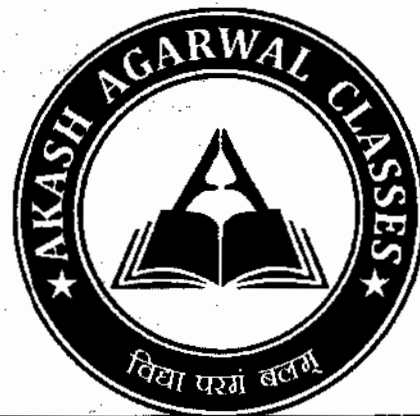


# AKASH AGARWAL CLASSES



EDUCATION IS POWER

**CMA INTER (G1 PAPER-6)**

## FINANCIAL ACCOUNTING

### Volume-2

#### HIGHLIGHTS OF THIS BOOK:

- EXHAUSTIVE COVERAGE OF MODULE
- COMPLETE COVERAGE OF NEW SYLLABUS
- QUESTIONS WHICH ARE IMPORTANT FOR CMA STUDENTS
- LOGICAL ARRANGEMENT OF TOPICS

**APPLICABLE FOR  
JUNE 25 AND  
ONWARDS  
EXAMINATION**

**AS PER NEW  
SYLLABUS 2022**

**PROF. HARSH AGARWAL**



# CMA - INTERMEDIATE- G1

## FINANCIAL ACCOUNTS

### INDEX

### VOLUME- 2

<b>1</b>	<b>BILLS OF EXCHANGE</b>	<b>1</b>	<b>10</b>	<b>INSURANCE CLAIM</b>	<b>216</b>
<b>2</b>	<b>CONSIGNMENT ACCOUNTING</b>	<b>16</b>	<b>11</b>	<b>LEASE ACCOUNTING</b>	<b>235</b>
<b>3</b>	<b>JOINT VENTURE ACCOUNTING</b>	<b>42</b>	<b>12A</b>	<b>ADMISSION OF A PARTNER</b>	<b>243</b>
<b>4</b>	<b>PREPARATION OF FINANCIAL STATEMENTS</b>	<b>58</b>	<b>12B</b>	<b>REIREMENT OF A PARTNER</b>	<b>264</b>
<b>5</b>	<b>FINAL ACCOUNTS OF NPO</b>	<b>93</b>	<b>12C</b>	<b>DEATH OF A PARTNER</b>	<b>283</b>
<b>6</b>	<b>SINGLE ENTRY SYSTEM</b>	<b>119</b>	<b>12D</b>	<b>DISSOLUTION OF FIRM</b>	<b>296</b>
<b>7</b>	<b>BRANCH ACCOUNTING</b>	<b>149</b>	<b>12E</b>	<b>PIECEMEAL DISTRIBUTION</b>	<b>313</b>
<b>8</b>	<b>DEPARTMENTAL ACCOUNTING</b>	<b>182</b>	<b>12F</b>	<b>AMALGAMATION OF FIRM</b>	<b>323</b>
<b>9</b>	<b>HIRE PURCHASE</b>	<b>201</b>	<b>12G</b>	<b>ACCOUNTING OF LLP</b>	<b>337</b>

## CH 1. BILLS OF EXCHANGE

### ➤ Bill of exchange:

As per Sec 5 of the Negotiable Instrument Act, 1881, A bill of exchange Is an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument.

#### • Essential Elements of a Bills of Exchange

The following are the essential elements of a Bill of Exchange:

1. **In Writing:** It must be in writing and may be in any language and in any form
2. **Date:** It must be drawn on a particular date
3. **Parties:** There are three parties to a Bill of Exchange - Drawer/ Maker, Drawee and Payee
4. **Signing:** It must be signed by the Drawer / Maker
5. **Unconditional Order:** It must contain an unconditional and imperative order to pay and the order to pay must be directed to a certain person.
6. **Amount:** The order must be to pay a certain sum of money only
7. **Stamp Duty:** It must be accompanied with proper stamp as per the requirement of the law.

### ➤ Parties to Bill of Exchange:

There are three parties to a bill of exchange as explained below:

- a. **Drawer:** The person who draws the bill is called the drawer. In other words, he is the person who grants credit.
- b. **Drawee:** The person on whom the bill is drawn for its acceptance by him is called the Drawee. In other words, he is the person to whom the credit is granted.
- c. **Payee:** The person in whose favor the bill is drawn is called the payee. The payee may be a third party or the drawer himself.

➤ **Classification of Bills of Exchange**

i. **Documentary Bill:**

- a) Any bill of exchange which is supported by the relevant documents is known as documentary bill.
- b) Relevant Documents aimed to confirm the genuineness of sale or transaction that took place between the seller and buyer.

ii. **Demand Bill:**

- a. Any bill which payable on demand by the holder of the bill is known as demand bill.
- b. Demand bill does not have any fixed date for payment.
- c. This bill should be cleared whenever presented

iii. **Usance Bill:** If any bill of exchange whose payment has to be made within the given time period is known as usance bill.

iv. **Inland Bill:** Any bill which is payable only in one country (home country) is known as Inland Bill.

v. **Foreign Bill:** Any bill which can be paid outside India is known as a foreign bill.

vi. **Clean Bill:**

- a. Any bill which does not have any proof of a document is known as clean bill
- b. Interest on a clean bill is comparatively higher than the other bills.

vii: **Accommodation Bill:** Any bill that is drawn, accepted without any genuine trade transaction for mutual adjustment of monetary requirements is known as an accommodation bill.

viii: **Trade Bill:** Any bill that is drawn and accepted based on genuine trade transaction is known as trade bill.

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

➤ **Specimen of a bill of exchange:**

PAYEE	DRAWEE	DRAWER
50,000/ only Three months after the date pay to Mr. Srinivas or order the sum of Rupees Fifty Thousand, for value received.		
	Accepted	
	Rajesh	
To,		Stamp
Rajesh Kalakoda		
87, SLV Plaza, Bull temple Road,		
Bangalore. KA		Mr. Srinivas

➤ **Term of a Bill**

1. **Duration of bill:** The term of bill of exchange may be of any duration. Usually the term does not exceed 90 days from the date of the bill.
2. **After Sight bills:** When the bill is drawn **after sight**, the term of the bill begins to run from the date of sighting i.e. when the bill is accepted.
3. **After Date bills:** When the bill is drawn **after date**, the term of bill begins to run from the date of drawing the bill.

➤ **Due Date of Bill:**

- a) **Due Date:** The date on which the term of the bill expires is called as "Due date of the bill."
- b) **Days of Grace:** Every instrument payable otherwise than on demand is entitled to three days of grace
- c) **Maturity Date:** The date which comes after adding 3 days of grace to the due date is called Maturity date.
- d) **Maturity date = Public holiday:** When the due date is a public holiday, then the preceding business day will be the due date.
- e) **Maturity date = emergency holiday:** When the due date is an emergency or unforeseen holiday, the next following day will be the due date.

➤ **Discounting of Bill:**

- This process of encashing the bill with the bank before due date is called discounting the bill.
- The bank shall make the payment of the bill after deducting some interest (called discount in this case), and gets the amount from drawee on the due date.

➤ **Endorsement of Bill:**

- Any holder may transfer a bill unless its transfer is restricted, i.e. the bill has been negotiated containing words prohibiting its transfer.
- The act of signing at the back of the bill and transferring the bill is called endorsement.

➤ **Dishonor of a Bill:**

- A bill is said to have been dishonored when the drawee fails to make the payment on the date of maturity.
- In this situation, liability of the acceptor is restored.
- Therefore, the entries made on the receipt of the bill should be reversed.

➤ **Noting Charges:**

- A bill of exchange should be duly presented (during business working hours) for payment on the date of its maturity. The drawee is absolved of his liability if the bill is not duly presented.
- To establish beyond doubt that the bill was dishonored, despite its due presentation, it may preferably be got noted by Notary Public. Noting authenticates the fact of dishonor. For providing this service, a fee is charged by the Notary Public which is called "Noting Charges".
- Following facts are generally noted by the Notary:
  - a) Date, fact and reasons of dishonor
  - b) If the bill is not expressly dishonored, the reasons why he treats it as dishonored and
  - c) The amount of noting charges.

**ACCOUNTING JOURNAL ENTRIES IN THE BOOKS OF A DRAWER:**

TRANSACTION	ACCOUNTING ENTRIES
On making a credit sale to Drawee	Drawee A/c      Dr XXX To Sales A/c                      XXX
<b>If retained the Bill till its Maturity Date:</b>	
On Acceptance of a Bill by the Drawee	Bill Receivable A/c      Dr XXX To Drawee A/c                      XXX
If Bill is honoured on the maturity date by the Drawee	Bank (or) Cash A/c      Dr XXX To Bills Receivable A/c      XXX
If Bill is Dishonoured on the maturity date by the Drawee	Drawee A/c      Dr XXX To Bills Receivable A/c      XXX
If Bill sent for Collection to the Bank	Bills Sent for Collection A/c Dr XXX To Bills Receivable A/c      XXX
On Realizations of the amount of the bill on maturity date (Drawee honour the bill)	Bank A/c      Dr XXX Bank Charges A/c      Dr XXX To Bills sent for Collection A/c      XXX
If Bill is Dishonoured on the maturity date by the Drawee	Drawee A/c      Dr XXX To Bills sent for Collection A/c      XXX To Bank A/c (Noting Charges)      XXX
<b>If Bills are discounted with the Bank:</b>	
When Bill is discounted with the Bank	Bank A/c      Dr XXX Discount A/c      Dr XXX To Bills Receivable A/c      XXX
If discounted bills are honoured by Drawee on the Maturity date	No JE is required
If discounted bills are dishonoured by Drawee on the Maturity date	Drawee A/c      Dr XXX To Bank A/c                      XXX (Being the amount of dishonored bill and noting charges debited to the Drawee)
<b>If Bills are Endorsed in Favour of a Creditor:</b>	
On the Endorsement of Bill Receivable to a creditor	Creditor (Endorsee's A/c) Dr XXX To Bills Receivable A/c      XXX
If discounted bills are dishonoured by Drawee on the Maturity date	Drawee A/c      Dr XXX To Endorsee A/c      XXX

(Being the amount of dishonoured bill and noting charges debited to the Drawee)

➤ **Renewal of a Bill:**

- In order to Extending the due date of the bill, which results in cancelling the old bill and drawing fresh bill with new term of payment is known as renewal of bill.
- Since the cancellation of bill is mutually agreed upon noting of the bill is not required.
- The drawee may have to pay interest to the drawer for the extended period of credit. The interest is paid in cash or may be included in the amount of the new bill

Transaction_	Books of Drawer	Books of Drawee
On Cancelling the old bill	Drawee's A/c Dr To Bills Receivable Ac	Bill Payable A/c Dr To Drawer's A/c
On making due the interest	Drawee's A/c Dr To Interest A/c	Interest A/c Dr To Drawer's A/c
On receiving a portion of the amount due	Bank A/c Dr To Drawee's A/c	Drawer's A/c Dr To Bank A/c
On the acceptance of a fresh bill	Bills Receivable A/c Dr To Drawee's A/c	Drawer's A/c Dr To Bank A/c

➤ **Retirement of a Bill:**

- Making the payment of a bill before the date of maturity is called retirement of a bill.
- An interest is allowed by the holder of the bill to the Drawee at an agreed rate of interest for the unexpired period of the bill as a consideration for the premature payment is known as Rebate.
- Such rebate on retirement of a bill is an income for the Drawee and is an expense for the payee.



Drawer/ Endorsee	Drawee
Bank A/c                      Dr	Bills Payable A/c      Dr
Rebate on Bill A/c      Dr	To Bank A/c
To Bills Receivable A/c	To Rebate on Bills A/c

➤ **ACCOUNTING JOURNAL ENTRIES IN THE BOOKS OF A DRAWEE**

Transaction	Accounting JE
On acceptance of Bills by Drawee	Drawer's A/c Dr    XXX To Bills Payable A/c    XXX
Honour of a bill on maturity date	Bills Payable A/c Dr    XXX To Cash/ Bank A/c    XXX
Dishonour of a Bill on maturity date	Bills Payable A/c      Dr XXX Noting Charges, A/c    Dr XXX To Drawers A/c              XXX

➤ **ACCOMMODATION BILLS:**

- **Meaning:** Accommodation Bills refers to those bills which are drawn, accepted or endorsed without any consideration.
- **Purpose:** These bills are drawn and accepted to meet the financial needs of the drawer/Drawee/ both temporarily.
- **Sharing of Proceeds:** On discounting of such bills, proceeds may share by drawer and Drawee in an agreed ratio
- **Sharing of Discount:** The party bears the discounts in the proportion in which it shares the proceeds of the bill unless otherwise agreed.
- **No legal suits:** On dishonour of such bill, drawer cannot file suit against the Drawee because Drawee is not liable to drawer.
- **Accounting Treatment:** The accounting entries are made in the usual manner as in case of trade bills.

**PRACTICAL PROBLEMS****Problem No 01: (Basic problem)**

Calculate the due dates of the bills in the following cases:

SR. No.	Date of Bill	Tenure (Period)
1	1st January 2021	4 months
2	23rd November 2021	2 months

**Problem No 02: (Basic problem)**

Firm sold goods to Ram for Rs. 2,00,000 and received his acceptance payable after 3 months. Bill was discounted by firm @ 12% p.a. On the due date bill was met.

**Problem No 03: (Basic problem)**

Firm sold goods to Shyam for Rs. 2,00,000 and received his acceptance payable after 3 months. Firm endorsed his acceptance to Mr. X, a creditor for Rs. 2,20,000 in full settlement of his claim. Bill was dishonoured on due date and noting charges paid Rs. 200.

**Problem No 04: (Basic problem)**

Aman sold goods to Rahul on 1st September, 2022 for Rs. 1,600. Rahul immediately accepted a three months bill. One due date Rahul requested that the bill be renewed for a fresh period of two months. Aman agrees provided interest at 9% was paid immediately in cash. To this Rahul was agreeable. The second bill was met on due date. Give Journal entries in the books of Aman.

**Problem No 05:**

Vijay sold goods to Pritam on 1st April, 2016 for Rs. 1,06,000. Pritam immediately accepted a three months bill. On due date Pritam requested that the bill be renewed for a fresh period of two months. Vijay agrees provided interest at 9% was paid immediately in cash. To this Pritam was agreeable. The second bill was met on due date. Give Journal entries in the books of Vijay and Pritam.

**Problem No 06:**

On 1st January, 2016, Ankita sells goods for Rs. 5,00,000 to Bhavika and draws a bill at three months for the amount. Bhavika accepts it and returns it to Ankita. On 1st March, 2016, Bhavika retires her acceptance under rebate of 12% per annum. Record these transactions in the journals of Ankita and Bhavika.

**Problem No 07:**

On 1st January, 2016, Vilas draws a bill of exchange for Rs. 10,000 due for payment after 3 months on Eknath. Eknath accepts to this bill of exchange. On 4th March, 2016, Eknath retires the bill of exchange at a discount of 12% p.a. You are asked to show the journal entries in the books of Eknath & Vilas.

**Problem No 08: (Icmai study material )**

X sold goods for ₹ 20,000 to Y on credit on January 01, 2022. X drew a bill of exchange upon Y for the same amount for three months. Y accepted the bill and returned it to X. Y met his acceptance on maturity. Record the necessary journal entries under the following circumstances:

- (i) X retained the bill till the date of its maturity and collected directly
- (ii) X discounted the bill @ 12% p.a. from his bank on January 01, 2022
- (iii) X endorsed the bill to his creditor Z, on January 01, 2022
- (iv) X retained the bill and on March 31, 2022 X sent the bill for collection to its bank. On April 05, 2022 bank advice was received.

**Problem No 09: (Icmai study material )**

On February 01, 2022 X sold goods to Y for ₹ 18,000; ₹ 3,000 were paid by Y immediately and for the balance he accepted three months bill drawn upon him by X. On the date of maturity of the bill Y requested X to cancel the old bill and draw a new bill upon him for a period of 2 months. He further agreed to pay interest in cash to X @ 12% p.a. X agreed to Y's request and cancelled the old bill and drew a new bill. The new bill was met on maturity by Y.

Pass necessary journal entries in the books of drawer and drawee

**Problem No 10:**

Journalize the following transactions in K. Katrak's books.

- (i) Katrak's acceptance to Basu for Rs. 2,500 discharged by a cash payment of Rs. 1,000 and a new bill for the balance plus Rs. 50 for interest.
- (ii) G. Gupta's acceptance for Rs. 4,000 which was endorsed by Katrak to M. Mehta was dishonored. Mehta paid 20 noting charges. Bill withdrawn against cheque.
- (iii) D. Dalal retires a bill for Rs. 2,000 drawn on him by Katrak's for Rs. 10 discount.
- (iv) Katrak's acceptance to P. Patel for Rs. 5,000 discharged by P. Mody's acceptance to Katrak for a similar amount.

**Problem No 11: (Important Question)**

On 1st July, 2016 Gorge drew a bill for Rs. 1,80,000 for 3 month son Harry for mutual accommodation. Harry accepted the bill of exchange. Gorge had purchased goods worth Rs. 1,81,000 from Jack on the same date. Gorge endorsed Harry's acceptance to Jack in full settlement. On 1st September, 2016, Jack purchased goods worth Rs. 1,90,000 from Harry. Jack endorsed the bill of exchange received from Gorge to Harry and paid Rs. 9,000 in full settlement of the amount due to Harry. On 1st October, 2016, Harry purchased goods worth Rs. 2,00,000 from Gorge. Harry paid the amount due to Gorge by cheque. Give the necessary Journal Entries in the books of Harry and Gorge..

**Problem No 12:**

Mr. David draws two bills of exchange on 1.1.2016 for Rs. 6,000 and Rs. 10,000. The bills of exchange for Rs. 6,000 is for two months while the bill of exchange for Rs. 10,000 is for three months. These bills are accepted by Mr. Thomas. On 4.3.2016, Mr. Thomas requests Mr. David to renew the first bill with interest at 18% p.a. for a period of two months. Mr. David agrees to this proposal. On 20.3.2016, Mr. Thomas retires the acceptance for Rs. 10,000, the interest rebate i.e. discount being Rs. 100. Before the due date of the renewed bill, Mr. Thomas becomes insolvent and only 50 paise in a rupee could be recovered from his estate. You are to give the journal entries in the books of Mr. David.

**Problem No 13:**

Rita owed Rs. 1,00,000 to Simran. On 1st October, 2016, Rita accepted a bill drawn by Simran for the amount at 3 months. Simran got the bill discounted with his bank for Rs. 99,000 on 3rd October, 2016. Before the due date, Rita approached Simran for renewal of the bill. Simran agreed on the conditions that Rs. 50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Simran.

**Problem No 14: (Accommodation Bill)**

For the Mutual accommodation of 'X' and Y on 1st April, 2016, drew a four months' bill on Y for Rs. 4,000. Y returned the bill after acceptance of the same date, X' discounts the bill from his bankers @ 6% per annum and remit 50% of the proceeds to Y". On due date 'X' is unable to send the amount due and therefore Y draws a bill for Rs. 7000, which is duly accepted by X. Y discounts the bill for Rs. 6600 and sends Rs. 1,300 to X. Before the bill is due for payment X becomes insolvent. Later 25 paise in a rupee received from his estate. Record Journal entries in the books of X'.

**Problem No 15: (Accommodation Bill)**

Anil draws a bill for Rs. 9,000 on Sanjay on 5th April, 2016 for 3 months, which Sanjay returns it to Anil after accepting the same. Anil gets it discounted with the bank for Rs. 8,820 on 8th April, 2016 and remits one-third amount to Sanjay. On the due date Anil fails to remit the amount due to Sanjay, but he accepts a bill for Rs. 12,600 for three months, which Sanjay discounts it for Rs. 12,330 and remits Rs. 2,220 to Anil. Before the maturity of the renewed bill Anil becomes insolvent and only 50% was realized from his estate on 15th October, 2016.

Pass necessary Journal entries for the above transactions in the books of Anil.

**Problem No 16:**

A draws upon B three Bills of Exchange of Rs. 3,000, Rs. 2,000 and Rs. 1,000 respectively. A week later his first bill was mutually cancelled, B agreeing to pay 50% of the amount in cash immediately and for the balance plus interest Rs. 100, he accepted a fresh Bill drawn by A. This new bill was endorsed to C who discounted the same with his bankers for Rs. 1,500. The second bill was discounted by A at 5%. This bill on maturity was returned dishonored (nothing charge being Rs. 30). The third bill was retained till maturity when it was duly met.

Give the necessary journal entries recording the above transactions in the books of A.

**Problem No 17:**

Journalize the following in the books of Don:

- (i) Bob informs Don that Ray's acceptance for Rs. 3,000 has been dishonored and noting charges are Rs. 40. Bob accepts Rs. 1,000 cash and the balance as bill at three months at interest of 10%. Don accepts from Ray his acceptance at two months plus interest @ 12% p.a.
- (ii) James owes Don Rs. 3,200; he sends Don's own acceptance in favor of Ralph for Rs. 3,160; in full settlement.
- (ii) Don meets his acceptance in favor of Singh for Rs. 4,500 by endorsing John's acceptance for Rs. 4,450 in full settlement.



(iv) Ray's acceptance in favor of Don retired one month before due date, interest is taken at the rate of 6% p.a.

**Problem No 18: (Icmai study material )**

X draws a bill for ₹ 1,200 and Y accepts the same for mutual accommodation in the ratio of 4:2. X discounts the bill for ₹ 1,110 and remits 1/3rd of the proceeds to B. Before the due date, Y draws another bill for ₹ 1,800 on X in order to provide funds to meet the first bill. The second bill is discounted for ₹ 1,740 by Y and a sum of ₹ 360 is remitted to X after meeting the first bill. The second bill is duly met. Show journal entries in the books of both X and Y.

**Problem No 19: (Icmai study material )**

For mutual accommodation of himself and Y, X drew upon Y a bill of ₹ 6,000 at 3 months on 01.04.2023. Y accepted the bill and returned to X who discounted it immediately @ 6% p.a. According to agreement, X and Y shared the proceeds as 2:1. On the date of maturity X remitted his share to Y who honoured the bill by payment. Show journal entries in the books of X and Y.

**Problem No 20: (Icmai study material )**

Vijay draws a bill for ₹ 60,000 and Anand accepts the same for mutual accommodation of both of them to the extent of Vijay 2/3rd and Anand 1/3rd. Vijay discounts it with bank for ₹ 56,400 and remits 1/3rd share to Anand. Before the due date, Anand draws another bill for ₹ 84,000 on Vijay in order to provide funds to meet the first bill on same sharing basis. The second bill is discounted at ₹ 81,600. With these proceeds, the first bill is settled and ₹ 14,400 were remitted to Vijay. Before the due date of the second bill, Vijay becomes insolvent and Anand receives a dividend of only 50 paise in a rupee in full satisfaction. Pass journal entries in the books of Vijay

**Problem No 21: (Icmai study material )**

Rahim, for mutual accommodation, draws a bill for ₹ 3,000 on Ratan. Rahim discounted it for ₹ 2,925. He remits ₹ 975 to Ratan. On the due date, Rahim is unable to remit his dues to Ratan to enable him to meet the bill. He, however, accepts a bill for ₹ 3,750 which Ratan discounts for ₹ 3,625. Ratan sends ₹ 175 to Rahim after discounting the above bill. Rahim becomes insolvent and a dividend of 80 paise in the rupee is received from his estate. Pass the necessary journal entries in the books of both the parties.

**\*PAST FROM THE BLAST\*****Problem No 19:**

JP sold goods for ₹2,10,000 to PK on 1st July, 2022 and on the same day JP draws two bills on PK for the amount of ₹1,30,000 and ₹80,000 respectively for 3 months each. PK accepts these and returns these to JP. On 4th July, 2022, JP discounts these bills with bank at a discount of 15% per annum. PK met the first bill on due date, by paying to the bank, but he showed his inability to pay full amount of second bill on the due date and paid ₹35,000 in cash. He requested JP to write a fresh bill including interest @ 15% per annum for two months which was accepted by JP. Before the fresh bill became due, PK retires the bill with a rebate of ₹625. Pass journal entries in books of JP.

**SOLUTION:**

Date	Particulars	Debit ₹	Credit ₹
2022 1st July	PK A/c To Sales A/c (Being goods sold on Credit)	2,10,000	2,10,000
1st July	Bills receivables A/c To PK /c (Being two Bills receivable Drawn for the amount due from PK)	2,10,000	2,10,000





4th July	Bank A/c Discount A/c To bills receivables A/c (Being the bills receivable discounted with bank 15% p.a.)	2,02,125 7,875	2,10,000
4th Oct	PK. A/c Cash A/c To Bank A/c (Being the bill receivable dishonored by PK)	45,000 35,000	80,000
4th Oct.	Bills receivables A/c To Pk A/c To Interest on Receivables A/c (Being new bill drawn on PK for the unpaid amount +15% interest for 2 months)	46,125	45,000 1,125
	Bank A/c Rebate A/c To Bills receivables A/c (Being the bill honoured by PK and rebate allowed)	45,500 625	46,125

## CH 2. CONSIGNMENT ACCOUNTING

### ➤ Introduction:

- i. **Consignment:** Consignment means the transaction of sending goods by one person to another, who is to sell the goods on behalf of the first persons
- ii. **Consignor:** The person who sends the goods to another person is known as "Consignor".
- iii. **Consignee:** The person to whom such goods are sent (Agent) is known as "Consignee".
- iv. **Consignment Agreement:** Contractual arrangement between consignor and consignee is known as "Consignment agreement".
- v. **Relationship:** The legal relationship between these two persons is that of principal and agent.

### ➤ Operating Cycle of Consignment:

- Cycle of Consignment generally consists of the following events.
1. **Sending of goods:**
    - a) Goods are sent by consignor to the consignee at cost price or cost-plus mark up (Invoice Price).
    - b) Goods are physically moved to consignee, but ownership of such goods lies with consignor only.
  2. **Expenses by consignor:**
    - a) Consignor incur certain classes of expenses for sending the goods to the consignee.
    - b) For example, Carriage & freight to consignee, packing charges, loading charges, export duty, transit insurance etc.
    - c) These expenses are non-recurring in nature, hence should be considered for valuation of the closing stock and abnormal loss of goods.
  3. **Advance:** Consignee may pay some advance or accept a bill of exchange.

**4. Expenses by Consignee:**

- a) Consignee will incur certain expenses for receiving and selling the consigned goods.
- b) These expenses will be reimbursed by consignor to the consignee by means of adjusting the same against sale proceeds payable by consignee to consignor.
- c) Consignee expenses can be broadly classifiable into the following two types:

**i. Recurring expenses:**

- These are the expenses which are incurred on more than one occasion.
- These are usually incurred after the goods reach the consignee's premises.
- For example, godown rent, insurance of godown, carriage outward, establishment charges, advertising & publicity, salary of salesmen and Salesmen Commission etc.

**ii. Non-Recurring expenses:**

- These expenses generally incurred only once and are generally incurred prior to reaching the consignee's premises.
- For Example, unloading charges, dock charges, clearing charges, customs duty, octroi, carriage & freight to godown etc.
- These expenses should be taken into consideration while in calculation of value of closing stock and goods lost at consignee premises.

**5. Consignment Sales:**

- a) Goods are sold by the consignee on behalf of the consignor both on cash or credit.
- b) Sale proceeds are collected by the consignee and then reimbursed to the Consignor at the end of the specified period after deducting expenses by consignee, Consignee commission and advance money paid etc.

**6. Agency Commission:**

- a) Consignor pays commission to the consignee.
- b) Different forms of commission are ordinary commission, del-credere commission and over-riding commission

**7. Records maintenance:** Consignee maintains records of all cash and credit sale.

8. **Account Sales:** Consignee prepares a summary of results called as Account sales.
9. **Settlement of dues:** consignee sends net amount due in connection with consignment sales to consignor in the form cash / cheque / draft/ Bills of exchange

**Differences between sale and consignment:**

Basis	Sale	Consignment
Transfer Of ownership	In sale the property in goods is transfer to the buyer immediately	The property in goods is transferred only when the goods are sold by the consignee, the ownership of the goods remains with the consignor when goods are transfer.
Risk	The risk attached with the goods transfers from the owner to the buyer.	As, the consignee is the mere agent and ownership of the goods is with the consignor the risk attached with the goods shall not pass to the consignee.
Governing Act	The relationship between the seller and the buyer is governed by the Sale of Goods Act.	The relationship between the consignor and consignee is that of principal and an agent as in a contract of agency.
Unsold goods	The goods sold on sale basis is normally not returnable unless there is some defect in them.	Unsold goods on consignment are the property of the consignor and may be returned if not saleable in market.

**Types of Consignment Commission:**

Commission is the remuneration paid to the consignee by the consignor in consideration of the services rendered by the former in selling the goods consigned. This commission can be divided into the following three types.

**A. Ordinary commission:**

- It is a fee payable by consignor to consignee for sale of goods of consignor.
- It should be calculated on the total sales made by consignee (Cash sale + Credit Sale).

**B. Del-credere commission:**

- Purpose: It is the additional commission payable by the consignor to consignee for undertaking additional responsibility of bad debts arising out of credit sales effected by the consignee.
- Computation: It should be calculated on the total sales affected by consignee and not on the credit sales.
- Accounting: If del-credere commission is provided then any bad debts arising out of consignment sales by consignee, should be accounted for in the books of the consignee and not in the books of consigner.

**C. Overriding commission:**

- It is an additional commission paid by consignor to consignee in case Consignee sells the goods at a higher price compared to price stipulated by the consignor.
- It should be calculated on the Excess sale revenue generated by the consignee

**➤ Valuation of Closing Stock:**

- Closing stock should be valued at cost or net realizable value whichever is lower (AS 2)
- The cost of closing stock should be calculated as shown below.

Particulars	Amount (₹)
a. Cost of goods to consignor	XXX
b. Add: Proportionate share of consignor expenses.	XXX
c. Add: Proportionate share in consignee's non -recurring expenses	XXX
<b>Value of closing stock</b>	<b>XXX</b>

**➤ Valuation of Loss of Consigned Goods:**

**Normal loss:**

- a) Normal loss in the value of consigned goods will arise as a result of natural causes like leakage, breakage, evaporation etc.
- b) The cost of normal loss will be recovered on the remaining good units. Hence no separate calculation is required for determining the value of normal loss.
- c) Accounting Entry:

Normal Loss A/c                      Dr XXX  
     To Consignment A/c                                      XXX

#### Abnormal loss:

- a) It will arise as a result of negligence, theft, fire and accidents etc.
- b) The value of abnormal loss should be determined in the same method used for closing stock valuation.

#### Accounting Treatment:

Date	particulars	LF	Debit	Credit
	<b>For Abnormal Loss:</b> Abnormal Loss A/c                      Dr. To Consignment A/c                                      XXX		xxx	xxx
	<b>For the insurance claim due / received by the consignor:</b> Insurance Co. A/c/ Bank A/c                      Dr. To Abnormal Loss A/c                                      xxx		xxx	xxx
	<b>If goods are not insured loss transfer to P&amp;LA/c</b> Profit & Loss A/c                      Dr. To Abnormal Loss A/c                                      xxx		xxx	xxx
	<b>For transferring the net loss to P&amp;L A/c</b> Profit & Loss A/c                      Dr. To Abnormal Loss A/c                                      xxx		xxx	xxx

#### Advance from Consignee as Security Money:

- i. It is a common practice for the consignor to demand some advance from the consignee as a security for the goods dispatched to him.
- ii. It may in the form of cash or bank draft or in the form of bills of exchange.
- iii. The advance will be adjusted against the amount due from the consignee when the accounts are finally settled.

**iv. Accounting treatment In the Books of Consignor:**

Cash/Bank/ Bills receivable Account    Dr    XXX	
To Consignee A/c	XXX

**v. Accounting treatment In the Books of Consignee:**

Consignor A/c	Dr	XXX	
To Consignee A/c			XXX

**Account Sales:**

- i. **Prepared by consignee:** An Account sale is a statement sent by the consignee to the consignor periodically. It contains the information like
  - a. Sales made by consignee
  - b. Expenses incurred by consignee on behalf of consignor
  - c. Commission earned by consignee
  - d. Any advance given by Consignee
  - e. The balance due to the principal by the consignee.
- ii. **Recording by consignor:** The consignor records the consignment related transactions in its books of accounts on the basis of this document.
- iii. The below given is proforma of Account Sales:

**Accounts Sales for books sold by Rajesh Book stall on behalf of XYZ publishers**

Particulars	Amount	Amount
<b>Gross Sale Proceeds:</b>		
1,000 Cost Accounting books @ 595 each	5,95,000	
1,200 Financial Accounting books @ 495 each	5,94,000	
600 Direct Taxation books @ 695 each	4,17,000	16,06,000
<b>Less: Expenses incurred:</b>		
Unloading and carriage to godown	5,000	
Godown rent and Insurance	45,000	
Selling expenses	10,000	
Commission @ 10% on Sales (16,06,000 x 10%)		(2,20,600)
<b>Net Sale Proceeds</b>		<b>13,85,400</b>
<b>Less: Advance remitted (cheque no.. dated)</b>		<b>(5,00,000)</b>
<b>Balance due</b>		<b>8,85,400</b>

For Rajesh Book Stall

( )

Signature

**ACCOUNTING TREATMENT IN BOOKS OF CONSIGNOR****WHEN GOODS ARE SENT AT COST PRICE :**

Incorporation of opening stock on consignment	Consignment A/c Dr To Consignment Stock A/c
On sending of goods by consignor to Consignee	Consignment A/c Dr To Goods sent on Consignment A/c
Expenses incurred by Consignor for sending the goods to Consignee	Consignment A/c Dr To Bank A/c (or) Cash A/c
On Acceptance of Bill of Exchange by Consignee as advance	Bill Receivable A/c Dr To Consignee A/c



On receipt of cash or cash from consignee as advance	Cash/Bank A/c Dr To Consignee A/c
Expenses incurred by Consignee	Consignment A/c Dr To Consignee A/c
Sales Reported by Consignee For cash and credit sales if del-credere commission is paid	Consignee A/c Dr To Consignment A/c
Credit Sales Reported by Consignee if del-credere commission is paid	Consignment Debtors Dr To Consignment A/c
For consignee commission	Consignment A/c Dr To Consignee A/c
For bad debts - if del-credere commission is Paid	No Entry
For bad debts - if del-credere commission is not paid	Consignment A/c Dr To Consignment Debtors A/c
For any goods returned by consignee to consignor	Goods Sent on Consignment A/c Dr To Consignment A/c
For abnormal loss of goods	Abnormal Loss A/c Dr To Consignment A/c
For receipt of insurance claim against abnormal loss of goods	Bank A/c / Insurance Claim A/c Dr To Abnormal Loss A/c
For transfer of loss on account of abnormal loss of goods	Profit and Loss A/c Dr To Abnormal Loss A/c
For goods in Transit	Goods in Transit A/c Dr To Consignment A/c
For Closing Stock	Consignment Stock A/c Dr To Consignment A/c
For transfer of goods sent on consignment to trading account	Goods sent on consignment A/c Dr To Trading A/c
For profit made on consignment	Consignment A/c Dr To Profit and Loss A/c
For Loss suffered in consignment	Profit and Loss A/c Dr To Consignment A/c
For receipt of final amount due from consignee	Cash/ Bank/Bills Receivable A/c Dr To Consignee A/c

**LEDGER ACCOUNTS IN THE BOOKS OF CONSIGNOR****Consignment A/c**

Particulars	Amount	Particulars	Amount
To Goods sent on Consignment A/c	xxx	By Consignee A/c (sales)	xxx
To Bank A/c (consignor expenses)	xxx	By Goods Sent on Consignment Returns	xxx
To Consignee A/c (expenses)	xxx	By Goods in Transit A/c	xxx
To Consignee A/c (commission)	xxx	By Abnormal loss A/c	xxx
To P&LA/c (profit) (bf)	xxx	By Closing Stock A/c	xxx
		By P&LA/c (loss) (bf)	xxx
			xxx

**Consignee A/c**

Particulars	Amount	Particulars	Amount
To Consignment A/c (Sales)	xxx	By Bank A/c (Advance)	xxx
		By Consignment A/c (Expenses)	xxx
		By Consignment A/c (Commission)	xxx
		By Bank A/c (B/F)	xxx
	xxx		xxx

**Abnormal Loss A/c**

Particulars	Amount	Particulars	Amount
To Consignment A/C	xxx	By Bank A/c	xxx

		By Insurance Claim A/c	xxx
		By Profit and Loss A/c (bf)	xxx
	xxx		xxx

**Goods Sent on Consignment A/c**

Particulars	Amount	Particulars	Amount
To Consignment A/c - Returns	xxx	By Consignment A/c	xxx
To Trading A/c (bf)	xxx		
	xxx		xxx

**➤ Invoice Price & Loading:****• Meaning:**

- Invoice Price: Goods invoiced by the consignor to consignee at the price higher than the cost price, such price is known as Invoice Price.
- Load: The difference between Invoice Price and Cost Price is known as "Load".

- Recording:** if invoice price method is adopted by the consignor all stock related transactions should be recorded in his book at Invoice Price.
- Adjustments:** To ascertain the correct profit or loss on Consignment, the items recorded at invoice price should be brought down to Cost Price level by eliminating load on all stock transactions.

**• Items subject to Load:** The items is subject to loading

- Opening Stock,
- Goods sent on Consignment,
- Goods Returned by Consignee,

- d) Goods in transit
- e) Goods lost in transit and in the premises of consignee
- f) Closing Stock etc.

- **Purpose:** The basic objective behind adopting invoice price method is not to disclose correct cost price of the goods to consignee with a view protect consignor business interest.

