's capital as base 30,000/2 = 15,000	45,000	30,000	15,000
	5,000	**Nil**	**5,000**
Less: Taking X's capital as base 5,000/3 = 1,667	5,000	—	1,667
Absolute Surplus	—	—	**3,333**

✎ ILLUSTRATION 2:

Calculate Absolute Surplus from the following:

	A	*B*	*C*
Capital	20,000	25,000	30,000
Reserve	10,000	7,000	5,000
Profit-sharing Ratio	2	2	1

Solution:

Statement showing Absolute Surplus

	A *2*	*B* *2*	*C* *1*
Capital	30,000	32,000	35,000
Less: Taking A's capital as base 30,000/2 = 15,000	30,000	30,000	15,000
	—	**2,000**	**15,000**
Less: Taking B's capital as base 2,000/2 = 1,000	—	2,000	1,000
Absolute Surplus	—	—	**14,000**

✎ ILLUSTRATION 3:

Calculate Absolute Surplus from the following:

	L	*K*	*J*
Capital	60,000	40,000	35,000
Profit & Loss A/c	6,000	10,000	1,000
Profit-sharing Ratio	3	2	1

Solution:

Statement showing Absolute Surplus

	L *3*	*K* *2*	*J* *1*
Capital	66,000	50,000	36,000
Less: Taking L's capital as base 66,000/3 = 22,000	66,000	44,000	22,000
	—	**6,000**	**14,000**
Less: Taking K's capital as base 6,000/2 = 3,000	—	6,000	3,000
Absolute Surplus	—	—	**11,000**

✎ ILLUSTRATION 4:

Calculate Absolute Surplus from the following:

	W	*X*	*Y*
Capital	90,000	80,000	50,000
Reserve	8,000	6,000	2,000
Profit & Loss A/c	2,000	2,000	1,000
Profit-sharing Ratio	2	2	1

Solution:

Statement showing Absolute Surplus

	W *2*	*X* *2*	*Y* *1*
Capital	1,00,000	88,000	53,000
Less: Taking X's capital as base 88,000/2 = 44,000	88,000	88,000	44,000
	12,000	**—**	**9,000**
Less: Taking W's capital as base 12,000/2 = 6,000	12,000	—	6,000
Absolute Surplus	**—**	**—**	**3,000**

✎ ILLUSTRATION 5:

Prepare a Statement showing Absolute Surplus from the following:

	A	*J*	*R*
Capital	70,000	50,000	30,000
Reserve	10,000	6,000	2,000
Profit & Loss A/c (Dr.)	5,000	2,000	1,000
Profit-sharing Ratio	3	2	1

Solution:

Statement showing Absolute Surplus

	A *3*	*J* *2*	*R* *1*
Capital	75,000	54,000	31,000
Less: Taking A's capital as base 75,000/3 = 25,000	75,000	50,000	25,000
	—	**4,000**	**6,000**
Less: Taking J's capital as base 4,000/2= 2,000	—	4,000	2,000
Absolute Surplus	**—**	**—**	**4,000**

✎ ILLUSTRATION 6:

P, *Q* and *R* are in partnership, sharing profits and losses in the ratio of 2:2:1. The partnership was dissolved on 31st December 1997, and their balance sheet on that due date was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	6,000	Cash in Hand	2,000
Capital		Other Assets	38,000
P	16,000		
Q	10,000		
R	3,000		
Profit & Loss A/c	5,000		
	40,000		40,000

The assets were realised gradually: ₹10,000 was received in first instalment, ₹10,000 in the second instalment and ₹13,000 in the final one. Show how the cash was distributed under Proportionate Capital Method.

Solution

Statement showing Absolute Surplus

	P (2)	*Q (2)*	*R (1)*
Capital as per Balance Sheet	16,000	10,000	3,000
Add: Profit & Loss A/c (2:2:1)	2,000	2,000	1,000
	18,000	12,000	4,000
Less: Taking R's capital as base $\frac{4,000}{1} = 4,000$	8,000	8,000	4,000
	10,000	**4,000**	**NIL**
Less: Taking Q's capital as base $\frac{4,000}{2} = 2,000$	4,000	4,000	—
Absolute Surplus	**6,000**	**NIL**	**NIL**

Statement showing Distribution of Cash

	Creditors	*2* *P*	*2* *Q*	*1* *R*
Balance	**6,000**	**18,000**	**12,000**	**4,000**
Cash	2,000	—	—	—
	4,000	**18,000**	**12,000**	**4,000**

First Realisation

	Creditors	*2* *P*	*2* *Q*	*1* *R*
Balance b/d	**4,000**	**18,000**	**12,000**	**4,000**
First Realisation: ₹10,000				
(i) ₹4,000 paid to creditors	4,000			
(ii) Absolute surplus ₹6,000 paid to Mr. P		6,000	—	—
	Nil	**12,000**	**12,000**	**4,000**