#### WHEN GOODS ARE SENT AT INVOICE PRICE / LOADED PRICE:

Incorporation of opening stock on consignment	Consignment A/c      Dr To Consignment Stock A/c @ IP
For cancellation of loan on opening stock	Stock Reserve A/c      Dr To Consignment A/c
On sending of goods by consignor to Consignee at Invoice Price	Consignment A/c      Dr To Goods sent on Consignment A/c @IP
For cancellation of load on goods sent on consignment	Goods Sent on Consignment A/c - Load Dr To Consignment A/c
Expenses incurred by Consignor for sending the goods to Consignee	Consignment A/c      Dr To Bank A/c (or) Cash A/c
On Acceptance of Bill of Exchange by Consignee as advance	Bill Receivable A/c      Dr To Consignee A/c
On receipt of cash or cash from consignee as advance	Cash /Bank A/c      Dr To Consignee A/c
Expenses incurred by Consignee	Consignment A/c      Dr To Consignee A/c
Sales Reported by Consignee - For cash and credit sales if del-credere commission is paid	Consignee A/c      Dr To Consignment A/c
Credit Sales Reported by Consignee if del- credere commission is paid	Consignment Debtors Dr To Consignment A/c
For consignee commission	Consignment A/c      Dr To Consignee A/c
For bad debts - if del-credere commission is paid	No Entry

For bad debts - if del-credere commission is not paid	Consignment a/c To Consignment Debtors A/c
For any goods returned by consignee to consignor	Goods Sent on Consignment A/c @ IP Dr To Consignment A/c
For cancellation of load on good returned by consignee	Consignment A/c - Load Dr To Goods sent on consignment A/
For abnormal loss of goods	Abnormal Loss A/c @IP Dr To Consignment A/c
For receipt of insurance claim against abnormal loss of goods	Bank A/c / Insurance Claim A/c Dr To Abnormal Loss A/c
For cancellation of load on abnormal loss of goods	Consignment A/c Dr To Abnormal Loss A/c - Load
For abnormal loss of goods	Abnormal Loss A/c @IP Dr To Consignment A/c
For receipt of insurance claim against abnormal loss of goods	Bank A/c / Insurance Claim A/c Dr To Abnormal Loss A/c
For cancellation of load on abnormal loss of goods	Consignment A/c Dr To Abnormal Loss A/c - Load
For transfer of loss on account of abnormal loss of goods	Profit and Loss A/c Dr To Abnormal Loss A/c
For goods in Transit	Goods in Transit A/c @IP Dr To Consignment A/c
For cancellation of load on goods in Transit	Consignment A/c - Load Dr To Goods in Transit A/c
For Closing Stock	Consignment Stock A/c @IP Dr To Consignment A/c
For cancellation of load on closing stock	Consignment A/c - Load Dr To Stock Reserve A/c
for transfer of goods sent on consignment to trading account	Goods sent on consignment A/ c Dr To Trading A/c_
For profit made on consignment	Consignment A/c Dr To Profit and Loss A/c
For Loss suffered in consignment	Profit and Loss A/c Dr To Consignment A/c
For receipt of final amount due from consignee	Cash/ Bank/Bills Receivable A/c Dr To Consignee A/c

**LEDGER ACCOUNTS IN THE BOOKS OF CONSIGNOR****Consignment A/c**

Particulars	Amount	Particulars	Amount
To Opening Stock @ IP	xxx	By Stock Reserve A/c - Load on Opening stock	xxx
To Goods sent on Consignment A/c - IP		By Goods sent on Consignment A/c - Load	xxx
To Bank A/c (consignor expenses)	xxx	By Consignee A/c (sales)	xxx
To Consignee A/c (expenses)	xxx	By Goods Sent on Consignment A/c - Returns @IP	xxx
To Consignee A/c (commission)	xxx	By Goods in Transit A/c @IP	xxx
To Goods Sent on Consignment - Load on Returns	xxx	By Closing Stock A/c - IP	xxx
To Goods in Transit A/c - Load	xxx	by Abnormal loss A/c - IP	xxx
To Stock Reserve - Load on Closing stock	xxx	By Profit and Loss A/c - Loss	xxx
To Abnormal Loss A/c - Load	xxx		
To Profit and Loss A/c - Profit (bf)_			
	xxx		xxx

**Consignee A/c**

Particulars	Amount	Particulars	Amount
To Consignment A/c (sales)	xxx	By Cash/Bank/Bills Receivable A/c (advance)	xxx
		By Consignment A/c (expenses)	xxx



		By Consignment A/c (commission)	xxx
		By Bank A/c (B/F)_	xxx
	xxx		xxx

**Abnormal Loss A/c**

Particulars	Amount	Particulars	Amount
To Consignment A/c @IP	xxx	By Consignment A/c -Load	xxx
		By Bank A/c - Claim received	xxx
		By Insurance Claim A/c - Receivable	xxx
		By Profit and Loss A/c (bf)	xxx
	xxx		xxx

**Goods Sent on Consignment A/c**

Particulars	Amount	Particulars	Amount
To Consignment A/c- Returns-IP	xxx	By Consignment A/c @ IP	xxx
To Consignment A/c - Load on goods sent	xxx	By Consignment A/c - Load on goods returned	xxx
To Trading A/c (bf)_	xxx		xxx
	xxx		xxx

**ACCOUNTING TREATMENT IN BOOKS OF CONSIGNEE**

Transaction	Accounting JE
For opening stock on consignment	No Entry
For goods sent on consignment by consignor	No Entry
For sending advance to consignor cash/ cheque /bills payable	Consignor A/c Dr To Cash/ Bank /Bills Payable A/c
Expenses incurred by Consignee on Consignment	Consignor A/c Dr To Cash A/c (or) Bank A/c
For expenses incurred by consignor	No Entry
For cash sales effected by consignee	Bank A/c Dr To Consignor A/c
For credit sales effected by consignee and in receipt of del-credere commission	Consignment Debtors A/c Dr To Consignor A/c
For Credit sale effected by consignee and not in receipt of del-credere commission	No Entry
For commission receivable from Consignor	Consignor A/c Dr To Commission A/c
Amount received from debtors - if del-credere commission is paid	Bank A/c Dr To Consignment Debtors A/c
Amount received from debtors - if del-credere commission is not paid	Bank A/c Dr To Consignor A/c
For expenses incurred by consignee on behalf of consignor	Consignor A/c Dr To Bank A/c
For bad debts - If consignee is in receipt of del- credere commission	Bad debts A/c Dr To Consignment Debtors A/c
For transferring bad debts to commission A/c	commission A/c Dr To Bad debts A/c
For bad debts - if consignee is not in receipt of del-credere commission	No Entry
For goods returned to consignor	No Entry
For abnormal loss of goods	No Entry
For receipt of insurance claim on behalf of consignor on account of abnormal loss of goods	Bank A/c Dr To Consignor A/c





For consignment closing stock	No Entry
For making the final settlement to consignor	Consignor A/c      Dr To Cash /Bank/ Bills Payable A/c

**PRACTICAL PROBLEMS****Problem No 01: (Basic problem)**

Exe sent on 1st July, 2016 to Wye goods costing Rs. 50,000 and spent Rs. 1,000 on packing etc. On 3rd July, 2016, Wye received the goods and sent his acceptance to Exe for Rs. 30,000 payable at 3 months. Wye spent Rs. 2,000 on freight and cartage, Rs. 500 on godown rent and Rs. 300 on insurance. On 31st December, 2016 he sent his Account Sales (along with the amount due to Exe) showing that  $\frac{4}{5}$  of the goods had been sold for Rs. 55,000. Wye is entitled to a commission of 10%. One of the customers turned insolvent and could not pay Rs. 600 due from him. Show the necessary journal entries in the books of consignor. Also prepare ledger accounts.

**Problem No 02: (Basic problem)**

Ram sends goods costing Rs. 2,00,000 to Shyam to be sold at a minimum profit of 10% on cost. He will be allowed a general commission of 5% on sales and 20% of any excess realized over minimum quoted price. Shyam sold all the consignment for Rs. 3,00,000. Calculate the total commission payable to Mr. Shyam

**Problem No 03:**

Miss Rakhi consigned 1,000 radio sets costing Rs. 900 each to Miss Geeta, her agent on 1st July, 2016. Miss Rakhi incurred the following expenditure on sending the consignment.

Freight	Rs. 7,650
Insurance	Rs. 3,250

Miss Geeta received the delivery of 950 radio sets. An account sale dated 30th November, 2016 showed that 50 sets were sold for Rs. 9,00,000 and Miss Geeta incurred Rs. 10,500 for carriage. Miss Geeta was entitled to commission 6% on the sales effected by her. She incurred expenses amounting to Rs. 2,500 for repairing the damaged radio sets remaining in the inventories. Miss Rakhi lodged a claim with the insurance

company which was admitted at Rs.35,000. Show the Consignment Account and Miss Geeta's Account in the books of Miss Rakhi.

**Problem No 04:**

Vikram Milk Foods Co. Ltd. of Vikrampur sent to Sunder Stores, Sonepuri 5,000 kgs of baby food packed in 2,000 tins of net weight 1 kg and 6,000 packets of net weight 1/2 kg for sale on consignment basis. The consignee's commission was fixed at 5% of sale proceeds. The cost price and selling price of the product were as under:

	1 kg. tin	1/2 kg. packet
	Rs.	Rs.
Cost Price	10	6
Selling Price	15	7

The consignment was booked on freight "To Pay" basis, and freight charges came to 2% of selling value. One case containing 50 1kg. tins was lost in transit and the transport carrier admitted a claim of Rs.450. At the end of the first half-year, the following information is gathered from the "Account Sales" sent by the consignee:

- (i) Sale proceeds: 1,500 1 kg. tins  
4,000 1/2 kg. packets
- (ii) Store rent and insurance charges Rs. 600.

Find out the value of closing inventory on consignment. Show the Consignment A/c and the Consignee's A/c in the books of Vikram Milk Food Co. Ltd. assuming that the consignee had paid the amount due from him.

**Problem No 05:**

Shri Mehta of Mumbai consigns 1,000 cases of goods costing Rs. 1,000 each to Shri Sundaram of Chennai. Mehta pays the following expenses in connection with consignment.

PARTICULARS	Rs.
Carriage	10,000

Freight	30,000
Loading charges	10,000
Shri Sundaram sells 700 cases at Rs. 140 per case and Incurs the following expenses:	
Clearing charges	8,500
Warehousing and storage	17,000
Packing and selling expenses	6,000

It is found that 50 cases have been lost in transit and 100 cases are still in transit. Shri Sundaram is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Sundaram's Account in the books of Shri Mehta.

**Problem No 06:**

Ajay of Mumbai consigned to Vijay of Delhi, goods to be sold at invoice price which represents 125% of cost. Vijay is entitled to a commission of 10% on sales at invoice price and 25% of any excess realized over invoice price. The expenses on freight and insurance incurred by Ajay were Rs.10,000. The account sales received by Ajay shows that Vijay has effected sales amounting to Rs.1,00,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were Rs. 8,000. 10% of consignment goods of the value of Rs.12,500 were destroyed in fire at the Delhi godown and the insurance company paid Rs.12,000 net of salvage. Vijay remitted the balance in favor of Ajay. Prepare consignment account and the account of Vijay in the books of Ajay along with the necessary calculations.

**Problem No 07:**

X of Delhi purchased 10,000 metres of cloth for Rs.2,00,000 of which 5,000 metres were sent on consignment to Y of Agra at the selling price of Rs. 30 per metre. X paid Rs. 5,000 for freight and Rs. 500 for packing etc. Y sold 4,000 metre at Rs. 40 per metre and incurred Rs. 2,000 for selling expenses. Y is entitled to a commission of 5% on total sales proceeds plus a further 20% on any surplus price realised over Rs. 30 per metre. 3,000 metres were sold at Delhi at Rs. 30 per metre less Rs. 3,000 for expenses and

commission. Owing to fall in market price, the inventories of cloth in hand is to be reduced by 10%.

Prepare the Consignment Account and Trading and Profit & Loss Account in books of X.

**Problem No 08:**

D of Delhi appointed A of Agra as its selling agent on the following terms:

Goods to be sold at invoice price or over. A to be entitled to a commission of 7.5% on the invoice price and 20% of any surplus price realized over invoice price. The principals to draw on the agent a 30 days bill for 80% of the invoice price. On 1st February, 2016, 1,000 cycles were consigned to A, each cycle costing Rs. 640 including freight and invoiced at Rs. 800. Before 31st March, 2016, (when the principal's books are closed) A met his acceptance on the due date; sold off 820 cycles at an average price of Rs. 930 per cycle, the sale expenses being Rs. 12,500; and remitted the amount due by means of Bank draft. Twenty of the unsold cycles were shop-spoiled and were to be valued at a depreciation of 50% of cost. Show by means of ledger accounts how these transactions would be recorded in the books of A and find out the value of closing inventory with A to be recorded in the books of D at cost.

**Problem No 09:**

Mr. Y consigned 800 packets of toothpaste, each packet containing 100 toothpastes. Cost price of each packet was Rs. 900. Mr. Y Spent Rs. 100 per packet as cartage, freight, insurance and forwarding charges. One packet was lost on the way and Mr. Y lodged claim with the insurance company and could get Rs. 570 as claim on average basis. Consignee took delivery of the rest of the packets and spent Rs. 39,950 as other non-recurring expenses and Rs. 22,500 as recurring expenses. He sold 740 packets at the rate of Rs. 12 per toothpaste. He was entitled to 2% commission on sales plus 1% del-credere commission. You are required to prepare Consignment Account. Calculate the cost of inventories at the end, abnormal loss and profit or loss on Consignment.

**Problem No 10: (Icmai study material )**

Agarwal of Agra sent on consignment goods valued ₹ 1,00,000 to Biyani of Bhagalpur on March 1, 2021. He incurred an expenditure of ₹ 12,000 on Freight and Insurance. Biyani was entitled to a commission of 5% on gross sales plus a del-credere commission of 3%. Biyani took delivery of the consignment by incurring expenses of ₹ 3,000 for goods consigned. On Dec. 31, 2021, Biyani informed on phone that he had sold all the goods for ₹ 1,50,000 by incurring selling expenses of ₹ 2,000. He further informed that only ₹ 1,48,000 had been realised and rest was considered irrecoverable, and would be sending the cheque in a day or so for the amount due along with the accounts sale. The consignor closes his books on Dec. 31 each year. On Jan. 5, 2022; Agarwal received the cheque for the amount due from Biyani and incurred bank charges of ₹ 260 for collecting the cheque. The amount was credited by the bank on Jan. 9, 2022. Prepare the Consignment A/c finding out the profit/loss on the consignment, Biyani A/c, Provision for Expenses A/c and Bank A/c in the books of the consignor, recording the transactions upto the receipt and collection of the cheque

**Problem No 11: (Icmai study material )**

M/s Singha Traders of Surat consigned 5,000 litres of edible oil costing ₹ 32 each to M Ltd. of Mumbai on 1.2.2022. S Ltd. paid ₹ 5,000 as freight and insurance charges. During transit 200 litres were destroyed for which the insurance company agreed to pay ₹ 5,000 in full settlement. M Ltd. paid clearing charges ₹ 6,100; godown rent ₹ 300 and Salesman's salary ₹ 900. It was entitled to 6% ordinary commission and 4% del credere commission on sales. On 30.6.2022, M Ltd. reported that 4,000 litres were sold at ₹ 1,65,000 and 100 litres were lost due to evaporation. A customer who bought liquor for ₹ 1,500 could pay only 40% of his amount. M Ltd. paid its balance due by a cheque.

Show the Consignment Account in the books of M/s Singha Traders

**Problem No 12: (Important Question)**

On 1 January 2004, goods cost price of which was Rs. 66,000 were consigned by Dhoni of Delhi to Agent Virat of Dadri at a Performa invoice price of 20% above cost. Virat paid freight and other forwarding charges amounting to Rs. 2,000. He was allowed Rs. 1,000 per month towards establishment cost; 5% commission on gross sales and 3% del credere commission. Virat paid Rs. 500 as rent of godown for 3 months ended 31 March 2004. Three fourth of the goods were sold for Rs. 66,000 half of which were credit sales. Half of the balance of the goods was stolen, but the stock being insured, a claim lodged for Rs. 7,000 was settled for Rs. 6,900. Write up the consignment account, consignee's account and stock lost on consignment account as on 31 March 2004 in the books of Dhoni.

**Problem No 13: (Icmai study material )**

B consigned 100 calculators to A. Cost of each calculator was ₹ 190. B incurred expenses of ₹ 500 on despatch of such goods. A informed B that he had sold 68 calculators @ ₹ 280 each and 11 calculators @ ₹ 270 each and had spent ₹ 1,520 on behalf of the consignor. One damaged calculator was sold for ₹ 50 according to the instructions of consignor. A was entitled to a commission of 6% on gross sales and it includes del-credere commission. A could recover only ₹ 250 from a customer to whom one calculator had been sold on credit basis for ₹ 280. All other sales were made on cash basis. Show the ledger accounts in the books of both the parties. Calculations may be made to the nearest rupee and assume that the expenses of consignee are recurring in nature.

**Problem No 14: (Icmai study material )**

RG Cellular of Kolkata consigned 100 mobile handsets to Techno Traders of Durgapur. The cost of each handset was ₹ 25,000. The consignor paid insurance ₹ 15,000, freight ₹ 8,000. An account sale was received from Pluto, showing gross sale proceeds of 80 units at ₹ 30,000 each. The expenses paid and deducted by him were: Carriage ₹ 2,000;

Establishment expenses ₹ 10,300; Insurance ₹ 24,000; Commission ₹ 85,000. The handsets lying unsold with Pluto were valued at ₹ 5,05,000 Pass the journal entries in the books of Techno Traders given that maintains Consignment Inward A/c.

**Problem No 15: (Icmai study material )**

The Account Sales received from an agent disclosed that the total sales effected by him during 2022-23 amounted to ₹ 4,50,000. This included ₹ 3,12,500 for sales made at invoice price which is cost plus 25% and the balance at 10% above the invoice price. He incurred expenses to the tune of ₹ 5,000 out of which a sum of ₹ 1,800 is recurring in nature. Forwarding expenses of the Consignor totalled ₹ 2,400. The Agent had remitted the balance due from him through Bank Draft after deducting the expenses. 5% commission on gross sales, bad debts ₹ 850 and a Bills payable accepted by him for ₹ 10,000. The value of unsold stock at original cost lying with the Agent as on 31st March, 2023 amounted to ₹ 50,000. You are required to prepare the Consignment Account and the Consignee's Account in the Books of the Consignor

**Problem No 16: (Icmai study material )**

Veemal of Delhi sends a consignment of wall clocks to Anand of Kolkata and charges proforma invoice price so as to show a profit of 25% on cost. The agent received commission @ 5% on all sales plus 3% del credere commission on credit sales made by him. Stock of goods with the agent at the beginning of the year: 40 clocks at proforma invoice price ₹ 25,000. During the year ended 31st December 2023, Veemal had the following transactions with Anand:

- (a) Proforma invoice price of 200 Clocks consigned to Anand: ₹ 1,25,000
- (b) Railway charges and insurance on the consignment paid by Veemal: ₹ 3,500
- (c) Advance received from Anand : ₹ 37,500
- (d) Sales made by Anand;
  - (i) 80 clocks for cash : ₹ 53,750



(ii) 100 clocks on credit: ₹ 70,000

(e) Selling expenses made by agent: ₹ 6,250 and discount allowed by him ₹ 2,500.

(f) 30 clocks were damaged by the railway for which Anand recovered ₹ 6,750. The damaged clocks were sold on cash by Anand at ₹ 5,750.

(g) Out of the clock sold on credit, ₹ 5,000 was irrecoverable and considered bad by the agent.

(h) The agent remitted the balance due by him by a bank draft.

Show necessary Ledger Accounts in the books of Veemal.

### **\*PAST FROM THE BLAST\***

#### **Problem No 17:**

From the following particulars ascertain the value of unsold stock on Consignment.

Goods sent (1000 kgs.)	₹20,000
Consignor's expenses	₹4,000
Consignees non-recurring expenses	₹3,000
Sold (800 kgs.)	₹40,000
Loss due to natural wastage (100 kgs.)	

#### **SOLUTION:**

Value of Unsold Stocks:

	₹
Total cost of goods sent	20,000
Add: Consignor's expenses	4,000
Add: Non-recurring expenses	3,000
Cost of (1,000 Kgs. 100 Kgs) = 900 Kgs.	27,000

Value of unsold stock (1,000-800-100) = 100 Kgs. will be =  $27,000 \times (100 \text{ Kgs.} / 900 \text{ Kgs.}) = ₹3,000$

#### **Problem No 18:**

M/s Rampur & Co. of Hyderabad consigned 2,400 cases of glassware costing ₹70 each for sale on consignment basis to R Co. of Chennai for sale on commission basis subject to the (a) normal selling price per case ₹70, (b) consignee's commission to be calculated at 5% on normal selling price and 1% additional commission if selling price is more than

normal price and one- fourth per cent del credere commission on total sale to guarantee collection on account of credit sales. The R Co. reported the following sales as: Cash sales of 600, 500, 600 and 700 cases sold at ₹70, ₹80 each, ₹75 each and ₹80 each.

Ascertain total commission due to the consignee

**SOLUTION:**

Particulars	600 cases	500 cases	600 cases	700 cases
Selling price/case	70	80	75	80
Total Sales	42,000	40,000	45,000	56,000
Normal Commission @ 5%	2,100	2,000	2,250	2,800
Additional commission @ 1% (If selling price more than 70)	-	400	450	560
Del Credere commission @ 1/4%	105	100	112.5	140
<b>Total Commission</b>	<b>2,205</b>	<b>2,500</b>	<b>2,812.5</b>	<b>3,500</b>

Total commission due to Consignee = ₹11,017.50.

**Problem No 19:**

Irani & Co., of Chennai had consigned 6000 shirts to Vikram of Jaipur at cost of ₹425 each. Irani & Co., paid freight ₹50,000 and insurance ₹7,500. During the transit 550 shirts were totally damaged by fire. Vikram took delivery of the remaining shirts and paid ₹82,000 on custom duty. Vikram had sent a bank draft to Irani & Co., for ₹3,50,000 as advance payment. 5000 shirts were sold by him at ₹ 550 each. Expenses incurred by Vikram on godown rent and advertisement, etc., amounted to ₹12,000. He is entitled to a commission of 5%. One of the customer to whom the goods were sold on credit could not pay the value of 40 shirts which is not recoverable. Vikram settled his account immediately. Nothing was recovered from the insurer for the damaged goods.

You are required to prepare:

- (i) Consignment to Vikram Account.
- (ii) Vikram Account in the book of Irani & Co.

**SOLUTION:**

**In the Books of Irani & Co.**

**Consignment Account**

Particulars	₹	Particulars	₹
To Goods Sent on Consignment A/c	25,50,000	By Vikram's A/c (Sales)	27,50,000
To Bank A/c	57,500	By Abnormal Loss	2,39,021
		By Stock on Consignment A/c	2,02,334
To Vikram A/c (Exp)	94,000		
To Vikram A/c (Commission) [27,50,000 x 5%]	1,37,500		
To Vikram (Bad Debts)	22,000		
To General P&L A/c	3,30,355		
	<b>31,91,355</b>		<b>31,91,355</b>

**Vikram Account**

Particulars	₹	Particulars	₹
To Consignment A/c	27,50,000	By Bank Draft A/c	3,50,000
		By Consignment A/c	94,000
		By Consignment A/c	1,37,500
		By Consignment A/c	22,000
		By Bank A/c (Balance)	21,46,500
	<b>27,50,000</b>		<b>27,50,000</b>

**Working note:**

1. Abnormal loss:  $[(425 \times 6,000) + (57,500)] \times 550/6000 = ₹2,39,021$

**2. Valuation of Unsold Stock:**

Cost Value (450x425)	₹1,91,250
Freight & insurance (57,500/6,000 x 450)	₹4,313
Customs (82,000/5450 x 450)	₹6,771
	<b>₹2,02,334</b>

## CH 3. JOINT VENTURE ACCOUNTING

### ➤ Meaning of Joint Venture:

- Joint Venture means Two or more persons agree to undertake a particular venture and to share the profits and losses thereof in an agreed ratio.
- E. g: Joint Consignment of goods, Joint Construction of a building, joint underwriting of a particular issue of shares or debentures etc.
- Each person individually is known as Co-venturer or Joint venture and all collectively known as Joint Venture.

### ➤ Features of a Joint Venture:

- The following are the basic features of a joint venture Business.
  - i. **Specific Purpose:** It is done for a specific purpose and hence has a limited duration
  - ii. **Co-venturers:** The partners are called co-venturers.
  - iii. **Profit or loss sharing:** The profit or loss on joint venture is shared between the coventurers in the agreed ratio.
  - iv. **Capital Contribution:** The co-venturers may or may not contribute initial capital
  - v. **Dissolution of JV:** The JV is dissolved once the purpose of the business is over
  - vi. **Settlement:** The accounts of the co-venturers are settled immediately on dissolution of joint venture
  - vii. **No Name required:** A joint venture has no name.

### ➤ Difference between Joint Venture and Partnership:

Base	Partnership	Joint Venture
Name	It is always carried on with firm's name.	It is not carried on with the firm name.
Name of parties	The persons who run the business on partnership are called as partners	The persons who agreed to take the project as joint venture are called as co-venturers.
Duration	A partnership is constituted for a long period	joint venture is formed to complete a specific job/project- Short duration.

<b>Governing Statue</b>	Partnership is governed under the Partnership Act, 1932	There is no specific law for the joint ventures. However, as a matter of fact in law, a joint venture is treated as a partnership.
<b>Ceiling on number of members</b>	The number of partners is limited to 10 in case of banking business and 20 in case of other trade or Business	There is no limit specified for the numbers of co-venturers.
<b>Nature of liability</b>	Liability of a partner is unlimited and may extent to his business and personal estate.	Liabilities of co-venturers are limited to the particular assignment or project agreed upon

➤ **Difference between Joint Venture and Consignment:**

Base	Joint Venture	Consignment
<b>Relationship</b>	Relationship between co-venturers of a Joint venture are he owners of a Joint venture.	Relationship of a consignor and consignee is of owner and agent.
<b>Sharing of Profits.</b>	The co-venturers of a joint venture share profits as per the agreed profit-sharing ratio	Consignee gets commission from consignor. There is no distribution of profit between a consignor and Consignee.
<b>Ownership of Goods</b>	Every co-venturer of a joint venture is the co-owner of the goods/project	Ownership of the goods remains with the consignor. Consignor transfers only possession to the consignee.
<b>Contribution of Funds</b>	Funds are contributed by all co-ventures in a certain agreed proportion.	Investment is done by the consignor only
<b>Continuity of Business</b>	There is no continuity of the business once project is Completed.	Consignment is a continuous process, f terms and conditions goes good between consignor and consignee.

### ➤ ACCOUNTING FOR JOINT VENTURE TRANSACTIONS:

There are three methods of recording the joint venture transactions are as under:

- A) Where Separate set of Books of Accounts are Maintained.
- B) Where no Separate Books of Accounts are Maintained.
- C) Memorandum Joint Venture.

#### A. WHEN SEPARATE BOOKS ARE MAINTAINED:

The following accounts are opened in a separate set of books:

- a) **Joint Venture Account:** It is a nominal account in nature. It is used to calculate the profit / loss on joint venture.
- b) **Co-Venturers Accounts:** These are Personal accounts in nature. It is used to record their dealings with the joint business and to ascertain the amount due to them or due from them.
- c) **Joint Bank Account:** It is personal Account in nature. It is used to record Cash and Bank Transactions.
  - Each of the Co-venturer opens 'Joint Venture Investment Account' in his individual books of accounts.
  - The various journal entries which may be required to be passed are summarized as under

Particulars	Dr	Cr
<b>Contribution made by Co-venturers</b>		
Joint Bank A/c Dr	xxx	
To Co-Venturers A/c		xxx
<b>Goods sent by Co-venturer out of his own stock</b>		
Joint Venture A/c Dr	xxx	
To Co-Venturers A/c		xxx
<b>Expenses paid by Co-venturers</b>		
Joint Venture A/c Dr	xxx	

<b>To Co-Venturers A/c</b>		xxx
<b>Materials purchased out of joint venture funds</b>		
Joint Venture A/c	xxx	
To Joint Bank A/c		xxx
<b>For expenses out of joint Bank A/c</b>		
Joint Venture A/c Dr	xxx	
To Joint Venture A/c		xxx
<b>Contract price / Sale Price received in form of shares / Cash</b>		
Joint Bank A/c Dr	xxx	
Shares A/c Dr	xxx	
To Joint Venture		xxx
<b>Commission / Salary to Co-Venturers</b>		
Joint Venture A/c Dr	xxx	
To Co-Venture A/c		xxx
<b>Unsold goods taken over by co-venturers</b>		
Co-Venturers A/c Dr	xxx	
To Joint Venture A/c		xxx
<b>Shares taken over by co-venturers</b>		
Co-Venturers A/c Dr	xxx	
To Shares A/c		xxx
<b>If shares are sold in open Market</b>		
Joint Bank A/c Dr	xxx	
To Shares A/c		xxx
<b>For profit on Joint Venture</b>		
Joint Venture A/c	xxx	
To Co-Venture A/c		xxx
<b>For loss on Joint Venture</b>		
Co-Venturers A/c Dr	xxx	
To Joint Venture A/c		xxx
<b>Final distribution of funds</b>		
Co-Venturers A/c Dr	xxx	
To Joint Bank A/c		xxx

**B. WHEN NO SEPARATE ACCOUNTS ARE MAINTAINED**

- The Co-Venturers may decide not to keep separate books of account for the venture if it is for a very short period of time.
- All co-venturers will have account for the transactions in their own books.
- Each Co-Venturer will prepare a joint venture A/c and the other Co-venturer's A/c in his books.
- Naturally the profit or loss is separately calculated by each co-venturer. Each co-venturers will consider all transactions i.e. done by himself and by his co-venturer as well.

**Accounting Entries are:**

In Books of Co-venturer A	In books of Co-venturer B
<b>When goods are supplied and expenses paid by A</b>	
Joint Venture A/c Dr To Goods A/c To Cash/ Bank A/c	Joint Venture A/c Dr To A's A/c
<b>When goods are supplied by B and expense are paid by B:</b>	
B's A/c Dr To Cash/ Bank A/c To Bills Payable A/c	A's A/c Dr To Joint Venture A/c
<b>When Sale Proceeds are received by B</b>	
B's A/c Dr To Joint Venture A/c	Cash/Bank A/c Dr To Joint Venture A/c
<b>For unsold goods taken over by A</b>	
Goods A/c Dr To Joint Venture A/c	A's A/c Dr To Joint Venture A/c
<b>For unsold goods taken over by B</b>	
B's A/c Dr To Joint Venture A/c	Goods A/c Dr To Joint Venture A/c
<b>For profit on joint venture business</b>	
Joint Venture A/c Dr To B's A/c	Joint Venture A/c Dr To A's A/c



To P&L A/c		To P&L A/c	
For loss in Joint venture business			
B's A/c	Dr	A's A/c	Dr
P&LA/c	Dr	P &LA/c	Dr
To Joint Venture A/c		To Joint Venture A/c	

**C. MEMORANDUM JOINT VENTURE ACCOUNT:**

- i. Each Co-Venturer records only those joint venture transactions which are affected by him with the help of a personal account designed as Joint Venture with .... other Co Venturer... Account.
- ii. Each Co-Venturer sends a periodic statement of joint venture transactions effected by him only, to the other Co-Venturers.
- iii. Each Co-Venturer on the receipt of the aforesaid statement prepares Memorandum Joint Venture Account in order to ascertain the profit / loss on joint venture transactions.
- iv. Each Co-Venturer makes journal entry for his share of profit or loss in his books of account.
- v. Each Co-venturer settles the balances of Joint Venture with.... Account either by paying or receiving cash.

**Journal Entries:**

**1. On receipt of any amount / Bills Receivable from other Co-Venturer**

Cash/ Bank A/c / Bills Receivable A/c	Dr	xxx	
To Joint Venture with Co-venturers A/c			xxx

## 2. On Discounting Bills Receivable

Bank A/c	Dr xxx	
Joint Venture with Co-venturers A/c	Dr xxx	
To Bills Receivable A/c		xxx

### 3. On purchase of Goods

Joint Venture with Co-venturers A/c Dr xxx  
To Cash/Bank A/c xxx

To Suppliers A/c

xxx

**4. On making payment to Supplier**

Suppliers A/c                      Dr xxx

To Cash/Bank A/c                      xxx

To Joint Venture with Co-venturers A/c                      xxx

**5. On supply of Goods out of own stock**

Joint Venture with Co-venturers A/c                      Dr xxx

To Purchases A/c                      xxx

To Goods Sent to JV A/c                      xxx

**6. On sale of goods:**

Cash/Bank A/c / JV Debtors                      Dr xxx

To Joint Venture with Co-venturers A/c                      xxx

**7. On payment of expenses:**

Joint Venture with Co-venturers A/c                      Dr xxx

To Cash /Bank A/c                      xxx

**8. On Receiving payment from a customer:**

Cash/Bank A/c                      Dr xxx

Joint Venture with Co-venturers A/c (Discount)                      Dr xxx

To JV Debtors A/c                      xxx

**9. On taking away of unsold goods:**

Goods sent on Joint Venture A/c                      Dr xxx

To Joint Venture with Co-venturers A/c                      xxx

**10. When the Co-venturer is entitled to some commission /Salary:**

Joint Venture with Co-venturers A/c                      Dr xxx

To Commission A/c / Salary A/c                      xxx

**11. On Recording the share of Profit / Loss:****In case of Profit:**

Joint Venture with Co-venturers A/c	Dr xxx	
To Profit and Loss A/c		xxx

**In case of Loss:**

Profit and Loss A/c	Dr xxx	
To Joint Venture with Co-venturers A/C		xxx

**12. On settlement of Balance of joint Venture with Co-venturers A/c:****a. In case of a debit balance:**

Cash/ Bank A/c	Dr xxx	
To Joint Venture with Co-venturers A/c		xxx

**b. In case of a credit Balance**

Joint Venture with Co-venturers A/c	Dr xxx	
To Cash/ Bank A/c		xxx

**➤ Conversion of Consignment into Joint Venture:**

- An ongoing consignment arrangement may get converted into a joint venture arrangement.

**Accounting Implications:**

Normal accounting for consignment business is done till the conversion.

From the date of conversion,

The balance stock on consignment is transferred to the Joint Venture A/c and

That day onwards, accounting is done on the basis of principles followed for joint venture.

- Joint Venture continues for more than one accounting period:

Closing stock should be valued at cost including share in non-recurring expenses.

Closing stock should be disclosed in the credit side of joint venture account for the current period.

The same thing should be disclosed in the debt side of joint venture account for next period.

### PRACTICAL PROBLEMS

#### Problem No 01: (Basic problem)

A and B enter into a joint venture sharing profits and losses in the ratio 3:2. A purchased goods costing ₹ 200000. B sold 95% of goods for ₹ 2,50,000. A is entitled to get 1 % commission on purchase and B is entitled to get 5 % commission on sales. A drew a bill on B for an amount equivalent to 80% of original cost of goods. A got it discounted at ₹ 1,50,000. Calculate B's share of profit.

#### Problem No 02: (Basic problem)

B and C enter a joint venture to prepare a film for the Government. The Government agrees to pay 1,00,000. B contributes Rs. 10,000 and C contributes Rs. 15,000. These amounts are paid Account. into a Joint Bank Payments made out of the joint bank account were:

	Rs.
Purchase of equipment	6,000
Hire of equipment	5,000
Wages	45,000
Materials	10,000
Office expenses	5,000

B paid Rs. 2,000 as licensing fees. On completion, the film was found defective and Government made a deduction of Rs. 10,000. The equipment was taken over by C at a valuation of Rs. 2,000. Separate books were maintained for the joint venture whose profits were divided in the ratio of B-2/5 and C- 3/5. Give ledger accounts.

#### Problem No 03:

Rajiv and Sanjiv enter into a joint venture as dealers in land and opened a Joint Bank Account with Rs. 75,000 towards which Rajeev contributed Rs. 50,000. They agree to

share profits and losses in proportion to their cash contribution. They purchased a plot of land measuring 5,000 square yards for Rs. 50,000. It was decided to sell the land in smaller plots and a plan was got prepared at a cost of Rs. 5,700. In the said plan  $\frac{1}{5}$ th of the total area of the land was left over for public roads and the remaining land was divided into 8 plots of equal size. Out of 8 plots, 3 plots were sold @ Rs. 15 per square yard and the remaining 5 plots were sold @ Rs. 20 per square yard. Expenses incurred in connection with the plots were: Registration Expenses Rs. 6,000, Stamp Duty Rs. 600 and Other Expenses Rs. 2,500. Allow 5% on the sale proceeds as a commission to Rajiv.

**Required:**

Journalize the above transactions and prepare the necessary ledger accounts

**Problem No 04:**

A and B enter into a joint venture to sell a consignment of timber sharing profits and losses equally. A provides timber from stock at mutually agreed value of Rs. 5,000. He pays expenses amounting to Rs. 250. B incurs further expenses on cartage, storage, and coolie charges of Rs. 650 and receives cash on sales Rs. 3,000. He also takes over goods to the value of Rs. 1,000 for his use in his own business. At the close, A takes over the balance stock in hand which is valued at Rs. 1,100.

Prepare joint venture account and Co-venturer's account in the books of A.

**Problem No 05: (Icmai study material )**

Sagar and Pakhi entered into Joint Venture and undertook building construction of P & Co. Ltd., Mumbai for ₹ 5,00,000. The following information are available for the undertaking business:

- Sagar supplied materials of ₹ 35,000 and Pakhi paid ₹ 20,000 his architect fees.
- Sagar contributed ₹ 1,25,000 and Pakhi contributed ₹ 75,000 and deposited the same amount in the Joint Bank Account.
- They paid from Joint Bank Account for materials ₹ 2,80,000 and wages ₹ 1,20,000.
- On completion of the venture they received contract price as per the terms.

- Pakhi took over the unused materials for ₹ 15,000.
- Profit/Loss on Joint Venture will be shared by Sagar and Pakhi equally

**Problem No 06: (Icmai study material )**

X and Y entered into a joint venture for purchase and sale of some household items. They agreed to share profits and losses in the ratio of their respective contributions. X contributed ₹ 10,000 in cash and Y ₹ 13,000. The whole amount was placed in a Joint Bank A/c. Goods were purchased by X for ₹ 10,000 and expenses paid by Y amounted to ₹ 2,000. They also purchased good for ₹ 15,000 through the Joint Bank A/c. The expenses on purchase and sale of the articles amounted to ₹ 6,000 (those made by Y). Goods costing ₹ 20,000 were sold for ₹ 45,000 and the balance were lost by fire. Prepare Joint Venture A/c, Joint Bank A/c and Joint Venturers A/c closing the venture.

**Problem No 07: (Icmai study material )**

Anil and Mukesh enter into a venture to take a job for ₹ 2,40,000. They provide the following information regarding the expenditure incurred by them:

	Anil (₹ )	Mukesh (₹ )
Materials	68,000	50,000
Cement	13,000	17,000
Wages	-	27,000
Architects fees	10,000	-
License fees	-	5,000
Plant	-	20,000

Plant was valued at ₹ 10,000 at the end of the contract and Mukesh agreed to take it at that value. Contract amount was received by Anil.

You are required to prepare:

- Joint Venture Account and Mukesh Account in the books of Anil

**Problem No 08:**

Jiban and Mitrik decided to work in joint venture with the following scheme, agreeing to share profits in the ratio of 2/3 and 1/3. They guaranteed the subscription at par of 50 lakhs shares of ₹ 10 each in Rainbow Ltd. and to pay all expenses up to allotment in consideration of Rainbow Ltd. issuing to them 3 lakhs other shares of ₹ 10 each fully paid together with a commission @ 5% in cash which will be taken by Jiban and Mitrik in 3:2. Co-ventures introduced cash as follows:

Jiban	Stamp charges etc.	1,65,000
	Advertising charges	1,35,000
	Car expenses	1,54,000
	Printing Charges	1,88,000
Mitrik	Rent	1,30,000
	Solicitors' charges	80,000

Application fell short of the 50 lakhs shares by 1,20,000 shares and Mitrik introduced ₹ 12 lakhs for the purchase of those shares. The guarantee having been fulfilled, Rainbow Ltd. handed over to the venturers 3 lakhs shares and also paid Commission in cash. All their holdings were subsequently sold by the venturer Mitrik receiving ₹ 12,50,000 and Jiban ₹ 25 lakhs. You are required to prepare: (a) Memorandum Joint Venture A/c (b) Joint Venture A/c with Mitrik in the books of Jiban

**Problem No 09:**

A and B entered into a joint venture agreement to share the profits and losses in the ratio of 2:1. A goods worth Rs. 60,000 to B supplied incurring expenses amounting to Rs. 2,000 for freight and insurance. During transit goods costing Rs. 5,000 became company. B reported that 90% of damaged and a sum of Rs. 3,000 was recovered from the insurance the remaining goods were sold at a profit of 30% of their Towards original cost. the end of the venture, a fire occurred and as a result the balance Inventories damaged. The goods were not lying unsold with B was insured and B agreed to

compensate A by paying in cash 80% of the aggregate of the original cost of such goods plus proportionate expenses incurred by A. Apart from the share of profit of the joint venture, B was also entitled under the agreement to a commission of 5% of net profits of joint venture after charging such commission. Selling expenses incurred by B totaled Rs. 1,000. B had earlier remitted an advance of Rs. 10,000. B

You are duly paid the balance due to A by Bank Draft. required to prepare

- (i) Joint Venture Account and
- (ii) B's Account. in A's books.

**Problem No 10:**

Ram and Gautham entered into a joint venture to buy and sell TV sets, on 1st July, 2016. On 1.7.2016, Ram Sent a draft for Rs. 2,50,000 in favor of Gautham, and on 4.7.2016, the latter purchased 200 Sets each at a cost of RS. 2,000 each. The sets were sent to Ram by lorry under freight "to pay" for Rs. 2,000 and were cleared by Ram on 15.7.2016.

**Ram effected sales in the following manner:**

Date	No. of sets	Sale price per set	Discount on sales price
16.7.2016	20	3,000	10%
31.7.2016	100	2,800	-
15.8.2016	80	2,700	5%

On 25.8.2016, Ram settled the account by sending a draft in favor of Gautham, profits being shared equally. Gautham does not maintain any books. Show in Ram's book:

- (i) Joint Venture with Gautham A/c; and
- (ii) Memorandum Joint Venture A/c.

**Problem No 11: (Icmai study material )**

Sahani and Sahu entered into a joint venture to sell 800 bags of food grains. The business risks are to be shared in the ratio of 3:2 between them. Sahani supplied 400





bags at ₹ 800 per bag and paid freight ₹ 8,000 and insurance ₹ 2,000. Sahu sent 400 bags at ₹ 1,000 per bag. He paid ₹ 2,500 as freight, Insurance ₹ 8,000 and sundry expenses as ₹ 500. Sahani paid ₹ 50,000 as advance to Sahu. They appointed Sandeep as agent for sale of grains. Sandeep sold all bags at ₹ 1,200 per bag. He deducted ₹ 21,000 as his expenses and commission of 5% on sales. He remitted ₹ 6,00,000 by cheque to Sahani and the balance to Sahu by way of a bill of exchange. The co-venturers settled their accounts. Prepare Joint Venture A/c, Sahu's A/c and Sandeep's A/c in the books of Mr. Sahani

**Problem No 12:**

Hari and Om agreed for purchasing and selling furniture in a joint venture, their profit sharing ratio being 3:2 respectively. Hari purchased 10 sofas at ₹ 10,000 per sofa. He sent those sofas to Om for sale after spending ₹ 1,000 per sofa on insurance and transportation. He drew a bill of ₹ 50,000 on Om and this bill was discounted at a discount of ₹ 5,000 after acceptance. Om incurred further expenses of ₹ 2,000 on these sofas before sale. He sold all the sofas @ ₹ 15,000 per sofa, giving 5% commission to the dealer. Prepare Joint Venture with Om Account in the books of Hari. Also show the Memorandum Joint Venture Account.

**\*PAST FROM THE BLAST\***

**Problem No 13:**

Thitan of Tata Nagar and Nitán of Nagpur entered into a Joint Venture to trade together in the buying and reselling of cheap machinery. Profit or loss to be shared in the ratio of 2:3. Thitan undertook to make the purchases and Nitán to effect sales.

Nitán remitted ₹1,50,000 to Thitan towards the Joint Venture. Thitan Purchased machinery worth ₹1,20,000 and paid ₹57,000, for repairs of these, 2.5% as buying commission and ₹5,400 for other Sundry expenses. He then sent all the machines purchased and repaired to Nitán of Nagpur.