Second Realisation

	Creditors	*2* *P*	*2* *Q*	*1* *R*
Balance b/d	**Nil**	**12,000**	**12,000**	**4,000**
Second Realisation: ₹10,000				
(i) ₹8,000 shared with P & Q for profit ratio (2:2)		4,000	4,000	—
		8,000	**8,000**	**4,000**
(ii) Balance ₹2,000 shared in profit ratio (2:2:1)		800	800	400
Balance Due		**7,200**	**7,200**	**3,600**

Third Realisation

	Creditors	*2* *P*	*2* *Q*	*1* *R*
Balance b/d		**7,200**	**7,200**	**3,600**
Third Realisation: ₹13,000				
(i) ₹13,000 shared with P, Q and R for profit ratio (2:2:1)		5,200	5,200	2,600
Loss on Realisation		**2,000**	**2,000**	**1,000**

✎ ILLUSTRATION 7:

Following is the Balance Sheet of M/s T, U and V, who share profits and losses in the ratio of 2:2:1.

Liabilities	*(₹)*	*Assets*	*(₹)*
Sundry Creditors	30,000	Cash	4,000
Capitals:		Debtors	44,000
T	30,000	Stock	44,000
U	24,000		
V	8,000		
	92,000		**92,000**

The firm was dissolved and the assets were realised gradually. ₹20,000 was received first. ₹30,000 was received next and ₹18,000 finally. Show the Distribution of Cash under Proportionate Capital Method.

Solution:

Statement showing Absolute Surplus

	T (2)	*U (2)*	*V (1)*
Capital as per Balance Sheet	30,000	24,000	8,000
Less: Taking V's capital as base $\frac{8,000}{1} = 8,000$	16,000	16,000	8,000
	14,000	**8,000**	**NIL**
Less: Taking U's capital as base $\frac{8,000}{2} = 4,000$	8,000	8,000	—
Absolute Surplus	**6,000**	**NIL**	**NIL**

Statement showing Distribution of Cash

	Creditors	*2 T*	*2 U*	*1 V*
Balance	**30,000**	**30,000**	**24,000**	**8,000**
Cash	4,000	—	—	—
	26,000	**30,000**	**24,000**	**8,000**

First Realisation

	Creditors	*2 T*	*2 U*	*1 V*
Balance b/d	**26,000**	**30,000**	**24,000**	**8,000**
First Realisation: ₹20,000				
(i) ₹20,000 paid to creditors	20,000	—	—	—
	6,000	**30,000**	**24,000**	**8,000**

Second Realisation

	Creditors	*2* *A*	*2* *B*	*1* *C*
Balance b/d	**6,000**	**30,000**	**24,000**	**8,000**
Second Realisation: ₹30,000				
(i) ₹6,000 paid to creditors	6,000			
(ii) ₹6,000 paid to Mr. T		6,000		
(iii) ₹16,000 paid to Mr. T & U in the ratio (2:2)		8,000	8,000	
	Nil	**16,000**	**16,000**	**8,000**
(iv) Balance ₹2,000 shared in profit ratio (2:2:1)		800	800	400
Balance Due		**15,200**	**15,200**	**7,600**

Third Realisation

	Creditors	*2* *A*	*2* *B*	*1* *C*
Balance b/d	**Nil**	**15,200**	**15,200**	**7,600**
Third Realisation: ₹18,000				
(i) Shared profit in the ratio (2:2:1)		7,200	7,200	3,600
Loss on Realisation		**8,000**	**8,000**	**4,000**

✎ ILLUSTRATION 8:

A, B and C share profit and losses in the ratio 3:2:1. Their balance sheet was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	50,000	Land & Buildings	70,000
A's Loan	10,000	Plant & Machinery	40,000
A's Capital	50,000	Stock	25,000
B's Capital	10,000	Debtors	20,000
C's Capital	40,000	Cash	5,000
	1,60,000		**1,60,000**

The partnership is dissolved and the assets are realised as follows:

	(₹)
First Realisation	40,000
Second Realisation	30,000
Third Realisation	54,000
Fourth Realisation	1,000

Prepare a Statement showing the Distribution of Cash under Proportionate Capital Method.

Solution:

Statement Showing Absolute Surplus

	3 *A*	*2* *B*	*1* *C*
Capitals	50,000	10,000	40,000
(–) Taking B's Capital base 10,000/2 = 5,000	15,000	10,000	5,000
	35,000	Nil	35,000
(–) Taking A's Capital as Base = 35,000 / 3	35,000		11,667
Absolute Surplus	**Nil**		**23,333**

Statement showing Distribution of Cash

	Creditors	*A's Loan*	*3* *A*	*2* *B*	*1* *C*
Balance	50,000	10,000	50,000	10,000	40,000
Cash	5,000	—	—	—	—
	45,000	**10,000**	**50,000**	**10,000**	**40,000**

First Realisation

	Creditors	*A's Loan*	*3* *A*	*2* *B*	*1* *C*
Balance B/d	45,000	10,000	50,000	10,000	40,000
1st Realisation Paid to Creditors	40,000	—	—	—	—
	5,000	**10,000**	**50,000**	**10,000**	**40,000**

Second Realisation

	Creditors	*A's Loan*	*3* *A*	*2* *B*	*1* *C*
Balance B/d	5,000	10,000	50,000	10,000	40,000
2nd Realisation ₹30,000					
(i) ₹5,000 Paid to Creditors	5,000				
(ii) ₹10,000 Paid to A's Loan		10,000			
(iii) Absolute Surplus to C (23,333 – 15,000)					15,000
	Nil	**Nil**	**50,000**	**10,000**	**25,000**

Third Realisation

	Creditors	*A's Loan*	*3 A*	*2 B*	*1 C*
Balance B/d	Nil	Nil	50,000	10,000	25,000
3rd Realisation ₹Absolute Surplus Balance (54,000 – 8,333)					8,333
			50,000	10,000	16,667
Balance (45,667) to A & C in the ratio of 3:1			**34,250**		**11,417**
			15,750	**10,000**	**5,250**

Fourth Realisation

	Creditors	*A's Loan*	*3 A*	*2 B*	*1 C*
Balance B/d	Nil	Nil	15,750	10,000	5,250
4th Realisation ₹1,000 to A & C in the ratio of 3:1			750		2,50
Loss on Realisation			**15,000**	**10,000**	**5,000**

✎ ILLUSTRATION 9:

Following is the Balance Sheet of X, Y and Z, who share profits and losses in the ratio of 2:2:1.

Liabilities	*(₹)*	*Assets*	*(₹)*
Sundry Creditors	15,000	Cash in Hand	2,000
X's Capital	15,000	Sundry Debtors	22,000
Y's Capital	12,000	Stock	22,000
Z's Capital	4,000		
	46,000		**46,000**

The firm was dissolved and the assets were realised gradually; ₹10,000 were revised once; ₹15,000 another time and ₹9,000 finally. Show how each instalment is to be distributed under Proportionate Capital Method.

Solution:

Statement showing Absolute Surplus

	2 X	*2 Y*	*1 Z*
Capital	15,000	12,000	4,000
(–) Taking Z's capital as base 4,000/1 = 4,000	8,000	8,000	4,000
	7,000	**4,000**	**Nil**
(–) Taking Y's capital as base 4,000/2 = 2,000	4,000	4,000	—
Absolute Surplus	**3,000**	—	—

Statement Showing Distribution of Cash

	Creditors	*2 X*	*2 Y*	*1 Z*
Balance	15,000	15,000	12,000	4,000
Cash	2,000	—	—	—
	13,000	**15,000**	**12,000**	**4,000**

First Realisation

	Creditors	*2 X*	*2 Y*	*1 Z*
Balance b/d	**13,000**	**15,000**	**12,000**	**4,000**
First Realisation paid to creditors: ₹10,000	10,000	—	—	—
	3,000	**15,000**	**12,000**	**4,000**

Second Realisation

	Creditors	*2 X*	*2 Y*	*1 Z*
Balance b/d	**3,000**	**15,000**	**12,000**	**4,000**
Second Realisation: ₹15,000			—	—
(i) ₹3,000 paid to creditors	3,000			
(ii) ₹3,000 paid to Mr. X		3,000		
	Nil	**12,000**	**12,000**	**4,000**
₹8,000 to bring down their capital				
(i) ₹4,000 paid to Mr. X		4,000		
(ii) ₹4,000 paid to Mr. Y			4,000	—
		8,000	**8,000**	**4,000**
Balance of ₹1,000 paid to X, Y, and Z in their ratio of 2:2:1		400	400	200
		7,600	**7,600**	**3,800**

Third Realisation

	Creditors	*2 X*	*2 Y*	*1 Z*
Balance b/d		**7,600**	**7,600**	**3,800**
Third Realisation: ₹9,000 Paid to all partners in their ratio of 2:2:1		3,600	3,600	1,800
Loss on Realisation		**4,000**	**4,000**	**2,000**

✎ ILLUSTRATION 10:

Orange, Apple, and Banana were in a partnership, sharing profits and losses in the ratio of 3:2:1. They decided to dissolve the partnership and to distribute the sale proceeds as and when realised.

The partners' capitals were as follows: Orange ₹10,000, Apple ₹9,000, and Banana ₹5,000. Apple's loan (Cr.) amounted to ₹3,000. Sundry creditors amounted to ₹6,000. The assets were realised as under:

	Stock (₹)	*Furniture (₹)*	*Debtors (₹)*	*Expenses (₹)*
July	3,000	300	2,000	500
August	2,000	100	1,500	200
September	2,500	—	2,000	300
October	3,000	—	1,500	200

Prepare a Statement showing Distribution of Cash under Proportionate Capital Method.