While taking delivery of the machinery at Nagpur, Nitán incurred ₹9,000 towards Railway Freight and ₹4,200 towards Octroi. He sold part of the machinery for ₹2,10,000

and kept the remaining for himself at an agreed value of ₹45,000. Other expenses of Nitán were:

Godown rent	₹2,700
Insurance	₹3,360
Brokerage	₹4,980
Miscellaneous	₹3,840

Both the parties decided to close the venture at this stage.

You are required to prepare the

- (i) Memorandum Joint Venture Account showing profit of the Business.
- (ii) Joint Venture with Nitán Account in the Books of Thitan.

### SOLUTION:

#### Memorandum Joint Venture Account

Particulars	₹	Particulars	₹
To Thitan		By Nitán	
Purchase of machinery	1,20,000	Sales	2,10,000
Expenses:		Machinery retained	45,000
Cost of repairs	57,000		
Buying commission (2.5% of ₹1,20,000)	3,000		
Sundry Expenses	5,400		
To Nitán			
Expenses:			
Railway Freight	9,000		
Octroi	4,200		
Godown rent	2,700		
Insurance	3,360		
Brokerage	4,980		
Miscellaneous	3,840		
To Net profit			
Thitan (2/5)	16,608		
Nitán (3/5)	24,912		



2,55,000

2,55,000

In the books of Thitan

Joint Venture with Niton Account

Particulars	₹	Particulars	₹
To Bank Account		By Bank Account	
Purchase of machinery	1,20,000	(amount received from Niton)	1,50,000
Repairs	57,000	By Balance c/d	52,008
Commission	3,000		
Sundry Expenses	5,400		
To Profit & Loss A/c			
(2/5* Share of Profit on Joint Venture)	16,608		
	2,02,008		2,02,008

## CH 4. PREPARATION OF FINANCIAL ACCOUNTS FOR COMMERCIAL ORGANIZATIONS

### ➤ INTRODUCTION:

- Preparation of final Accounts is the final destination of the accounting process and it should be understandable by the users who have reasonable knowledge of business.
- Objective of financial statements: To provide information to the users about the financial strength, performance and changes in financial position of the enterprise, therefore it facilitates in decision making.
- The financial statements of a non-corporate commercial organization broadly includes the following:
  - i. Income Statement:
    - Proprietary Organization - Trading A/c, Profit and Loss A/c
    - Partnership Organization - Trading A/c, Profit and Loss A/c and Profit and loss appropriation A/c.
  - ii. Balance Sheet and
  - iii. Cash Flow Statement.
- Trading Account:
  - In general, it is prepared by a Trading Concern which purchases goods and sells the same during a particular Accounting Period.
  - It discloses the Gross Profit or Loss made by the entity during a particular period.

**Trading A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	xxx	By Sales Less returns inwards	xxx
To Purchases Less Returns	xxx	By Closing Stock	xxx
To Direct Expenses	xxx	By Gross Loss (bf)	xxx
Freight and Carriage	xxx		
Customs and Insurance	xxx		
Wages	xxx		
Gas, water and fuel	xxx		
Factory expenses	xxx		
Royalty on production	xxx		
To Gross Profit (bf)	xxx		
	xxx		xxx

• **Closing Journal Entries**

Date	Particulars	Debit (₹)	Credit (₹)
End of Year	Trading A/c Dr To Opening Stock A/c To Purchases A/c To Wages A/c To Other Direct Expenses A/c (Being transfer of opening stock and other direct expenses to the debit of Trading A/c)	Xxx	Xxx Xxx Xxx xxx
	Sales A/c Dr To Sales Returns A/c To Trading A/c (Being Sales transferred to Trading A/c)	xxx	Xxx xxx
	Closing Stock A/c To Trading A/c Being closing stock is transferred to Trading A/c)	xxx	Xxx
	Trading A/c	xxx	

	To Profit and Loss A/c (Being gross profit is transferred to P&L A/C)		xxx
	Profit and Loss A/c                      Dr To Trading A/c (Being gross loss is transferred to P&L A/c)	xxx	Xxx xxx

➤ **Profit and Loss Account:**

- It discloses the Net profit or Loss made by an entity during a particular Accounting period business Activities.

**Profit and Loss A/c**

Particulars	Amount	Particulars	Amount
To Gross Losses b/d	xxx	By Gross Profit b/d	xxx
<b>To Management Expenses:</b>		<b>By Other Income:</b>	
Salaries-Admin		Discount Received	Xxx
Office rent, rates and taxes		Commission Received	Xxx
Printing and stationary		<b>By Non-Operating Income:</b>	
Telephone charges		Bank Interest	Xxx
Postage and telegrams		Rental Income	Xxx
Insurance		Dividend Insurance	Xxx
Audit fees	xxx	<b>By Abnormal Gains:</b>	
Legal charges		Profit from sale of property	Xxx
Electricity charges		Profit from sale of investment	xxx
<b>To Maintenance Expenses:</b>	xxx	<b>By Net Loss (b/f)</b>	xxx
Repairs and renewals			
Depreciation of office PPE			
<b>To Selling and Distribution Expense:</b>			
Salaries			
Advertisement			

Godown Rent			
Carriage outward			
Bad debts			
Provision for bad debts			
Selling commission	xxx		
<b>To Financial Expenses:</b>			
Bank Charges			
Interest on Loans			
Discount on bills			
Discount allowed to customers	xxx		
<b>To Abnormal Losses:</b>			
Loss on sales of Machinery			
Loss on sale of investment	xxx		
Loss by fire			
<b>To Net Profit (b/f)</b>	xxx		xxx

**Closing journal Entries**

Date	Particulars	Debit (₹)	Credit (₹)
End of the year	Profit and Loss A/c	xxx	
	To Management Expenses A/c		Xxx
	To Maintenance Expenses A/c		Xxxx
	To Selling and distribution Expenses A/c		Xxx
	To Financial Expenses A/c		Xxx
	To Abnormal Losses A/c		xxx
	(Being various indirect expenses is transferred to profit and loss account)		
	Discount Received A/c	Xxx	
	Commission Received A/c	Xxx	
	Interest/Rent/ Dividend A/c	xxx	

Abnormal Gains A/c To Profit and Loss A/c (Being various indirect incomes is transferred to the credit side of profit and loss account)		xxx
Profit and Loss A/c To Capital A/c (Being net profit is transferred to capital A/c)	xxx	xxx

➤ **Profit and Loss Appropriation Account:**

- It is required to be prepared by the partnership firms which means it is not applicable for sole-proprietary business.
- it shows the appropriation of net profit among the partners, dividend distribution and transfers to reserves.
- After appropriations balance profit will form part of owners equity and carried to the balance sheet.
- Proforma profit and loss appropriation account is provided below:

**Profit and Loss Appropriation A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Interest on partners' capital	xxx	By Net Profit	xxx
To Remuneration to partners	xxx	By Interest on Partners drawings	xxx
To Proposed dividend	xxx		
To Transfer to Reserves	xxx		
To Surplus (Transfer to Capital)	xxx		
	xxx		xxx



**Balance Sheet:**

- It is a financial statement prepared to show the financial position of an entity on a specified date.
- It may be prepared either in Horizontal format or vertical format
- Shows the Various Equity and Liabilities Position and Various types of assets held by an entity as on a particular date.
- In case of entities other than a company can prepare the balance sheet in Horizontal format (Traditional format) - {Permanence Basis}

Liabilities	Amount ( )	Assets	Amount ( )
Capital	xxx	fixed Assets:	xxx
Reserves and surplus	xxx	Land and Building	xxx
Long term loans	xxx	Plant and Machinery	xxx
Current Liabilities		Vehicles	xxx
Sundry Creditors	xxx	Office equipment's	xxx
Bills Payables	xxx	Current Assets:	xxx
Advances from Customers	xxx	Stocks	xxx
Outstanding expenses	xxx	Sundry Debtors	xxx
Income received in advance	xxx	bills Receivables	xxx
		Cash in hand	xxx
		Cash at Bank	xxx
		Prepaid expenses	xxx
		Advances to suppliers	xxx
		Outstanding income	xxx
	xxx		xxx

**BIRD EYE VIEW OF ALL ADJUSTMENTS****1) Closing Stock:**

a. **If given in trail balance:** Consider as a asset in the balance sheet.

b. **If not given in trail balance:** Consider

- i. Trading A/c - Credit Side
- ii. Balance sheet - Asset Side

**Adjustment JE:** Closing Stock A/c Dr XXX

To Trading A/c                      XXX

**2) Outstanding Expenses:**

a. **If given in trail balance:** Consider as a Liability in the balance sheet

b. **If not given in trail balance:** Consider

- i. Trading and P&L A/c - Add to the corresponding expense in Debit Side
- ii. Balance sheet - record as a liability in Liabilities side of the balance sheet.

**Adjustment JE:** Expenses A/c Dr XXX

To Outstanding Expense A/c XXX

**3) Pre-Paid Expenses:**

a. **If given in trail balance:** Consider as a asset in the assets side of balance sheet.

b. **If not given in trail balance:** Consider

- i. Trading and P&L A/c - Deduct from corresponding expense in Trading and P&L A/c.
- ii. Balance sheet - Record as Asset in the assets side of the balance sheet

**Adjustment JE:** Pre-paid Expense A/c Dr XXX

To Expense A/c                      XXX

**4) Outstanding Income**

a. **If given in trail balance:** Consider as an asset in the assets side of balance sheet.

b. **If not given in trail balance:** Consider

- i. Trading and P&L A/c - Add to corresponding income in the credit side of trading and P&L A/C.
- ii. Balance sheet Record as an asset in the assets side of the balance sheet

**Adjustment JE: Outstanding Income A/c XXX**

To Income A/c                      XXX

**5) Income Received in Advance:**

a. **If given in trail balance:** Consider as a Liability in the liabilities side of balance sheet.

b. **If not given in trail balance:** Consider

i. Trading and P&L A/c - Reduce from the corresponding income in the Credit Side of Trading and P&L A/c.

ii. Balance sheet -

Record as a liability in the liabilities side of the balance sheet.

**Adjustment JE: Income A/c Dr XXX**

To Income received in Advance A/c XXX

**6) Bad Debts:**

a. **If given in trail balance:** Consider as an Expense in the debit side of P&L A/c.

b. **If not given in trail balance:** Consider

i. P&L A/c - Record as an expense in the debit side of P&L A/c.

ii. Balance sheet - Deduct from debtors in the assets side of the balance sheet

**Adjustment JE: Bad debts A/c Dr XXX**

To Debtors A/c                      XXX

**7) Provision for Bad Debts:**

a. **If given in trail balance:** Consider as an Expense in the debit side of P&L A/c.

b. **If not given in trail balance:** Consider

i. P&L A/c - Record as an expense in the debit side of P&L A/c.

ii. Balance sheet -

Deduct from debtors, after additional bad debts if any, in the assets side of the balance sheet.

**Adjustment JE: Provision for doubtful debts A/c Dr XXX**

To Debtors A/c                      XXX

**Adjustment JE: Profit and Loss A/c Dr XXX**

To Provision for doubtful debts A/c XXX

**8) Provisions for Discount on Debtors:**

- a. **If given in trail balance:** Deduct from Debtors value in the assets side of the balance sheet.
- b. **If not given in trail balance:** Consider
  - i. **P&LA/c** - Record as an anticipated expense in the debit side of P&L A/c.
  - ii. **Balance sheet** - Deduct from debtors in the assets side of the balance sheet after providing for additional bad debts, Provision for doubtful debts, if any.

**Adjustment JE:** Profit and Loss A/c Dr XXX

To Provision for discount on debtors A/c XXX

**Adjustment JE:** Provision for discount on debtors A/c Dr XXX

To Debtors A/c

XXX

**9) Depreciation**

- a. **If given in Trail balance:** Record as an expense in the debit side of profit and loss account.
- b. **If not given in Trail Balance:**
  - i. **P&LA/c** - record as an expense in the debit side
  - ii. **Balance sheet** Deduct from the respective asset in the assets side of the balance sheet or Add to Provision for depreciation on such asset.

**c. Adjustment JE:** Depreciation A/c Dr XXX

To Asset A/c / Provision for Depreciation A/c XXX

**Adjustment JE:** Profit and Loss A/c Dr XXX

To Depreciation A/c XXX

**10) Any other Provisions:**

- a. **Provisions** will be created based on concept of provide to provide for all probable losses.
- b. **P&LA/c:** Amount of provision should be debited to profit and loss account.
- c. **Balance sheet:** It should be deducted from the corresponding asset on which the provision was created or should be disclosed as a liability in the liabilities side of the balance sheet.

**11) Interest on Capital:**

- a. If given in Trail balance: Record in the debit side of profit and loss account.
- b. If not given in Trail Balance
  - i. P&LA/c-Debit side
  - ii. Balance sheet - Add to capital in liabilities side of balance sheet

**12) Interest on Drawings**

- a. If given in Trail balance: Record in the Credit side of profit and loss account.
- b. If not given in Trail Balance:
  - i. P&L A/c - Credit side
  - ii. Balance sheet - deduct from capital in liabilities side of balance sheet

**13) Loss by Fire:**

- a. If given in Trail balance: Record in the debit side of profit and loss account.
- b. If not given in Trail Balance:
  - i. Trading A/c - full amount of loss by fire should be credited to trading account.
  - ii. P&L A/c - Actual amount of loss should be debited to profit and loss account.
  - iii. Balance sheet - Any amount receivable from insurance companies should be recorded in the assets side of the balance sheet.

**14) Goods withdrawn for personal use:**

- a. If given in trail balance: Value of goods withdrawn should be recorded in the credit side of trading account.
- b. If not given in trail balance:
  - i. Trading A/c: value of goods withdrawn for personal use Either to be credited to trading account or Deduct from purchases in the debit side of trading account
  - ii. Balance sheet: Deduct from capital considering it as drawings in the liabilities side of the balance sheet.

**15) Goods distributed as free samples:**

- a. If given in the trail balance: Amount should be debited to profit and loss account.
- b. If not given in trail balance:
  - i. Trading A/c: Value of goods distributed as free samples should Either record in the credit side of trading account or Deduct from purchases in the debit side of trading account.

- ii. **P&LA/c:** Amount should be debited to profit and loss account

**16) Sale of goods on approval or return basis. Approval is not yet received:**

a. **If given in the trail balance:** Generally, it will be considered in the preparation of trail balance.

b. **If not given in trail balance:**

- i. **Trading A/C:**

Sale value of such goods should be deducted from the sales value in the credit side of trading account. Cost value of such goods should be added to the closing stock in the credit side of trading account.

- ii. **Balance sheet:**

Sale value of such goods should be deducted from the trade receivables in the assets side of the balance sheet. Cost value of such goods should be added to the closing stock in the assets side of the balance sheet.

**17) Outstanding Commission**

a. In few circumstances to commission is agree to pay to managers on the basis of agreed % on net profits of the entity.

b. **Adjustment JE:** Commission A/c Dr XXX

To Outstanding commission A/c XXX

**Adjustment JE:** Profit and Loss A/c Dr XXX

To Commission A/c XXX

c. **P&L A/c:** Amount of commission should be debited to profit and loss A/c

d. **B/S:** Amount of commission is still payable, hence should be recorded as a liability under liabilities side of the balance sheet.

e. **if commission is offered on net profit before charging such commission:**

Profit before commission x  $\frac{\text{Rate of commission}}{100}$

f. **commission is offered on net profit after charging such commission:**

Profit before commission x  $\frac{\text{Rate of commission}}{100 + \text{Rate of commission}}$

**PRACTICAL PROBLEMS****Problem No 01: (Basic problem)**

From the below given information, you are required to prepare trading account of M/s Lakshmi Traders for the year ended 31/3/2022.

Particulars	Amount
Opening Inventory	10,000
Purchases	67,200
Carriage inwards	3,000
Wages	5,000
Return inwards	10,000
Sales value	1,10,000
Return outwards	7,200
Closing Inventory	20,000

**Problem No 02: (Basic problem)**

The following information is provided by Sharada Traders for the year 2021-22. You are required to prepare the profit and loss account for the year ended 31/3/2022

Gross Profit	42,00,000	Legal Charges	2,50,000
Salaries	11,00,000	Consultancy fees	3,20,000
Discount (Cr)	1,80,000	Audit fees	10,000
Discount (Dr)	1,90,000	Electricity charges	1,70,000
Bad debts	1,70,000	Telephone, postage and telegrams	1,20,000
Depreciation	6,50,000	Stationery	2,70,000
Interest paid on loans	7,00,000		

**Problem No 03: (Basic problem)**

X, Y and Z are three Partners sharing profit and Losses equally. Their capital as on 01.04.2021 were: X ₹ 80,000; Y ₹ 60,000 and Z ₹ 50,000.

They mutually agreed on the following points (as per partnership deed):

- a) Interest on capital to be allowed @5% P.a.
- b) X to be received a salary @ 500 p.m.
- c) Y to be received a commission @ 4% on net profit after charging such commission.
- d) After charging all other items 10% of the net profit to be transferred General Reserve.
- e) Profit from Profit and Loss Account amounted to 66,720.

Prepare a Profit and Loss Appropriation Account for the year ended 31st March, 2022

**Problem No 04: (Basic problem)**

Revenue, Expenses and Gross Profit Balances of M/s ABC Traders for the year ended on 31st March 2016 were as follows: Gross Profit Rs.4,20,000, Salaries Rs.1,10,000, Discount (Cr.), Rs.18,000, Discount (Dr.) Rs. 19,000, Bad Debts Rs.17,000, Depreciation Rs.65,000, Legal Charges Rs. 25,000, Consultancy Fees Rs.32,000, Audit Fees Rs. 1,000, Electricity Charges Rs.17,000, Telephone, Postage and Telegrams Rs. 12,000, Stationery Rs. 27,000, Interest paid on Loans Rs.70,000.

Prepare Profit and Loss Account of M/s ABC Traders for the year ended on 31st March, 2016. Show necessary closing entries in the Journal Proper of M/s. ABC Traders also.

**Problem No 05:**

The following is the Trial Balance of B.Wanchoo on 31st Dec. 2017.

Trial Balance on 31st December, 2017

Particulars	Rs.	Rs.
Capital Account		10,00,000
Inventory Account	2,00,000	
Cash in hand	1,44,000	





Machinery Account	7,36,000	
Purchases Account	18,20,000	
Wages Account	10,00,000	
Salaries Account	10,00,000	
Discount Allowed A/c	50,000	
Discount Received A/c		30,000
Sundry Office Expenses Account	6,00,000	
Sales Account		50,00,000
Sums owing by customer (Trade receivables)	8,50,000	
Trade payables (sums owing to suppliers)		3,70,000
<b>Total</b>	<b>64,00,000</b>	<b>64,00,000</b>

Value of Closing Inventory on 31st Dec. 2017 was Rs. 2,70,000

Prepare closing entries for the above items and Prepare Trading and Profit Loss Account.

**Problem No 6:**

Liabilities	Amount Rs.	Assets	Amount Rs.
Mahendra & Sons	5,60,000	Cash In hand	43,000
Capital	20,00,000	Cash at Bank	2,67,500
		Trade receivables	7,49,500
		Closing Inventory	9,00,000
		Machinery and Equipment	6,00,000
	25,60,000		25,60,000

From the above given balance sheet prepare the relevant opening entry.

**Problem No 7: (Icmai study material )**

Shri Mittal gives you the following Trial Balance and some other information:

**Trial Balances as on 31st March, 2016**

Particulars	Dr.	Cr.
Capital		8,70,000
Purchases and Sales	6,05,000	12,10,000
Opening Inventory	72,000	
Trade receivables and Trade payables	90,000	1,70,000
14% Bank Loan (loan taken at year end)		2,00,000
Overdrafts (overdraft taken at year end)		1,12,000
Salaries	2,70,000	
Advertisements	1,10,000	
Other expenses	60,000	
Returns	40,000	30,000
Furniture	4,50,000	
Building	8,90,000	
Cash in Hand	5,000	
	25,92,0000	25,92,0000

Closing Inventory on 31st March, 2017 was valued at Rs.1,00,000.

Prepare final accounts of Shri Mittal for the year ended 31st March, 2017.

**Problem No 8:**

Mr. Mohan gives you the following trial balance and some other information:

**Trial Balance as on 31st March, 2017**

Particulars	Rs.	Rs.
Capital		6,50,000
Sales		9,70,000
Purchases	4,30,000	



Opening Inventory	1,10,000	
Freights Inward	40,000	
Salaries	2,10,000	
Other Administration Expenses	1,50,000	
Furniture	3,50,000	
Trade receivables and Trade payables	2,10,000	1,90,000
Returns	20,000	12,000
Discounts	19,000	9,000
Bad Debts	5,000	
Investments in Government Securities	1,00,000	
Cash in Hand and Cash at Bank	1,87,000	
	18,31,00	18,31,00

**Other Information:**

(i) Closing Inventory was Rs. 1,80,000;

(ii) Depreciate Furniture 10% p.a.

Prepare Trading and Profit and Loss Account for the year ended on 31.3.2016 and Balance Sheet of Mr. Mohan as on that date.

**Problem No 9: (Important Question)**

The following is the schedule of balances as on 31.3.17 extracted from the books of Shri Gavaskar, who carries on business under the same name and style of Messrs Gavaskar Viswanath & Co., at Bombay:

Particulars	Dr.	Cr.
Cash in hand	14,000	
Cash at bank	26,000	
Sundry Debtors	8,60,000	
Stock on 1.4.2016	6,20,000	
Furniture & fixtures	2,14,000	
Office equipment	1,60,000	
Buildings	6,00,000	
Motor Car	2,00,000	
Sundry Creditors		4,30,000

Loan from Viswanath		3,00,000
Provision for bad debts		30,000
Purchases	14,00,000	
Purchase Returns		26,000
Sales		23,00,000
Sales Returns	42,000	
Salaries	1,10,000	
Rent for Godown	55,000	
Interest on loan from Viswanath	27,000	
Rates & Taxes	21,000	
Discount allowed to Debtors	24,000	
Discount received from Creditors		16,000
Freight on purchases	12,000	
Carriage Outwards	20,000	
Drawings	1,20,000	
Printing and Stationery	18,000	
Electricity Charges	22,000	
Insurance Premium	55,000	
General office expenses	30,000	
Bad Debts	20,000	
Bank charges	16,000	
Motor car expenses	36,000	
Capital A/c		16,20,000
	47,22,0000	47,22,0000

Prepare Trading and Profit and Loss Account for the year ended 31st March 2017 and the Balance Sheet as at that date after making provision for the following:

1. Depreciate: (a) Building used for business by 5 percent; (b) Furniture and fixtures by 10 percent; One steel table purchased during the year for Rs. 14,000 was sold for same price but the sale proceeds were wrongly credited to Sales Account; (c) Office equipment by 15 percent; Purchase of a typewriter during the year for Rs. 40,000 has been wrongly debited to purchase; and (d) Motor car by 20%.
- 2 Value of stock at the close of the year was Rs. 4,40,000.
3. Two month's rent for godown is outstanding.

4. Interest on loan from Viswanath is payable at 12 percent per annum, this loan was taken on 1.5.2016.
5. Reserve for bad debts is to be maintained at 5 percent of Sundry Debtors.
6. Insurance premium includes Rs. 40,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1.4.2016 to 30.6.17

**Problem No 10: (Important Question)**

From the following Trial Balance, Extracted from the books of Mr. Chetan, Prepare a Trading and Profit and Loss

Account for the year ended 31<sup>st</sup> March 2003 and a Balance Sheet as on that date.

	Dr.	Cr.
Chetan Capital A/c	----	1,80,000
Chetan Drawing A/C	32,960	----
Land and Building	50,000	---
Plant & Machinery	28,540	-----
Furniture & fixture	12,500	----
Carriage Inward	8,740	---
Wages (Manf.)	42,940	-----
Salaries	39,340	-----
Bad Debts Provision	-----	3,940
Sale	----	2,82,460
Sales Return	3,520	-----
Bank Charges	280	----
Coal, Gas & Water	4,440	---
Rates & Taxes	1,680	-----
Discount account (Balance)	----	240

Purchase (adjusted)	61,460	-----
Bills Receivable	12,540	----
Trade Expenses	3,980	---
Sundry Debtors	75,600	-----
Sundry Creditors	----	24,340
Stock (31-3-03)	88,780	----
Apprentice Premium	----	6,000
Fire Insurance	980	-----
Cash at bank	26,000	----
Cash in Hand	2,280	---
Bad debts	420	-----
<b>Total</b>	<b><u>4,96,980</u></b>	<b><u>4,96,980</u></b>

Charge depreciation on land & building @ 2.5% on plant & machinery @10% and on furniture & fixture @ 10% Make a provision of 5% on the sundry debtors for Bad debts. The Bank has intimated that a cheque for Rs. 800 received from customer has been dishonoured. The customer is in difficulties and it is expected that he would be able to pay 60 % of the claims on him. Carry forward the following unexpired amounts:--

- i. Fire Insurance Rs. 250
- ii. Rates & Taxes Rs. 480
- iii. Apprentice Premium Rs. 3,800

Trade expenses amounting to Rs. 430 have not yet been paid. Wages include Rs. 500 spent on the installation of new machinery on 1<sup>st</sup> April 2002. Allow 10 % interest on capital but not charged on drawing.

**Problem No II: (Important Question)**

Following is the Trial Balance as on 31st March, 2022 of Bajrang Traders

Particulars	Debit ( )	Credit ( )
Stock on 01.04.2021	1,35,000	
Purchases and sales	28,50,000	46,25,000
Returns	35,000	22,500
Carriage inwards	24,000	
Carriage outwards	33,000	
Wages	1,25,000	
Salaries	3,52,000	
Printing and Stationery	6,500	
Insurance premium	15,000	
Repairs	11,000	
Discount allowed	30,500	
Discount received		15,500
Bad Debts	28,000	
Provision for Bad Debts		35,000
Advertisement	38,000	
Interest on Investment		42,000
Drawings	2,10,000	
Investment	8,00,000	
Furniture and Fittings	3,50,000	
Office Equipment	2,45,000	
Land and building	5,00,000	
Sundry Debtors and Creditors	6,90,000	4,55,000
Establishment Expenses	35,000	
Capital		31,05,000
Cash at Bank	7,24,000	
Cash in Hand		
	63,000	
	83,00,000	83,00,000

**Additional Information:**

- i. Closing Stock of goods amounted to ₹1,85,000 and of stationery amounted to ₹1,500.
  - ii. Depreciation to be charged on Land and Building @ 10%; On Office Equipment's @ 15%; and On Furniture and Fixtures @ 10%.
  - iii. Insurance Premium paid on 1st July, 2021 for one year.
  - iv. Write off further as bad debts ₹5,000 and maintain a provision for bad debts of 5% on debtors.
  - v. Provision made for discount on debtors @ 2%.
  - vi. Goods costing ₹12,500 used for given free samples to customers.
  - vii. Goods costing ₹25,000 were sent on approval basis to a customer for ₹40,000 on 26th March, 2022. This was recorded as actual sales but approval did not receive till 31st March, 2022.
  - viii. Outstanding salaries were for one month.
  - ix. Investment made at 7.50% per annum on 1st May, 2021.
- You are required to prepare Trading Account and Profit & Loss Account for the 31st March, 2022 and a Balance sheet as on that date.

### Problem No 12: (Icmai Study Material)

Following are the ledger balances presented by M/s. P. Sen as on 31st March 2022:

Particulars	(₹)	Particulars	(₹)
Stock (1.4.2021)	10,000	Sales	3,00,000
Purchase	1,60,000	Return Inward	16,000
Carriage Inwards	10,000	Return Outward	10,000
Wages	30,000	Royalty on Production	6,000
Freight	8,000	Gas and Fuel	2,000

### Additional Information:

- i. Stock on 31.3.2022: (i) Market Price ₹ 24,000; (ii) Cost Price ₹ 20,000;
- ii. Stock valued ₹ 10,000 were destroyed by fire and insurance company admitted the claim to the extent of ₹ 6,000.
- iii. Goods purchased for ₹ 6,000 on 29th March, 2022, but still lying in-transit, not at all recorded in the books.
- iv. Goods taken for the proprietor for his own use for ₹ 3,000.
- v. Outstanding wages amounted to ₹ 4,000.
- vi. Freight was paid in advance for ₹ 1,000.



**Problem No 13: (Icmai Study Material)**

From the following Trial Balance of M/s BJ & Sons, prepare the final accounts for the year ended on 31st March 2022, and also the Balance sheet as on that date:

Particulars	Debit (₹)	Credit (₹)
Stock as on 01.04.2021: Finished goods	2,00,000	
Purchases and Sales	22,00,000	35,00,000
Bills receivables	50,000	
Returns	1,00,000	50,000
Carriage Inwards	50,000	
Debtors and Creditors	2,00,000	4,00,000
Carriage Outwards	40,000	
Discounts	5,000	5,000
Salaries and wages	2,20,000	
Insurance	60,000	
Rent	60,000	
Wages and salaries	80,000	
Bad debts	10,000	
Furniture	4,00,000	
BJ's capital		5,00,000
BJ's drawing	70,000	
Loose tools	1,00,000	
Printing & stationery	30,000	
Advertising	50,000	
Cash in hand	45,000	
Cash at bank	2,00,000	
Petty Cash	5,000	
Machinery	3,00,000	
Commis sion	10,000	30,000
<b>Total</b>	<b>44,85,000</b>	<b>44,85,000</b>

**Adjustments:**

- i. Finished goods stock: Stock on 31st March was valued at Cost price ₹ 4,20,000 and Market price ₹ 400,000.
- ii. Depreciate furniture @ 10% p.a. and machinery @ 20% p.a. on reducing balance method.
- iii. Rent of ₹ 5,000 was paid in advance.
- iv. Salaries & wages due but not paid ₹ 30,000.
- v. Make a provision for doubtful debts @ 5% on debtors.
- vi. Commission receivable ₹ 5,000.

**Problem No 14: (Icmai Study Material)**

The following Trial Balance has been prepared from the books of Mrs. Sexena as on 31st March, 2022 after making necessary adjustments for depreciation on Fixed Assets, outstanding and accrued items and difference under Suspense Account.

**Trial Balance as at 31st March, 2022**

Particulars	Debit (₹)	Particulars	Credit (₹)
Machineries	1,70,000	Sundry Creditors	82,000
Furniture	49,500	Capital Account	2,45,750
Sundry Debtors	38,000	Outstanding Expenses:	1,500
Drawings	28,000	Salaries	600
Travelling Expenses	6,500	Printing	1,000
Insurance	1,500	Audit Fees	1,200
Audit Fees	1,000	Bank Interest	1,800
Salaries	49,000	Discounts	6,80,000
Rent	5,000	Sales (Less Return)	
Cash in Hand	7,800		
Cash at Bank	18,500		
Stock-in-Trade	80,000		
(01.04.2021)	250		
Prepaid Insurance	21,200		
Miscellaneous Expenses	1,200		
Discounts	1,500		
	4,60,000		

Printing & Stationery	30,000		
Purchase (Less Returns)	5,500		
Depreciation:	39,400		
Machineries			
Furniture			
Suspense Account			
	10,13,850		10,13,850

On the subsequent scrutiny following mistakes were noticed:

- A new machinery was purchase for ₹ 50,000 but the amount was wrongly posted to Furniture Account as ₹ 5,000.
- Cash received from Debtors ₹ 5,600 was omitted to be posted in the ledger.
- Goods withdrawn by the proprietor for personal use but no entry was passed ₹ 5,000.
- Sales included ₹ 30,000 as goods sold cash on behalf of Mr. Thakurlal who allowed 15% commission on such sales for which effect is to be given.

You are further told that:

- Closing stock on physical verification amounted to ₹ 47,500.
- Depreciation on Machineries and Furniture has been provided @ 15% and 10%, respectively, on reducing balancing system.
- Full year's depreciation is provided on addition.

You are requested to prepare a Trading and Profit & Loss Account for the year ended 31st March 2022 and a Balance Sheet as on that date so as to represent a True and Correct picture.

#### Problem No 15: (Icmai Study Material)

Mr. Arvind Kumar has a small business enterprise. He has given the trial balance as at 31st March 2023

Particulars	Debit (₹)	Credit (₹)
Mr. Arvind Kumar's Capital		1,00,000
Machinery	36,000	
Depreciation on Machinery	4,000	
Repairs to Machinery	5,200	

Wages	54,000	
Salaries	21,000	
Income Tax of Mr. Arvind Kumar	1,000	
Cash in Hand	4,000	
Land & Building	1,49,000	
Depreciation on Building	5,000	
Purchases	2,50,000	
Purchase Returns		3,000
Sales		4,98,000
CC Bank		7,600
Accrued Income	3,000	
Salaries Outstanding		4,000
Bills Receivables	30,000	
Provision for Doubtful Debts		10,000
Bills Payable		16,000
Bad Debts	2,000	
Discount on Purchases		7,080
Debtors	70,000	
Creditors		62,520
Opening Stock (01.04.2021)	74,000	
<b>Total</b>	<b>7,08,200</b>	<b>7,08,200</b>

**Additional information:**

- (1) Stock as on 31st March 2022 was valued at ₹ 60,000
- (2) Write off further ₹ 6,000 as bad debt and maintain a provision of 5% on doubtful debt.
- (3) Goods costing ₹ 10,000 were sent on approval basis to a customer for ₹ 12,000 on 30th March, 2022. This was recorded as actual sales.
- (4) ₹ 2,400 paid as rent for office was debited to Landlord's A/c and was included in debtors.
- (5) General Manager is to be given commission at 10% of net profits after charging his commission.

(6) Works manager is to be given a commission at 12% of net profit before charging General Manager's commission and his own. You are required to prepare final accounts in the books of Mr. Arvind Kuma, and also the Balance Sheet as on that date.

**Problem No 16: (Icmai Study Material)**

Mr. Abhay runs a small shop and deals in various goods. He has not been able to tally his trial balance and has closed it by taking the difference to Suspense A/c. It is given below:

Particulars (as on 31st March 2023)	Debit (₹)	Credit (₹)
Abhay's Capital		1,50,000
Drawings	75,000	
Fixed Assets	1,35,000	
Opening Stock (01.04.2021)	36,500	
Purchases & Returns	6,75,000	13,500
Sales & returns	34,000	8,50,000
Due from Customer & to Creditors	95,000	3,25,000
Expenses	45,750	
Cash		3,000
Bank Deposits & Interest Earned	55,000	5,750
Suspense A/c		4,000
Advertising	2,00,000	
<b>Total</b>	<b>13,51,250</b>	<b>13,51,250</b>

Mr. Abhay has requested you to help him in tallying his trial balance and also prepare his final accounts. On investigation of his books you get the following information:

- (i) Closing Stock on 31st March 2023 was ₹ 45,000 at cost and could sell over this value.
- (ii) Depreciation of ₹ 13,500 needs to be provided for the year.
- (iii) A withdrawal slip indicated a cash withdrawal of ₹ 15,000 which was charged as drawing. However, it was noticed that ₹ 11,000 was used for business purpose only and was entered as expenses in cash book.
- (iv) Goods worth ₹ 19,000 were purchased on 24th March 2023 and sold on 29th March 2023 for ₹ 23,750. Sales were recorded correctly, but purchase invoice was missed out.

- (v) Purchase returns of ₹ 1,500 were routed through sales return. Party's A/c was correctly posted.
- (vi) Expenses include ₹ 3,750 related to the period after 31st March 2023.
- (vii) Purchase book was over-cast by ₹ 1,000. Posting to suppliers' A/c is correct.
- (viii) Advertising will be useful for generating revenue for 5 years.

**Problem No 17:(Icmal Study Material)**

Mr. O maintains his accounts on Mercantile basis. The following Trial Balance has been prepared from his books as at 31st March, 2023 after making necessary adjustments for outstanding and accrued items as well as depreciation:

**Trial Balance as at 31st March, 2023**

Particulars	Debit (₹)	Credit (₹)
Plant and Machinery	2,12,500	
Sundry Creditors		2,64,000
Sales		6,50,000
Purchases	4,20,000	
Salaries	40,000	
Prepaid Insurance	370	
Advance Rent	2,000	
Outstanding Salary		6,000
Advance Salary	2,500	
Electricity Charges	2,650	
Furniture and Fixtures	72,000	
Opening Stock (01.04.2022)	50,000	
Outstanding Electricity Charges		450
Insurance	1,200	
Rent	10,000	
Miscellaneous Expenses	14,000	
Cash in Hand	3,000	
Investments	80,000	
Drawings	24,000	
Dividend from Investments		8,000



Accrued Dividend from Investments	1,500	
Depreciation on Plant and Machinery	37,500	
Depreciation on Furniture	8,000	
Capital Account		2,11,970
Telephone Charges	6,000	
Sundry Debtors	1,70,500	
Stationery and Printing	1,200	
Cash at Bank	65,000	
Interest on Loan	8,000	
Interest Due but Not Paid on Loan		1,500
Loan Account		90,000
	12,31,920	12,31,920

**Additional Information:**

- Salaries include ₹ 10,000 towards renovation of Proprietor's residence.
- Closing Stock amounted to ₹ 75,000. Mr. O, however, request you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2023 and a Balance Sheet as on that date following cash basis of accounting

**Problem No 18:(Icmai Study Material)**

The following Trial Balance has been extracted from the books of Mr. Agarwal as on 31.3.2023:

Particulars	Dr. (₹)	Particulars	Cr. (₹)
Purchase	6,80,000	Sales	8,38,200
Sundry Debtors	96,000	Capital Account	1,97,000
Drawings	36,000	Sundry Creditors	1,14,000
Bad Debts	2,000	Outstanding Salary	2,500
Furniture & Fixtures	81,000	Sale of Old Papers	1,500
Office Equipments	54,000	Bank Overdraft (PP Bank)	60,000
Salaries	24,000		
Advanced Salary	1,500		
Carriage Inward	6,500		

Miscellaneous Expenses	12,000		
Travelling Expenses	6,500		
Stationery & Printing	1,500		
Rent	18,000		
Electricity & Telephone	6,800		
Cash In Hand	5,900		
Cash at Bank (SBI)	53,000		
Stock (1.4.2021)	50,000		
Repairs	7,500		
Motor Car	56,000		
Depreciation:			
Furniture	9000		
Office Equipment	6000		
	12,13,200		12,13,200

**Additional Information:**

(i) Sales includes ₹ 60,000 towards goods for cash on account of a joint venture with Mr. Reddy who incurred ₹ 800 as forwarding expenses. The joint venture earned a profit of ₹ 15,000 to which Mr. Reddy is entitled to 60%

(ii) The motor car account represents an old motor car which was replaced on 1.4.2022 by a new motor car costing ₹ 1,20,000 with an additional cash payment of ₹ 40,000 laying debited to Purchase Account.

(iii) PP Bank has allowed an overdraft limit against hypothecation of stocks keeping a margin of 20%. The present balance is the maximum as permitted by the Bank.

(iv) Sundry Debtors include ₹ 4,000 as due from Mr. Trivedi and Sundry Creditors include ₹ 7,000 as payable to him.

(v) On 31.3.2023 outstanding rent amounted to ₹ 6,000 and you are informed that 50% of the total rent is attributable towards Agarwal's resident.

(vi) Depreciation to be provided on motor car @ 20% (excluding sold item).

Mr. Agarwal requests you to prepare a Trading and Profit & Loss Account for the year ended 31.3.2023 and a Balance Sheet as on that date.



**\*PAST FROM THE BLAST\*****Problem No 19:**

From the following Trial Balance of Bharat Tushar as on 31st March, 2019, you are required to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date, after making the necessary adjustment as mentioned hereunder:

Particulars	Debit Balance (₹)	Credit Balance (₹)
	24,000	1,60,000
Furniture and Fixtures	8,000	-
Plant and Machinery	60,000	-
Patents (ten years from 01-04-2018)	40,000	-
Opening Stock	40,000	-
Purchases and Sales	1,70,000	2,64,000
Salaries	14,800	-
Wages	30,000	-
Sundry Debtors and Creditors	20,400	24,000
Land	28,350	-
Loan from Shyam (at 6% from 01-10-2018)	-	20,000
Postage and Fax	3,000	-
Rent, Rates and Taxes	7,200	-
Bad Debts	800	-
Discount	-	1,200
Carriage Inward	400	-
Interest on loan	300	-
Insurance	1,600	-
Travelling expenses	1,000	-
Sundry expenses	600	-
Cash and Bank	33,750	-
Bank Overdraft	-	15,000
<b>Total</b>	<b>4,84,200</b>	<b>4,84,200</b>

**Adjustments:**

(a) Closing Stock is valued at ₹30,000.

(b) A new machine was installed on 1st April, 2018 for in this respect was passed in the books. Wages of installing the machine were debited to Wages Account. ₹3,000. No entry ₹1,000 paid for installing the machine were debited to wages account.

(c) Of the Sundry Debtors, ₹200 are bad and are to be written off. You are required to maintain a Provision for Doubtful Debts @ 5% on Debtors and Provision for Discount on Debtors @ 2%.

(d) Goods costing ₹2,000 were given away as free samples for publicity.

(e) Depreciate Plant and Machinery at 20% per annum and Furniture and Fixture at 10% per annum.