Solution:

Statement showing Absolute Surplus

	3 Orange	*2 Apple*	*1 Banana*
Capital	10,000	9,000	5,000
(–) Taking Orange's capital as base 10,000/3 = 3,333	10,000	6,667	3,333
	Nil	**2,333**	**1,667**
(–) Taking Apple's capital as base 2,333/2 = 1,166.5		2,333	1,667
Absolute Surplus		**Nil**	**500**

Statement Showing Distribution of Cash
July Realisation

	Creditors	*Apple's Loan*	*3 Orange*	*2 Apple*	*1 Banana*
Balance Due	6,000	3,000	10,000	9,000	5,000
July Realisation: ₹4,800 paid to creditors	4,800	—	—	—	—
	1,200	**3,000**	**10,000**	**9,000**	**5,000**

August Realisation

	Creditors	*Apple's Loan*	*3 Orange*	*2 Apple*	*1 Banana*
Balance b/d	**1,200**	**3,000**	**10,000**	**9,000**	**5,000**
August, Realisation: ₹3,400					
(i) ₹1,200 paid to creditors	1,200		—	—	—
(ii) ₹2,200 paid to Apple's loan		2,200			
	Nil	**800**	**10,000**	**9,000**	**5,000**

September Realisation

	Creditors	*Apple's Loan*	*3 Orange*	*2 Apple*	*1 Banana*
Balance b/d	**Nil**	**800**	**10,000**	**9,000**	**5,000**
September Realisation: ₹4,200					
(i) ₹800 paid to Apple's loan		800			
(ii) ₹500 paid to Banana					500
(iii) ₹2,900 paid to Apple and Banana in the ratio of 2:1				1,933	967
		Nil	**10,000**	**7,067**	**3,533**

October Realisation

	Creditors	*Apple's Loan*	*3 Orange*	*2 Apple*	*1 Banana*
Balance b/d			**10,000**	**7,067**	**3,533**
October Realisation ₹4,300					
Less:					
(i) ₹600 paid to Apple and Banana in the ratio 2:1				400	200
			10,000	**6,667**	**3,333**
Less:					
(ii) ₹3,700 distributed to all partners, in profit-sharing ratio of 3:2:1.			1,850	1,233	617
Realisation Loss			**8,150**	**5,434**	**2,716**

✎ ILLUSTRATION 11:

A, B and C are in partnership. The following is their balance sheet as at 31st December 1994, on which date they dissolve the partnership. They share profits in their ratio of 5:3:2.

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	40,000	Furniture	68,000
A's Loan	10,000	Premises	2,000
Capital:		Debtors	30,000
A's Capital	50,000	Stock	60,000
B's Capital	25,000		
C's Capital	35,000		
	1,60,000		**1,60,000**

It was agreed to repay the amount due to the partners as and when the assets were realised, viz.

	(₹)
March	30,000
April	10,000
May	50,000

Prepare a Statement showing the Distribution of Cash under Surplus Capital Method.

Solution:

Statement showing Absolute Surplus

	5 *A*	*3* *B*	*2* *C*
Capital	50,000	25,000	35,000
(–) Taking B's capital as base 25,000/3 = 8,333,33	41,667	25,000	16,667
	8,333	**Nil**	**18,333**
(–) Taking A's capital as base 8,333/5 = 1,666.6	8,333	—	3,333
Absolute Surplus	**Nil**	**Nil**	**15,000**

Statement Showing Distribution of Cash
First Realisation

	Creditors	*A's Loan*	*5 A*	*3 B*	*2 C*
Amount Due	**40,000**	**10,000**	**50,000**	**25,000**	**35,000**
First Realisation: ₹30,000, Paid to Creditors	30,000	—	—	—	—
Balance Due	**10,000**	**10,000**	**50,000**	**25,000**	**35,000**

Second Realisation

	Creditors	*A's Loan*	*5 A*	*3 B*	*2 C*
Amount Due	**10,000**	**10,000**	**50,000**	**25,000**	**35,000**
Second Realisation: ₹10,000, Paid to Creditors	10,000	—	—	—	—
Balance Due	**Nil**	**10,000**	**50,000**	**25,000**	**35,000**

Third Realisation

	Creditors	*A's Loan*	*5 A*	*3 B*	*2 C*
Amount Due	**Nil**	**10,000**	**50,000**	**25,000**	**35,000**
Third Realisation: ₹50,000, Paid to Creditors					
(i) ₹10,000 paid to A's Loan		10,000	—	—	—
(ii) Absolute Surplus Paid to C					15,000
Balance Due		**Nil**	**50,000**	**25,000**	**20,000**
(–) Excess Capital Distributed			8,333	—	3,333
			41,667	**25,000**	**16,667**
(–) Distribution of Balance in the Profit-sharing Ratio (50,000 – 10,000 – 15,000 – 8,333 – 3,333) = ₹13,334 in 5:3:2			**6,667**	**4,000**	**2,667**
Realisation Loss			**35,000**	**21,000**	**14,000**

Maximum Loss Method

✎ **ILLUSTRATION 12:**

Calculate the Net Amount Realised from the following:

Month	*Stock* (₹)	*Debtors* (₹)	*Expenses* (₹)
May	2,000	3,000	1,000
June	3,500	2,500	500
July	1,200	1,800	2,000

Solution:

Calculation of Net Amount Realised:

May	2,000 + 3,000 – 1,000 = ₹4,000
June	3,500 + 2,500 – 500 = ₹5,500
July	1,200 + 1,800 – 2,000 = ₹1,000

✎ **ILLUSTRATION 13:**

Calculate the Net Amount Realised from the following:

Month	*Fixed Assets* (₹)	*Current Assets* (₹)	*Expenses* (₹)
May	20,000	40,000	10,000
June	30,000	25,000	5,000
July	52,000	18,000	20,000

Solution:

Calculation of Net Amount Realised:

May	20,000 + 40,000 – 10,000 = ₹50,000
June	30,000 + 25,000 – 5,000 = ₹50,000
July	52,000 + 18,000 – 20,000 = ₹50,000

✎ ILLUSTRATION 14:

Calculate the Net Amount Realised from the following:

Month	*Stock* (₹)	*Debtors* (₹)	*Bills Receivable* (₹)	*Expenses* (₹)
May	4,000	3,000	1,000	800
June	8,500	2,500	2,500	300
July	1,900	1,100	1,000	200
August	1,500	700	500	300
September	2,300	1,200	400	300

Solution:

Calculation of Net Amount Realised:

May	4,000 + 3,000 + 1,000 – 800 = ₹7,200
June	8,500 + 2,500 + 2,500 – 300 = ₹13,200
July	1,900 + 1,100 + 1,000 – 200 = ₹3,800
August	1,500 + 700 + 500 – 300 = ₹2,400
September	2,300 + 1,200 + 400 – 300 = ₹3,600

✎ ILLUSTRATION 15:

Calculate the Net Amount Realised from the following:

Month	*Machinery* (₹)	*Plant* (₹)	*Land* (₹)	*Expenses* (₹)
August	30,000	20,000	10,000	5,000
September	25,000	28,000	13,000	3,000
October	22,000	12,000	9,000	2,000
November	19,500	21,500	20,000	3,500
December	16,500	17,200	18,800	1,900

Solution:

Calculation of Net Amount Realised:

August	30,000 + 20,000 + 10,000 – 5,000 = ₹55,000
September	25,000 + 28,000 + 13,000 – 3,000 = ₹63,000
October	22,000 + 12,000 + 9,000 – 2,000 = ₹41,000
November	19,500 + 21,500 + 20,000 – 3,500 = ₹57,500
December	16,500 + 17,200 + 18,800 – 1,900 = ₹50,600

✎ ILLUSTRATION 16:

X, Y and Z are partners, sharing profits and losses equally. The following is their balance sheet as at 30th December 1994, when they dissolve the business.

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	62,000	Plant & Machinery	50,000
Y's Loan	13,000	Land & Building	1,00,000
X's Capital A/c	75,000	Stock	20,000
Y's Capital A/c	22,500	Debtors	70,000
Z's Capital A/c	67,500		
	2,40,000		**2,40,000**

It was agreed to repay the amount due to the partners as and when the assets were realised:

First Realisation: ₹45,000; Second Realisation: ₹1,09,500; and Third Realisation: ₹70,500.

Prepare a Statement showing how the Distribution should be made under Maximum Loss Method.

Solution:

Statement on Distribution of Cash

First Realisation

	Total Realisation (₹)	*Creditors (₹)*	*Y's Loan (₹)*	*X (₹)*	*Y (₹)*	*Z (₹)*
Balance b/d		62,000	13,000	75,000	22,500	67,500
First Realisation Paid to Creditors	45,000	45,000				
		17,000	**13,000**	**75,000**	**22,500**	**67,500**

Second Realisation

	Total Realisation (₹)	*Creditors (₹)*	*Y's Loan (₹)*	*X (₹)*	*Y (₹)*	*Z (₹)*
Balanceb/d		17,000	13,000	75,000	22,500	67,500
Second Realisation	(1,09,500)					
Paid to Creditors	(17,000)	17,000				
Paid to Y's Loan	(13,000)		13,000	—	—	—
Capital Due: (i)				**75,000**	**22,500**	**67,500**

(*Contd.*)