(f) On 01-04-2018 Machinery of the value of ₹10,000 was destroyed by fire and the insurance claim settled at 28,000 was credited to Machinery Account.

(g) Goods for ₹ ₹1,200 were sent to a customer at a profit of 20% on cost on 30th March, 2018 on sale or return basis. This was recorded as actual sales.

**SOLUTION:****Trading and Profit and Loss Account For the year ended 31st March, 2019**

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		40,000	By Sales	2,64,000	
			Less: Sent for approval	(1,200)	2,62,800
To Purchases	1,70,000		By Closing stock	30,000	
Less: Free samples	(2,000)	1,68,000	Add: Sent for approval	1,000	31,000
To Carriage In-ward		400			
To Wages	30,000				
Less: Installation	(1,000)	29,000			
To Gross Profit c/d		56,400			
		2,93,800			2,93,800
To Rent, rates and taxes		7,200	By Gross profit b/d		56,400



To Salaries		14,800	By Discount received		1,200
To Postage and fax		3,000			
To Sundry expenses		600			
To Travelling expenses		1,000			
To Interest on loan	300				
Add: Accrued interest	300	600			
To Sales Promotion Exp.		2,000			
To Insurance		1,600			
To Loss of machinery by fire		2,000			
To Bad debts	800				
Add: Written off	200				
Add: Provision	950	1,950			
To Provision for Disc, on debtors		361			
To Depreciation:					
Plant and machinery	12,400				
Furniture and fixtures	800				
Patents	4,000	17,200			
To Net Profit transferred to Capital a/c		5,289			
		57,600			57,600

**Balance Sheet as at 31st March, 2019**

<b>Liabilities</b>	<b>₹</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>	<b>₹</b>
			<b>Land</b>		28,350
<b>Opening Balance</b>	1,60,000		<b>Plant and machinery</b>	60,000	
<b>Add: Net Profit</b>	5,289		<b>Add: Purchased</b>	3,000	
<b>Less: Drawings</b>	(24,000)	1,41,289	<b>Add: Installation charges</b>	1,000	
			<b>Less: Loss by fire</b>	(2,000)	
			<b>Less: Depreciation</b>	(12,400)	49,600
<b>Loans from Shyam @ 6%</b>	20,000		<b>Furniture &amp; Fixtures</b>	8,000	
<b>Add: Accrued interest</b>	300	20,300	<b>Less: Depreciation</b>	(800)	7,200
<b>Sundry Creditors</b>		24,000	<b>Closing Stock</b>	30,000	
			<b>Add: With Customers</b>	1,000	31,000
<b>Creditor for machinery</b>		3,000	<b>Debtors</b>	20,400	
			<b>Less: Sent on approval</b>	(1,200)	
			<b>Less: Bad debts</b>	(200)	
			<b>Less: Provision doubtful debts @ 5%</b>	(950)	
			<b>Less: Provision for discount @2%</b>	(361)	17,689
<b>Bank Overdraft</b>		15,000	<b>Cash &amp; bank</b>		33,750
		2,03,589			2,03,589

**Problem No 20:**

Rajesh gives the following information for the year ending 31st March, 2023:

Particulars	₹
Cash Purchases	15,00,000
Cash Sales	40,00,000
Credit Purchases	3,00,000
Credit Sales	5,00,000
Income Received	80,000
Income received in advance (included in ₹80,000)	6,000
Income due but not yet received	15,000
Expenses paid	8,50,000
Expenses paid in advance (included in ₹8,50,000)	20,000
Expenses not yet paid	45,000

Ascertain the Profit or Loss if he adopts (i) Cash basis of accounting and (ii) Accrual Basis of Accounting.

**SOLUTION:****Cash basis of accounting**

Particulars	₹	Particulars	₹
To Purchase	15,00,000	By Sales	40,00,000
To Expenses	8,50,000	By Income Received	80,000
To Profit	17,30,000		
	40,80,000		40,80,000

**Accrual Basis of Accounting**

Particulars	₹	Particulars	₹
To Purchase		By Sales	
Cash		Cash	
15,00,000	18,00,000	40,00,000	45,00,000
Credit		Credit	
3,00,000		5,00,000	
To Expenses		By Income Received	
8,50,000		80,000	

(-) Pre-paid (20,000)	8,75,000	(+) Receivable 15,000	89,000
(+) Outstanding <u>45,000</u>		(-) Advance <u>(6,000)</u>	
To Profit	19,14,000		
	45,89,000		45,89,000

## CH 5. PREPARATION OF FINAL ACCOUNTS OF NOT FOR PROFIT ORGANISATIONS

### ➤ **Concept of NPO**

- **Meaning:** The intension of non-profit making organizations is not making profit but, to render services.
- **Examples:** Public hospitals, public educations institutions, sports clubs, libraries, Religious institutions, Charitable trusts etc.
- **Sources of Incomes:** These organizations get their funds in the form of contributions by way of entrance fees, life membership fees, annual subscriptions, donations, grants, legacies etc.
- **Features of NPO:**
  - a) **Management:** These organizations are managed by elected body or trustee board.
  - b) **Motive:** Its operations are not driven by any profit motive.
  - c) **Objective:** The objective of these entities are to provide social service.
  - d) **Income sources:** Main sources of their income are donations and membership fees.
  - e) **Nature of membership:** The membership process for this concern is nontransferable.

### ➤ **Sources of Income of NPO:** The following are the major revenue generating sources for a non-profit organizations.

#### i. **Entrance Fees:**

- These are received at the time of admission of a new partner and these are one-time fees.
- It could be either capitalized or considered as revenue income as per the rules of the institution.

#### ii. **Donations:** Donations may be classified into to following types:

- **Specific donations:** Donations received for specific purposes are capitalized and recorded on the liabilities side of the balance sheet.
- **General donations:** The purpose for which the donation is to be utilized is not mentioned at the time of making the donation by the donor, and it should be considered as income in the income and expenditure account Credit side.

iii. **Legacy:**

- Amount received as per the will of a deceased person is known as "Legacies"
- This item is of non-recurring nature, hence treated as capital receipt and recorded on the liabilities side of the balance sheet
- However, if the amount of donation is very small, it should be credited to income and expenditure account.

iv. **Endowments:** Sometimes, donations are also in the form of endowments to be used as per the instructions of the donor. These are to be treated as capital receipts.

v. **Membership fee:** Membership fee can be classified into the following two types:

a. **Life membership fee:**

- Life membership fee is a capital receipt and it is usually credited to a separate account, which is shown as a liability in the balance Sheet.
- Annual subscription apportioned out of this is credited to income and expenditure account and it is shown as deduction from a specific fund.

b. **Annual membership/subscriptions:** Annual membership fee should be credited to income and expenditure account on accrual basis.

vi. **Capital funds:**

- It is also known as general fund (or) accumulated fund. It is actually capital of non-profit organization.
- Surplus or deficit in an accounting period should be adjusted to it.
- A portion of capitalized incomes like donations may be added to it.

vii. **Special Fund:**

1. It is created out of donations received with specific direction to be used for a notified purpose. It will be disclosed in the liabilities side of the balance sheet.





Bank A/c                      Dr XXX  
    To Special Fund A/c                      XXX

**2. If any income earned on these funds should be added to this fund.**

Bank A/c/Accrued Income A/c    Dr XXX  
    To Special Fund A/c                      XXX

**3. Any expenses met out of the special fund:**

Special Fund A/c              Dr XXX  
    To Bank A/c                      XXX

**4. If special fund is used to purchase any capital asset or spent on construction of capital Asset:**

Capital Assets A/c/ Capital WIP A/c    Dr XXX  
    To Bank A/c                      XXX

**For transferring the amount to capital fund:**

Special Fund A/c              Dr XXX  
    To Capital Fund A/c                      XXX

**Financial Statements of Non-profit organizations**

- Non-profit organization prepares the below mentioned three financial statements:

1. Receipts and Payments Account
2. Income and Expenditure Account
3. Balance Sheet

➤ **Receipts and payments account:**

- a) It is a summary of cash and bank transactions during an accounting period.
- b) It begins with opening cash and bank balances and ends with closing balances.
- c) It follows "Real account" principle and "Cash basis" All of accounting.
- d) All receipts are debited and payments made are credited to it.
- e) Both capital and revenue items are recorded.
- f) Receipts and payments may relate to any of the following periods will be recorded.

- Current Year.
- Last Year.
- Next Year.

**Income and expenditure account:**

- It is same as profit and loss account in case of profit making organizations.
- It follows "Nominal account" principles and "accrual basis" of accounting.
- It records only current period transaction which are revenue in nature.
- All revenue expenses should be debited and revenue income should be credited.
- Profit on sale of an asset is credited and loss on sale of the asset is debited.
- Balance is treated as Surplus (excess of income over expenditure) or Deficit (excess of expenditure over income).

**Difference between income and expenditure account and receipts and payments A/c:**

INCOME AND EXPENDITURE ACCOUNT	RECEIPTS AND PAYMENTS ACCOUNT
It is a nominal account, based on accrual system	It is a real account based on cash system
It is a summary of the working of the organization	It is a summary of cash and bank transactions of organization
It records expenses and losses on the debit side and incomes and gains on the credit side	It records cash inflows on the debit side and cash outflows on the credit side
It is closed at the end of the year and balancing figure is transferred to capital fund.	It is balance at the end of the year and balance carried forward to next accounting period.
It records item of revenue in nature respective of their effect on the flow of cash.	It records items of both capital and revenue provided their effect flow of cash
It records transaction of current year only.	It records cash flow during the current year irrespective of which year it belongs to



**Balance sheet:**

- The balance sheet is prepared in the similar way as followed in a trading concern.
- Instead of capital, capital fund will be disclosed in the liabilities side of the balance sheet of Non-profit organizations.
- Opening capital fund = Opening Assets - Opening Liabilities

**PRACTICAL PROBLEMS****Problem No 01: (Basic problem)**

The receipts and payments for the Swaraj Club for the year ended March 31, 2016 were: Entrance fees Rs.300; Membership Fees Rs.3,000; Donation for Club Pavilion Rs.10,000, Foodstuff sales Rs.1,200; Salaries and Wages Rs.1,200 Purchase of Foodstuff Rs. 800; Construction of Club Pavilion Rs.11,000; General Expenses Rs.600; Rent and Taxes Rs.400; Bank Charges Rs.160

Cash in hand-April. 1st Rs.200, March. 31st Rs.350

Cash in Bank-April. 1st Rs.400; March 31st Rs.590

You are required to prepare Receipts and Payment Account.

**Problem No 02: (Basic problem)**

During 2016, subscription received in cash is Rs.42,000. It includes Rs.1,600 for 2015 and Rs.600 for 2017. Also Rs.3,000 has still to be received for 2016. Calculate the amount to be credited to Income and Expenditure Account in respect of subscription.

**Problem No 03: (Basic problem)**

On 1st April, 2013, Z Limited purchased the lease of property for Rs. 10,00,000. The lease Salaries paid during 2016 were Rs.23,000. The following further information is available: Salaries unpaid on 31st March, 2015 - Rs. 1,400 Calculate the amount to be debited to Income and expenditure account in respect of salaries .

**Problem No 04: (Basic problem)**

On 31st March 2021, a club had subscription in arrears of ₹ 28,000 and in advance ₹ 4,000. During the year ended 31st March 2022, the club received subscription of ₹ 2,08,000 of which ₹ 12,500 was related to 2022-23. On 31st March, 2021, there were 5 members who had not paid subscription for 2022 @ ₹ 1,600 per person. Prepare the Subscription Account for the year 2021-22.

**Problem No 05: (Icmai study material )**

The City Sports Club of Surat had received in 2021-2022 ₹ 50,000 towards subscription. Subscription for 2020- 21 unpaid on 1.4.2021 were ₹ 5,000. Subscriptions paid in advance on 31.3.2021 were ₹ 1,250 and the same on 31.3.2022 was ₹ 1,000. Subscriptions for 2021-2022 unpaid on 31.3.2022 were ₹ 2,250. Show a statement showing the amount of subscriptions that would appear in Income and Expenditure Account of the club for the year ended 31.03.2022.

**Problem No 06: (Basic problem)**

During the year ended 31st March, 2023, the subscriptions received by the Delhi Literary Society were Rs 4,50,000. These subscriptions include Rs 20,000 received for the year ended 31st March, 2022. On 31st March, 2023, subscriptions due but not received were Rs 15,000. Advance subscription received for the year ending 31st March 2023 but pertaining to year 2024 amounted to Rs 26,000. The Subscriptions received in advance for the year ending 31st March, 2023 includes Rs 18,000 pertaining to year 2022-23. What amount should be credited to Income and Expenditure Account for the year ended 31st March, 2023 as income from subscriptions. Show the subscription account in book of the society

**Problem No 07: (Basic problem)**

The amount of Subscription appears in the Income and Expenditure Account of North Indian Club is Rs 3,000. Adjustments were made in respect of the following:

Subscription for 2022 unpaid at 1st Jan. 2023, Rs 400; Rs 200 of which was received in 2023. Subscription paid in advance at 1.1.2023 Rs 100. Subscription paid in advance at 31.12.2023 Rs 80. Subscription for 2023 unpaid at 31.12.2023 Rs 140. Prepare Subscription Account.

**Problem No 08:**

From the following information, prepare the Subscription Account for the year ending on March, 31, 2013

- i. Subscription in arrears on 31.03.2012 Rs 1,500
- ii. Subscription received in advance on 31.03.2012 Rs 1,000
- iii. Amount of Subscription received during 2012-13 Rs 40,000, which includes Rs 500 for the year 2011-12, Rs 1,500 for the year 2013-14.
- iv. Subscription outstanding Rs 1,000.

**Problem No 09:**

The following was the Receipts and Payments Account of X Club for the year ended March, 31, 2016.

Receipts	Rs.	Payments	Rs.
Cash in hand Balance at Bank as per Pass	100	Groundman's Fee	750
Deposit Account	2230	Moving Machine	1500
Current Account	600	Rent of Ground	250
Bank Interest	30	Cost of Teas	250
Donations and Subscriptions	2600	Fares	400
Receipts from teas	300	Printing & Office Expenses	280
Contribution to fares	100	Repairs to Equipment	500
Sale of Equipment	80	Honorarium to Secretary and Treasurer of 2015	400
Net proceeds of Variety Entertainment	780	Balance at Bank as per Pass Book:	
Donation for forth coming Tournament	1000	Deposit Account	3090
		Current Account	150
		Cash in hand	250
	7,820		7,820

You are given the following additional information:

	April, 1, 2015 Rs.	March, 31, 2016 Rs.
Subscription due	150	100
Amount due for printing etc.	100	80
Cheques unpresented being payment for repairs	300	260
Estimated value of machinery and equipment	800	1750
Interest not yet entered in the Pass book		20
Bonus to Groundman Outstanding		300

For the year ended March. 31, 2016, the honorarium to the Secretary and Treasurer are to be increased by a total of Rs.200.

Prepare the Income and Expenditure Account for period ending 31-03-2016 and the relevant Balance Sheet.

**Problem No 10:**

The Income and Expenditure Account of the Youth Club for the Year 2016 is as follows:

Expenditure	Rs.	Payments	Rs.
To Salaries	4750	By Subscription	7500
To General Expenses	500	By Entrance Fees	250
To Audit Fee	250	By Contribution for annual dinner	1000
To Secretary's Honorarium	1000	By Annual Sport meet	750
To Stationery & Printing	450		
To Annual Dinner Expenses	1500		
To Interest & Bank Charges	150		
To Depreciation	300		
To Surplus	600		
	9500		9500

This account had been prepared after the following adjustments:

	Rs.
Subscription outstanding at the end of 2015	600
Subscription received in Advance on 31st December, 2015	450
subscription received in advance on 31st December, 2016	270
Subscription outstanding on 31st December, 2016	750

Salaries Outstanding at the beginning and the end of 2016 were respectively Rs. 400 and Rs. 450. General Expenses include insurance prepaid to the extent of Rs.60. Audit fee for 2016 is as yet unpaid. During 2016 audit fee for 2015 was paid amounting to Rs. 200.

The Club owned a freehold lease of ground valued at Rs. 10,000. The club had sports equipment on 1st January, 2016 valued at Rs. 2,600. At the end of the year, after depreciation, this equipment amounted to Rs. 2,700. In 2015, the Club has raised a bank loan of Rs. 2,000. This was outstanding throughout 2016. On 31st December, 2016 cash in hand amounted to Rs. 1,600.

Prepare the Receipts and Payments Account for 2016 and Balance Sheet as at the end of the year.

**Problem No 11: (Important Question)**

From the following Income and Expenditure Account and the Balance Sheet of a club, prepare its Receipts Payments Account and Subscription Account for the year ended 31st March, 2016:

**Income & Expenditure Account for the year 2015-16**

	Rs.		Rs.
To Upkeep of Ground	10,000	By Subscriptions	17320
To Printing	1000	By Sale of Newspapers (Old)	260
To Salaries	11,000	By Lectures	1500
To Depreciation on Furniture	1000	By Entrance Fee	1300
To Rent	600	By Misc. Income	400
		By Deficit	2820
	23600		23600



**Balance Sheet as at 31st March, 2016**

Liabilities		Rs.	Asset	Rs.
Subscription in Advance (2016-17)		100	Furniture	9000
Prize Fund:			Ground and Building	47000
Opening Balance	25000		Prize Fund Investment	20000
Add: Interest	1000		Cash in Hand	2300
	26000		Subscription (outstanding) (2015- 16)	7000
Less: Prizes	(2000)	24000		
General Fund:				
Opening Balance	56420			
Less Deficit	(2820)			
	53600			
Add Entrance Fee	1300	54900		
		79000		79000

The following adjustments have been made in the above accounts:

- (1) Upkeep of ground Rs. 600 and Printing Rs. 240 relating to 2014-2015 were paid in 2015-16.
- (2) One-half of entrance fee has been capitalized by transfer to General Fund.
- (3) Subscription outstanding in 2014-15 was Rs. 800 and for 2015-16 Rs. 700.
- (4) Subscription received in advance in 2014-15 was Rs. 200 and in 2015-16 for 2016-17 Rs. 100

**Problem No 12: (Important Question)**

The Sport writers Club gives the following Receipts and Payments Account for the year ended March 31, 2016:

**Receipts and Payments Account**

Receipts	Rs.	Payments	Rs.
To Balance b/d	4820	By Salaries	12000
To Subscriptions	28600	By Rent and electricity	7220
To Miscellaneous income	700	By Library books	1000
To Interest on Fixed deposit	2000	By Magazines and newspapers	2172
		By Sundry expenses	10278
		By Sports equipment's	1000
		By Balance c/d	2450
	36120		36120

Figures of other assets and liabilities are furnished as follows:

As at March 31		
	2015 Rs.	2016 Rs
Salaries outstanding	710	170
Outstanding rent & electricity	864	973
Outstanding for magazines and newspapers	226	340
Fixed Deposit (10%) with bank	20000	20000
Interest accrued thereon	500	500
Subscription receivable	1262	1575
Prepaid expenses	417	620
Furniture	9600	
Sports equipment's	7200	
Library books	5000	

The closing values of furniture and sports equipment's are to determined after charging depreciation at 10% and 20% p.a. respectively inclusive of the additions, Nany,



airing the year. The Club's library books are revalued at the end of every year and the value at the end of March 31, 2016 was Rs. 5 250

**Required:**

From the above information you are required to prepare:

- (a) The Club's Balance Sheet as at March 31, 2015;
- (b) The Club's Income and Expenditure Account for the
- (c) The Club's Closing Balance Sheet as at March 31, 2016

**Problem No 13: (Important Question)**

From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2016, and Balance Sheet as at that date of the Mayura Hospital.

Receipts Payments Account for the year ended 31 December, 2016

Receipts	Rs.	Payments	Rs.
To balance b/d		By Salaries: (3,600 for 2015)	15,600
Cash 400		By Hospital Equipment	8,500
Bank 2,000	2400	By Furniture Purchased	3,000
To Subscriptions:		By Additions to Building	25,000
For 2015	2,550	By Printing & Stationery	1,200
For 2016	12,250	By Diet expenses	7,800
For 2016	1,200	By Rent and rates (Rs.150 for 2017)	1,000
To Government Grant:		By Electricity and water charges	1,200
For building	40,000	By office expenses	1,000
For maintenance	10,000	By Investments	10,000
Fees from sundry patients	2,400	By Balances:	
To Donations (not to be capitalized)	4,000	Cash 700	
To Net collections Benefit show	3,000	Bank 3,400	4,100
	78,400		78,400

Additional information:	Rs.
Value of Rs. building under construction. as on 31.12.2016	70,000
Value of hospital equipment on 31.12.2016	25,500
Building Fund as on 1.1. 2016	40,000
Subscriptions in arrears as on 31.12.2015	3,250

Investments in 8% Govt. securities were made on 1st July, 2016.

**Problem No 14: (Important Question)**

The receipts and payments account and the income and December, 2016 were as expenditure account of a Club for the year ended 31st follows:

**Receipts and Payments Account**

Receipts	Rs.	Rs.	Payments	Rs.
To Balance b/d		2500	By Books purchased	1000
To Subscriptions:			By Printing and Stationery	200
2015	600		By Salary	1500
2016	4300	4900	By Advertisement	200
To Interest		500	By Electric Charge	400
To Donation for special		300		7350
To Rent:			By Balance c/d	
2015	150			
2016	300	450		
To Govt. Grants		2000		
		10650		10650

**Income and Expenditure Account**

Expenditure	Rs.	Income	Rs.
To Salary	2800	By Interest	400
To Tent Hire	200	By Subscription	4800
To Electric charges	400	By Rent	2300
To Depreciation on Building	750	By Govt. Grant	2000
To Printing and Stationery	200		



To Advertisement	150		
To Surplus	5000		
	9500		9500

The club's assets as on 1st January 2016 were:

Building Rs. 15,000; Books Rs.10,000

Furniture Rs.4,000; Investments Rs.10,000 Liabilities as on that date were Rs.50 for advertisement and Rs.100 for salary. Prepare the balance sheet of the club on 31st December, 2015 and 31st December, 2016.

**Problem No 15: (Important Question)**

From the following balances and particulars of Republic College, prepare Income & Expenditure Account for the year ended March, 2016 and a Balance Sheet as on the date:

	Rs.	Rs.
Seminars & Conference Receipts		4,80,000
Consultancy Receipts		1,28,000
Security Deposit Students		1,50,000
Capital Fund		16,06,000
Research Fund		8,00,000
Building Fund		25,00,000
Provident Fund		5,10,000
Tuition Fee Received		8,00,000
Government Grants		5,00,000
Donations		50,000
Interest & Dividends on Investments		1,85,000
Hostel Room Rent		1,75,000
Mess Receipts (Net)		2,00,000
College Stores-Sales		7,50,000
Outstanding expenses		2,25,000
Stock of-stores and Supplies (opening)	3,00,000	
Purchases - Stores & Supplies	8,00,000	
Salaries-Teaching	8,50,000	
Research	1,20,000	

Scholarships	80,000	
Students Welfare expenses	38,000	
Repairs & Maintenance	1,12,000	
Games & Sports Expenses	50,000	
Misc. Expenses	65,000	
Research Fund Investments	8,00,000	
Other Investments	18,50,000	
Provident Fund Investment	5,10,000	
Seminar & Conference Expenses	4,50,000	
Consultancy Expenses	28,000	
Land	1,00,000	
Building	16,00,000	
Plant and Machinery	8,50,000	
Furniture and Fittings	6,00,000	
Motor Vehicle	1,80,000	
Provision for Depreciation:		
Building		4,80,000
Plant & Equipment		5,10,000
Furniture & Fittings		3,36,000
Cash at Bank	6,42,000	
Library	3,60,000	
	1,03,85,000	1,03,85,000

**Adjustments:**

	Rs.
Materials & Supplies consumed: (From college stores)	
Teaching	50,000
Research	1,50,000
Students Welfare	75,000
Games or Sports	25,000
Tuition fee receivable from Government for backward class Scholars	80,000
Stores selling prices are fixed to give a net profit of 10% on selling price	



Depreciation is provided on straight line basis at the following rates:	
Building	5%
Plant & Equipment	10%
Furniture & Fixtures	10%
Motor Vehicle	20%

**Problem No 16: (Icmai study material )**

The following is the Income and Expenditure Account of GB Club for the year ended 31st March, 2022:

Income and Expenditure Account of GB Club for the year ended 31st March, 2022

Expenditure	(₹)	Income	(₹)
To, Salaries	19,500	By, Subscription	68,000
To, Rent	4,500	By, Donation	5,000
To, Printing	750		
To, Insurance	500		
To, Audit Fees	750		
To, Games & Sports	3,500		
To, Subscriptions written off	350		
To, Miscellaneous Expenses	14,500		
To, Loss on sale of Furniture	2,500		
To, Depreciation: Sports Equipment	6,000		
Furniture	3,100		
To, Excess of income over expenditure	17,050		
	73,000		73,000

**Additional Information:**

	31-03-2021 (₹)	31-03-2022 (₹)
Subscription in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fee	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	—	150

Book value of furniture sold is ₹ 7,000. Entrance fees capitalized ₹ 4,000. On 1st April, 2021 there was no cash in hand but Bank Overdraft was for ₹ 15,000. On 31st March, 2022 cash in hand amounted to ₹ 850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the GB Club for the year ended 31st March, 2022

**Problem No 17: (Icmai study material)**

OB Library Society showed the following position on 31st March, 2021:

**Balance Sheet as on 31st March, 2021**

Liabilities	(₹)	Assets	(₹)
Capital Fund	7, 93,000	Electrical Fittings	1,50,000
Expenses Payable	7,000	Furniture	50,000
		Books	4,00,000
		Investments in Securities	1,50,000
		Cash at Bank	25,000
		Cash in Hand	25,000
	8,00,000		8,00,000

The Receipts and Payment Account for the year ended on 31st March, 2022 is given below:

Receipts	(₹)	Payments	(₹)
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To, Balance b/d	50,000	By, Electric Charges	7,200
Cash at Bank 25,000		By, Postage and Stationery	5,000
Cash in Hand 25,000		By, Telephone Charges	5,000
To, Entrance Fees	30,000	By, Books Purchased (Apr, 2021)	60,000
To, Membership Subscription	2,00,000	By, Outstanding Expenses Paid	7,000
To, Sale Proceeds of Old Papers	1,500	By, Rent	88,000
To, Hire of Lecture Hall	20,000	By, Investment in Securities	40,000
To, Interest on Securities	8,000	By, Salaries	66,000
		By, Balance c/d	
		Cash at Bank	20,000
		Cash in Hand	11,300
	<b>3,09,500</b>		<b>3,09,500</b>

You are required to prepare Income and Expenditure Account for the year ended 31st March, 2022 and a Balance Sheet as at 31st March, 2022 after making the following adjustments:

- Membership subscription included ₹ 10,000 received in advance.
- Provide for outstanding rent ₹ 4,000 and salaries ₹ 3,000.
- Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.
- 75% of the entrance fees is to be capitalized.
- Interest on securities is to be calculated @ 5% p.a. including purchases made on 01.10.2021 for ₹ 40,000.

**Problem No 18: (Icmai study material )**

The Income and Expenditure account of an association for the year ended 31 March 2023 is as under:

Particulars	(₹)	Particulars	(₹)
To, Salaries	1,20,000	By, Subscription	1,70,000
To, Printing and Stationery	6,000	By, Entrance fee	4,000
To, Telephone	1,500	By, Contribution for Dinner	36,000
To, Postage	500		
To, General expenses	12,000		
To, Interest and bank charges	5,500		
To, Audit fees	2,500		
To, Annual Dinner Expenses	25,000		
To, Depreciation	7,000		
To, Surplus	30,000		
	2,10,000		2,10,000

The aforesaid Income and Expenditure account has been prepared after the following adjustments

Subscription outstanding as on 31st March 2022	16,000
Subscription outstanding as on 31st March 2023	18,000
Subscription received in advance as on 31st March 2022	13,000
Subscription 'received in advance as on 31st March 2023	8,400
Salaries outstanding as on 31st March 2022	6,000
Salaries outstanding as on 31st March 2023.	8,000
Audit fees for 2021-22 paid during 2022-23	2,000
Audit fee for 2022-23 not paid	2,500
The building owned by the association since 2022 costs	1,90,000
Equipment as on 31st March, 2022 valued at	52,000
At the end of the year after depreciation of ₹ 7,000, equipment amounted to	63,000



In 2020-21, the association raised a bank loan of which is still not paid	30,000
Cash in hand as on 31st March 2023	28,500
Cash in hand as on 31st March 2022	13,600
Capital Fund as on 31st March 2022	2,20,600

You are required to prepare Receipts and Payment Account of the association for the year ended 31st March 2023 and the Balance Sheet as at that date.

**Problem No 19: (Icmai study material )**

JB Club furnishes you the Receipts and Payments Account for the year ended 31.03.2023:

Receipts	(₹)	Payments	(₹)
To, Cash in hand (1.4.2022)	40,000	By, Salary	20,000
To, Cash at Bank (1.4.2022)	1,00,000	By, Repair expenses	5,000
To, Donations	50,000	By, Furnitures	60,000
To, Subscriptions	1,20,000	By, Investments	60,000
To, Entrance fee -	10,000	By, Misc. Expenses	5,000
To, Interest on	1,000	By, Insurance Premium	2,000
Investments		By, Billiards table and	80,000
To, Interest from Banks,	4,000	other Sports Items	
To, Sale of Old	1,500	By, Stationery Expenses	1,500
Newspaper		By, Drama Expenses	5,000
To, Sale of Drama	10,500	By, Cash in Hand	26,500
Tickets		(31.03.2023)	
		By, Cash at Bank	72,000
		(31.03.2023)	
	<b>3,37,000</b>		<b>3,37,000</b>

**Additional information:**

- (a) Subscriptions in arrear for 2022-23 ₹ 9,000 and subscription in advance for the year 2023-24 ₹ 3,500.
- (b) ₹ 400 was the insurance premium outstanding as on 31.03.2023.
- (c) Miscellaneous expenses prepaid ₹ 900.

- (d) 50% of donation is to be capitalized.
- (e) Entrance fees to be treated as revenue income.
- (f) 8% interest has accrued on investments for five months.
- (g) Billiards table and other sports equipments costing ₹ 3,00,000 were purchased in the financial year 2021-22 and of which ₹ 80,000 was not paid 31.03.2022. There is no charge for Depreciation to be considered.
- You are required to prepare Income and Expenditure Account for the year ended 31.03.2023 and Balance sheet of the Club as at 31.03.2023.

### **\*PAST FROM THE BLAST\***

#### **Problem No 20:**

The following is the statement of Receipts and Payments of the Delhi Hospital for the year ending March 31, 2022:

Receipts	Amount (₹)	Payments	Amount (₹)
Opening Balance:		Furniture purchased	1,000
Cash	5,000		
Bank	80,000		
Govt. Securities	18,00,000	Salaries	4,30,000
Receipts:		Instruments purchased	5,000
Subscriptions	12,50,000		
Interest	2,00,000		
Donations	40,000		
Miscellaneous	3,000		
		Diet expenses	1,20,000
		Surgery and Dispensary	4,10,000
		Rent and Taxes	3,05,000
		Insurance	12,000
		Office Expenses	97,000
		Miscellaneous Expenses	11,000
		Closing Balances:	
		Bank	1,80,000



		Cash	7,000
		Govt. Securities	18,00,000
	33,78,000		33,78,000

You are asked to prepare the Income and Expenditure Account for the year and the Balance Sheet as on 31st March, 2022. The other assets on 1st April, 2021 were: Furniture ₹20,000; Land ₹5,00,000; Building ₹15,00,000; Instruments ₹35,000. Write off depreciation at 2.5% on Building; 6% on Furniture and 20% on Instruments (Including new). The Government securities of the face value of ₹20,00,000 (Cost ₹18,00,000) represent investment of the Endowment Fund. Subscriptions received include ₹1,00,000 for the year 2020-21 but ₹70,000 is outstanding for 2021-22. Salaries paid Included ₹40,000 for 2020-21. but ₹45,000 is payable for 2021-22. Interest received includes 250,000 for 2020-21 but ₹53,000 is outstanding for 2021-22.

**SOLUTION:**

**Balance sheet as on 1st April, 2021**

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund	40,50,000	Furniture	20,000
Outstanding Salary	40,000	Land	5,00,000
		Building	15,00,000
		Instruments	35,000
		Cash	5,000
		Bank	80,000
		Govt. Securities	18,00,000
		O/s Subscription	1,00,000
		O/s Interest	50,000
	40,90,000		40,90,000

**Income and Expenditure Account**

Expenditure	(₹)	(₹)	Income	(₹)	(₹)
To Dep. on Furniture		1,260	By Subscription	12,50,000	
To Salaries	4,30,000		Less: of 2020-21	(1,00,000)	
Less: of 2020-21	(40,000)		Add: O/s of 2021-22	70,000	12,20,000
Add: O/s of (2021-22)	45,000	4,35,000	By Interest	2,00,000	

To Dep. on Instruments		8,000	Less: for 2020-21	(50,000)	
To Diet Expenses		1,20,000	Add: O/s of 2021-22	53,000	2,03,000
To Surgery and Dispensary		4,10,000	By donation		40,000
To Rent and taxes		3,05,000	By miscellaneous		3,000
To Insurance		12,000			
To Office Expense		97,000			
To Miscellaneous Exp.		11,000			
To Dep. on Building		37,500			
To Surplus		29,240			
		14,66,000			14,66,000

**Balance Sheet as on 31st March, 2022**

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund	40,50,000		Furniture	20,000	
Add: Surplus	29,240	40,79,240	Add: Purchase	1,000	
				21,000	
			Less:	(1,260)	19,740
			Depreciation		
			Outstanding Subscription		70,000
			Outstanding Interest		53,000
			Instruments	35,000	
			Add: Purchase	5,000	
				40,000	
			Less:	(8,000)	32,000
			Depreciation		
			Bank		1,80,000
			Cash		7,000



			Govt. Securities		10,00,000
			Land		5,00,000
			Building	10,00,000	
			Less:	(31,500)	14,62,500
			Depreciation		
		41,24,240			41,24,240

### Problem No 21:

Calculate the amount of sports material to be transferred to Income and Expenditure Account of Kanan Bala Sports Club, Ludhiana, for the year ended 31st March, 2018:

Particulars	₹
(i) Sports Material sold during the year (Book value ₹50,000)	56,000
(ii) Amount paid to creditors for sports material	91,000
(iii) Cash purchase of sports material	40,000
(iv) Stock of sports material as on 31-03-2017	50,000
(v) Stock of sports material as on 31-03-2018	55,000
(vi) Creditors for sports material as on 31-03-2017	37,000
(vii) Creditors for sports material as on 31-03-2018	45,000

### SOLUTION:

#### Calculation of Sports Materials to be transferred to Income & Expenditure Account

Particulars	Amount (₹)
Payment made for Sports Materials	91,000
Less: Creditors in the Beginning	(37,000)
Add: Creditors at the end	45,000
	99,000
Add: Cash Purchases of Sports Materials	40,000
Total Purchase	1,39,000
Less: Sports Materials sold during the year (Book Value)	(50,000)
	89,000
Add: Stock of Sports Materials in the beginning	50,000

Less: Stock of Sports Materials at the end	(55,000)
Amount to be debited to Income & Expenditure A/c	84,000
Amount to be credited to Income & Expenditure A/c Profit on Sale of Sports Material	6,000



## CH 6. PREPARATION OF FINANCIAL STATEMENTS FOR INCOMPLETE RECORDS

### ➤ INTRODUCTION:

- i. Small Business organizations do not maintain a comprehensive accounting records based on Double Entry System.
  - ii. The Business entity is happy with the minimum information like balances of cash and bank accounts and whether he had made a profit or loss. Hence these people maintain rough records that serve a limited purpose. Because of the principles of double entry system is not followed, it is known as 'Single Entry System'.
- **Meaning:** Single entry system is an approach of recording transactions which does not follow the principles of double entry book keeping system.

### ➤ Features of Single-Entry System

The following are the main features of conversion of single entry to double entry:

1. **Maintenance of books by a sole trader or partnership firm:** The books which are maintained according to this system can be kept only by a sole trader or by a partnership firm.
2. **Maintenance of cash book:** In this system it is very often to keep one cash book which mixes up business as well as private transactions.
3. **Only personal accounts are kept:** In this system, it is very common to keep only personal accounts and to avoid real and nominal accounts. Therefore, sometimes, this is precisely defined as a system where only personal accounts are kept.
4. **Collection of information from original documents:** For information one has to depend on original vouchers, example, in the case of credit sales, the proprietor may keep the invoice without recording it anywhere and at the

end of the year the total of the invoices gives an idea of total credit sales of the business.

5. **Lack of uniformity**: It lacks uniformity as it is a mere adjustment of double entry system according to the convenience of the person.
6. **Difficulty in preparation of final accounts**: It is much difficult to prepare trading, Profit and loss account and balance sheet due to the absence of nominal and real accounts

➤ **BENEFITS OF SINGLE-ENTRY SYSTEM:**

The following are the various advantages offered by the single-entry system.

- a) It is quick and easy to maintain.
- b) One does not require employing a qualified accountant to maintain the books of accounts.
- c) This is extremely useful for business run by individuals where the volume of activity is not large
- d) It is economical as it does not need a comprehensive record keeping.

➤ **Weakness of single-entry system**

The following are the various weakness of single-entry system.

- a) **Arithmetical accuracy**: As principle of double entry is not followed, the trial balance cannot be prepared. As such, arithmetical accuracy cannot be guaranteed.
- b) **Estimated profit**: Profit or loss can be found out only by estimates as nominal accounts are not maintained.
- c) **Balance sheet**: It is not possible to make a balance sheet in absence of real accounts
- d) **Frauds**: It is very difficult to detect frauds or errors.
- e) **Valuation**: Valuation of assets and liabilities is not proper
- f) **Difficulty in borrowings**: The external agencies like banks cannot use financial information. A bank cannot decide whether to lend money or not.
- g) **Mix of Personal transactions**: It is quite likely that the business and personal transactions of the proprietor get mixed.

➤ **Accounting from Incomplete records:**

The following are the two recognized approaches of preparation of financial statements from incomplete records:

• **Balance sheet approach:**

- a) **Process:** The operating result of an entity is determined by comparing the net worth capital of the entity at two different points of time.
- b) **Opening statement of affairs:** Prepare statement of affairs at the beginning of the accounting period - ascertain capital balance.
- c) **Closing statement of affairs:** Prepare statement of affairs at the end of the accounting period - Ascertain capital balance.
- d) **Prepare profitability statement:** Reconciliation of opening capital to closing capital along with capital related transactions to ascertain profit or loss made during the accounting period.

**Proforma profitability statement:**

Particulars	Amount
Capital balance at the beginning of the period	xxx
Add: Additional capital introduced	xxx
Less: Drawings	Xx
Add: Interest on Capital	xxx
Less: Interest on drawings	xxx
	xxx
Add: Net profit or loss made during the period (bf)	xxx
losing balance at the end of the period	xxx

➤ **Conversion Approach:**

- i. It may be possible to prepare the P & L A/c and balance sheet for such organizations by converting the records into double entry method.
- ii. In this method, various ledger accounts are prepared e.g. sales, purchases, debtors, creditors, Trading A/c, cash book. As full information is not available the balancing figure in each of these accounts needs to be correctly interpreted.

- iii. For example, if we know opening & closing balances in Debtors' A/c and the cash received from debtors; then the balancing figure will obviously indicate sales figures. Also, if we know opening and closing balances of creditors & credit purchases figures; then the balancing figure will certainly mean cash paid to creditors.

Once these figures are calculated, it's easy to prepare the financial statements in regular formats.

• **Difference between 'Statement of Affairs' & 'Balance Sheet'**

Base	Statement of Affairs	Balance Sheet
Accounting system	it is prepared by entities following single entry system	it is prepared by entities following double entry system
Outcome	Objective behind its preparation is to determine capital or net-worth at a given point of time.	Objective behind its preparation is to determine financial position of an entity as on a particular date.
Nature of position	It discloses estimated financial position of an entity	It discloses actual financial position of an entity
reliability	Information in this statement is less reliable	Information in this statement is more reliable
Capital	Excess of total assets over external liabilities is considered as capital.	Capital balance is available from the regular books of accounts
Format	There is no specific or statutory format for preparation of it.	There are statutory formats specified for various organizations like companies, banking companies and insurance Companies etc.

• **Difference between 'Statement of Profit' & P&L A/C:**

Base	Statement of Profit	Profit and Loss A/c
Accounting system	it is prepared by an entity following single entry system	It is prepared by an entity following double entry system.
Method of calculation	Profit = Capital at the end of the period - Capital at the beginning of the period.	profit = Income - Expenses



<b>Nature of profit</b>	<b>It helps the entity to calculate estimated profit made by the entity</b>	<b>it discloses actual profit or loss made by the entity</b>
<b>Disclosures</b>	<b>All items of expenses, losses, incomes and gains do not get properly disclosed.</b>	<b>All expenses, losses, incomes and gains get properly disclosed.</b>
<b>Reliability</b>	<b>Information provided by the Statement of Profit &amp; Loss is comparatively less reliable</b>	<b>Profit &amp; Loss is comparatively less reliable Account is reliable</b>

**PRACTICAL PROBLEMS****Problem No 01: (Basic problem)**

Mr. Kanan is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Kanan for the financial year 2021-22, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:

On 31st March 2021	₹
Sundry Assets	16,65,000
Liabilities	4,13,000
On 31st March, 2022	
Sundry Assets	₹ 28,40,000
Liabilities	₹ 5,80,000
Mr. Kanan drawings for the year 2021-22	32,000 per month
Income declared to the income tax officer	9,12,000

During the year 2021-22, one life insurance policy of Mr. Kanan was matured and amount received ₹ 50,000 was retained in the business.