Maximum Loss of ₹85,500 [75,000 + 22,500 + 67,500 – 79,500] Divided Among X, Y and Z Equally, in the Ratio of 1:1:1				28,500	28,500	28,500
				46,500	**–6,000**	**39,000**
Y's Debit Balance Divided between X and Z in 10: 9 (Capital Ratio)	—	—	—	–3,158	+6,000	–2,842
Balance Paid to X and Z (ii)	**79,500**	**—**	**—**	**43,342**	**—**	**36,158**

Third Realisation

	Total Realisation (₹)	*Creditors (₹)*	*Y's Loan (₹)*	*X (₹)*	*Y (₹)*	*Z (₹)*
Capital Due: (i) – (ii) = (iii)				**31,658**	**22,500**	**31,342**
Third Realisation: ₹70,500 Maximum Loss of ₹15,000, Divided Equally [31,500 + 22,500 + 31,500 – 75,500]				5,000	5,000	5,000
Amount of Credit				**26,658**	**17,500**	**26,342**
Cash Paid to X, Y and Z (iv)	70,500					
Capital Due: (iii) – (iv) (i.e. Loss on Realisation)				26,658	17,500	26,342
				5,000	**5,000**	**5,000**

✎ ILLUSTRATION 17:

A partnership firm has three partners – X, Y and Z – with capitals as follows: X ₹20,000; Y ₹10,000; and Z ₹10,000. The creditors amounted to ₹20,000 and sundry assets to ₹60,000. On dissolution, the assets realised were as follows:

	(₹)
First Realisation	20,000
Second Realisation	20,000
Third Realisation	10,000

The partners share profits and losses in the ratio of 3:2:1. Show the Piecemeal Distribution of the Realisation on Maximum Loss Method.

Solution:

Statement on Distribution of Cash

First Realisation

	Creditors	*3 X*	*2 Y*	*1 Z*
Balance b/d	**20,000**	**20,000**	**10,000**	**10,000**
First Realisation: ₹20,000 Paid to Creditors	20,000	—	—	—
Balance Due	**Nil**	**20,000**	**10,000**	**10,000**

Second Realisation

	Creditors	*3 X*	*2 Y*	*1 Z*
Balance b/d		**20,000**	**10,000**	**10,000**
Second Realisation: ₹20,000 Maximum Loss of ₹20,000 Shared by X, Y and Z in Profit-sharing Ratio of 3:2:1	20,000	10,000	6,667	3,333
	Nil	**10,000**	**3,333**	**6,667**
Second Realisation of ₹20,000 Paid		**10,000**	**3,333**	**6,667**
Balance Due		**10,000**	**6,667**	**3,333**

Third Realisation

	Creditors	*3 X*	*2 Y*	*1 Z*
Balance b/d		**10,000**	**6,667**	**3,333**
Third Realisation: ₹10,000 Maximum Loss of ₹10,000 Shared by Partners in Ratio of 3:2:1.		5,000	3,333	1,667
Third Realisation Paid: ₹10,000		**5,000**	**3,334**	**1,666**
Loss on Realisation		**5,000**	**3,333**	**1,667**

✎ ILLUSTRATION 18:

G, H and I are partners in a firm, who are sharing profits and losses in the proportions of 3:2:1 respectively. The following is the balance sheet as on 31st December 2009. On the date, they decided to dissolve the partnership.

Liabilities	*(₹)*	*Assets*	*(₹)*
Sundry Creditors	10,000	Cash	1,20,000
G	45,000	Sundry Assets	10,000
H	45,000		
I	30,000		
	1,30,000		**1,30,000**

The firm dissolved and the realisation of assets was as follows:

Realisation	*Amount Realised (₹)*
First	15,000
Second	22,500
Third	37,500

Prepare a statement showing how the distribution of cash has been made under Maximum Loss Method.

Solution:

Statement on Distribution of Cash

		Creditors	*3 G*	*2 H*	*1 I*
Balance b/d		**10,000**	**45,000**	**45,000**	**30,000**
Cash		10,000	—	—	—
Balance Due	**(A)**	**Nil**	**45,000**	**45,000**	**30,000**

First Realisation

	Creditors	*3 G*	*2 H*	*1 I*
Balance b/d		**45,000**	**45,000**	**30,000**
First Realisation: ₹15,000 Maximum Loss of ₹1,05,000 Shared by G, H and I in Profit-sharing Ratio (3:2:1) (Total of Capitals – Realisation) (₹1,20,000 – ₹15,000)		52,500	35,000	17,500
		(–) 7,500	**10,000**	**12,500**

(*Contd.*)

Deficiency of G's Capital between H and I in (3:2)		+7,500	4,500	3,000
(B)		—	**5,500**	**9,500**
Balance Due: C = (A – B)		**45,000**	**39,500**	**20,500**

Second Realisation

	Creditors	*3* *G*	*2* *H*	*1* *I*
Balance b/d		**45,000**	**39,500**	**20,500**
Second Realisation: ₹22,500 Maximum Loss (₹1,05,000 – 22,500 = ₹82,500) Shared in the Ratio of 3:2:1		41,250	27,500	13,750
(D)		**3,750**	**12,000**	**6,750**
Balance Due: E = (C – D)		**41,250**	**27,500**	**13,750**

Third Realisation

	Creditors	*3* *G*	*2* *H*	*1* *I*
Balance b/d		**41,250**	**27,500**	**13,750**
Third Realisation: ₹37,500 Maximum Loss (₹82,500 – ₹37,500 = ₹45,000) Shared in the Ratio of 3:2:1		22,500	15,000	7,500
(F)		**18,750**	**12,500**	**6,250**
Realisation Loss		**22,500**	**15,000**	**7,500**

■ *Theory Questions* ■

Short-Answer Questions

1. What is Piecemeal Distribution?
2. Write a note on Proportionate Capital Method.
3. What do you understand by Maximum Loss Method?
4. What is Absolute Surplus?

Long-Answer Questions

1. What are the different methods of distributing cash under Piecemeal Distribution?

■ *Exercise Problems* ■

1. Calculate Absolute Surplus from the following:

	T	*R*	*V*
Capital	65,000	45,000	35,000
Profit-sharing Ratio	2	2	1

[Ans: Absolute Surplus for V: ₹2,500]

2. Calculate Absolute Surplus from the following:

	C	*B*	*A*
Capital	40,000	35,000	40,000
Reserve	20,000	7,000	5,000
Profit-sharing Ratio	3	2	1

[Ans: Absolute Surplus for A: 24,000]

3. Calculate Absolute Surplus from the following:

	P	*Q*	*R*
Capital	35,000	60,000	60,000
Profit & Loss A/c	10,000	1,000	6,000
Profit-sharing Ratio	1	2	3

[Ans: Absolute Surplus for P: ₹14,500]

4. Prepare a Statement showing Absolute Surplus from the following:

	G	*H*	*I*
Capital	50,000	40,000	30,000
Reserve	4,000	3,000	1,000
Profit & Loss A/c	1,000	1,000	500
Profit-sharing Ratio	2	2	1

[Ans: Absolute Surplus for I: ₹4,000]

5. Calculate Absolute Surplus from the following:

	D	*M*	*W*
Capital	35,000	25,000	15,000
Reserve	5,000	3,000	1,000
Profit & Loss A/c (Dr.)	2,500	1,000	500
Profit-sharing Ratio	3	2	1

[Ans: Absolute Surplus for W: ₹2,000]

6. Calculate the Net Amount Realised from the following:

Month	*Stock* (₹)	*Debtors* (₹)	*Expenses* (₹)
May	500	700	100
June	200	300	50
July	150	250	75

[Ans: May: ₹1,100, June: ₹450, July: ₹325]

7. Calculate the Net Amount Realised from the following:

Month	*Fixed Assets* (₹)	*Current Assets* (₹)	*Expenses* (₹)
March	40,000	80,000	20,000
April	60,000	50,000	10,000
May	26,000	9,000	10,000

[Ans: March: ₹1,00,000, April: ₹1,00,000, May: ₹25,000]

8. Calculate the Net Amount Realised from the following:

Month	*Stock* (₹)	*Debtors* (₹)	*Bills Receivable* (₹)	*Expenses* (₹)
January	2,000	3,000	4,000	5,000
February	12,000	24,000	36,000	32,000
March	15,000	22,000	29,000	36,000
April	10,000	18,000	26,000	24,000
May	15,500	13,500	12,500	22.500

[Ans: Jan: ₹4,000, Feb: ₹40,000, March: ₹30,000, April: ₹30,000, May: ₹19,000]

Proportionate Capital Method

9. J, K and L were in partnership, sharing profits and losses in the ratio 3:2:1. They decided to dissolve the partnership and to distribute the sale proceeds as and when realised.

The partner's capitals were:

J: ₹30,000, K: ₹27,000 and L: ₹15,000.

K's Loan (Cr.) amounted to ₹9,000. Sundry creditors amounted to ₹18,000. The assets were realised as under:

	Plant (₹)	*Machinery* (₹)	*Debtors* (₹)	*Expenses* (₹)
January	9,000	900	6,000	1,500
February	6,000	300	4,500	600
March	7,500	—	6,000	900
April	9,000	—	4,500	600

[Ans: Absolute Surplus L: ₹1,500
Realisation Loss: J: 24,450, K: 16,300, L: 8,150]

10. Following is the balance sheet of M, N and O, who share profits and losses in the ratio of 2:2:1.

Liabilities	(₹)	*Assets*	(₹)
Sundry Creditors	45,000	Cash in Hand	6,000
M's Capital	45,000	Sundry Debtors	66,000
N's Capital	36,000	Stock	66,000
O's Capital	12,000		
	1,38,000		**1,38,000**

The firm was dissolved and the assets were realised gradually; ₹30,000 were revised once; ₹45,000 another time and ₹27,000 finally. Show how each instalment is to be distributed.