State whether income tax officer's contention is correct. Explain by giving your working.

**Problem No 02: (Basic problem)**

M/s Ice Limited gives you the following information to find out Total Sales and Total Purchases:

Particulars	Amount (Rs)
Debtors as on 01.04.2011	70,000
Creditors as on 01.04.2011	81,000
Bills Receivables received during the year	47,000
Bills Payable issued during the year	53,000
Cash received from customers	1,56,000
Cash paid to suppliers	1,72,000



Bad Debts recovered	16,000
Bills Receivables endorsed to creditors	27,000
Bills Receivables dishonored by customers	5,000
Discount allowed by suppliers	7,000
Discount allowed to customers	9,000
Endorsed Bills Receivables dishonored	3,000
Sales Return	11,000
Bills Receivable discounted	8,000
Discounted Bills Receivable dishonored	2,000
Cash Sales	1,68,500
Cash Purchases	1,97,800
Debtors as on 31.03.2012	82,000
Creditors as on 31.03.2012	95,000

**Problem No 03: (Basic problem)**

Assets and Liabilities of Mr. X as on 31-12-2015 and 31-12-2016 are as follows:

	31-3-2016	31-3-2017
	Rs	Rs
<b>Assets</b>		
Building	1,00,000	?
Furniture	50,000	?
Inventory	1,20,000	2,70,000
Sundry debtors	40,000	90,000
Cash at bank	70,000	85,000
Cash in hand	1,200	3,200
<b>Liabilities</b>		
Loan	1,00,000	80,000
Sundry creditors	40,000	70,000

Decided to depreciate building by 2.5% and furniture by 10%. One Life Insurance Policy of the Proprietor was matured during the period and the amount Rs. 40,000 is retained in the business. Proprietor took Rs. 2,000 p.m. for meeting family expenses. Prepare Statement of Affairs. Also, Find out profit of Mr. X.

**Problem No 04: (Basic problem)**

The Income Tax Officer, on assessing the income of Shri Moti for the financial years 2015-2016 and 4.2016-2017 feels that Shri Moti has not disclosed the full income. He gives you the following particulars of assets and liabilities of Shri Moti as on 1st April, 2015 and 1st April, 2017.

			RS.
1-4-2015	Assets	Cash in hand	25,500
		Inventory	56,000
		Sundry debtors	41,500
		Land and Building	1,90,000
		Wife's Jewellery	75,000
	Liabilities	Owing to Moti's Brother	40,000
		Sundry creditors	35,000
1-4-2017	Assets	Cash in hand	16,000
		Inventory	91,500
		Sundry debtors	52,500
		Land and Building	1,90,000
		Motor Car	1,25,000
		Wife's Jewellery	1,25,000
		Loan to Moti's Brother	20,000
	Liabilities	Sundry creditors	55,000

During the two years the domestic expenditure was Rs. 4,000 p.m. The declared income of the financial years were Rs. 1,05,000 for 2015-2016 and Rs. 1,23,000 for 2016-2017 respectively. State whether the Income-tax Officer's contention is correct. Explain by giving your workings.



**Problem No 05: (Icmai study material )**

Ram Prakash keeps his books on Single Entry System. From the following information provided by him, prepare Trading and Profit & Loss Account for the year ended 31: March 2022 and Balance Sheet as at that date:

Particulars	31st March 2021	31st March 2022
Furniture	1,00,000	1,20,000
Stock of goods in trade	60,000	20,000
Sundry debtors	1,20,000	1,40,000
Prepaid expenses	0	4000
Sundry creditors	40,000	
Unpaid expenses	12,000	20,000
Cash	22,000	6,000

Receipts and payment during the year were as follows:

Particulars	Amount ₹
Receipts from debtors	4,20,000
Paid to creditors	2,00,000
Transportation	40,000
Drawings	1,20,000
sundry expenses	1,40,000
Furniture purchased	20,000

**Other Information:**

There were considerable amount of Cash Sales. Credit Purchases during the year amounted 2,30,000. Provide a provision for Doubtful Debts to the extent of 10% on Debtors.

**Problem No 06:**

The following information relates to the business of Mr. Shiv Kumar, who requests you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2017 and a Balance Sheet as on that date:

	Balance as on 31st March, 2016 Rs.	Balance as on 31st March, 2017 Rs.
Building	3,20,000	3,60,000
Furniture	60,000	68,000
Motorcar	80,000	80,000
Inventory	?	40,000
Bills payable	28,000	16,000
Cash and bank balances	1,80,000	1,04,000
Sundry debtors	1,60,000	?
Bills receivable	32,000	28,000
	1,20,000	?

(b) Cash transactions during the year included the following besides certain other items:

	RS.		RS.
Sale of old papers and miscellaneous Income	20,000	Cash purchases	48,000
Miscellaneous Trade expenses (including salaries etc.)	80,000	Payment to creditors	1,84,000
Collection from debtors	2,00,000	Cash sales	80,000

(c) Other information:

- Bills receivable drawn during the year amount to Rs. 20,000 and Bills payable accepted Rs. 16,000.

- ii. Some items of old furniture, whose written down value on 31st March, 2016 was Rs. 20,000 was sold on 30th September, 2016 for Rs. 8,000. Depreciation is to be provided on Building and Furniture 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.
- iii. Of the Debtors, a sum of Rs. 8,000 should be written off as Bad Debt and a reserve for doubtful debts is to be provided @ 2%.
- iv. Mr. Shivkumar has been maintaining a steady gross profit rate of 30% on turnover.
- v. Outstanding salary on 31st March, 2016 was Rs. 8,000 and on 31st March, 2017 was Rs. 10,000. On 31st March, 2016, Profit and Loss Account had a credit balance of Rs. 40,000.
- vi. 20% of total sales and total purchases are to be treated as for cash.
- vii. Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts

**Problem No 07:**

Adamjee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st December, 2016 is given below:

Particulars	RS.	Particulars	RS.
Bank Balance as on 1 <sup>st</sup> January, 2016	2,800	Payments to Sundry creditors	35,000
Received from Sundry Debtors	48,000	Salaries	6,500
Cash Sales	11,000	Rent and Taxes	1,500
Capital brought during the year	6,000	Drawings	3,600
Interest on Investments	200	Cash purchases	12,000
		Balance at Bank on 31st Dec., 2016	6,400

		Cash in hand on 31st Dec., 2016	500
	68,000		68,000

Particulars of other assets and liabilities are as follows:

	1st January, 2016	31st December
Sundry debtors	14,500	17,600
Sundry creditors	5,800	7,900
Machinery	7,500	7,500
Furniture	1,200	1,200
Inventory	3,900	5,700
Investments	5,000	5,000

Prepare final accounts for the year ending 31st December, 2016 after providing depreciation at 10 percent on machinery and furniture and Rs. 800 against doubtful debts.

**Problem No 08:**

Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	31-12-2015	31-12-2016
Sundry debtors	70,000	92,000
Bills receivable	15,000	6,000
Bills payable	12,000	14,000
Sundry creditors	40,000	56,000
Inventory	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

Summary of cash transactions during the year 2016:

- Deposited to bank after payment of shop expenses @ Rs. 600 p.m., wages @ Rs. 9,200 p.m. and personal expenses @ Rs. 1,400 p.m. Rs. 7,62,750.
- Withdrawals Rs. 1,21,000

- iii. Cash payment to suppliers Rs. 77,200 for supplies and Rs. 25,000 for furniture.
- iv. Cheques collected from customers but dishonored Rs. 5,700.
- v. Bills accepted by customers Rs. 40,000.
- vi. Bills endorsed Rs. 10,000
- vii. Bills discounted Rs. 20,000, discount Rs. 750.
- viii. Bills matured and duly collected Rs. 16,000
- ix. Bills accepted Rs. 24,000. Paid suppliers by cheque Rs. 3,20,000.
- x. Received Rs. 20,000 on maturity of one LIC policy of the proprietor by cheque.
- xi. Rent received Rs. 14,000 by cheque for the premises owned by proprietor.
- xii. A building was purchased on 30-11-2016 for opening a branch for Rs. 3,50,000 and some expenses were incurred on this building, details of which are not maintained.
- xiii. Electricity and telephone bills paid by cash Rs. 18,700, due Rs. 2,200.

**Other transactions:**

- (i) Claim against the firm for damage Rs. 1,55,000 is under legal dispute. Legal expenses Rs.17,000. The firm anticipates defeat in the suit.
- (ii) Goods returned to suppliers Rs. 4,2000.
- (iii) Goods returned by customers Rs. 1,200.
- (iv) Discount offered by suppliers Rs. 2,700.
- (v) Discount offered to the customers Rs. 2,400.
- (vi) The business is carried on at the rented premises for an annual rent of Rs. 20,000 which is outstanding at the year end.

Prepare Trading and Profit & Loss Account of Mr. Anup for the year ended 31-12-2016 and Balance Sheet as on that date.

**Problem No 09:**

Ms. Rashmi furnishes you with the following information relating to her business:

Assets and liabilities as on	1.1.2016	31.12.2016
Furniture (w.d.v)	12,000	12,700
Inventory at cost	16,000	14,000
Sundry Debtors	32,000	?

Sundry Creditors	22,000	30,000
Prepaid expenses	1,200	1,400
Unpaid expenses	4,000	3,600
Cash in hand and at bank	2,400	1,250

**B. Receipts and payments during 2016:**

- i. Collections from debtors, after allowing discount of Rs. 3,000 amounted to Rs. 1,17,000. Collections on discounting of bills of exchange, after deduction of discount of Rs. 250 by the bank, totalled to Rs. 12,250.
- ii. Creditors of Rs. 80,000 were paid Rs. 78,400 in full settlement of their dues. Payment for freight inwards Rs. 6,000.
- iii. Amount withdrawn for personal use Rs. 14,000. Payment for office furniture Rs. 2,000. Investment carrying annual interest of 4% were purchased at Rs.192 (face value Rs. 200) on 1st July, 2016 and payment made there for.
- iv. Expenses including salaries paid Rs. 29,000.
- v. Miscellaneous receipts Rs. 1,000.
- vi. Bills of exchange drawn on and accepted by customers during the year amounted to Rs. 20,000. Of these, bills of exchange of Rs. 4,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs. 800 was dishonoured.
- vii. Goods costing Rs. 1,800 were used as advertising materials.
- viii. Goods are invariably sold to show a gross profit of  $33\frac{1}{3}\%$  on sales.
- ix. Difference in cash book, if any, is to be treated as further drawing or introduction of capital by Ms. Rashmi. G. Provide at 2.5% for doubtful debts on closing debtors.

Rashmi asks you to prepare trading and profit and loss account for the year ended 31st December, 2016 and the balance sheet as on that date.

**Problem No 10:**

The following is the Balance Sheet of the retail business of Sri Srinivas as at 31st December, 2015:

Liabilities	RS.	Assets	RS.
-------------	-----	--------	-----

Sri Srinivas's capital	1,00,000	Furniture	10,000
Liabilities for goods	20,500	Stock	70,000
Rent	1,000	Debtors	25,000
		Cash at bank	14,500
		Cash in hand	2,000
	1,21,5000		1,21,5000

You are furnished with the following information:

- Sri Srinivas sells his goods at a profit of 20% on sales.
- Goods are sold for cash and credit. Credit customers pay by cheques only.
- Payments for purchases are always made by cheques.
- It is the practice of Sri Srinivas to send to the bank after every weekend the collections of the week paying every week, salary of Rs. 300 to the clerk, Sundry expenses of Rs. 50 and expenses Rs. 100. Analysis of the Bank Pass-Book for the 13 weeks period ending 31st March, 2016 disclosed the following

	Rs.
Payments to creditors	75,000
Payments of rent upto 31.3.2016	4,000
Amounts deposited into the bank	125000
(include Rs. 30,000 received from debtors by cheques)	
The following are the balances on 31st March, 2016:	Rs.
Stock	40,000
Debtors	30,000
Creditors for goods	36,500

On the of 31st March, 2016, the Cashier absconded with the available cash in the cash box. There was no cash deposit in the week ended on that date.

You are required to prepare a statement and showing the amount of cash defalcated by the Cashier and also a Profit and Loss Account for the period ended 31st March, 2016 and a Balance Sheet as on that date.

**Problem No 11: (Important Question)**

Mr. A runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2016 was as follows:

Liabilities	Rs.	Assets	Rs.
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in hand	28,000
		Cash at bank	38,000
	4,86,000		4,86,000

You are furnished with the following information:

1. His sales, for the year ended 31st March, 2017 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.

Total sales during the year 2015-16 were Rs. 5,00,000

2. Payments for all the purchases were made by cheques only

3. Goods were sold for cash and credit both. Credit customers pay by cheques only

4. Depreciation on furniture is to be charged 10% p.a.

5. Mr. A sent to the bank the collection of the month at the last date of the each month after paying salary of Rs. 2,000 to the clerk, office expenses Rs. 1,200 and personal expenses Rs. 500.

Analysis of bank pass book for the year ending 31st March 2017 disclosed the following:

	Rs.
Payment to creditors	3,00,000
Payment of rent up to 31st March, 2017	16,000
Cash deposited into the bank during the year	80,000

he following are the balances on 31st March, 2017:

	Rs.
Stock	1,60,000



Debtors	1,20,000
Creditors for goods	1,46,000

On the evening of 31st March 2017, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2017 and Balance Sheet as on that date. All the workings should form part of the answer.

**Problem No 12: (Important Question)**

A trader keeps his books of account under single entry system. On 31st March, 2015 his statement of affairs stood as follows:

Liabilities	RS.	Assets	RS.
Trade Creditors	5,80,000	Furniture, Fixtures and Fittings	1,00,000
Bills Payable	1,25,000	Stock	6,10,000
Outstanding Expenses	45,000	Trade Debtors	1,48,000
Capital Account	2,50,000	Bills Receivable	60,000
		Unexpired Insurance	2,000
		Cash in Hand and at Bank	80,000
	10,00,000		10,00,000

The following was the summary of Cash-book for the year ended 31st March, 2016

Receipts	Rs.	Payments	Rs.
Cash in Hand and at Bank on 1st April, 2016	80,000	Payments to Trade	75,07,000
Cash Sales	73,80,000	Creditors	
Receipts from Trade Debtors	15,10,000	Payments for Bills payable	8,15,000

Receipts for Bills Receivable	3,40,000	Sundry Expenses paid	6,20,700
		Drawings	2,40,000
		Cash in Hand and at Bank on 31 <sup>st</sup> March, 2016	1,27,300
	93,10,000		93,10,000

Discount allowed to trade debtors and received from trade creditors amounted to Rs. 36,000 and Rs. 28,000 respectively. Bills endorsed amounted to Rs. 15,000. Annual Fire Insurance premium of Rs. 6,000 was paid every year on 1st August for the renewal of the policy. Furniture, fixtures and fittings were subject to depreciation @ 15% per annum on diminishing balances method.

You are also informed about the following balances as on 31st March, 2016

	Rs.
Stock	6,50,000
Trade Debtors	1,52,000
Bills Receivable	75,000
Bills Payable	1,40,000
Outstanding Expenses	5,000

The trader maintains a steady gross profit ratio of 10% on sales. Prepare Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as at that date .

### Problem No 13: (Important Question)

The following is the Balance Sheet of Sri Agni Dev as on 31st March, 2001

Liabilities	RS.	Assets	RS.
Capital account	2,52,500	Machinery	1,20,000
Sundry Creditors for purchases	45,000	Furniture	20,000
		Stock	33,000
		Debtors	1,00,000

		Cash in hand	8,000
		Cash at Bank	16,500
	2,97,5000		2,97,5000

Riots occurred and fire broke out on the evening of 31st March, 2002, destroying the books of account and Furniture. The cashier was grievously hurt and the cash available in the cash box was stolen.

The trader gives you the following information:

i) Sales are affected as 25% for cash and the balance on credit. His total sales for the year ended 31st March, 2002 were 20% higher than the previous year. All the sales and purchases of goods were evenly spread throughout the year (as also in the last year).

ii) Terms of credit:

Debtors 2 Months

Creditors 1 Month

ii) Stock level was maintained at Rs.33,000 all throughout the year

iv A steady Gross Profit rate of 25% on the turnover was maintained throughout.

Creditors are paid by cheque only, except for cash purchase of Rs.50,000.

His private records and the Bank Pass-book disclosed the following transaction for the year

a. Miscellaneous Business Expenses	Rs.1,57,500 (including Rs.5,000 paid by cheque and Rs.7,500 was outstanding as on 31st March, 2002)
b. Repairs	Rs.3,500 (paid by cash)
c. Addition to Machinery	Rs.60,000 (paid by cheque)
d. Private Drawing	Rs.30,000 (paid by cash)
e. Travelling Expenses	Rs.18,000 (paid by cash)
f. Introduction of Additional Capital by depositing in to the Bank.	Rs.5,000

vi) Collections from debtors were all through cheques.

vii) Depreciation on Machinery is to be provided 15% on the Closing Book Value.

vii) The cash stolen is to be charged to the Profit and Loss Account.

ix) Loss of furniture is to be adjusted from the Capital Account.

Prepare Trading, Profit and Loss Account for the year ended 31st March, 2002 and a Balance Sheet as on that date. Make appropriate assumptions wherever necessary. All workings should form part of your answer.

**Problem No 14: (Important Question)**

From the following data, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2017 and a Balance Sheet as at that date. All workings should form part of your answer.

Assets and Liabilities	As on 1st April 2016	As on 31st March 2017
Creditors	15,770	12,400
Sundry expenses outstanding	600	330
Sundry Assets	11,610	12,040
Inventory in trade	8,040	11,120
Cash in hand and at bank	6,960	8,080
Trade debtors	?	17,870
Details relating to transactions in the year:		
Cash and discount credited to debtors		64,000
Sales return		1,450
Bad debts		420
Sales (cash and credit)		71,810
Discount allowed by trade creditors		700
Purchase returns		400
Additional capital-paid into Bank		8,500
Realisations from debtors-paid into Bank		62,500
Cash purchases		1,030
Cash expenses		9,570
Paid by cheque for machinery purchased		430
Household expenses drawn from Bank		3,180
Cash paid into Bank		5,000
Cash drawn from Bank		9,240
Cash in hand on 31-3-2017		1,200

Cheques issued to trade creditors	60,270
-----------------------------------	--------

**Problem No 15: (Important Question)**

The following is the Balance Sheet of a concern on 31st March, 2015:

Liabilities	RS.	Assets	RS.
Capital	10,00,00	Fixed Assets	4,00,000
Creditors (Trade)	1,40,000	Stock	3,00,000
Profit & Loss A/c	60,000	Debtors	1,50,000
		Cash & Bank	3,50,000
	12,00,000		12,00,000

The management estimates the purchases and sales for the year ended 31st March, 2016 as under

	Up to 28.2.2016 Rs.	March 2016 Rs
Purchases	14,10,000	1,10,000
Sales	19,20,000	2,00,000

It was decided to invest Rs. 1,00,000 in purchases of fixed assets, which are depreciated 10% on cost

The time lag for payment to Trade Creditors for purchase and receipt from Sales is one month. The business earns a gross profit of 30% on turnover. The expenses against gross profit amount to 10% of the turnover. The amount of depreciation is not included in these expenses.

Draft a Balance Sheet as at 31st March, 2016 assuming that creditors are all Trade Creditors for purchases and debtors for sales and there is no other item of current assets and liabilities apart from stock and cash and bank balances. Assume that all sales and purchases are on credit basis.

**Problem No 16: (Icmai study material )**

Mrs. Laxmi, a retail trader needs final accounts for the year ended 31.03.2023 for the purpose of taking a bank loan. However, she informs you that principle of double entry had not been followed. With following inputs, prepare a Profit & Loss A/c for the year ended 31.03.2023 and Balance sheet as on 31.03.2023.

Details of receipts and payments:

- (i) Cash deposited in bank ₹ 3,500
- (ii) Dividend on personal A/c deposited into bank ₹ 250
- (iii) Tuition fees of Laxmi's daughter paid by cheque ₹ 4,500
- (iv) Rent for the year by cheque ₹ 9,000
- (v) Cash received from debtors ₹ 52,500
- (vi) Paid to creditors ₹ 40,025
- (vii) Salaries & wages paid in cash ₹ 9,000
- (viii) Transportation in cash ₹ 2,750
- (ix) Office electricity in cash ₹ 6,600
- (x) Electricity (house) in cash ₹ 7,200
- (xi) General expenses in cash ₹ 890.

**Opening and Closing Balances of Assets & Liabilities:**

Particulars	31.03.2021	31.03.2022
Stock	42,500	22,500
Bank	55,500	20,500
Cash	10,850	10,500
Debtors	16,800	14,800
Creditors	15,600	22,800
Investments	15000	15000

She also informs you that she draws ₹ 6,000 from bank on monthly basis and some debtors deposit cheques directly in bank.

**\*PAST FROM THE BLAST\***

**Problem No 17:**

Following is the incomplete information of Jyotishikha Traders: The following balances are available as on 31-03-2018 and 31-03-2019.

Balances	31-03-2018	31-03-2019
Land and Building		
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Debtors (before charging for Bad debts)	?	2,25,000
Creditors for purchases	95,000	?



Creditors for office expenses	20,000	15,000
Stock	?	65,000
Long term loan from SBI @ 12%	1,60,000	1,00,000
Bank	25,000	?

Other Information	₹
Collection from debtors	9,25,000
Payment to creditors for purchases	5,25,000
Payment of office expenses (excluding interest on loan)	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	2,50,000
Credit sales (80% of total sales)	
Credit purchases	5,40,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	
Discount Allowed	5,500
Discount Received	4,500
Bad debts (2% of closing debtors)	
Depreciation to be provided as follows:	
Land and Building	5%
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

(i) On 01-10-2018 they sold machine having Book Value ₹40,000 (as on 31-03-2018) at a loss of ₹15,000. New machine was purchased on 01-01-2019.

(ii) Office equipment was sold at its Book Value on 01-04-2018.

(iii) Loan was partly repaid on 31-03-2019 together with interest for the year.

You are required to prepare Trading, Profit & Loss Account and Balance Sheet as on 31-03-2019.

**SOLUTION:**

In the Books of Jyotishikha

**Traders Account for the year ended 31-03-2019**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock A/c (Balancing Figure)	1,65,000	By Sales	12,50,000
To Purchases	9,00,000	By Closing Stock	65,000
To Gross profit (12,50,000 ×25/125)	2,50,000		
	<b>13,15,000</b>		<b>13,15,000</b>

**Profit and Loss Account for the year ended 31-03-2019**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Discount		5,500	By Gross profit		2,50,000
To Salaries Expenses		32,000	By Discount		4,500
To Office Expenses		37,000			
To Selling expenses		15,000			
To Interest on loan (12% on 1,60,000)		19,200			
To Bad debts (2% of 2,25,000)		4,500			
To Loss on sale of Machinery		15,000			
To Depreciation: Land & Building Plant & Machinery Office Equipment	25,000 23,750 12,750	61,500			



To Net profit after tax		64,800			
		2,54,500			2,54,500

**Balance sheet as on 31-3-2019**

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)
Capital	8,95,500		Land and Building (5,00,000-25,000)	4,75,000
Add: Net Profit	64,800	9,60,300	Plant and Machinery (3,30,000- 21,750)	3,08,250
Creditors for Purchases		1,05,500	Office Equipment (85,000 -12,750)	72,250
Outstanding expenses		15,000	Debtors less Bad debts	2,20,500
Loan from SBI		1,00,000	Stock	65,000
			Bank Balance	39,800
		11,80,800		11,80,800

**Working Notes:****1. Calculation of Total Sales**

Particulars	₹
Cash Sales	2,50,000
Credit Sales (80% of total sales) and Cash Sales (20% of total sales)	12,50,000
Thus, Total Sales (2,50,000 x 100/20)	10,00,000
Credit Sales (12,50,000 x 80/100)	

**2. Calculation of Total Purchases**

Particulars	₹
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases) and Credit Purchases (60% of total purchases). Thus, total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases (9,00,000 x 40/100)	3,60,000

**3. Office Expenses Account**

Particulars	₹	Particulars	₹
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	57,000		57,000

**4. Plant and Machinery Account**

Particulars	₹	Particulars	₹
To Opening balance	2,20,000	By sale	40,000
To Purchases	1,50,000	By Closing Balance	3,30,000
	3,70,000		3,70,000

**5. Depreciation calculations on Plant & Machinery**

		₹
Depreciation on	1,80,000 × 10% (for full year)	18,000
	1,50,000 × 10% × 3/12 (for 3 months)	3,750
	40,000 × 10% × 6/12 (for 6 months)	2,000
		23,750

**6. Sale of Machinery Account**

Particulars	₹	Particulars	₹
To Plant & Machinery	40,000	By Depreciation	2,000
		By Profit and Loss, A/c	15,000
		By Bank	23,000
	40,000		40,000

**7. Depreciation calculation on Office Equipment**

Particulars	₹
Opening Balance	1,05,000
Sale of Office Equipment	(20,000)
Balance of Office Equipment after sale	85,000
Depreciation 15%	12,750

**8. Opening Balance Sheet as on 31-03-2018**

Particulars	₹	Particulars	₹
Creditors	95,000	Land & Building	5,00,000
Creditor for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,60,000	Office Equipment	1,05,000
Capital (Balancing Figure)	8,95,500	Debtors	1,55,500
		Stock	1,65,000
		Bank	25,000
	<b>11,70,500</b>		<b>11,70,500</b>

9. **Sundry Debtors A/c**

Particulars	₹	Particulars	₹
To Balance b/d	1,55,500	By Bank	9,25,000
To Sales	10,00,000	By Discount	5,500
		By Bad debts	4,500
		By Bal c/d	2,20,500
	<b>11,55,500</b>		<b>11,55,500</b>

10. **Sundry Creditors A/c**

Particulars	₹	Particulars	₹
To Bank	5,25,000	By Balance b/d	95,000
To Discount	4,500	By Purchases	5,40,000
To Balance c/d	1,05,500		
	<b>6,35,000</b>		<b>6,35,000</b>

11. **Bank Account**

Particulars	₹	Particulars	₹
To Balance b/d	25,000	By Creditors	5,25,000
To Debtors	9,25,000	By Office Expenses	42,000
To Cash Sales	2,50,000	By Salary Expense	32,000
To Sale of Machinery	23,000	By Selling Expenses	15,000
To Sale of equipment	20,000	By Purchase (cash)	3,60,000
		By Purchase of Machinery	1,50,000
			79,200
		By Bank Loan & Interest	39,800
		By Balance c/d	

12,43,000

12,43,000

**Problem No 18:**

Alpana Enterprises maintain their books of account under a single-entry system. The balance sheet on 31st March, 2018 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c	6,75,000	Furniture and fixtures	1,50,000
Trade creditors	7,57,500	Stock	9,15,000
Outstanding expenses	67,500	Trade debtors	3,12,000
		Prepaid insurance	3,000
		Cash in hand and at the bank	1,20,000
	15,00,000		15,00,000

The following was a summary of cash and bank book for the year ended 31st March, 2019:

Receipts	Amount (₹)	Payments	Amount (₹)
Cash in hand and at the bank on 1st April, 2018	1,20,000	Payment to trade creditors	1,24,83,000
Cash sales	1,10,70,000	Sundry expenses paid	9,31,050
Received from trade debtors	27,75,000	Drawings	3,60,000
		Cash in hand and at the bank on 31st March, 2019	1,00,950
	1,30,65,000		1,30,65,000

**Additional information:**

- (a) Discount allowed to trade debtors and received from trade creditors amounted to ₹54,000 and ₹42,500, respectively (For the years ended 31st March 2019.)
- (b) Annual fire insurance premium of ₹9000 was paid every year on 1st August for the renewal of the policy.

(c) Furniture and fixtures were subject to depreciation @15% p.a. on di- minishing balance method.

(d) The following are the balances as on 31st March, 2019.

Stock: 9,75,000

Trade Debtors: 3,43,000

Outstanding expenses: ₹ 55,200

(e) Gross profit ratio of 10% on sales is maintained throughout the year.

From the above particulars, find out:

(i) Amount of credit sales.

(ii) Amount of credit purchase.

(ii) Amount of closing balance of creditors as on 31-3-2019

(iv) Amount of gross profit for the year ended 31-3-2019.

(v) Amount of Sundry expenses to be charged to the profit and loss account for the year ended 31-3-2019.

(vi) Amount of net profit for the year ended 31-3-2019.

(vii) Amount of closing capital as on 31-03-2019.

### SOLUTION:

i) Credit Sale = Debtors (as on 31st March, 2019) + Received from trade debtors - Debtors (as on 31st March, 2018) + Discount allowed to trade debtors

$$= 3,43,000 + 27,75,000 - 3,12,000 + 54,000$$

$$= ₹ 28,60,000$$

(ii) Credit Purchase = Cash Sales + Credit Sales + Closing Stock - Opening Stock - Gross Profit (GP from (iv))

$$= 1,10,70,000 + 28,60,000 + 9,75,000 - 9,15,000 - 13,93,000$$

$$= ₹ 1,25,97,000$$

Note: No cash purchase as on cash/bank a/c. Hence, Total purchase is Credit purchase.

(iii) Closing balance of Creditors = Creditors (as on 31st march, 2018) + Credit Purchase - Discount Received - Payment = 7,57,500 + 1,25,97,000 - 42,500 - 1,24,83,000 = ₹ 8,29,000

(iii) Closing balance of Creditors = Creditors (as on 31st march, 2018) + Credit Purchase - Discount Received - Payment = 7,57,500 + 1,25,97,000 - 42,500 - 1,24,83,000

$$= ₹ 8,29,000$$

(iv) Gross Profit = (Cash sales + Credit sales) x Gross profit ratio of 10% on sales = (1,10,70,000 + 28,60,000) \* 10%

$$= ₹13,93,000$$

$$\begin{aligned} \text{(v) Sundry Expenses} &= \text{Sundry expenses paid} + \text{Outstanding expenses. (As on 31st March, 2019)} \\ &- \text{Outstanding expenses. (As on 31st March, 2018)} = ₹9,31,050 + 55,200 - 67,500 \\ &= ₹9,18,750 \end{aligned}$$

$$\begin{aligned} \text{(vi) Net Profit} &= \text{Gross Profit} + \text{Discount received from trade creditors} - \text{Sundry Expenses} \\ &- \text{Depreciation on Furniture and fixtures} \end{aligned}$$

$$= ₹13,93,000 + 42,500 - 9,18,750 - (150,000 \times 15\%) - 54,000$$

$$= ₹4,40,250$$

$$\text{(vii) Closing Capital (31-3-2019)} = \text{Opening Balance} + \text{Net Profit} - \text{Drawings}$$

$$= 6,75,000 + 4,40,250 - 3,60,000$$

$$= ₹7,55,250.$$

## CH 7. BRANCH ACCOUNTING

### Meaning of Branch:

- Any establishment described as branch by the company.
- Any establishment carrying on same or substantially the same activity as that carried on by the head office of the company is known as branch.
- **Types of Branches:** Branches may be classified into the following two types:
  - a) **Inland branches:**
    - **Dependent Branches** - Branches in respect of which the whole of accounting records are maintained at HO only.
    - **Independent Branches** - Branches which maintain independent accounting records.
  - b) **Foreign branches:** If any branch located in a country other than the country in which the company is incorporated or registered.

### Dependent Branches

- i. **Dependent branches mean, the branches**
  - a) In respect of which the whole of the accounting records is kept at the head office.
  - b) The business policies and administration are wholly controlled by the head office.
  - c) Branch prepares the periodic returns based on which the accounting records are maintained at the HO.

**Methods of Accounting:** The following are various methods of accounting to the dependent branches:

- a) Debtor's method.
- b) Stock and debtor's method.
- c) Final Accounts Method (Memorandum P & L A/c method).

**Method or: FINAL ACCOUNTS METHOD:****AT COST PRICE****Branch Trading and Profit & Loss A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock at Branch (At Cost)	xxx	By Sales made at Branch xxx Less: Sales returns by customers (xx)	xxx
To Goods Received from HO xxx Less: Goods returned to HO = xx	xxx	By Closing Stock at Branch (at Cost)	xxx
To Purchases (Directly made by branch)	xxx		
To Direct Expenses of Branch	xxx		
To Gross Profit c/d	xxx		
	xxx		xxx
To Expenses by Branch	xxx	By Gross Profit	xxx
To Net Profit (Transferred to General P&L A/C)	xxx		
	xxx		xxx

**AT INVOICE PRICE**

If goods are sent by HO to Branch at Cost plus profit i.e. Invoice price. The following additional adjustment should be carried on to the above-Mentioned Branch Trading and profit and loss account.

- Opening stock, Goods received from HO and Closing stock at branch will be recorded at the invoice price.
- The loading / profit element on opening stock, Goods sent from Head office (net of



returns) and closing stock are reversed with a view to ascertain the true amount of profit made by the branch.

- iii. Load on opening stock should be eliminated by recording in the credit side of trading account.
- iv. Load on closing stock should be eliminated by recording in the debit side of trading account.
- v. Load on Goods sent to branch should be eliminated by recording in the credit side of trading account.

### **WHOLESALE AND RETAIL PRICE METHOD**

- i. A branch may be operated either under the retail price basis or under Whole Sale Price Basis.
- ii. If sold under retail sale price basis the profit will be difference between Retail price and Cost Price.
- iii. If sold under Wholesale price basis, the profit will be difference between Whole Sale Price and Cost price.
- iv. Under these methods the purchase price (Retail or Whole Sale) will be debited to Branch Trading account. To eliminate the profit element with a view to ascertain the usual profit made by the branch the load amount should be credited to Trading account.
- v. The opening stock and closing stock will be recorded at whole sale price or retail price, hence to eliminate the load on stocks appropriate stock reserve should be created.

- i. Load on opening stock should be eliminated by crediting to profit and loss account.

Stock Reserve A/c      Dr XXX

To Profit and loss A/c      XXX

- ii. Load on closing stock should be eliminated by debiting to profit and loss account

Profit and Loss A/c      Dr XXX

To Stock Reserve A/c      XXX

**Method 02: DEBTOR' METHOD:**

- Under this method branch is treated as simple debtors.
- For each branch a separate branch A/c is opened in the head office books to ascertain the Net profit from Branch operations.

**If goods are transferred by the HO to Branch at COST**

**Format of a Branch A/c**

Particulars	Amt.	Particulars	Amt.
To Opening balance:		By balance:	
Stock                   xxx		Outstanding expenses	
Debtors               xxx		xxx	
Cash                   xxx		Income received in	xxx
Prepaid expenses xxx		Advance                   xxx	
Outstanding income xxx	Xxx		
To Goods sent to branch	Xxx	By Goods sent to head	xxx
A/c		office (returns)	
To Sundry creditors	Xxx	By Bank (remittance)	xxx
(direct)			
To Bank (direct expenses)	Xxx	By Balance:	
To General P & L (Profit	Xxx	Stock                   xxx	
b/f)		Debtors               xxx	
		Cash                   xxx	xxx
		By General P& LA/c (loss	xxx
		B/F)	
	Xxx		xxx

- If goods are transferred by the HO to Branch at INVOICE PRICE:
  - If Head Office sends by the goods to the branch at cost plus profit basis (Invoice price), Opening the stock, closing stock, Goods sent to Branch and Goods returned by the Branch to head office will be recorded in the Branch books at Invoice Price.
  - With a view to ascertain the usual profit made by the branch, the following additional adjustments should be carried out to the above given format of Branch account.
    - Load on opening stock should be eliminated by creating an opening stock reserve by crediting to Branch Account.

- b. Load on closing stock should be eliminated by creating closing stock reserve by debiting to Branch Account.
- c. Load on goods sent to branch should be eliminated by crediting the Branch Account with profit. (Goods sent to Branch A/c).
- d. Load on goods returned by branch to Head office should be eliminated by Debiting the Branch Account with profit (Goods returned to Branch A/c).

**Note:** Branch Stock Account in the Books of the Head Office can be maintained in the following two ways:

- Single Column Branch Stock Account
- Double Column Branch Stock Account (Invoice Price & Cost Price)

#### **Method 03: STOCK AND DEBTOR'S METHOD:**

- i. HO will use this method of maintaining the books of Dependent branches, when there is large number of transactions with a view to exercise efficient control over the branches.
- ii. Under this method HO prepares the below mentioned A/cs:
  - a. Branch stock A/c (Invoice Price) to ascertain the gross profit.
  - b. Branch Debtors A/c - to record Receivables and Credit Sales.
  - c. Branch Adjustment A/c - to adjust loading on opening stock, closing stock, goods sent to branch and goods returned by the branch to HO etc.
  - d. Branch Profit and Loss A/c - to ascertain Net Profit.
  - e. Goods sent to Branch A/c - to record the goods sent and returned.
  - f. Branch Expense A/c - to record expenses incurred at Branch.
  - g. Branch Cash A/c - to control Branch Cash position/ Remittances.
  - h. Branch Fixed Assets A/c - to account for the assets of the Branch.
  - i. Abnormal Loss / Loss in Transit A/c

**Accounting for Dependent Branch Transactions in HO Book:**

Date	Particulars	L.f	Debit	Credit
<b>1</b>	<b>Goods Sent to Branch by HO</b>			
	Branch Stock A/c - Invoice Price		xxx	
	To Goods sent to Branch A/c (at Cost)			xxx
	To Branch Adjustment A/c (Load)			xxx
<b>2.</b>	<b>Goods Returned by Branch to HO</b>			
	Goods Sent to Branch A/c - at Cost		xxx	
	Branch Adjustment A/c - Load		xxx	
	To Branch Stock A/c			xxx
<b>3.</b>	<b>Assets provided by HO to Branch either by way of new purchase or by way of transfer from HO</b>			
	Branch Assets A/c		xxx	
	To HO Cash A/c (or) HO Assets A/c (or) Vendor A/c			xxx
<b>4.</b>	<b>Cash sent to Branch for expenses by HO</b>			
	Branch Cash A/c		xxx	
	To HO Cash A/c			xxx
<b>5.</b>	<b>Cash Sales made by the Branch:</b>			
	Branch Cash A/c		xxx	
	To Branch Stock A/c			xxx
<b>6.</b>	<b>Credit Sales made by the Branch:</b>			
	Branch Debtors A/c		xxx	
	To Branch Stock A/c			xxx
<b>7.</b>	<b>Collection from Branch Debtors:</b>			
	Branch Cash A/c		xxx	
	To Branch Debtors A/c			xxx
<b>8.</b>	<b>Sales Returns at the Branch by Customers:</b>			
	Branch Stock A/c		xxx	
	To Branch Debtors A/c			xxx
<b>9.</b>	<b>Discounts/ Bad Debts etc.</b>			
	Branch Expenses A/c		xxx	
	To Branch Debtors A/c			xxx
<b>10.</b>	<b>Various expenses incurred at Branch:</b>			

	Branch Expenses A/c To Branch Cash A/c	XXX	XXX
11.	Branch Expenses directly met by HO: Branch Expenses A/c To HO Cash A/c	XXX	XXX
12.	Remittances made by Branch to HO: HO Cash A/c To Branch Cash A/c	XXX	XXX
13.	Goods Lost in Transit / Stolen etc. Goods Lost in Transit (at Cost) Branch Adjustment A/c (Profit) To Branch Stock A/c	XXX XXX XXX	XXX
	Closing Entries (usually recorded at the end of the period):		
14.	Recording of Closing stock at Branch: Closing stock at Branch A/c (with load) To Branch Stock A/c	XXX	XXX
15.	Recording of Excess Sale Price over the invoice price made by the branch: Branch Stock A/c To Branch Adjustment A/c	XXX	XXX
16.	Recording of unrealised profit on Closing stock: Branch Adjustment A/c To Closing Stock Reserve A/c	XXX	XXX
17.	Recording of Gross Profit at Branch: Branch Adjustment A/c To Branch P&L A/c	XXX	XXX
18.	Depreciation on Branch Assets: Branch Expenses A/c To Branch Assets A/c	XXX	XXX
19.	Transfer of Branch Expenses: Branch P&L A/c To Branch Expenses A/c	XXX	XXX
20.	Recording of Net Profit of the Branch: Branch P&L A/c To General P&L A/c	XXX	XXX

**Independent Branches**

- i. Independent branches maintain comprehensive accounting books for their recording transactions. A separate trial balance of each branch can be prepared.
- ii. The head office maintains one ledger A/c for each such branch, where all the transactions between the head office and the branch are recorded.
- iii. Accounting transaction-journal entries:

Transaction	In head office books	In branch office books
Dispatch of goods to branch by head office	Branch A/c Dr To Goods Sent to Branch A/c	Goods Received from Head Office A/c Dr To Head office A/c
When goods are returned by the branch to head office	Goods Sent to branch A/c Dr To Branch A/c	Head office A/c Dr To Goods Received from Head Office A/c
When goods are returned by the branch to head office	Goods Sent to branch A/c Dr To Branch A/c	the branch to head office Head office A/c Dr To Goods Received from Head Office A/c
Branch expenses paid by branch	NO ENTRY	Expenses A/c Dr To Cash A/c
Branch expenses paid by head office	Branch A/c Dr To bank A/c	Expenses A/c Dr To Head office A/c
Outside purchases made by branch	NO ENTRY	Purchases A/c Dr To Bank A/c
Sales affected by the branch	NO ENTRY	Bank A/c Dr To sales A/c
Collection from debtors of the branches received by head office	Bank A/c Dr To Branch A/c	Head Office A/c Dr To Debtor's A/c
Payment by head office for purchase made by the branch	Branch A/c Dr To Bank A/c	Purchase A/c Dr To Head Office A/c
Purchase of an asset by the branch	NO ENTRY	Assets A/c Dr To Bank A/c

<b>Asset purchased by the branch but asset A/c retained at head office books</b>	<b>Branch Asset A/c    Dr To Branch A/c</b>	<b>Head Office A/c    Dr To Bank A/c</b>
<b>Depreciation on the above mentioned assets</b>	<b>Branch A/c    Dr To Branch Assets A/c</b>	<b>Depreciation A/c Dr To Head Office A/c</b>
<b>Remittance of funds by head office to branch</b>	<b>Branch A/c    Dr To Bank A/c</b>	<b>Bank A/c    Dr To Head Office A/c</b>
<b>Remittance of funds by branch to head office</b>	<b>Bank A/c    Dr To Branch A/c</b>	<b>Head Office A/c    Dr To Bank Ac</b>
<b>Transfer of goods from one branch to another branch</b>	<b>Receiving Branch A/c    Dr To Giving Branch A/c</b>	<b>Receiving branch Goods received from head office A/c    Dr To Head Office A/c</b>  <b>Giving branch: Head Office A/c Dr To Goods Sent to Branch A/c</b>

**Reconciliation of balance in branch account of head office books with the balance in head office accounts of the branch books:**

**1. Good in transit:**

- It refers to goods which one supplied by the head office to branch but not received by the said branch on the date of closing of books of accounts. This is known as goods in transit.
- No journal entries required in the head office books due to the fact that the said transaction is already recorded in head office books.
- In branch books the following adjustments journal entries is supposed to be recorded:

Goods in Transit A/c	Dr XXX	
To Head Office A/c		XXX

**2. Cash in transit:**

- a. It refers to cash remitted by the branch to the head office but not received by the head office on the date of closure of books of accounts.
- b. No journal entries required in the branch books due to the fact that, it is already accounted for.
- c. In head office books the following adjustments journal entry is required

Cash in Transit A/c Dr XXX

To Branch A/c XXX

3. **Reasons for Dis-agreement:** The following are the possible reasons for the disagreement between the branch A/c in head office books and head office account in branch books as on the closing date of the year.
  - a. Goods dispatched by the head office but not received by the branch - goods in transit.
  - b. Goods returned by the branch to head office but not received by head office In head office books the following adjustments journal entries is required: -

Goods in Transit A/c Dr XXX

To Branch A/c XXX

- c. Amount submitted by the head office but not received by the branch. On the closing date cash in transit.
- d. Cash sent by head office not received by the branch in case of branch books the below mentioned adjustment journal entries required: -

Cash in transit A/c Dr XXX.

To Head Office A/c XXX

- e. Receipt of income or payment relating to branch by head office.





➤ **Branch Vs Departmental Accounting:**

- The following are the few differences between branch Accounting and Departmental Accounting

Departmental	Branch
Departmental always in Inland	Branch may be either Inland or Foreign
All departments of a Business remain generally under one roof.	Branch of a Concern is established at different place in the same town or at different town
Departments are made to increase the efficiency of the Business	Departments are made to increase the efficiency of the Business

**PRACTICAL PROBLEMS****Problem No 01:**

Buckingham Bros, Bombay have a branch at Nagpur. They send goods at cost to their branch at Nagpur. However, direct purchases are also made by the branch for which payments are made at head office. All the daily collections are transferred from the branch to the head office. From the following, prepare Nagpur branch account in the books of head office by Debtors method:

	Rs		Rs
Opening balance (1-1-20X1)		Bad Debts	1000
Imprest Cash	2000		
Sundry Debtors	25000	Discount to Customers	2000
Stock: Transferred from H.O.	24000	Remittances to H.O. (recd. by H.O.)	165000
Direct Purchases	16000	Remittances to H.O.   (not recd. by H.O. so far)	5000
Cash sales	45000	Branch Exp. Directly paid by	30000
Credit Sales	130000	Closing Balance (31-12-20X1)	
Direct Purchases	45000	Stock: Direct Purchase	10000
Returns from Customers	3000	Transfer from H.O.	15000
Goods sent to branch from H.O.	60000	Debtors	?
Transfer from H.O. for Petty Cash exp	4000	Imprest Cash	?
		Petty Cash expenses	4000

**Problem No 02: (Icmai study material)**

DK Traders of Assam has a branch at Mumbai. The branch receives all supply of goods from the head office (Assam). From the following particulars relating to Mumbai Branch for the year ending Mar.31, 2022. Prepare a Branch Accounts and a Goods Sent to Branch Account in the books of the Head office.

Particulars	(₹)	Particulars	(₹)
Stock at Branch on 1.04.2021 (at cost):	8400	Bills Receivable received from Debtor	20,000
Branch Debtor on 1.04.2021	6200	Cash sent to branch for exp.	
Petty Cash at Branch on 1.04.2021:	200	- Salaries	3,800
Goods Sent to Branch during the year (at cost):	80,000	- Petty exp.	400
Goods returned by the branch	800	Stock at Branch on 31.3.2022 (at cost)	6,400
Cash Sales during the year	72,000	Petty Cash at Branch on 31.3.2022	300
Credit Sales during the year	46,000	Branch Debtor on 31.3.2022	?
Cash received from Debtor	18,800		

**Problem No 03: (Important Question)**

The Bombay Traders invoiced goods to its Delhi branch at cost. Head Office paid all the branch expenses from its bank account, except petty cash expenses which were met by the Branch. All the cash collected by the branch was banked on the same day to the

credit of the Head Office. The following is a summary of the transactions entered into at the branch during the year ended December 31, 20X1.

	Rs		Rs
Balances as on 1.1.20X1			
Stock	7000	Bad Debts	600
Debtor	12600	Goods returned by customers	500
Petty Cash,	200	Salaries & Wages	6200
Goods sent from H.O.	26000	Rent & Rates	1200
Goods returned to H.O.	1000	Sundry Expenses	800
Cash Sales	17500	Cash received from Sundry	28500
credit Sales	28400	Balances as on 31.12.20X1:	
Allowances to customers	200	Stock	6500
Discount to customers	1400	Debtors	9800
		Petty cash	100

Prepare: (a) Branch Account (Debtors Method),

(b) Branch Stock Account, Branch Profit & Loss Account, Branch Debtors and Branch Expenses Account by adopting the Stock and Debtors Method 5.1.1 and

(c) Branch Trading and Profit & Loss Account to prove the results as disclosed by the Branch Account.

#### Problem No 04:

Harrison of Chennai has a branch at New Delhi to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December, 20X1:

	Rs
Cost of goods sent to Branch at cost	2,00,00
Goods received by Branch till 31-12-20X1 at invoice price	2,20,00
Credit Sales for the year @ invoice price	1,65,00
Cash Sales for the year @ invoice price	59,00
Cash Remitted to head office	2,22,50
Expenses paid by H.o.	12,00
Bad Debts written off	750

Balances as on	1-1-20X1	31-12-20X1
	Rs	Rs
Stock	25,000 (Cost)	28,000 (invoice price)
Debtors	32,750	26000
Cash in Hand	5000	2,500

Show necessary ledger accounts in the books of the head office and determine the Profit and Loss of the Branch for the year ended 31st December, 20X1.

**Problem No 05: (Icmai study material )**

Prepare a Branch account in the books of Head Office from the following particulars for the year ended 31st March, 2022 assuming that H.O. sold goods at cost price 25%.

Particulars	(₹)	Particulars	(₹)
Stock on 1.4.2021 (I.P.)	12,500	Bad Debts	2,000
Debtors ( " )	5,000	Allowances to customers	1,000
Purchase ( " )	1,000	Returns Inwards	1,000
Goods sent to branch (I.P.)	40,000	Charges sent to Bank:	
Goods return to H.O. (I.P.)	5,000	Rates & Taxes	3,000
Cash Sales	12,000	Salaries	8,000
Cash received from Debtors	30,000	Misc. Exps.	1,000
		Stock on 31.03.2022 (I.P.)	15,000
		Debtors ( " )	4,000

		Petty Cash ( " )	1,000
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**Problem No 06:**

Following is the information of the Jammu branch of Best New Delhi for the year ending 31st March, 20X2 from the following:

Goods are invoiced to the branch at cost plus 20%	
The sale price is cost plus 50%.	
<b>Other information:</b>	<b>Rs.</b>
Stock as on 01.04.20X1 (invoice price)	2,20,000
Goods sent during the year (invoice price)	11,00,000
Sales during the year	12,00,000
Expenses incurred at the branch	45,000

Ascertain

- (i) the profit earned by the branch during the year.
- (ii) branch stock reserve in respect of unrealized profit.

**Problem No 07:**

Sell Well who carried on a retail business opened a branch X on January 1st, 20X1 where all sales were on credit basis. All goods required by the branch were supplied from the Head Office and were invoiced to the branch at 10% above cost. The following were the transactions:

	Jan 20X1	Feb 20X1	March 20X1
Goods sent to Branch (Purchase Price)	40000	50000	60000
Sales as shown by the branch monthly report	38,000	42,000	55,000
Cash received from Debtors and remitted to H.O.	20000	51000	35000

Returns to H.O. (Invoice price to Branch)	1200	600	2400
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The stock of goods held by the branch on March 31, 20X1 amounted to Rs. 53,400 at invoice to branch. Record these transactions in the Head Office books, showing balances as on 31st March, 20X1 and the branch gross profit for the three months ended on that date. All workings should form part of your solution.

**Problem No 08:**

Hindustan Industries Mumbai has a branch in Cochin to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office, and the Branch has to remit all cash received into the Head Office Bank Account.

From the following details, relating to calendar year 20X1, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account, but sends weekly returns to the Head Office:

	Rs
Goods received from Head Office at invoice price	600000
Returns to Head Office at invoice price	12000
stock at Cochin as on 1st Jan., 20X1	60000
sales in the year Cash	200000
Credit	360000
Sundry Debtors at Cochin as on 1st Jan. 20X1	72000
cash received from Debtors	320000
Discount allowed to Debtors	6000
Bad debts in the year	4000
Sales returns at Cochin Branch	8000
Rent, Rates, Taxes at Branch	18000
Salaries, Wages, Bonus at Branch	60000
Office Expenses	6000
Stock at Branch on 31st Dec. 20X1 at invoice price	120000

Prepare Branch accounts in books of head office by Stock and debtors method.

**Problem No 09:**

Arnold of Delhi, trades in Ghee and Oil. It has a branch at Lucknow. He dispatches 25 tins of Oil @ Rs. 1,000 per tin and 15 tins of Ghee @ Rs. 1,500 per tin on 1st of every month. The branch incurs Some expenditure which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details:

		Delhi	Lucknow
		Rs.	Rs.
Purchases	Ghee	14,75,000	
	Oil	29,32,000	
Direct expenses		3,83,275	
Expenses paid by H.O.			14,250
Sales	Ghee	8,46,350	3,42,750
	oil	27,41,250	3,15,730
Collection during the year (including Cash Sales)			6,47,330
Remittance by Branch to Head Office			6,13,250

	Delhi	
Balance as on:	1-1-20X1	31-12-20X1
Stock: Ghee	1,50,000	3,12,500
oil	3,50,000	4,17,250
Debtors	7,32,750	-
Cash on Hand	70,520	55,250
Furniture & Fittings	21,500	19,350
Plant/Machinery	3,07,25	7,73,500



	(Lucknow)	
Balance as on:	1-1-201X	1-1-201X
Stock: Ghee	17000	13250
Oil	27,000	44750
Debtors	75,750	?
Cash on hand	7,540	12350
Furniture and fittings	6250	5625
Plant and machinery	-	

Addition to Plant/Machinery on 1-1-20X1 Rs. 6,02,750.

Rate of Depreciation: Furniture / Fittings 10% and Plant / Machinery @ 15% (already adjusted in the above figures). The Branch Manager is entitled to 10% commission after charging such commission whereas, the General Manager is entitled to 10% commission on overall company profits after charging such commission. General Manager is also entitled to a salary of Rs. 2,000 p.m. General expenses incurred by H.O. Rs. 24,000.

Prepare Branch Account in the head office books and also prepare the Arnold's Trading and Profit and Loss A/c (excluding branch transactions).

#### Problem No 10:

M/s Rahul operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus 20%.

Following is the information regarding one of the outlets for the year ended 31.3.20X2:

Stock at the outlet 1.4.20X1	30000
Goods invoiced to the outlet during the year	324000
Gross profit made by the outlet	60000
Goods lost by fire	?
Expenses of the outlet for the year	20000
Stock at the outlet 31.3.20X2	36000

You are required to prepare the following accounts in the books of Rahul Limited for the year ended 31.3.200x2

- (a) Outlet Stock Account.
- (b) Outlet Profit & Loss Account.
- (c) Stock Reserve Account.

**Problem No II:**

Messars ramchand & Co., Hyderabad have a branch in Delhi. The Delhi Branch deals not only in the goods from Head Office but also buys some auxiliary goods and deals in them. They, however, do not prepare any Profit & Loss Account but close all accounts to the Head Office at the end of the year and open them afresh on the basis of advice from their Head Office. The fixed assets accounts are also maintained at the Head Office. The goods from the Head Office are invoiced at selling prices to give a profit of 20 per cent on the sale price. The goods sent from the branch to Head Office are at cost. From the following, prepare Branch Trading and Profit & Loss Account and Branch Assets Account in the Head Office Books.

Debit	Rs	Credit	Rs
Head office opening balance on 1-1-16	15000	Sales	100000
Goods from H.O.	50000	Goods to HO	3000
Purchaseses	20000	HO current a/c	15000
Opening Stock		Sundry creditors	3000
(H.O. goods at invoice prices)	4000		
Opening Stock of other goods	500		
Salaries	7000		
Rent	3000		

Office expenditure	2000		
Cash on Hand	500		
cash at Bank	4000		
Sundry Debtors	15000		
	121000		121000

The Branch balances as on 1st January, 20X1, were as under: Furniture Rs. 5,000; Sundry Debtors Rs. 9,500; Cash Rs. 1,000, Creditors Rs. 30,000. The closing stock at branch of the head office goods at invoice price is Rs. 3,000 and that of purchased goods at cost is Rs. 1,000. Depreciation is to be provided at 10 per cent on branch assets.

**Problem No 12: (Important Question)**

Show adjustment journal entry in the books of head office at the end of April, 20X1 for incorporation of inter-branch transactions assuming that only head office maintains different branch accounts in its books.

**A. Delhi branch:**

- (1) Received goods from Mumbai - Rs. 35,000 and Rs. 15,000 from Kolkata.
- (2) Sent goods to Chennai Rs. 25,000, Kolkata -Rs. 20,000.
- (3) Bill Receivable received Rs. 20,000 from Chennai.
- (4) Acceptances sent to Mumbai -Rs. 25,000, Kolkata -Rs. 10,000.

**B. Mumbai Branch (apart from the above):**

- (5) Received goods from Kolkata -Rs. 15,000, Delhi- Rs. 20,000.
- (6) Cash sent to Delhi- Rs. 15,000, Kolkata - Rs. 7,000.

**C. Chennai Branch (apart from the above):**

- (7) Received goods from Kolkata - Rs. 30,000.

(8) Acceptances and Cash sent to Kolkata - Rs. 20,000 and Rs.10,000 respectively.

**D. Kolkata Branch (apart from the above)**

(9) Sent goods to Chennai - Rs. 35,000.

(10) Paid cash to Chennai - Rs.15,000.

(11) Acceptances sent to Chennai Rs.15,000.

**Problem No 13:**

Give Journal Entries in the books of Branch A to rectify or adjust the following:

i. Head Office expenses Rs. 3,500 allocated to the Branch, but not recorded in the Branch Books.

ii. Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for Rs. 1,500.

iii. Branch paid Rs. 2,000 as salary to a H.O. Inspector, but the amount paid has been debited by the Branch to Salaries account.

iv. H.O. collected Rs. 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.

v. A remittance of Rs. 15,000 sent by the Branch has not yet been received by the Head Office.

Vi. Branch A incurred advertisement expenses of Rs. 3,000 on behalf of Branch B

**Problem No 14:**

Give Journal Entries in the books of Head Office to rectify or adjust the following:

i. Goods sent to Branch Rs. 12,000 stolen during transit. Branch manager refused to accept any liability.

ii. Branch paid Rs. 15,000 as salary to the officer of Head Office on his visit to the branch.

iii. On 28th March, 2012, the H.O. dispatched goods to the Branch invoiced at Rs. 25,000 which was not received by Branch till 31st March, 2012.

iv. A remittance of Rs. 10,000 sent by the branch on 30th March, 2012, received by the Head Office on 1st April, 2012.

**Problem No 15:**

Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following:

- i. Income of Rs. 2,800 located to the Branch by Head Office but not recorded in the Branch books.
- ii. Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for Rs. 1,000.
- iii. Branch paid Rs. 3,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.
- iv. Branch incurred travelling expenses of Rs. 5,000 on behalf of other Branches, but not recorded in the books of Branch.
- v. A remittance of Rs. 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.
- vi. Head Office allocates Rs. 75,000 to the Branch as Head Office expenses, which has not yet been recorded by the Branch.
- vii. Head Office collected Rs. 30,000 directly from a Branch Customer. The intimation of the fact has been received by the Branch only now.
- viii. Goods dispatched by the Head office amounting to Rs. 10,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

**\*FOREIGN BRANCH\*****Problem No 16:**

S & M Ltd., Bombay, have a branch in Sydney, Australia. Sydney branch is an integral foreign operation of S & M Ltd.

At the end of 31st March, 20x2, the following ledger balances have been extracted from the books of the Bombay Office and the Sydney Office:

	Bombay		Sydney	
	(Rs. thousand)		(Austr dollars thousands)	
	DR	CR	DR	CR
Share Capital	-	2000	-	-
Reserves & Surplus	-	1000	-	-

Land	500	-	-	-
Buildings (Cost)	1000	-	-	-
Buildings Dep. Reserve	-	200	-	-
Plant & Machinery (Cost)	2500	-	200	-
Plant & Machinery Dep. Reserve	-	600	-	130
Debtors	280	200	60	30
Stock (1.4.20X1)	100	-	20	-
Branch Stock Reserve	-	4	-	-
Cash & Bank Balances	10	-	10	-
Purchases/ Sales	240	520	20	123
Goods sent to Branch	-	100	5	-
Managing Director's salary	30	-	-	-
Wages & Salaries	75	-	45	-
Rent	-	-	12	-
Office Expenses	25	-	18	-
Commission Receipts	-	256	-	100
Branch/ H.O. Current A/c	120	-	-	7
	4880	4880	390	390

The following information is also available:

(1) Stock as at 31.3.20x2: Bombay Rs. 1,50,000 Sydney A\$ 3,125

You are required to convert the Sydney Branch Trial Balance into rupees;

(use the following rates of exchange:)

Opening rate A \$ = Rs. 20

Closing rate A\$ = Rs. 24

Average rate A \$ = Rs. 22

For Fixed Assets A\$ Rs. 18).

#### Problem No 17:

M/s Carlin has head office at New York (U.S.A.) and branch at Mumbai (India).

Mumbai branch is an integral foreign operation of Carlin & Co. Mumbai branch

furnishes you with its trial balance as on 31st March, 20x2 and the additional information given thereafter:

	Dr	Cr
	Rupees in thousands	
Stock on 1st April, 20X1	300	-
Purchases and sales	800	1,200
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Wages and salaries	560	-
Rent, rates and taxes	360	-
Sundry charges	160	-
Computers	240	-
Bank balance	420	-
New York office a/c	-	1620
	3360	3360

**Additional information:**

- (a) Computers were acquired from a remittance of US \$ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.
- (b) Unsold stock of Mumbai branch was worth Rs. 4,20,000 on 31st March, 20X2.
- (c) The rates of exchange may be taken as follows: (i) on 1.4.20x1 @ Rs. 40 per US \$  
(ii) on 31.3.20X2 @ Rs. 42 per US \$  
(ii) average exchange rate for the year @ Rs. 41 per US \$  
(iv) conversion in \$ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 20X2 and the balance sheet as on that date of Mumbai branch as would appear in the books of New York head office of Carlin & Co. You are informed that Mumbai branch account showed a debit balance of US \$ 39609.18 on 31.3.20X2 in New York books and there were no items pending reconciliation.

**Problem No 18:**

Omega has a branch at Washington. Its Trial Balance as at 30th September, 2012 is as follows

	Dr	Cr
	US	US
Plant and machinery	1,20,000	-
Furniture and fixtures	8,000	-
Stock, Oct. 1, 2011	56,000	-
Purchases	2,40,000	-
Sales	-	4,16,000
Goods from Omega (H.O.)	80,000	-
Wages	2,000	-
Carriage inward	1,000	-
Salaries	6,000	-
Rent, rates and taxes	2,000	-
Insurance	1,000	-
Trade expenses	1,000	-
Head Office A/c	-	1,14,000
Trade debtors	24,000	-
Trade creditors	-	17,000
Cash at bank	5,000	-
Cash in hand	1,000	-
	5,47,000	5,47,000

The following further information is given:

- (1) Wages outstanding-\$ 1,000.
- (2) Depreciate Plant and Machinery and Furniture and Fixtures @ 10 % p.a.
- (3) The Head Office sent goods to Branch for Rs. 39,40,000.
- (4) The Head Office shows an amount of Rs. 43,00,000 due from Branch.
- (5) Stock on 30th September, 2012 -\$ 52,000.
- (6) There were no in transit items either at the start or at the end of the year.



(7) On September 1, 2010, when the fixed assets were purchased, the rate of exchange was Rs. 38 to one \$.

On October 1, 2011, the rate was Rs. 39 to one \$.

On September 30, 2012, the rate was Rs. 41 to one \$

Average rate during the year was Rs. 40 to one \$.

You are asked to prepare:

(a) Trial balance incorporating adjustments given under 1 to 4 above, converting dollars into rupees. Trading and Profit and Loss Account for the year ended 30th September, 2012 and Balance Sheet as on that date depicting the profitability and net position of the Branch as would appear in India for the purpose of incorporating in the main Balance Sheet. The Washington branch of XYZ Mumbai sent the following trial balance as on 31st December, 2012:

**Problem No 19:**

The Washington branch of XYZ Mumbai sent the following trial balance as on 31st December, 2012:

	\$	\$
Head office A/c	-	22,800
Sales	-	84,000
Debtors and creditors	4,800	3,400
Machinery	24,000	-
Cash at bank	1,200	-
Stock, 1 January, 2012	11,200	-
Goods from H.O.	64,000	-
Expenses	5,000	-
	1,10,200	1,10,200

In the books of head office, the Branch A/c stood as follows:

	RS		RS
To Balance b/d	81,000	By Cash	28,600

To Goods sent to branch	2926000	By Bal c/d	860000
	3736000		3736000

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 31st January, 2007, when \$ 1.00 Rs. 40.

Rates of exchange were:

1st January, 2012	\$1.00	=	Rs 46
31st December, 2012	\$1.00	=	Rs 48
Average	\$1.00	=	Rs 47

Machinery is depreciated @ 10% and the branch manager is entitled to a commission of 5% on the profits of the branch.

You are required to:

- (i) Prepare the Branch Trading & Profit & Loss A/c in dollars.
- (ii) Convert the Trial Balance of branch into Indian currency and prepare Branch Trading & Profit and Loss A/c and the Branch A/c in the books of head office.

### Problem No 20:

Moon Star has a branch at Virginia (USA). The Branch is a non-integral foreign operation of the Moon Star. The trial balance of the Branch as at 31st March, 2012 is as follows:

Particulars	US \$	
Office equipment's	48,000	
Furniture and Fixtures	3,200	
Stock (April 1, 2011)	22,400	
Purchases	96,000	
Sales		166,400
Goods sent from H.o	32,000	
Salaries	3,200	
Carriage inward	400	
Rent, Rates & Taxes	800	
Insurance	400	
Trade Expenses	400	

Head Office Account		45600
Sundry Debtors	9600	
Sundry Creditors		6800
Cash at Bank	2000	
Cash in hand	400	
	218800	218800

The following further information's are given:

- (1) Salaries outstanding \$ 400.
- (2) Depreciate office equipment and furniture & fixtures @10% p.a. at written down value.
- (3) The Head Office sent goods to Branch for Rs.15,80,000
- (4) The Head Office shows an amount of Rs. 20,50,000 due from Branch.
- (5) Stock on 31st March, 2012- \$21,500.
- (6) There were no transit items either at the start or at the end of the year.
- (7) On April 1, 2010 when the fixed assets were purchased the rate of exchange was Rs. 43 to one \$. On April 1, 2011, the rate was 47 per \$. On March 31, 2012 the rate was Rs. 50 per \$. Average rate during the year was Rs. 45 to one \$.

**Problem No 21:**

Raju Industries, Kolkata has a branch in Delhi to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch expenses are paid direct from head office, and branch has to remit all cash received to the Head office Bank Account. 1. From the following details, relating to calendar year 2014, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account, but sends weekly returns to the Head Office.

Particulars Amount in Rs.	RS
Goods received from Head Office at Invoice	6,00,000
Returns to Head Office at Invoice Price	12,000
Stock at Delhi as on 1st Jan. 2014	60,000
Sales during the year- Cash	180000
Credit	380000

Sundry Debtors at Delhi as on 1st Jan., 2014	72000
Discount allowed to debtors	8000
Bad Debts in the year	6000
Sales returns at Delhi Branch	6000
Rent, Rates, Taxes at Branch	16000
Salaries, Wages, Bonus at Branch	62000
Office Expenses	6000
Stock at Branch on 31st December, 2014	120000

**\*PAST FROM THE BLAST\*****Problem No 22:**

From the following particulars relating to Pune Branch for the year ending December 31, 2018, prepare Branch Account in the books of Head office:

Particulars		
Stock at Branch on January 1, 2018		10,000
Branch Debtors on January 1, 2018		4,000
Branch Debtors on December 31, 2018		4,900
Petty cash at branch on January 1, 2018		500
Furniture at branch on January 1, 2018		2,000
Prepaid fire insurance premium on January 1, 2018		150
Salaries outstanding at branch on January 1, 2018		100
Goods sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the Branch debtors directly to the Head office		2,000
Discount allowed to debtors		100
Cash sent to Branch for Expenses;		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	

Annual insurance up to March 31, 2019	600	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31 2018		5,000
Petty Cash spent by Branch		850
Provide depreciation on furniture 10% Pa		

**SOLUTION:**

**Books of H.o.**

**Pune Branch Account**

Particulars		particulars	
To Balance b/d:		By Balance b/d:	
Branch Stock A/c	10,000	Outstanding Salaries	100
Branch Debtors A/c	4,000		
Branch Furniture A/c	2,000	By Good Sent to Branch A/c (Return)	1,000
Branch Petty Cash A/c	500		
Prepaid Insurance A/c	150	By Bank A/ c (Remittance from Branch):	
To Good Sent to Branch A/c	80,000	Cash Sales	1,30,000
To Bank A/c		Cash received from debtors	35,000
Rent 2,000		Cash paid by debtors directly to H.o.	2,000
Salaries 2,400		Received from insurance company	1,000
Petty cash 1,000			
Insurance 600	6,000	By Balance c/d:	150
To P& L A/c (Balancing figure)		Prepaid insurance	5,000
		Branch Stock A/c	4,900

		Branch Furniture A/c	1,800
		Branch Petty Cash A/c	650
	1,81,600		1,81,600

**Working Note:**

<b>Calculation of petty cash balance at the end:</b>	
Opening balance	500
Add: Cash received form the Head Office	1,000
Total Cash with branch	1,500
Less: Spent by the branch	(850)
Closing balance	650

**Problem No 22:**

Prepare a Branch account in the books of Head Office from the following particulars for the year ended 31st March, 2017 assuming that H.O. supplied goods at cost plus 25%.

Particulars	Amount (₹)	Particulars	Amount
Stock on 1-4-2016 (IP)	12,500	Bad Debts	2,000
Debtors	5,000	Allowances to customers	1,000
Petty Cash	1,000	Returns Inwards	1,000
Goods sent to branch (IP)	40,000	Cheques sent to Branch for expenses: Rates & Taxes	3,000
Goods return to H.O. (IP)	5,000	Salaries	8,000
Cash Sales	12,000	Misc. Exps.	1,000
Cash received from debtors	30,000	stock on 31-03-2017	15,000
		Debtors	4,000
		Petty Cash	1,000

**SOLUTION:**

In the books of H.O.

**Branch Account**

Particulars	Amount	Amount	Particulars	Amount	Amount
By Balance b/d			By Stock Reserve (12,500 x 25/125)		2,500
Stock	12,500		Bank A/c		
Debtors	5,000		Cash Sales	12,000	
Petty Cash	1,000	18,500	Cash Received from Debtors	30,000	42,000
Goods sent to branch A/c		40,000	Goods sent to branch (Return to H.O.)		5,000
Bank A/c			Goods sent to branch (Loading)		8,000
Rates & taxes	3,000		By Balance c/d		
Salaries	8,000		Stock	15,000	
Misc. Expenses	1,000	12,000	Debtors	4,000	
Closing Stock Reserve (15,000 x 25/125)		3,000			
Closing Stock Reserve (15,000 x 25/125)		3,000			
General P& LA/c		3,000			
		77,500			77,500

## CH 8. DEPARTMENTAL ACCOUNTING

### ➤ Introduction

- Departmental accounts help in identifying the performance of each department. It is a tool which helps the management in their decision making.
- Basic objectives behind preparation of department accounts:
  - a) To evaluate the performance of each department
  - b) To evaluate the performance of the divisional managers or departmental heads.

### ➤ Features

1. **Recording:** All expenses and incomes are recognized separately for each department.
2. **Responsibility Accounting:** It is an application of Responsibility Accounting system. Each department is considered as Responsibility Centre.
3. **Nature of Transactions:** Both external as-well-as internal transactions are recorded.
4. **internal Usage of data:** It provides information to internal stakeholders of the entity.
5. **Accounts:** It involves the drafting of Departmental Trading & Profit & Loss Account.

### ➤ Advantages:

- The following are the various advantages form maintaining the departmental accounts:
  1. **Allocation of expenses:** The facilities the proper allocation of expenses to a particular department.
  2. **Fixation of responsibility:** It facilities proper control and fixation of the responsibility is very easy.
  3. **Helps cost control:** It helps in cost analysis in a department wise and specific cost absorption and management.





4. **Proper Pricing:** It also facilitates correct product pricing decisions.

➤ **The basis of apportionment of expenses:**

Nature of expenses	Treatment	Examples
Specific charges	It should be charged to that department for which such expenses were incurred	Depreciation on machinery, insurance on stock
Shared common expenses	The benefits as certain expenses shared by all departments and capable of precise allocations. There should apportion to all departments on appropriate and equitable basis.	Rent, lighting expenses, canteen expenses etc.
General expenses	Common expenses which are not capable of accurate apportionment should be dealt with the facts and circumstances of each and every case	Administrative expenses selling and distribution expenses.

➤ **INTER DEPARTMENTAL TRANSFERS**

- Meaning:** It refers to one department transfers its goods or services to another department of the same organization.
- Basis:** Transfer made by one department to another may be recorded either at cost price or at Invoice price (Market Based Price).
- Treatment:** Interdepartmental transfers should be accounted for as explained below:

- a) Credited to Trading A/c of Transferor department Sales
- b) Debited to Trading A/c of Transferee Department Purchases.
- When goods are transferred at Cost Price:

Recipient Department A/c Dr	COST Price	
To Transferring Department A/c		COST Price

- when goods are transferred at Invoice Price:
- a) If transferee department sold all such transferred goods within the same year, no issue will arise.
- b) But if all such transferred goods are not sold by transferee department, the profit made by transferor department on such unsold goods will result in unrealized profit, which should be eliminated by creating unrealized profit reserve in the books of transferor department at the end of the accounting period.
- c) Such unrealized profit reserve should be calculated both for opening and closing stock lying at transferee department which is known as opening stock reserve and closing stock reserve.
- For opening stock reserve:

Opening stock reserve, A/c	Dr	XXX
To General Profit and loss, A/c		XXX

- For closing stock reserve:

General Profit and Loss A/c	Dr	XXX
To closing stock Reserve		XXX

**PRACTICAL PROBLEMS****Problem No 01: (Basic problem)**

M/s Omega is a departmental store having three departments X, Y and Z. The information regarding three departments for the year ended 31st March, 20X1 are given below:

	X	Y	Z
	RS	RS	RS
Opening Stock	36000	24000	20000
Purchases	132000	88000	44000
Debtors at end	15000	10000	10000
Sales	180000	135000	90000
Closing stock	45000	17500	21000
Value of furniture in each department	20000	20000	10000
Floor space occupied by each department (in sq. ft.)	3000	2500	2000
Number of employees in each Department	25	20	15
Electricity consumed by each department (in units)	300	200	100

The balances of other revenue items in the books for the year are given below:

	RS
Carriage inwards	3,000
Carriage outwards	2700
Salaries	48000
Advertisement	2700
Discount allowed	2250
Discount received	1800

Rent, Rates and Taxes	7500
Depreciation on furniture	1000
Electricity expenses	3000
Labour welfare expenses	2400

You are required to prepare Departmental Trading and Profit and Loss Account for the year ended 31st March, 20X1 after providing provision for Bad Debts at 5%.

**Problem No 02: (Basic problem)**

Goods are transferred from Department P to Department Q at a price 50% above cost. If closing Stock of Department Q is Rs. 27,000, compute the amount of stock reserve.

**Problem No 03: (Basic problem)**

Department A sells goods to Department B at a profit of 50% on cost and to Department C at 20% on cost. Department B sells goods to A and C at a profit of 25% and 15% respectively on sales. Department C charges 30% and 40% profit on cost to Department A and B respectively. Stock lying at different departments at the end of the year are as under:

	Department A	Department B	Department C
Transfer from Department A	-	45000	42000
Transfer from Department B	40000	-	72000
Transfer from Department C	39000	42000	-

Calculate the unrealised profit of each department and also total unrealised profit.

**Problem No 04: (Basic problem)**

Department X sells goods to Department Y at a profit of 25% on cost and to Department Z at 10% profit on cost. Department Y sells goods to X and Z at a profit of 15% and 20% on sales, respectively. Department Z charges 20% and 25% profit on cost to Department X and Y, respectively. Department Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated.

Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under:

	RS
Department X	36000
Department Y	27000
Department Z	18000

Stock lying at different departments at the end of the year are as under:

	A	B	C
Transfer from Department X	-	15000	11000
Transfer from Department Y	14000	-	12000
Transfer from Department Z	6000	5000	

Find out the correct departmental Profits after charging Managers' commission.

**Problem No 05: (Icmai study material)**

A firm has two departments - Raw Materials and Manufacturing. The finished goods are produced by the Manufacturing Department with raw materials supplied by Raw Materials department at selling price. Using the following information prepare Departmental Trading and Profit and Loss Account for the year ended on 31st March 2022.

	Raw Materials Dept. (₹)	Manufacturing Dept. (₹)
Opening Stock	1,20,000	20,000
Purchases	8,00,000	6,000
Sales	8,80,000	1,80,000
Manufacturing Expenses	--	24,000
Selling Expenses	1,600	800
Raw Materials transferred to Manufacturing Dept.	1,20,000	--
Closing Stock	80,000	24,000

Cost of the closing stock of the manufacturing department consists of 25% for manufacturing expenses and 75% for raw materials. In the preceding year Raw Materials Department earned gross profit at the rate of 10%. Salaries of ₹ 5,000 and Insurance Premium of ₹ 1,600 are allocated between the two departments on the basis of sales ratio. Find out the Net Profit of the firm as a whole.

**Problem No 06: (Similar to Question 5)**

Department P sells goods to Department S at a profit of 25% on cost and to Department Q at a profit of 15% on cost. Department S sells goods to P and Q at a profit of 20% and 30% on sales respectively. Department Q sells goods to P and S at 20% and 10% profit on cost respectively. Departmental Managers are entitled to 10% commission on net profit subject to unrealised profit departmental sales being eliminated. Departmental profits after charging Manager's commission, but before adjustment of unrealised profits are as below:

	RS
Department P	90000
Department S	60000
Department Q	45000

Stock lying at different Departments at the end of the year are as below:

	P	S	Q
Transfer from P		18000	14000
Transfer from S	48000		38000
Transfer from Q	12000	8000	

Find out correct Departmental Profits after charging Managers' Commission

**Problem No 07: (Important Question)**

M/s. AM Enterprise had two departments, Cloth and Readymade Clothes. The readymade clothes were made by the firm itself out of the cloth supplied by the Cloth Department at its usual selling price. From the following figures, prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2012:

	Cloth Department	Readymade Clothes Department
Opening stock on 1st April, 2011	3150000	532000
Purchases	21000000	168000
SALES	23100000	4725000
Transfer to Readymade Clothes Department	3150000	-
Manufacturing expenses	-	630000
Selling expenses	210000	73500
Rent & warehousing	840000	560000
Stock on 31st March, 2012	2100000	672000

In addition to the above, the following information is made available for necessary consideration THE stock in the Readymade Clothes Department may be considered as consisting of 75% cloth and 25% other expenses. The Cloth Department earned a gross profit at the rate of 15% in 2010-11. General expenses of the business as a whole amount to Rs. 10,85,000.

**Problem No 08: (Similar to Question 7)**

M/s. Suman Enterprises has two Departments, Finished Leather and Shoes. Shoes are made by the Firm itself out of leather supplied by Leather Department at its usual selling price. From the following figures, prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 20x3:

Opening Stock (As on 01.04.20X2)	3020000	430000
Purchases	15000000	260000
Sales	18000000	4520000
Transfer to Shoes Department	3000000	
Manufacturing Expenses		500000
Selling Expenses	150000	60000
Rent & Warehousing	500000	300000
Stock on 31.3.2003	1220000	500000

The following further information is available for necessary consideration:

- The stock in Shoes Department may be considered as consisting of 75% of Leather and 25% of other expenses.
- The Finished Leather Department earned a Gross Profit @ 15% in 20X1-X2.
- General expenses of the business as a whole amount to Rs. 8,50,000.

**Problem No 09:**

FGH Ltd. has three departments I, J and K. The following information is provided for the year ended 31.3.2012:

	I	J	K
	RS	RS	RS
Opening stock	5,000	8,000	19,000
Opening reserve for unrealised profit	-	2000	3000
Materials consumed	16000		



Direct labour	9000		
Closing stock	5000		5000
Sales			80000
Area occupied (sq. mtr.)	2500	1500	1000
No. of employees	30	20	10

Stocks of each department are valued at costs to the department concerned. Stocks of I are transferred to J at cost plus 20% and stocks of J are transferred to K at a gross profit of 20% on sales. Other common expenses are salaries and staff welfare Rs. 18,000, rent Rs. 6,000. Prepare Departmental Trading, Profit and Loss Account for the year ending 31.3.2012

**Problem No 10:**

Brahma Limited has three departments and submits the following information for the year ending on 31st March, 20XX1:

	A	B	C	TOTAL
Purchases	5000	10000	15000	
Purchases (Amount)				840000
Sales (units)	5200	9800	15300	
Selling price (Rs. per unit)	40	45	50	
Closing Stock (Units)	400	600	700	

You are required to prepare departmental trading account of Brahma Limited assuming that the rate of profit on sales is uniform in each case.

**Problem No 11: (Similar to Question 10)**

Z Ltd. has three departments and submits the following information for the year ending on 31st March, 20X1

	a	b	c	Total
Purchases (units)	6000	12000	14400	
Purchases (Amount)				600000

Sales (Units)	6120	11520	14976	
Selling Price (per unit) Rs._	40	45	50	
Closing Stock (Units)	600	960	36	

You are required to prepare departmental trading account of Z Ltd., assuming that the rate of profit on sales is uniform in each case.

**Problem No 12: (Important Question)**

M/s X has two departments, A and B. From the following particulars prepare the consolidated Trading Account and Departmental Trading Account for the year ending 31st December, 20X1:

Opening Stock [consisting of purchased goods -at cost)]	20000	12000
purchases	92000	68000
Sales	140000	112000
Wages	12000	8000
Carriage	2000	2000
Closing Stock:		
(i) Purchased goods	4500	6000
(ii) Finished goods	24000	14000
Purchased goods transferred:		
by B to A	10000	
by A to B		8000
Finished goods transferred:		
by A to B	35000	
by B to A		40000
Return of finished goods:		

by A to B	10000	
by B to A		7000

You are informed that purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 20% of the finished stock (closing) at each department represented finished goods received from the other department.