[Ans: Absolute Surplus M: ₹9,000
Realisation Loss: M: ₹12,000, N: ₹12,000, O: ₹6,000]

11. P, Q and R share profits and losses in the proportion 1/2, 1/3 and 1/6 respectively. Their balance sheet is as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	2,00,000	Furniture	2,80,000
P's Loan	40,000	Land	1,60,000
P's Capital	2,00,000	Stock	1,00,000
Q's Capital	40,000	Debtors	80,000
R's Capital	1,60,000	Cash	20,000
	6,40,000		**6,40,000**

The partnership is dissolved and the assets are realised as follows:

	(₹)
First Realisation	1,60,000
Second Realisation	1,20,000
Third Realisation	2,16,000
Fourth Realisation	4,000

Prepare a statement showing how the distribution should be made.

[**Ans: Absolute Surplus R: ₹93,333 Realisation Loss: P: ₹60,000, Q: ₹40,000, R: ₹20,000]**

12. Following is the balance sheet of M/s T, U and V, who share profits and losses in the ratio of 2:2:1.

Liabilities	*(₹)*	*Assets*	*(₹)*
Sundry Creditors	60,000	Cash	8,000
Capitals:		Sundry Debtors	88,000
X	60,000	Plant	88,000
Y	48,000		
Z	16,000		
	1,84,000		1,84,000

The firm was dissolved and the assets were realised gradually. ₹40,000 was received first. ₹60,000 was received next and ₹36,000 finally. Show how distribution of cash is made.

[Ans: Absolute Surplus X: ₹12,000
Realisation Loss: X: ₹16,000, Q: ₹16,000, R: ₹8,000]

13. M, N and P are in partnership, sharing profits and losses in the ratio of 2:2:1. The partnership was dissolved on 31st December 1997, and their balance sheet on that date was as follows:

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	12,000	Cash	4,000
Capital		Stock	76,000
M	32,000		
N	20,000		
P	6,000		
Profit & Loss A/c	10,000		
	80,000		**80,000**

The assets were realised gradually: ₹20,000 was received in first instalment, ₹20,000 the second time and ₹26,000 finally. Show the cash distribution under Surplus Capital Method.

[Ans: Absolute Surplus M: ₹12,000
Realisation Loss: M: ₹4,000, N: ₹4,000, P: ₹2,000]

Maximum Loss Method

14. Q, R and S are partners in a firm, who are sharing profits and losses in the proportion of 3:2:1 respectively. The following is the balance sheet as on 31st December 2009. On the date, they decided to dissolve the partnership.

Liabilities	*(₹)*	*Assets*	*(₹)*
Sundry Creditors	20,000	Cash	2,40,000
Q	90,000	Furniture	20,000
R	90,000		
S	60,000		
	2,60,000		**2,60,000**

The firm was dissolved and the realisation of assets was as follows:

Realisation	*Amount Realised (₹)*
First	30,000
Second	45,000
Third	75,000

Prepare a statement showing how the distribution of cash has been made under Maximum Loss Method.

[Ans: Realisation Loss – Q: ₹45,000, R: ₹30,000, S: ₹15,000]

15. A, B and C are partners sharing profits and losses equally. The following is their balance sheet as at 31st December 1995 when they dissolve the business.

Liabilities	*(₹)*	*Assets*	*(₹)*
Creditors	1,24,000	Furniture	1,00,000
B's Loan	26,000	Goodwill	2,00,000
A's Capital A/c	1,50,000	Building	40,000
B's Capital A/c	45,000	Machinery	1,40,000
C's Capital A/c	1,35,000		
	4,80,000		**4,80,000**

It was agreed to repay the amount due to the partners, as and when the assets were realised.

First Realisation: ₹90,000; Second Realisation: ₹2,19,000; Third Realisation: ₹1,41,000.

Prepare the statement showing how the distribution should be made under Maximum Loss Method.

[Ans: Realisation Loss – A: ₹10,000, B: ₹10,000, C: ₹10,000]

16. A partnership firm has three partners – D, E and F – with capitals as follows: D ₹80,000; E ₹40,000; and F ₹40,000. The creditors amounted to ₹80,000 and sundry assets to ₹2,40,000. On dissolution, the assets realised as follows:

	(₹)
First Realisation	80,000
Second Realisation	80,000
Third Realisation	40,000

The partners share profits and losses in the ratio of 3:2:1. Show the piecemeal distribution of the realisation on Maximum Loss Method.

[Ans: Realisation Loss – D: ₹20,000, E: ₹13,334, F: ₹6,667]