**Problem No 13: (Similar to Question 12)**

Siva Ltd. has two departments X and Y. From the following particulars prepare departmental trading accounts and general profits and loss account for the year ending 31st March, 2012:

	Department X	Department Y
Opening stock (at cost)	80000	48000
Purchases	3,68,000	272000
Carriage inward	8,000	8000
Wages	48,000	32000
Sales	5,60,000	448000
Purchased goods transferred		
By department Y to X	40000	
By department X to Y		32000
Finished goods transferred		
By department Y to X	140000	
By department X to Y		160000
Return of finished goods		
By department Y to X	40000	
By department X to Y		28000
Closing stock		
Purchased goods	18000	24000
Finished goods	96000	56000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 25% of the closing finished stock with each department represents finished goods received from the other department.

**Problem No 14: (Similar to Question 12)**

Mega Ltd. has two departments, A and B. From the following particulars, prepare departmental Trading A/c and General Profit & Loss Account for the March, 2014.

Opening stock as on 01.04.2013 (at cost)	70,000	54,000
Purchases	3,92,000	2,98,000
Carriage Inward	6,000	9,000
Wages	54,000	36,000
Sales	5,72,000	4,60,000
Purchased Goods Transferred:		
By Department B to A	50,000	
By Department A to B		36,000
Finished Goods Transferred:		
By Department B to A	150,000	
By Department A to B		175,000
Return of Finished Goods:		
by Department B to A	45,000	
By Department A to B		32,000
Closing Stock:		
Purchased Goods	24,000	30,000
Finished Goods	102,000	62,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 30% of the closing finished stock with each department represents finished goods received from the other department.

**Problem No 15:**

X Ltd has three departments A, B and C. From the particulars given below compute:

(a) the values of stock as on 31st Dec. 2012 and

(b) the departmental results

	A	B	C
Stock (on 1.1. 2012)	24,000	36,000	12,000
Purchases	24,000	36,000	12,000
Actual sales	1,72,500	1,59,400	74,600
Gross Profit on normal selling price	20%	25%	33.33%

During the year certain items were sold at discount and these discounts were reflected in the value of sales shown above. The items sold at discount were:

	A	B	C
Sales at normal price	10000	3000	1000
Sales at actual price	7500	2400	600

**Problem No 16: (Icmai study material )**

A & Co. has two departments P & Q. department P sells goods to department Q at normal selling prices. From the following particulars, prepare departmental Trading & PL account for the year ended 31.03.2022 and also ascertain the net profit to be transferred to Balance Sheet:

Particulars	Department P (₹)	Department Q (₹)
Opening stock	5,00,000	NIL
Purchases	28,00,000	3,00,000
Goods from P	NIL	8,00,000
Wages	3,50,000	2,00,000
Travelling expenses	20,000	1,60,000

Closing stock at cost to the department	8,00,000	2,09,000
Sales	30,00,000	2,00,0000
Printing & Stationery	30,000	25,000

The following expenses incurred for both the departments were not apportioned between the departments:

Salaries ₹ 33,000, advertisement expenses ₹ 1,20,000, General expenses ₹

5,00,000, Depreciation is to be charged @30% on the machinery worth ₹ 96,000.

The advertisement expenses of the departments are to be apportioned in the turnover ratio. Salaries and depreciation are to be apportioned in the ratio 2:1 and 1:3 respectively. General expenses are to be apportioned in the ratio 3:1.

**Problem No 17: (Similar to Question 15)**

Sona Ltd. has three departments P, Q and R. From the following particulars given below, compute:

The departmental results;

The value of stock as on 31st December, 2014:

	P	Q	R
Stock as on 01.01.2014	30000	45000	15000
Purchases	160000	130000	60000
Actual Sales	188000	166000	93000
Gross Profit on normal sales	25%	33.33%	40%

During the year 2014 some items were sold at discount and these discounts were reflected in the above sales value. The details are given below:

	P	Q	R
Sales at normal price	15000	8000	6000
Sales at actual price	11000	6000	4000

**\*PAST FROM THE BLAST\*****Problem No 18:**

The proprietors of Sima retail store wish to ascertain approximately for the separate net profits or their two particular departments A and B for six months ended 30th September, 2022. It is not possible to take stock on that date. However normal rates of Gross profit (calculated without reference to Direct Expenses) for the department concerned were 40% and 30% respectively on sales. There are six departments in all in the store. The following figures were extracted from the books for the period ending 30th September, 2022:

	Deptt. A ( in Thousands)	Deptt. B ( in Thousands)
Stock (April 1, 2022)	600	560
Sales	2800	2400
Purchases	1800	1440
Direct Expenses	366	568

The total indirect expenses of all the six departments for the period were ₹ 7,20,000. These expenses (except one third which is to be divided equally) are to be charged in proportion to departmental sales. The total sales of the other departments were ₹ 28,00,00. The managers of each department is also entitled to a commission of 2 per cent on the turnover of his department.

prepare Departmental trading and Profit & Loss Account in columnar form for the period ending 30th September, 2022 making a stock reserve of 7% on each department on the estimated value on 30th September 2022

**SOLUTION:**

Department Trading and profit and loss account for the six months ending 30th September, 2022 (₹ '000)

PARTICULAR	DEPARTMENT			PARTICULAR	DEPARTMENT		
	A	B	TOTAL		A	B	TOTAL
To Opening Stock	600	560	1160	By sales	2800	2400	5200
To purchase	1800	1440	3240	By closing stock (Balance fig.)	720	320	1040

To Direct Exp.	366	568	934				
To Gross Profit c/d	754	152	906				
	3520	2720	6240		3520	2720	6240
To Indirect Exp.				By Gross Profit b/d	754	152	906
Equal Allocation	40	40	80	By net loss		102.4	
Sales Basis Allocation	168	144	312				
To Manager commission @ 2% on sales	56	22.4	72.8				
To stock reserve @7% on closing stock	50.4	22.4	72.8				
To net profit	439.6		337.2				
	754	254.4	906		754	254.4	906

**Working Notes:**

**1. Gross profit before Direct Expenses**  
(₹000)

Particulars	A	B
A -40% of 2800	1120	-
B- 309% of 2400	-	720
Less: Direct Expenses	(366)	(568)
Net Gross Profit	754	152

**2. Allocation of indirect expenses**

Equal Allocation =  $7,20,000 \times \frac{1}{3} = 2,40,000$  for each department

Sales Basis: Sales ratio for A, B & other 4 departments = 28,00,000: 24,00,000: 28,00,000 or 7:6:7.

Indirect Expenses for this basis =  $7,20,000 \times \frac{2}{3} = 4,80,000$

Share of Deptt. A =  $4,80,000 \times \frac{3}{10} = 1,68,000$

Share of Deptt. B =  $4,80,000 \times \frac{6}{20} = 1,44,000$



**Problem No 19:**

A Firm has two departments-Sawmill and Furniture . Furniture is made with wood supplied by the Sawmill department at its usual selling price From the following figure prepare Departmental trading and Profit and Loss Account for the year 2018:

Particulars	Sawmill	Furniture
Opening Stock on 1st January 2018	150,000	25,000
Sales	12,00,000	2,00,000
Purchases	10,00,000	7,500
Supply to Furniture Department	1,50,000	
Selling expenses	10,000	3,000
Wages	30,000	10,000
Closing Stock on 31st December, 2018	1,00,000	30,000

The value of stocks in the Furniture Department consists of 75% wood and 25% other expenses. The Sawmill Department earned Gross Profit at 15% on sales in 2017. General expenses of the business as whole came to 55,000. The firm adopts FIFO method for assigning costs to inventories.

**SOLUTION:****Departmental Trading and Profit and Loss Account**

Particulars	Sawmill	Furniture	Particulars	Sawmill	Furniture
To Opening stock	1,50,000	25,000	By Sales	12,00,000	2,00,000
To Purchase	10,00,000	7,500	By Transfer to furniture department	1,50,000	
To Wages	30,000	10,000	By Closing Stock	1,00,000	30,000
To Transfer from sawmill		1,50,000			

To Gross profit	2,70,000	37,500			
	14,50,000	2,30,000		14,50,000	2,30,000
To Selling expenses	10,000	3,000	By Gross profit	2,70,000	37,500
To Net Profit	2,60,000	34,500			
	2,70,000	37,500		2,70,000	37,500

**General Profit & Loss Account**

Particulars	Amounts	Particulars	Amounts
To General Expenses	55,000	By Net Profit from Sawmill	2,60,000
To Stock reserve (wn-2)	4,500	Furniture	34,500
To Net Profit	2,37,813	By Stock reserve (opening WN-1)	2,813
	2,97,313		2,97,313

**Working Notes:**

1. Calculation of Stock Reserve (opening) =  $25,000 \times 75\% \text{ wood} \times 15\% = ₹ 2,813$
  2. Gross profit Rate of Sawmill of 2018 =  $2,70,000 / (12,00,000 + 1,50,000) \times 100 = 20\%$
- Calculation of closing stock reserve =  $30,000 \times 75\% \times 20\% = 4,500$

## CH 9. HIRE PURCHASE & INSTALLMENT PURCHASE SYSTEM

### ➤ HIRE PURCHASE SYSTEM:

1. **System:** Under this system the purchaser (Hirer) pays the entire amount in monthly/quarterly/yearly instalments with some interest.
2. **Conditions:** This sale is subject to the following conditions:
  - a) Possession of goods is delivered to a hirer but the title to the goods (ownership) is transferred only when the agreed sum (HP price) is paid by the hirer.
  - b) Such hirer has a right to terminate the agreement at any time before the property so passes.
  - c) The hirer cannot recover the sums already paid because they should be treated as hire charges by the Hire seller.
  - d) Hire-purchaser, during the period of possession of goods, cannot damage, destroy, pledge or sell such goods. He is supposed to take all such care of goods as a prudent person does in his own goods.

### ➤ INSTALMENT PURCHASE SYSTEM:

- i. Under this system, it is not only the possession of goods but also the ownership in the goods is transferred to the buyer immediately at the time of agreement.
- ii. If the buyer stops the payment of dues, then he does not have the right of seizing his goods.

### • Differences between Hire Purchase System and Instalment Purchase System:

BASIS	HIRE PURCHASE SYSTEM	INSTALMENT SALE SYSTEM
Nature of contract	It is like a contract of hire, later on it becomes a sale contract.	It is sales from the very beginning of the contract.

<b>Ownership</b>	The ownership is transferred after the payment of the last installment.	Ownership in the goods is transferred in the beginning at the time of sale.
<b>Return of goods</b>	On the default of installment, seller has a right to take back the goods	On the default of payment of installment, seller has no right to take back the goods from the buyer.
<b>Risk</b>	Up to the payment of last installment risk is on the seller.	Risk is not on the seller, but it will be on the buyer because he is the legal owner.
<b>Right of sale or otherwise</b>	No right of sale or otherwise transfer the goods since the legal position of the buyer is bailee.	Right to sale or otherwise transfer the goods is available to the buyer, because he is the legal owner.

➤ **ACCOUNTING TREATMENT:**

- The Accounting treatment in the Books of Hire purchaser can be carried out using any one of the following two methods:
  - Asset Accrual method.
  - Sales Method.

**A. Asset Accrual Method:**

<b>On Making a down Payment:</b>		
Asset A/c Dr	xxx	
To Hire Seller A/c		xxx
Hire Seller A/c Dr	xxx	
To Bank A/c		xxx
<b>At the end of 1st year - 1st Instalment</b>		
<b>i. first instalment due:</b>		
Asset A/c Dr	xxx	
Interest A/c Dr	xxx	
To Hire seller A/c		xxx

<b>ii. Payment of first instalment:</b> Hire seller A/c Dr To Bank A/c	xxx	
<b>iii. for claiming depreciation on assets:</b> Depreciation A/c Dr To Asset A/c	xxx	xxx
<b>iv. for transferring nominal A/c's to profit and loss Account:</b> Profit and loss A/c To Interest A/c To Depreciation A/c	xxx	xxx xxx
Note: for the subsequent years the JE's in i, ii, iii and iv will be repeated		

### B. Sales Method:

- Under this method at the inception (Down payment) of hire purchase agreement the buyer will recognize the asset at its cash price in his books and the amount outstanding is shown as amount due to a creditor.
- Accounting treatment under this method will be as follows:

<b>On Making a down Payment:</b> Asset A/c Dr To Hire Seller A/c  Hire Seller A/c Dr To Bank A/c	Cash Price   xxx	Cash Price   xxx
<b>At the end of 1st year - 1st Instalment</b> <b>i) first instalment due</b> Interest A/c Dr To Hire seller A/c	xxx	xxx
<b>ii) Payment of first instalment:</b>	xxx	

Hire seller A/c Dr To Bank A/c		XXX
	XXX	
<b>iii) for claiming depreciation on assets:</b> Depreciation A/c Dr To Asset A/c		XXX
<b>iv) for transferring nominal A/C's to profit and loss Account:</b> Profit and loss A/c To Interest A/c To Depreciation A/c (Note: for the subsequent years the JE's in I, i, ii and iv will be repeated)	XXX	XXX XXX

➤ **Accounting for small value items under Hire Purchase System:**

- There are four methods for accounting for the sale of small value items on Hire Purchase system, namely.
  - a) Stock on Hire Method
  - b) Provision for unrealized profit method
  - c) Debtors system
  - d) Stock and debtor's system.

➤ **Stock on Hire Method:**

As per this method the following entries will be recorded for the preparation of HP trading A/c:

**i. Goods sold on HP at HP selling price**

HP Debtors A/c      Dr XXX  
    To HP sales A/c              XXX

**ii. Deposits and instalments received from customers:**

Bank A/c      Dr XXX  
    To HP Debtors A/c XXX

**iii. For transferring sales to HP trading A/c:**

HP Sales A/c Dr XXX  
To HP Sales A/c XXX

**iv. Cost of Goods sold on HP:**

HP Trading A/c Dr XXX  
To Hire purchase A/c XXX

**v. Instalment due:**

HP Debtors A/c Dr XXX  
To HP Sales A/c (or) Goods with customers A/c XXX

**vi. HP Trading profit:**

HP Trading A/C Dr XXX  
To General P&L A/c XXX

➤ **Provision for unrealized profit Method:**

- Under this method a provision is made for the unrealized profit included in hire purchase debtors not yet due to reduce their cost basis. The following are the JE's.

**a. Goods sold on HP basis:**

HP debtor's A/c Dr XXX  
To HP Sales A/c XXX

**b. Instalments received from customers:**

Bank A/c Dr XXX  
To HP debtor's A/c XXX

**c. Instalment due and unpaid:**

Instalment due A/c Dr XXX

To HP debtor's A/c                      XXX

**d. Transfer of balance in HP Sales to trading A/c:**

HP Sales A/c                      Dr XXX

To HP Trading A/c                      XXX

**e. Cost price of goods sold on HP:**

HP Trading A/c                      Dr XXX

To Hire Purchases A/c                      XXX

**f. Provision for unrealized profit:**

HP Trading A/c                      Dr XXX

To HP Adjustment A/c                      XXX

**g. For transfer of HP Trading profit:**

HP Trading A/c                      Dr XXX

To General P&L A/c                      XXX

➤ **DEFAULT AND REPOSSESSION:**

- When hirer is in default in making payments in time, the owner takes back the possession of goods.
- There are two possibilities:
  - ❖ **Complete repossession when seller takes back the possession of complete goods:**
- 1. **In the books of Purchaser:**
  - a) All entries, except the entry for payment are passed as usual up to the date of default.
  - b) Buyer closes the account of seller by debiting his account. The same amount will be credited to asset account.
  - c) Any balance left in asset is closed by transferring to profit and loss account.

2. **In the Books of Seller:**

- a) All entries, except the entry for payment, are passed as usual up to the date of default.



- b) Seller closes purchaser's account by crediting his account and debiting goods returned account.
- c) Goods returned account, as opened, is further debited with expenses incurred on repair of the goods and credited with actual resale price. Any balance in this account, being profit or loss on resale, is transferred to profit and loss account.

❖ **Partial repossession when seller takes back the possession of only part of the total asset sold to buyer:**

- i. In case of partial repossession of goods, the accounting entries will be recorded in the both parties' books as if there were no repossession of such good till the date of repossession.
- ii. Both buyer and seller do not close sellers and buyers account in their respective books. The entry is passed with the agreed value of the asset which is taken away by the seller. The basis for finding out the value of asset taken away is given in the question.
- iii. the buyer finds out the value of the asset still left with him using the normal rate of depreciation. He keeps the asset account open. This account shows the balance of that asset which is left to him by seller.
- iv. After crediting the asset account (in the buyer books) with the value of asset taken away by the seller and after keeping the balance of the asset account represents either profit or loss on default. This difference is transferred to profit and loss account.

**PRACTICAL PROBLEMS****Problem No 01: (Basic problem)**

Asha purchased a truck on hire purchase system. As per terms she is required to pay Rs. 70,000 down, Rs. 53,000 at the end of first year, Rs. 49,000 at the end of second year and Rs. 55,000 at the end of third year. Interest is charged @ 10% p.a. You are required to calculate the total cash price of the truck and the interest paid with each instalment.

**Problem No 02: (Basic problem)**

A acquired-on 1st January, 20X1 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalment of Rs. 6,000 each, the first instalment being due on 1st July, 20X1. Assuming that the applicable rate of interest is 10 per cent per annum, calculate the cash value of the machine. All working should form part of the answer

**Problem No 03: (Icmai study material )**

When rate of interest, total cash price and installments are given

X purchases a car on hire-purchase system on 01.01.2018. The total cash price of the car is ` 4,50,000 payable ` 90,000 down and three installments of ` 1,70,000, ` 1,50,000 and ` 1,08,460 payable at the end of first, second and third year respectively. Interest is charged at 10% p.a. You are required to calculate interest paid by the buyer to the seller each year.

**Problem No 04: (Icmai study material )**

When rate of interest and installments are given but total cash price is not given

X purchased a T.V on hire-purchase system. As per terms he is required to pay ` 3000 down, ` 4000 at the end of first year, ` 3000 at the end of second year, and ` 5000 at end of third year. Interest is charged at 12% p.a. You are required to calculate total cash price of T.V and interest paid with each installment.

**Problem No 05:**

Om Ltd. purchased a machine on hire purchase basis from Kumar Machinery Co. Ltd. On the following terms

- Cash price Rs. 80,000
- Down payment at the time of signing the agreement on 1.1.200X1 Rs. 21,622.
- 5 annual instalment of Rs. 15,400, the first to commence at the end of twelve months from the date of down payment.
- Rate of interest is 10% p.a.

You are required to calculate the total interest and interest included in cash installment.

**Problem No 06:**

Happy Valley Florists Ltd. acquired a delivery van on hire purchase on 01.04.20X1 from Ganesh Enterprises. The terms were as follows:

Particulars	Amount
Hire Purchase Price	180,000
Down Payment	30,000
1st instalment payable after 1 year	50,000
2nd instalment after 2 years	50,000
3rd instalment after 3 years	30,000
4th instalment after 4 years	20,000

Cash price of van Rs. 1,50,000 You are required to calculate Total Interest and Interest included in each instalment.

**Problem No 07:**

On January 1, 20X1 HP M/s acquired a Pick-up Van on hire purchase from FM M/s. The terms of the contract were as follows:

- The cash price of the van was Rs. 1,00,000.
- Rs. 40,000 were to be paid on signing of the contract.
- The balance was to be paid in annual instalments of Rs. 20,000 plus interest.
- Interest chargeable on the outstanding balance was 6% p.a.
- Depreciation at 10% p.a. is to be written-off using the straight-line method.

You are required to:

(a) Give Journal Entries and show the relevant accounts in the books of HP M/s from January 1, 20X1 to December 31, 20X3; and (b) Show the relevant items in the Balance Sheet of the purchaser as on December 31, 20X1 to 20X3.

**Problem No 08: (Similar Question to 7)**

In # 6 assume that the hire purchaser adopted the interest suspense method for recording his hire purchase transactions. On this basis, prepare H.P. Interest Suspense Account, Interest Account and FM M/s Accounts and Balance Sheets in the books of hire purchaser.

**Problem No 09:**

X Ltd. purchased 3 milk vans from Super Motors costing Rs. 75,000 each on hire purchase system. Payment was to be made: Rs. 45,000 down and the remainder in 3 equal instalments together with interest @ 9%. X Ltd. writes off depreciation 20% on the diminishing balance. It paid the instalment at the end of the 1st year but could not pay the next. Super Motor agreed to leave one milk van with the purchaser, adjusting the value of the other two milk vans against the amount due. The milk vans were valued on the basis of 30% depreciation annually on written down value basis. X Ltd. settled the seller's dues after three months. You are required to give necessary journal entries and the relevant accounts in the books of X Ltd.

**Problem No 10: (Icmai study material)**

On 1.1.2020, A purchased 5 Machines from B. Payment was to be made – 20% down and the balance in four annual installments of ` 2,80,000, ` 2,60,000, ` 2,40,000 and ` 2,20,000 commencing from 31.12.2020. The vendor charged interest @ 10% p.a. A, writes off depreciation @ 20% p.a. on the original cost. On A's failure to pay the installment due on 31.12.2021, B repossessed all the machines on 01.01.2022 and valued them on the basis of 40% p.a. depreciation on W.D.V. basis. B after incurring ` 6,000 on repairs sold the machines for ` 2,66,000 on 30th June 2022. Prepare the relevant accounts in the books of A and B.

**Problem No 11: (Icmai study material)**

A Transport purchased from Kolkata Motors 3 Tempos costing ` 50,000 each on the hire purchase system on 1.1.2020. Payment was to be made ` 30,000 down and the remainder in 3 equal annual installments payable on 31.12.2020, 31.12.2021 and 31.12.2022 together with interest @ 9% p.a. A Transport writes off depreciation at the rate of 20% p.a. on the diminishing balance. It paid the installment due at the end of the first year i.e. 31.12.2020 but could not pay the next on 31.12.2021. Kolkata Motors agreed to leave one Tempo with the purchaser on 31.12.2021 adjusting the value of the other 2 Tempos against the amount due on 31.12.2021. The Tempos were valued on the basis of 30% depreciation annually on W.D.V. basis. Required: Show the necessary accounts in the books of A Transport for the year 2020, 2021, 2022.

**Problem No 12: (Important Question)**

A machinery is sold on hire purchase. The terms of payment is four annual instalments of Rs. 6,000 at the end of each year commencing from the date of agreement. Interest is included in the annual charged @ 20% and is payment of Rs. 6,000.

Show Machinery Account and Hire Vendor Account in the books of the purchaser who defaulted in the payment of the third yearly payment whereupon the vendor purchaser provides re-possessed the machinery. The should form part of your depreciation answers. on the machinery @ 10% per annum on WDV basis. All workings should form part of your answers.

**Problem No 13:**

Lucky bought 2 tractors from Happy on 1-10-2011 on the following terms:

Down payment 5,00,000

1st instalment at the end of first year 2,65,000

2nd instalment at the end of 2nd year 2,45,000

3rd instalment at the end of 3rd year 2,75,000

Interest is charged at 10% p.a.

Lucky provides depreciation @ 20% on the diminishing balances.

On 30-9-2014 Lucky failed to pay the 3rd instalment upon which Happy repossessed 1 tractor. Happy agreed to leave one tractor with Lucky and adjusted the value of the tractor against the amount due. The tractor taken over was valued on the basis of 30% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Lucky after 3 months with interest 18% p.a.

You are required to:

1. Calculate the cash price of the tractors and the interest paid with each instalment.
2. Prepare Tractor Account and Happy Account in the books of Lucky assuming that books are closed on September 30 every year. Figures may be rounded off to the nearest rupee.

**Problem No 14:**

Girish Transport Ltd. purchased from NCR Motors 3 electric rickshaws costing Rs. 60,000 each on the hire purchase system on 1.1.2013. Payment was to be made Rs. 30,000 down and the remainder in 3 equal instalments payable on 31.12.2013, 31.12.2014 and 31.12.2015 together with interest 10% p.a. Girish Transport Ltd. writes off depreciation @ 20% p.a. on the reducing balance. It paid the instalment due at the end of 1st year i.e. 31.12.2013 but could not pay next on 31.12.2014. NCR Motors agreed to leave one e-rickshaw with the purchaser on 31.12.2014 adjusting the value of the other two e-rickshaws against the amount due on 31.12.2014. The e-rickshaws were valued on the basis of 30% depreciation annually on WDV basis. Show the necessary Ledger accounts in the books of Girish Transport Ltd. for the year 2013, 2014, and 2015.

**Problem No 15:**

A Transport purchased from Kolkata Motors 3 Tempos costing ` 50,000 each on the hire purchase system on 1.1.2020. Payment was to be made ` 30,000 down and the remainder in 3 equal annual installments payable on 31.12.2020, 31.12.2021 and 31.12.2022 together with interest @ 9% p.a. A Transport writes off depreciation at the rate of 20% p.a. on the diminishing balance. It paid the installment due at the end of the first year i.e. 31.12.2020 but could

not pay the next on 31.12.2021. Kolkata Motors agreed to leave one Tempo with the purchaser on 31.12.2021 adjusting the value of the other 2 Tempos against the amount due on 31.12.2021. The Tempos were valued on the basis of 30% depreciation annually on W.D.V. basis.

Required: Show the necessary accounts in the books of A Transport for the year 2020, 2021, 2022

### **\*PAST FROM THE BLAST\***

#### **Problem No 16:**

On 1st April, 2019, Richa Industries purchased a machine on hire-purchase system from Chinu Limited. Hire-purchase price and cash price of the machine were 27,00,000 and 21,60,000 respectively. ₹ 5,40,000 was payable immediately and the balance was to be paid in three equal annual instalments. Richa Industries charges depreciation @ 15% per annum on written down value method and books are closed on 31st March each year. Calculate interest included in each instalment and prepare Chinu Limited Account and Machine Account in the books of Richa Industries.

#### **SOLUTION:**

Ledger Account in the books of Richa Industries

#### **Machinery Account**

Date	Particulars	Amount	Date	Particulars	Amount
1/04/19	To Chinu Limited A/c	21,60,000	31/03/20	By depreciation A/c	3,24,000
		21,60,000		By Balance c/d	18,36,000
1/04/21	To balance b/d	18,36,000	31/03/21	By Depreciation A/c	21,60,000
				By balance c/d	15,60,600
		18,36,000			18,36,000

1/04/22	To balance b/d	15,60,600	31/03/22	By Depreciation A/c	2,34,090
				By Balance c/d	13,26,510
		15,60,600			15,60,600

**Chinu Limited Account**

Date	Particulars	Amount	Date	Particulars	Amount
1/04/19	To Bank A/c (Down Payment)	5,40,000	1/04/19	By Machinery A/c	21,60,000
31/03/20	To Bank A/c	7,20,000	31/03/20	By Interest A/c	2,70,000
	To Balance c/d	11,70,000			
		24,30,000		By balance b/d	24,30,000
31/03/21	To Bank A/c	7,20,000		By Interest A/c	1,80,000
	To balance c/d	6,30,000			
		13,50,000			13,50,000

**Problem No 17:**

M/s. Zed Laptop Co. has a hire-purchase department and goods are sold on hire-purchase adding 25% to cost. From the following information (all figures are at hire-purchase price), Prepare Hire-Purchase Trading Account for the year ending, March 31, 2017:

Particulars	
April 1, 2016 goods with customers (Instalments not yet due)	80,000
Goods sold on Hire-purchase during the year	4,00,000
Cash received during the year from customers	3,00,000
Instalments due but not yet received at the end of the year, customers paying	10,000



**SOLUTION:****Hire purchase Trading Account**

(On the basis of Hire-Purchase Price for the year ending 31st March, 2017)

Particulars		Particulars	
To Balance b/d 8,40,000 H.P. Stock as on 01.04.2016		By Bank A/c	3,00,000
To Goods sold on hire purchase A/c		By Goods sold on hire purchase A/c (Loading) (4,00,000 x 25/125)	80,000
		By Stock Reserve (Opening) (80,000 x 25/125)	16,000
To Stock reserve (Closing) (1,70,000 x 25/125)	34,000	By Balance c/d: H.P. Debtors (Instalment due)	10,000
To Profit & Loss A/c	62,000	H.P. Stock as on 31-03- 2017	1,70,000
	5,76,000		5,76,000

**Working Note:****H.P. Stock on 31-03-2017**

Particulars	₹	₹
Stock with customers (Instalment not due) on 01-04-2016		80,000
Goods sold on hire purchase during the year		4,00,000
		4,80,000
Less: Cash received during the year	(3,00,000)	
Instalments due but not received	(10,000)	(3,10,000)
H.P. Stock on 31-03-2017		1,70,000

## CH 10. INSURANCE CLAIM & LOSS OF PROFIT POLICY

### ➤ LOSS OF STOCK:

1. Stock destroyed by fire is an abnormal loss. If fire occurs stock may destroy either partly or wholly.
2. In case of stock subject to fire, the insurance company will reimburse only the value of stock which was held immediately before the date of fire as per the stock book, if stock book not maintained, the value of stock is ascertained on the basis of estimated values.
3. The following factors should be considered by the insurance company before sanctioning the amount of insurance claim.
  - a) Value of stock
  - b) Total amount of current purchases up to the date of fire; (or)
  - c) Total amount of sales up to the date of fire
  - d) Goods Profit Ratio
  - e) Salvage Value of stock.

### ➤ COMPUTATION OF CLAIMS FOR LOSS OF STOCK:

1. Whatever the method of inventory valuation is followed, accurate value of stock immediately before the date of fire must be ascertained correctly.
2. Insurance company will consider the actual value of stock loss.

Actual loss stock = Total Value of stock - Salvage value of stock destroyed

3. Total Cost of inventory can be determined as follows:

Particulars	Amount (₹)
Opening stock (at Cost)	XXX
Add: Purchase less Returns	XXX
Less: Cost of goods sold (up to the date of fire)	XXX
Value of Stock (at the date of fire)	XXX

4. Value of Closing Stock immediately before the date of fire, we are supposed to prepare a Memorandum Trading Account as explained below:

Particulars	Amount	Particulars	Amount
To Opening Stock	xxx	By Sales less Returns	xxx
To Purchases less Returns	xxx	By Closing Stock (B/F)	xxx
To Other Expenses	xxx		
(e.g.: wages, carriage inwards etc.)	xxx		
To Gross Profit (bf)	xxx		
	xxx		xxx

• **Notes:**

- if any abnormal items of goods are included in purchase or sale, they should be deducted from the purchase and sales accordingly in the preparation of above account.
- This account should contain only normal items of goods which are held at the date of fire.
- Hence Memorandum Trading account should contain one column for Normal items and Second column for abnormal items.

➤ **AVERAGE CLAUSE:**

- If the stock is insured for a value which is lower than its actual worth it is known as under insurance. E.g.: The actual value of stock is 1,00,000 insured for 80,000 so it is under insurance by ₹ 20,000.
- Individuals or entities will opt for under insurance for saving some amount of insurance premium.
- In case stock is under insured is subject to fire, the insurance company will bear risk only proportionate loss relatable to the value of stock insured by applying the average clause.

Amount of Insurance Claim =  $\frac{\text{Amount Insured}}{\text{Total Value of Stock}} \times \text{Actual Loss}$

- iv. Loss relatable to un-insured portion of stock need to be born by insured party only.

➤ **LOSS OF PROFIT**

• **WHY LOSS OF PROFIT INSURANCE POLICY REQUIRED?**

- i. Sometimes fire accidents may stop either partially or totally the business activities for certain period of time which will result in loss of trading profits.
- ii. Fire insurance policy just covers the loss of business assets by fire and not loss of trading profits as a result of fire.
- iii. To protect the loss of trading profits as a result of fire a new policy has been introduced by the insurance company which is known as 'Loss of profits insurance policy'.
- iv. Loss of profits insurance policy covers the following risks as a result of fire accidents.
  - a) Loss of Net Profit
  - b) Payments made for fixed overhead charges like Salaries, Rent, and Depreciation etc.
  - c) Inward cost of working.

• **PROCEDURE FOR CALCULATION OF CLAIM FOR LOSS OF PROFIT:**

1. Short Sales: Calculate the amount of Short Sales and amount of Gross Profit on Short Sales:

- Step1: Short sales = Standard Sales - Actual Sales
- Step 2: Gross Profit Ratio =  $(\text{Net Profit} + \text{Insured Standing Charges}) / (\text{Sales During preceding accounting Year}) \times 100$
- Step 3: Loss of profit on Short Sales = Short Sales x Gross profit %

2. Increased Cost of Working: Increased Cost of Working is least of the following three:

Actual additional expenses incurred	xxx
Gross profit on reduced turnover avoided = Turnover achieved due to additional expense x GP %	xxx



Increased Cost of working x  $\frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Net Profit} + \text{All Standing Charges}}$

XXX

**Savings in Standing charges:** The amount of savings in Insured Standing charges.

3. **Loss of profit** = Short sales + Increased cost of working - Savings in standing charges.

4. **Amount Claim** = Loss of Profit x (insured Amount)/(Insurable Amount )

**Note:** Insurable amount is gross profit on adjusted annual sales immediately preceding to the date of fire.

**PRACTICAL PROBLEMS****LOSS OF STOCK****Problem No 01: (Basic problem)**

From the following information, ascertain the value of stock as on 31st March, 20X2

	RS
Stock as on 01-04-20X1	28,500
Purchases	1,52,5000
Manufacturing Expenses	30,000
Selling Expenses	12,100
Administration Expenses	6,000
Financial Expenses	4,300
Sales	2,49,000

At the time of valuing stock as on 31st March, 20X1, a sum of Rs. 3,500 was written off on a particular item, which was originally purchased for Rs. 10,000 and was sold during the year for Rs. 9,000. Barring the transaction relating to this item, the gross profit earned during the year was 20% on sales.

**Problem No 02: (Basic problem)**

Mr. A prepares accounts on 30th September each year, but on 31st December, 20X1 fire destroyed the greater part of his stock. Following information was collected from his book:

	RS
Stock as on 1.10.20X1	29,700
Purchases from 1.10.20X1 to 31.12.20X1	75000
Wages 33,000 from 1.10.20X1 to 31.12.20X1	33000
Sales from 1.10.20X1 to 31.12.20X1	140000

The rate of gross profit is 33.33% on cost. Stock to the value of Rs. 3,000 was salvaged. Insurance policy was for Rs. 25,000 and claim was subject to average clause.

**Additional information:**

1. Stock at the beginning was calculated at 10% less than cost.
2. A plant was installed by firm's own worker. He was paid Rs. 500, which was included in wages.
3. Purchases include the purchase of the plant for Rs. 5,000. You are required to calculate the claim for the loss of stock.

**Problem No 03: (Icmai study material)**

A fire occurred on 15th September 2021 in the premises of Sen & Co. from the following figures, calculate the amount of claim to be lodged with the insurance company for loss of stock.

Particulars	(`)
Stock at cost on 1.1.2020	40,000
Stock at cost on 1.1.2021	60,000
Purchases in 2020	80,000
Purchase from 1.1.2020 to 15.9.2021	1,76,000
Sales in 2020	1,20,000
Sales from 1.1.2021 to 15.9.2021	2,10,000

During the current year cost of purchase has risen by 10% above last years' level. Selling prices have gone up by 5%. Salvage value of stock after fire was ` 4,000.

**Problem No 04: (Icmai study material)**

X Ltd. has taken out a fire policy of ` 1,60,000 covering its stock. A fire occurred on 31st March, 2022. The following particulars are available:

Stock as on 31.12.2021	60,000
Purchases to the date of fire	2,60,000
Sales to the date of fire	1,80,000

Carriage Inwards	1,600
Commission on purchase to be paid	@2%

Gross Profit Ratio @ 50% on cost

You are asked to ascertain (i) total loss of stock; (ii) amount of claim to be made against the Insurance Company assuming that the policy was subject to average clause. Stock salvage amounted to ` 41,360.

**Problem No 05:**

On 20th October, 20X1, the godown and business premises of Aman Ltd. were affected by fire. From the salvaged accounting records, the following information is available:

	RS
Stock of goods @ 10% lower than cost as on 31st March, 20X1	216000
Purchases less returns (1.4.20X1 to 20.10.20X1)	280000
Sales less returns (1.4.20X1 to 20.10.20X1)	620000

Additional information:

- Sales up to 20th October, 20X1 includes Rs80,000 for which goods had not been dispatched.
- Purchases up to 20th October, 20X1 did not include Rs. 40,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.
- Past records show the gross profit rate of 25%.
- The value of goods salvaged from fire Rs. 31,000.
- Aman Ltd. has insured their stock for Rs. 1,00,000.

Compute the amount of claim to be lodged to the insurance company.

**Problem No 06:**

On 12th June, 20X2 fire occurred in the premises of N.R. Patel, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being Rs . 11200 In addition, some



stock was salvaged in a damaged condition and its value in that condition was agreed at Rs. 10,500. From the books of account, the following particulars were available.

1. His stock at the close of account on December 31, 20X1 was valued at Rs. 83,500.
2. His purchases from 1-1-20X2 to 12-6-20X2 amounted to Rs. 1,12,000 and his sales during that period amounted to Rs. 1,54,000.

On the basis of his accounts for the past three years it appears that he earns on an average a gross profit of 30% of sales.

Patel has insured his stock for Rs. 60,000. Compute the amount of the claim.

**Problem No 07:**

1st April, 20X2 the stock of Shri Ramesh was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

	Rs.
Stock at cost-1st January, 20X1	73500
Stock at cost-31st December, 20X1	79600
Purchases-year ended 31st December, 20X1	398000
Sales-year ended 31st December, 20X1	487000
Purchases-1-1-20X2 to 31-3-20X2	162000
Sales-1-1-20X2 to 31-3-20X2	231200

In valuing the stock for the Balance Sheet at 31st December, 20X1 Rs. 2,300 had been written off on certain stock which was a poor selling line having the cost Rs. 6,900.

A portion of these goods were sold in March, 20X2 at loss of Rs. 250 on original cost of Rs. 3450. The remainder of this stock was now estimated to be worth its original cost. Subject to the above exception, gross profit had remained at a uniform rate throughout the year. The value of stock salvaged was Rs. 5,800. The policy was for Rs. 50,000 and was subject to the average clause. Work out the amount of the claim of loss by fire.

**Problem No 08: (Similar Question to 7)**

On 19th May, 20X2, the premises of Shri Garib Das were destroyed by fire, but sufficient record were saved, where from the following particulars were ascertained:

Stock at cost on 1.1.20X1	36,750
Stock at cost on 31.12.20X1	39800
Purchases less returns during 20X1	199000
Sales less return during 20X1	243500
Purchases less returns during 1.1.20X2 to 19.5.20X2	81000
Sales less returns during 1.1.20X2 to 19.5.20X2	115600

In valuing the stock for the balance Sheet as at 31st December, 20X1, Rs. 1,150 had been written off on certain stock which was a poor selling line having the cost Rs. 3,450. A portion of these goods were sold in March, 20X2 at a loss of Rs. 125 on original cost of Rs. 1,725. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exceptions, gross profit has remained at a uniform rate throughout. The stock salvaged was Rs. 2,900. Show the amount of the claim of stock destroyed by fire. Memorandum Trading Account to be prepared for the period from 1-1-20X2 to 19-5-20X2 for normal and abnormal items.

#### Problem No 09:

On 30th March, 20X2 fire occurred in the premises of M/s Suraj Brothers. The concern had taken an insurance policy of Rs. 60,000 which was subject to the average clause. From the books of accounts, the following particulars are available relating to the period 1st January to 30th March 20X2.

- i. Stock as per Balance Sheet at 31st December, 20X1, Rs. 95,600.
  - ii. Purchases (including purchase of machinery costing Rs. 30,000) Rs. 1,70,000
  - iii. Wages (including wages Rs. 3,000 for installation of machinery) Rs. 50,000.
  - iv. Sales (including goods sold on approval basis amounting to Rs. 49,500) Rs. 2,75,000.
- No approval has been received in respect of 2/3rd of the goods sold on approval.
- v. The average rate of gross profit is 20% of sales.
  - vi. The value of the salvaged goods was Rs. 12,300.

You are required to compute the amount of the claim to be lodged to the insurance company.



**Problem No 10: (Icmai study material )**

On 30.09.2022 the stock of Harshvardhan was lost in a fire accident. From the available records the following information is made available to you to enable you to prepare a statement of claim of the insurer:

Particulars	(₹)	Particulars	(₹)
Stock at cost on 1.4.2021	75,000	Sales less returns for the	6,30,000
Stock at cost on	1,04,000	year ended	2,90,000
31.3.2022	5,07,500	31.3.2022	3,68,100
Purchases less returns		Purchase less returns up	
for the year ended		to 30.09.2022	
31.3.2022		Sales less returns up to	
		30.09.2022	

In valuing the stock on 31.03.2022 due to obsolescence 50% of the value of the stock which originally cost ₹ 12,000 had been written-off. In May 2022, ¾th of these stocks had been sold at 90% of original cost and it is now expected that the balance of the obsolete stock would also realize the same price, subject to the above, G.P had remained uniform throughout stock to the value of ₹ 14,400 was salvaged.

**Problem No 11: (Icmai study material )**

A fire occurred in the premises of M/s. Fireproof Co. on 31st August, 20X1. From the following particulars relating to the period from 1st April, 20X1 to 31st August, 20X1, you are requested ascertain the amount of claim to be filed with the insurance company for the loss of stock. The concern had taken an insurance policy for Rs. 60,000 which is subject to an average clause.

Stock as per Balance Sheet at 31-03-20X1	99000
Purchases	170000
Wages (including wages for the installation of a machine Rs. 3,000)	50000
Sales	242000

Sale value of goods drawn by partner	15000
Cost of goods sent to consignee on 16th August, 20X1, lying unsold with Them	16500
Cost of goods distributed as free samples	1500

While valuing the stock at 31st March, 20X1, Rs. 1,000 were written off in respect of a slow moving item. The cost of which was Rs. 5,000. A portion of these goods were sold at a loss of Rs. 500 on the original cost of Rs. 2,500. The remainder of the stock is now estimated to be worth the original cost. The value of goods salvaged was estimated at Rs. 20,000. The average rate of gross profit was 20% throughout.

**Problem No 12: (Important Question)**

A fire occurred in the premises of M/s. Kailash & Co. on 30th September 2013. From the following particulars relating to the period from 1st April 2013 to 30th September 2013, you are required to ascertain the amount of claim to be riled with the Insurance Company for the loss of Stock. The company has taken an Insurance policy for Rs. 75,000 which is subject to average clause. The value of goods savaged was estimated at Rs. 27,000. The average rate of Gross Profit was 20% throughout the period.

Particulars	
Opening Stock	120000
Purchase made	240000
Wages paid (including wages for the installation of a machine Rs. 5,000)	75000
Sales	310000
Goods taken by the Proprietor (Sale Value)	25000
Cost of goods sent to Consignee on 20th September 2013, lying unsold with them	18000
Free Samples distributed -Cost	2500

**\*LOSS OF PROFIT\*****Problem No 13:**

On account of a fire on 15 June, 2002 in the business house of a company, the working remained disturbed up to 15 December, 2002 as a result of which, it was not possible to affect any sales. The Company had taken out an insurance policy with an average clause against consequential losses for Rs.1,40,000 and a period of 7 months has been agreed upon as indemnity period. An increase of 25% was marked in the current year's sales as compared to last year. The company incurred an additional expenditure of Rs.12,000 to make sales possible and made a saving of Rs.2,000 in the insured standing charges. Ascertain the claim under the consequential loss policy keeping the following additional information in view:

	Rs
Actual sales from 15 June, 2002 to 15 December, 2002	70000
Sales from 15 June, 2001 to 15 December, 2001	240000
Net profit for last Financial year	80000
Insured standing charges for the last Financial year	70000
Total standing charges for the last Financial year	120000
Turnover for the last Financial year	600000
Turnover for one year: 16 June, 2001 to 15 June, 2002	560000

**Problem No 14: (Icmai study material )**

On account of fire on June 15, 2021, in business house of a company, the working remained disturbed up to December 15, 2021 as a result of which it was not possible to affect any sales. The company had taken out an insurance policy with an average clause against consequential losses for ` 1,40,000 and a period of 7 months has been agreed upon as indemnity period. An increase of 25% was marked in the current year's sales as compared to last year. The company incurred an additional expenditure of ` 12,000 to make sales possible and made a saving of ` 2,000 in insured standing charges. Ascertain the claim under the consequential loss policy keeping the following additional information in view:

Particulars	(₹)	Particulars	(₹)
Actual sales from 15.6.21 to 15.12.21	70,000	Total standing charges for last financial year	1,20,000
Sales from 15.6.20 to 15.12.20	2,40,000	Turnover for last financial year	6,00,000
Net profit for the financial year	80,000	Turnover from 16.6.20 to 15.6.21	5,60,000
Insured standing charges for last financial year	70,000		

**Problem No 15:**

From the following details, calculate consequential loss claim:

- i) Date of fire: 1 September following;
- ii) Indemnity period: 6 months;
- iii) Period of disruption: 1<sup>st</sup> September to 1<sup>st</sup> February;
- iv) Sum insured: Rs.1,08,900;
- (v) Sales were Rs.6,00,000 for preceding financial year ended on 31st March.
- vi) Net profit for preceding financial year Rs.36,000 plus insured standing charges Rs.72,000.
- vii) Rate of Gross Profit 18%.
- viii) Uninsured standing charges Rs.6,000;
- ix) Turnover during the disruption period Rs.67,500;
- x) Annual turnover for 12 months immediately preceding the date of fire Rs.,6,60,000;
- xi) Standing turnover ie. for corresponding months (1 September to 1 February) in the year preceding the date of fire Rs.2,25,000;
- xii) Increase in the cost of Working Capital Rs.12,000 with a saving of insured standing charges Rs.4,500 during the disruption period;
- xiii) Reduced turnover avoided through increase in Working Capital Rs.30,000;
- xiv) Special clause stipulated:
  - a) Increase in rate of G.P. 2%.
  - b) Increase in turnover (Standard and Annual) 10%

**Problem No 16:**

A trader intends to take a loss of profit policy with Could indemnity period of 6 months, however, he not decide the policy amount. From the following details, suggest the policy Amount.

	Rs
Turnover in last financial year	450000
Standing charges in last financial year	90000

Net profit earned in last year was 10% of turnover and the same trend expected subsequent 90,000 year. Increase in turnover expected 25%

To achieve additional sales, trader has to incur additional expenditure of Rs.31,250.

**Problem No 17:**

A fire occurred on 1st February, 20x2, in the premises of Pioneer Ltd., a retail store and business partially disorganized up to 30th June, 20X2. The company was insured under a loss of profit for Rs. 1,25,000 with a six months period indemnity. From the following information, compute the amount of claim under the loss of profit policy.

	Rs
Actual turnover from 1st February to 30th June, 20X2	80000
Turnover from 1st February to 30th June, 20X1	20000
Turnover from 1st February, 20X1 to 31st January, 20X2	450000
Net Profit for last financial year	70000
Insured standing charges for last financial year	56000
Total standing charges for last financial year	64000
Turnover for the last financial year	420000

The company incurred additional expense amounting to Rs 6700 which reduce the loss of the turnover there was also a saving during the indemnity period of 2450 in the insured standing charges as a result of the fire.

There had been considerable increase in the trade since the date of last annual accounts and it has been agreed that an adjustment of 15% be made in respect of the upward trend in the turnover.

**Problem No 18:**

The premises of XY Limited were partially destroyed by fire on 1<sup>st</sup> March, 20x2 and as a result, the business was practically disorganized upto 31<sup>st</sup> August, 20x2. The company is insured under a loss of profit policy for Rs. 1,65,000 having an indemnity period of 6 months.

From the following information, prepare a claim under the policy:

	Rs
i. Actual turnover during the period of dislocation (1-3-20X2 to 31-8-20x2)	80000
ii. Turnover for the corresponding period (dislocation) in the 12 months immediately before the fire (1-3-20X1 to 31-8-20X1)	240000
iii. Turnover for the 12 months immediately preceding the fire (1-3-20X1 to 28-2-20X2)	600000
iv. Net profit for the last financial year	90000
v. Insured standing charges for the last financial year	60000
vi. Uninsured standing charges	5000
vii. Turnover for the last financial year	500000

Due to substantial increase in trade, before and up to the time of the fire, it was agreed that an adjustment of 10% should be made in respect of the upward trend in turnover. The company incurred additional expenses amounting to Rs. 9,300 expenditure, the immediately after the fire and but for this turnover during the was also a period of dislocation would have been only Rs. 55,000. There saving during the indemnity period of Rs. 2,700 in insured the fire.

**\*PAST FROM THE BLAST\*****Problem No 19:**

A fire occurred in the premises of a businessman on 31<sup>st</sup> January, 2023, which destroyed stock. However, stock worth 5,940 was salvaged. The company's insurance policy covers the following:





Stock-₹6,00,000; Loss of Profit (including standing charges)-₹3,75,000; and Period of indemnity -6 months. The summarised Profit and Loss Account for the year ended 31st December, 2022 is as follows: (all figures in ₹)

Dr. Profit and Loss Account for the year ended 31st December, 2022. Cr

To Opening Stock	6,18,750	By Sales	30,00,000
To Purchases	27,18,750	By Closing Stock	7,87,500
To Standing charges	2,51,250		
To Variable expenses	1,20,000		
To Net Profit	78,750		
	37,87,500		37,87,500

The transactions for the month of January, 2023 were:

- (i) Turnover 1,50,000; and
- ii) Payment to Creditors 1,60,020. Trade Creditors: 1st January, 2023 72,26,000; 31st January, 2023 - ₹2,30,980.

The company's business was disrupted until 30th April, 2023, during which period the reduction in the turnover amounted to 2,70,000 as compared with the corresponding turnover of same period in the previous year. You are required to submit the claims for insurance for loss of stock and loss of profit.

### SOLUTION:

Loss of Stock:

Trading Account for the Year ended on 31st December, 2022

Particular	₹	Particulars	₹
To Opening Stock	6,18,750	By Sales	30,00,000
To Purchases	27,18,750	By Closing Stock	7,87,500
To Gross Profit	4,50,000		
	37,87,500		37,87,500

Rate of gross profit to sales

$$= 4,50,000 / 30,00,000 \times 100$$

$$= 15\%$$

Memorandum Trading Account upto 31st January, 2023

Particulars	₹	Particulars	₹
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To Opening Stock	7,87,500	By Sales Less Returns	1,50,000
To Purchases	1,65,000	By Closing Stock (Balancing figure)	8,25,000
To Gross Profit 15% on sales	22,500		
	9,75,000		9,75,000

Purchase = Closing Bal. of creditor - Opening Bal. of creditor + Payment to creditors =  
2,30,980 - 2,26,000 + 1,60,020 - 1,65,000

Amount of Claim:

Particulars	₹
Stock on 31st Jan., 2023	8,25,000
Less: Salvaged	(5,940)
Loss of Stock	8,19,060

Application of average clause:

= Amount of claim x Amount of Policy/Value of stock on date of fire  
= 8,19,060 x 6000000/(8,25000) = 5,95,680

Loss of profit

Gross Profit Ratio = ((NP + insured standing charges) / Sales) x 100  
= (78,750 + 2,51,250) x 100 / 30,00,000 = 11%

Amount of Gross claim = Short sales x Gross Profit rate = 2,70,000 x 11% = 29,700

Annual Adjusted Turnover:

Turnover from February 2022 to December 2022 30,00,000 - 1,50,000 = 28,50,000

Turnover for January 2023 = 1,50,000

Total Annual Adjusted Turnover = 30,00,000

Gross Profit on Annual Adjusted turnover = 30,00,000 x 11% = ₹ 3,30,000

Net Claim = 29,700 (Since, Policy amount is greater than the Gross profit on annual adjusted turnover, average clause won't be applied).

**Problem No 20:**

On 02.06.2019 the stock of Mr. Black was destroyed by fire, However, following particulars were furnished

Particulars	₹
Stock at cost on 01.04.2018	1,35,000
Stock at 90% of cost on 31.03.2019	1,62,000
Purchases for the year ended 31.03.2019	6,45,000
Sales for the year ended 31.03.2019	9,00,000
Purchases from 01.04.2019 to 02.06.2019	2,25,000
Sales from 01.04.2019 to 02.06.2019	4,80,000

Sales up to 02.06.2019 includes 75,000 (invoice price) being the goods not dispatched to the costumer Purchases up to 02.06.2019 includes a machinery acquired for ₹ 15,000. Purchases up to 02.06.2019 does not include goods worth 30,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for 1,20,000 and it is subject to average clause Ascertain the amount of claim for loss of stock.

**SOLUTION:**

In the Books of Mr. Black

**Trading Account for the year ended 31.03.2019**

Particulars	Amount	Particulars	Amount
To Opening Stock	1,35,000	By Sales	9,00,000
To Purchase	6,45,000	By Closing Stock at Cost 100/90)	1,80,000
To Gross Profit	3,00,000		
	10,80,000		10,80,000

G. P. Ratio =  $(3,00,000/9,00,000) \times 100 = 33.33\%$

Memorandum Trading Account for the period from  
01.04.2019 to 02.06.2019

Computation of claim for loss of stock

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Stock (at cost)		1,80,000	By Sales	4,80,000	
To Purchase	225,000		Less: goods not dispatched	(75,000)	4,05,000
Add: Goods received but invoice not received	30,000		By Closing Stock (Balancing Figure)		1,50,000
	2,55,000				
Less: Machinery	(15,000)	2,40,000			
To Gross Profit (33.33% on Sales)		1,35,000			
		5,55,000			5,55,000

Particulars	Amount
Stock on the date of fire	1,50,000
As the value of goods salvaged was nil, therefore Loss of stock	1,50,000

Since policy amount is less than claim amount, claim will be restricted to policy amount only. Therefore, claim of ₹ 1,20,000 should be lodged by X Ltd. to the insurance company.

## CH II. LEASE ACCOUNTING

➤ **Meaning:**

- a. Lease refers to a financial agreement.
- b. whereby the owner of the asset allows to the user of the asset to use the subject matter.
- c. for a specific period of time.
- d. in anticipation of periodic lease payments.

➤ **Basic Terms:**

- a. Owner of the asset is known as the lessor.
- b. User of the asset is known as lessee.
- c. Subject matter referred as the leased asset.
- d. Entire arrangement is known as lease agreement.

➤ **Non Applicability:**

- a. To explore natural resources such as oil, gas, timber, metal and other material rights.
- b. Licensing agreements for motion picture film, video manuscripts, recording plays patents and other rights
- c. Lease agreement to use land.

➤ **Types of leases:** The following are the two types of leases:

- 1. Finance lease.
- 2. Operating lease.

**1. Finance Lease:**

- a. **Meaning:** It is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee by the lessor but not the legal ownership.
- b. **Conditions:** The following conditions should be satisfy to consider as finance lease.
  - i. The lease period should cover major part of the economic useful life time of the leased asset
  - ii. The present value of the minimum lease rental should be equal or more than the fair value of such leased asset at the beginning of the lease.
  - iii. The lessee has on option to buy the leased asset at the end of lease period, at a price, which is lower than its expected fair value at the date on which option will be exercised.
  - iv. The asset given on lease is of specialized nature and it can be used only by the lease without major modification.
  - v. The lease will get the ownership of the leased asset at the end of the lease term.

**2. operating Lease:**

- a. It is a lease which does not transfer substantially all the risk and reward incidental to ownership.
- b. If any one of the above mentioned 5 conditions is not satisfied then such lease is known as operating lease.

**➤ Relevant date for classification of lease:**

- a. Classification of Lease should be made at the inception of the lease and
- b. if at any time the lessee and lessor agree to change the provision of lease and it results in different category of lease, it will be treated as separate agreement.

**➤ ACCOUNTING FOR FINANCE LEASE****• In the books of lessee:**

- i. **Leased Asset as well as liability for lease** should be recorded at the lower of the following:
  - a. **Fair value of the leased asset at the inception of lease or**

- b. **Present value of minimum lease payment from the lessee point of view**
  - ii. Each lease payment is apportioned between finance charge and principal amount.
  - iii. The lessee is entitled to charge depreciation on finance lease asset as per AS 6.
  - iv. Initial direct cost for finance lease is included in asset under lease.
- **In the books of lessor:**
  - a. The lessor should recognize asset given under finance lease as receivable at an amount equal to net investment in the lease and corresponding credit to sale of asset.
  - b. **Net Investment** = Gross Investment - Unearned finance income.
  - c. **Gross Investment** = MLP from lessor point of view + Unguaranteed residual value
  - d. **Unearned finance income** = Gross Investment - present value of gross investment  
The lessor should recognize the finance income based on a pattern reflecting constant periodic return on the net investment outstanding in respect of the finance lease.

➤ **ACCOUNTING FOR OPERATING LEASE:**

- **In the books of lessor:**
  - a. Record leased out asset as the fixed asset in the balance sheet.
  - b. Charge depreciation as per AS 10.
  - c. Recognize lease income in profit and loss account using straight line method, if any other method reflects more systematic allocation of earning derived from the diminishing value of leased out asset, that approach can be adopted.
  - d. Other cost of operating lease should be recognized as expenses in the year in which they are incurred.
  - e. Initial direct cost of the lease may be expensed immediately or differed.
- **In the books of lessee:**
  - a. Lease payments should be recognized as an expense in the profit and loss account on a straight-line basis over the lease term.

- b. If any other method is more representative of the time pattern of the user's benefit such method can be used.

- **SALE AND LEASE BACK**

- a. **Meaning:** A sale and lease back transaction leasing involve the sale of an asset by vendor and of the same asset back to the vendor.

- b. **Accounting Treatment if lease back is finance lease:**

- i. Any profit or loss (difference between Sale proceeds and carrying amount) should not be immediately recognized as profit or loss in the financial statements of seller-lessee.
- ii. It should be deferred and amortized over the lease term in proportion depreciation of to the leased asset.

- c. **Accounting Treatment-If lease back is Operating lease:**

- i. **If Sale value = fair value:** Any profit or loss arising out of sale transaction is recognized immediately when sale price is equal to fair value.
- ii. **If Sale price is below fair value:**
  - a) Profit: carrying amount is less than sale value, recognize profit immediately.
  - b) Loss: carrying amount is more than the sale value, recognize loss immediately, provided loss is not compensated by future lease payments.
  - Loss: carrying amount is more than the sale price, defer and amortize loss if loss is compensated by future lease payments.

- iii. **Sale price is above fair value:**

- a) If carrying amount is equal to fair value which will result in amortize profit, the profit over the lease period.
- b) Carrying amount less than fair value will result in profit, amortize and defer the profit equal to sale price less fair value and recognize the balance profit immediately.
- c) Carrying amount is more than the fair value - which will result in loss equal to (carrying amount less than fair value) should be recognized immediately. Profit equal to selling price less fair value, should be amortized.



➤ **Important Terms Explanation**

• **Guaranteed residual value:**

- a) **From lessee:** Residual value guaranteed by him or by anyone on his behalf.
- b) **From lessor:** Residual value guaranteed by Lessee by anyone on behalf of lessee  
Guaranteed by independent third party

• **Unguaranteed Residual Value** = Residual Value - Guaranteed Residual Value

- a) **For lessor** = Total of lease rental residual value guaranteed by lessee + Residual value guaranteed by independent third party.
- b) **For lessee** = Total of lease rental + Residual value guaranteed by lessee

**PRACTICAL PROBLEMS****Problem No 01:**

Arun Ltd. has taken an equipment on operating lease for the coming 5 years. As per the agreement with the lessor, it will not make any payment for lease rentals for the first 2 years, and will have to pay ₹ 21,00,000 in each of the following 3 years. Advise Arun Ltd. on accounting for the lease rentals in this case.

**Problem No 02:**

Vishnu Ltd. leased a printing machine from Garur Ltd. for a period of 3 years. The useful life of the printing machine is known to be of 5 years. It was agreed between the lessor and lessee that the amount will be paid in 3 instalments and at the termination of the lessee, Garur Ltd. will take back the said machine. The following details are available in respect of the machine lessee:

- Cost of the printing machine is ₹ 15,00,000;
- Unguaranteed residual value at the end of the lease period is ₹ 2,00,000;
- Fair value of the machine is ₹ 15,00,000;
- The internal rate of return of the investment is 10%.

You are required to:

- a) State whether the lease is a finance lease or an operating lease?
- b) Ascertain the amount of unearned finance income.

Given:  $PVF_{10\%, 3} = 0.7513$ ;  $PVAF_{10\%, 3} = 2.4868$

**Problem No 03:**

Classify the following into either operating or financial lease (briefly give your reasoning)

- i. Lessee has option to purchase the asset at lower than fair value, at the end of lease term. It is certain that the lessee will exercise the option.
- ii. Economic life of the asset is 7 years, lease term is 6 years, but asset is not acquired at the end of lease term.
- iii. Economic life of the asset is 6 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee.

iv. Present value of minimum lease payment = X; Fair value of the asset = Y.

**Problem No 04:**

M Ltd. Has taken the asset on lease from PQR Ltd. The following information is given:

Lease Period = 4 years

Fair Value at the inception of lease = ₹ 1,60,000

Lease Rent = ₹ 5,00,000 p.a. @ the end of the year.

Guaranteed residual value = ₹ 1,00,000

Expected residual Value = ₹ 2,00,000

Implicit interest Rate = 15%

Work out Unearned Finance Income.

discount Factors: Year 1 - 0.8986; Year 2 0.7565; Year 3 - 0.6575; Year 4 0.5718.

**Problem No 05:**

A Ltd. has taken the assets on lease from X Ltd. The following information is given below:

Lease Term = 3 years

Fair value at inception of lease = ₹ 14,00,000

Lease Rent = ₹ 6,00,000 p.a. at the end of each year

Guaranteed Residual Value = ₹ 44,000

Implicit Interest Rate = 15% p.a.

Calculate the value of the asset to be considered by A Ltd. and the interest (finance charges) in each year.

Present value of ₹ 1.00 at 15% is given below:

Year	1	2	3
PVIF (15%)	0.869	0.756	0.657

**Problem No 06:**

M Ltd. sold machinery having WDV of ₹ 200 Lakhs to N Ltd. for ₹ 250 Lakhs and the same machinery was leased back by N Ltd. to M Ltd. The lease back is an operating lease. Comment on the accounting treatment as per AS 19 in the following

circumstances: (i) Fair value is 230 Lakhs and sale price is 250 Lakhs (ii) Fair value is ₹175 Lakhs and sale price is ₹195 Lakhs

### **\*PAST FROM THE BLAST\***

#### **Problem No 07:**

L. Ltd. has leased a machine to T Ltd. On the following terms:

Lease Term= 5 years

Fair Value at the inception of lease=72,00,000

Lease Rent =12,00,000 p.a. at the end of the year

Guaranteed Residual Value = 2,40,000

Expected Residual Value= 4,50,000

Implicit Interest Rate = 15%

Work out Unearned Finance Income. (Discount factors Yr. 1- 0.8696, 2-0.7561, 3-0.6575 and Yr. 4-0.5718, Yr. 5-0.4972).

From the above calculate:

(I) Gross investment in the lease

(II) Unearned Finance Income

#### **SOLUTION:**

Net Investment in lease Gross Investment-Unearned Finance Income Gross Investment

MLP + Guaranteed Residual Value + Unguaranteed Residual Value = 60,00,000+

₹2,40,000 +4,50,000. +2,10,000

Unearned finance Income Gross Investment Present Value of Gross Investment

Year	Value of MPL	PVIF	Present Value
1	12,00,000	0.8696	10,43,520
2	12,00,000	0.7561	9,07,320
3	12,00,000	0.6575	7,89,000
4	12,00,000	0.5718	6,86,160
5	16,50,000	0.4972	8,20,380
			42,46,380

Unearned Finance income = 64,50,00-42,46,380=22,03,620

## CH 12. (A) ADMISSION OF A PARTNER

### ➤ Introduction:

- a) Meaning: As per Sec 4 of the Partnership Act, 1932 a partnership is "The Relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all.
- b) Characteristics: The following are the important characteristics of partnership.
  - It arises out of an agreement made by two or more persons for sharing or profits of business.
  - The agreement is carried on by all or any one of them acting for all.
  - For formation of partnership minimum two members required, for a banking business maximum number of members is 10 and in case of other businesses is 20.

### ➤ PARTNERS CAPITALS ACCOUNT:

- Partners' Capital Accounts may be maintained using any one of the following two methods.
  - a) Fixed Capital Method or
  - b) Fluctuating Capital Method.

#### A. Fixed Capital Method:

- a) Under this Method, for each partner two accounts are opened in the firm books, namely Capital Account and Current Account.
- b) The balance in the Capital Account will be the same, unless additional capital was introduced or capital withdrawn during the accounting period.
- c) All other transactions are recorded in the partner's current a/c hence balance of current a/c changes for every year.

**B. Fluctuating Capital Method:**

- a) Under this system, all transactions taken place between the partner and the partnership firm will be recorded in Capital Account only.
- b) Hence the balance in the capital account changes from one accounting period to another accounting period.

**\*ADMISSION OF A PARTNER\***

- i. Partners of a continuing business by mutual consent they may admit a new partner for additional capital and/or technical skill or managerial efficiency.
- ii. At the time of admission of a partner the following adjustments are required in the books of the partnership firm.
  - a. Adjustment of Profit -Sharing Ratio
  - b. Revaluation of Assets and Liabilities
  - c. Adjustments regarding Accumulated Profits and Losses
  - d. Adjustment regarding Goodwill
  - e. Adjustments regarding capital contribution of the new partners and capitals of existing partners.
  - f. Adjustment regarding Life Policy
- iii. **Adjustment of profit-sharing ratio:**
  - In case of admission of a partner existing partners sacrifice a share in future profit in favor of incoming partner.
  - The ratio in which existing partner sacrifice their share in future profit is known as sacrificing ratio.  $SR = \text{old Ratio} - \text{New Ratio}$
  - In case admission, new partner may acquire his share in future profit from
    - a. All existing partners in agreed ratio or
    - b. From any existing partner

➤ **Revaluation of assets and liabilities:**

- a. The book values of assets in the balance sheet may not reflect their current realizable values and similarly the liabilities included in the balance sheet may not reflect their actual position.
- b. Whenever a change takes place in partnership business revaluation of assets and reassessment of liabilities should be carried out.
- c. Profit or loss arising on revaluation of assets and reassessment of liabilities is purely relatable to old partners. Hence it should be distributed to old partners in their old profit-sharing ratio.

➤ **Accounting Entries:**

1. **For decrease in the value of an asset:**

Revaluation A/c    Dr XXX  
To Assets A/c                      XXX

2. **For increase in the value of an asset / for recording unrecorded asset:**

Asset A/c            Dr XXX  
To Revaluation A/c      XXX

3. **For decrease in a liability**

Liability A/c       Dr XXX  
To Revaluation A/c      XXX

4. **For increase in a liability / for recording unrecorded liability:**

Revaluation A/c    Dr XXX  
To Liability A/c              XXX

5. **Revaluation expenses paid by the firm:**

Revaluation A/c    Dr XXX  
To Bank A/c                      XXX

**6. Revaluation expenses paid by any partner of the firm:**

Revaluation A/c Dr XXX

To Partner's Capital A/c XXX

**7. Profit on revaluation shared by old partners in old profit-sharing ratio:**

Revaluation A/c Dr XXX

To Old partners' capital A/c XXX

**8. Loss on revaluation shared by old partners in old profit-sharing ratio:**

Old partners' capital A/c Dr XXX

To Revaluation A/c XXX

**➤ Concept of Memorandum Revaluation A/c:**

- In some cases, if mutually agreed by all the partners, revaluation of assets and reassessment of liabilities can be carried on without incorporating such changes in the balance sheet values.
- For this purpose, in the books of the firm, a specific account is opened which is known as "Memorandum revaluation A/c". The following is procedure to be adopted.
  - a. Carry on the revaluation of assets and reassessment of liabilities.
  - b. The resulting profit or loss should be shared by all old partners in their agreed profit-sharing ratio.
  - c. Reverse all revaluations
  - d. Resulting profit or loss should be distributed to all partners including the incoming partner in the new profit sharing ratio.

**➤ Adjustment regarding Accumulated Profits and Losses:****a) Accumulated profits or losses:**

- It refers to profits or losses earned by the firm in the preceding accounting periods but not yet distributed to the existing partners.
- These belongs to old partners, hence should be distributed to old partners in their old profit sharing ratio.



**b) Distribution of Accumulated profits:**

Accumulated Profits A/c      Dr    xxx  
     To Old Partners Capital A/c (or) Current A/c      xxx

**c) Distribution of Accumulated Losses:**

Old partners' capital A/c (OR) Current A/c  
     To Accumulated Loss A/c

**d) Memorandum Reserves A/c:**

- If the partners decide to maintain the accumulated profits at its original figures even after the new partner's admission. In that case memorandum Reserve A/c will be opened in the books of the firm.
- **Accounting Treatment:**
  - i. **Accumulated profits should be distributed to all old partners in their old profit-sharing ratio:**

Accumulated profits A/c      Dr. XXX  
     To Old Partners Capital (or) Current A/c      XXX

- ii. **For recreating reserve among all partners including new partners in new profit-sharing ratio:**

All Partners Capital (or) Current A/c      Dr. XXX  
     To Accumulated Profits A/c      XXX

**➤ Adjustment for Goodwill:****• Concept of Goodwill of the firm:**

- 1) **Meaning:** Goodwill is the value of reputation of a firm in respect of profits expected in future over and above the normal rate of profits.
- 2) **Reasons:** The excess profit earned by a firm may be due to any one of the following factors:
  - a. Locational advantage

- b. Better customer service
- c. Holding a unique patent right
- d. Reputation of the partner
- e. Branding etc.

3) **Requirement for valuation of goodwill:** The necessity for valuation of goodwill in a firm arises in the following cases:

- When the profit-sharing ratio among the partners is changed.
- When a new partner is admitted
- When a partner retires or dies
- When the business is sold to a third party etc.

➤ **Methods of valuation of goodwill of a firm:** goodwill may be valued using any one of the below mentioned methods:

**1. Average profit Based Method:**

- Calculate average profit of past years adjusted for any expected future changes.
- In calculation of average profit, exceptional income or expense in any year should be adjusted against such year profit or loss.
- Decide on number of years of purchase.
- $\text{Goodwill} = \text{Average profit} \times \text{No of Years of purchase}$
- If profits of selected past years are fluctuating then consider simple average profit.
- If profits for the selected past years show any clear trend then consider weighted average profit.

**2. super Profits Method:**

- **Calculate future maintainable profit-** Trading profits excluding non-trading income, extra-ordinary items, exceptional items and adjusted for changes in accounting policies, rectification of errors.
- **Calculate operating capital employed** excluding non-trade investments and value of goodwill.

- Calculate normal rate of return applicable to the industry in which the entity is operating.
- Calculate normal profit = Operating Capital Employed x NRR%
- calculate super profit = Future Maintainable profit - Normal profit
- Calculate value of goodwill = Super profit x no of years of purchase.

### 3. capitalization Method:

- Calculate future maintainable profit.
- Calculate normal rate of return applicable to the entity
- Calculate Normal capital employed =  $\frac{\text{Future Maintainable profit}}{\text{NRR}}$
- Calculate Operating Capital Employed in the business.
- Value of goodwill = Normal Capital Employed - Operating Capital Employed.

### 4. Capitalization of Super Profit:

- Calculate Super Profit = Future Maintainable Profit - Normal Profit
- Calculate Normal Rate of return applicable to the business entity.
- Goodwill =  $\frac{\text{Super Profit}}{\text{NRR\%}}$

### 5. Annuity Method

- Calculate Super Profit = Future Maintainable Profit - Normal Profit.
- Determine applicable annuity Factor at the applicable normal rate of return to the business.
- Goodwill = Super Profit x Annuity Factor @ Normal Rate of Return.

### ➤ Accounting Treatment for Goodwill

a) If goodwill premium is brought in cash by new partner:

Bank A/c      Dr    xxx

To Old Partners Capital/ Current A/c    xxx

(goodwill premium brought in by new partner is distributed to old partners in their sacrifice ratio)

**b) If goodwill premium is not brought in cash by new partner:**

New Partner Capital A/c    Dr xxx

    To Old Partners Capital / Current A/c    xxx

(goodwill premium of new partner is distributed to old partners in their sacrifice ratio using capital balance)

**PRACTICAL PROBLEMS****Problem No 01: (Basic problem)**

X and Y are currently partners in a firm sharing profit or loss in the ratio of 4:3. A new partner Z is admitted and after his admission new profit sharing ratio between X, Y and Z becomes 5:3:2. What will be the sacrifice ratio of X and Y after admission of Z?

**Problem No 02: (Basic problem)**

A and B are in partnership sharing profits and losses in the ratio of 3:2. They admitted C as  $\frac{1}{5}$ th partner. Calculate the new profit sharing ratio.

**Problem No 03: (Basic problem)**

X and Y are partners sharing in the ratio 3:2. They admit Z as a new partner for  $\frac{1}{3}$ rd share in future profits which he gets  $\frac{1}{9}$ th from Mr. X and  $\frac{2}{9}$ th from Mr. Y. Calculate the new profit-sharing ratio.

**Problem No 04: (Basic problem)**

A and B are partners sharing profits in the ratio of 3:2. They admit Mr. C as new partner. Mr. A surrenders  $\frac{1}{3}$ rd of his share and Mr. B surrenders  $\frac{2}{3}$ rd of his share in favor of Mr. C. Calculate the new profit-sharing ratio.

**Problem No 05:**

X and Y are partners sharing in the ratio of 5:3. They admit Mr. Z for  $\frac{1}{8}$ th of share in profits which he acquires entirely from Mr. X. Calculate the new profit-sharing ratio.

**Problem No 06:**

A and B are partners sharing profits in the ratio of 6:4. Mr. C is admitted for  $\frac{1}{5}$ th share which he acquires from Mr. A and Mr. B in the ratio of 2:1. Calculate the new ratio.

**Problem No 07: (Important Question)**

M The past profits of five years of a partnership firm are 5,00,000; 74,00,000; 5,20,000; 74,80,000 and ₹ 5,60,000. Calculate the value of firm's goodwill assuming 4 years purchase of average profits of the last 5 years?

**Problem No 08:**

ABC & Co has a total capital employed of ₹ 45,00,000. The firm earned net profits during the last four years 7,00,000; ₹ 8,00,000; ₹ 12,00,000; ₹ 10,00,000. The reasonable expected return is 15% having regard to risk class the firm belongs to.

You are required to find the value of the firm's goodwill, assuming 3 years purchase of super profits of last 4 years.

**Problem No 09:**

You are required to calculate the value of XYZ & Co from the following information using annuity method.

- i. Annual maintainable profit after tax is 6.50,000
- ii. Capital employed is ₹ 40,00,000
- iii. Normal rate of return is expected at 12% p.a.
- iv. Present value of annuity of R 1 for five years @12% interest is 3.604776

**Problem No 10:**

POR & Co's net tangible assets as on 31/3/2022 is 41,00,000. Average profit of last four years amounts to ₹ 6,00,000. You are required to determine value of firm's goodwill under Capitalization method, if reasonable rate of return applicable to the entity is 12%.

**Problem No 11:**

The following particulars are available in respect of business carried by ABC & Co

Capital Employed	15,00,000
Trading profits for last 4 years ended on 31/3	2019 -Profit 4,00,000; 2020- Profit 3,60,000;

	2021 -Loss of 60,000; 2022-Profit 5,00,00
Market rate of interest on investment	10%
Rate of risk premium on capital invested in business	2%
Remuneration of the partners from alternative employment- if not engaged in the firm business	6,000 per annum

You are required to compute the value of goodwill on the basis of 5 years purchase of super profit of the business calculated on the average profits of the last four years.

**Problem No 12: (Important Question)**

A, T and L are in partnership sharing profits and losses in the ratio of 4:4:2. They admit Mr. A into partnership with  $\frac{1}{5}$ th Share. Mr. A brings 30,000 as capital and ₹ 10,000 as premium for You are goodwill. required to record necessary journal entries for the same.

**Problem No 13:**

A and B are equal partners. They wanted to admit Mr. C as  $\frac{1}{6}$ th partner who brought R 60,000 as goodwill. The new profit-sharing ratio is 3:2:1. You are required to record goodwill adjustment JE.

**Problem No 14:**

Mr. Y and G sharing profits in the ratio of 3:2. They admitted Mr. B as partner on the condition that he would pay 20,000 as capital. Goodwill was to be valued at 3 years purchase of the average of last four years profits 2019 - 9,000; 2020 14,000; 2021 - 12,000 and 2022 13,000. The new profit sharing ratio is 6:5:5. You are required to record journal entries assuming goodwill is adjusted through partners capital accounts.

**Problem No 15:**

The following is the Balance Sheet of Ram and Mohan, who share profits in the ratio of 3:2 as on 1st January, 2016:

Liabilities	Rs.	Assets	Rs.
Trade payables	15,000	Buildings	18,000
Ram's Capital	20,000	Plant and Machinery	15,000
Mohan's Capital	25,000	Inventories	12,000
		Trade receivables	10,000
		Bank	5,000
	60,000		60,000

On this date Shyam was admitted on the following:

1. He is to pay Rs. 25,000 as his capital and Rs. 10,000 as his share of goodwill for one fifth share in profits.
2. The new profits sharing ratio will be 5:3:2.
3. The assets are to be revalued as under:

	Rs.
Building	25,000
Plant and Machinery	12,000
Inventories	12,000
Trade receivables (because of doubtful debts)	9,500

4. It was found that there was a liability for Rs. 1,500 for goods received but not recorded in books. Give journal entries to record the above. Also, give the Balance Sheet of the partnership firm after Shyam's admission.

**Problem No 16: (Icmai study material)**

P and Q are partners sharing profits and losses in the ratio of 5:4. On 1st April, 2021 they admitted their Manager R into partnership for 1/5th the share of the profits. As Manager, R was receiving a salary of ₹ 60,000 per year and a commission of 5 percent on the net profit after charging such salary and commission. It is, however, agreed that any excess over his former remuneration to which R becomes entitled as a partner is to



be borne by Q. The profits of the firm for the year ended 31st March, 2022 amounted to 4,27,500. You are required to show the division of profits among the partners.

**Problem No 17:**

A and B are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.3.2016 is given below:

Liabilities	Rs.	Assets	Rs.
Trade payables	50,000	Freehold premises	2,00,000
Capital Accounts:		Plant	40,000
A	2,00,000	Furniture	20,000
B	1,00,000	Office equipment	25,000
		Inventories	30,000
		Trade receivables	25,000
		Bank	10,000
	3,50,000		3,50,000

On 1.4.2016 they admit C on the following terms:

1. C will bring Rs. 50,000 as a capital and Rs. 10,000 for goodwill for  $\frac{1}{5}$  share;
2. Provision for doubtful debts is to be made on Trade receivables @ 2%
3. Inventory to be written down by 10%.
4. Freehold premises is to be revalued at Rs.2,40,000, at Rs.35,000 furniture plant Rs. 25,000 and office equipment Rs. 27,500.
5. Partners agreed that the values of the assets and liabilities remain the same and, as such, there should not be any change in their book values as a result of the above mentioned adjustments.

You are required to make necessary adjustment in the Capital Accounts of the partners and show the Balance Sheet of the New Firm.

**Problem No 18:**

A and B are partners in a firm, sharing profits and losses in the ratio of 3:2. The Balance Sheet of A and B as on 1.1.2016 was as follows:

Liabilities	Rs.	Amount Rs	Assets	Rs.	Amount Rs
Trade payables		17,000	Building		26,000
Bank overdraft		9,000	Furniture		5,800
Capital accounts:			Inventories		21,400
A	44,000		Trade receivables	35,000	
B	36,000	80,000	Less: Provision	(200)	34,800
			Investment		2,500
			Cash		15,500
		1,06,000			1,06,000

C' was admitted to the firm on the above date on the following terms:

- C is admitted for  $\frac{1}{6}$  share in the future profits and to introduce a capital of Rs.25,000.
- The new profit sharing ratio of A, B and C will be 3:2:1 respectively.
- C is unable to bring in cash for his share of goodwill, they decide to calculate goodwill on the basis of C's share in the profits and the capital contribution made by him to the firm.
- Furniture is to be written down by Rs.870 and Inventory to be depreciated by 5%. A provision is required for trade receivables 5% for bad debts. A provision would also be made for outstanding wages for Rs.1,560. The value of buildings having appreciated be brought upto Rs.29,200. The value of investments is increased by Rs.450.
- It is found that the trade payables included a sum of Rs.1,400, which is not to be paid off.

Prepare the following:

- Revaluation account.
- Partners' capital accounts.

### **Problem No 19:**

Dalal, Banerji and Mallick are partners in a firm sharing profits and losses in the ratio 2:2:1. Their Balance Sheet as on 31st March, 2016 is as below:

Liabilities	Rs.	Amount Rs	Assets	Amount Rs
Trade payables		12,850	Land and Buildings	25,000

Outstanding Liabilities		1,500	Furniture	6,500
General Reserve		6,500	Inventory of goods	11,750
Capital Account:			Trade receivables	5,500
Mr. Dalal	12,000		Cash in hand	140
Mr. Banerji	12,000		Cash at Bank	960
Mr. Mallick	5,000	29,000		
		49,850		49,850

The partners have agreed to take Mr. Mistri as a partner with effect from 1st April, 2016 on the following terms:

- Mr. Mistri shall bring Rs.5,000 towards his capital.
- The value of Inventory should be increased by Rs.2,500 and Furniture should be depreciated by 10%.
- Reserve for bad and doubtful debts should be provided at 10% of the Trade receivables.
- The value of land and buildings should be enhanced by 20% and the value of the good will be fixed at Rs. C. 15,000.
- The value of the goodwill be fixed at Rs.15,000.
- General Reserve will be transferred to the Partners' Capital Accounts.
- The new profit sharing ratio shall be: Mr. Dalal 5/15, Mr. Banerji 5/15, Mr. Mallick 3/15 and Mr. Mistri 2/15.

The outstanding liabilities include Rs.1,000 due to Mr. Sen which has been paid by Mr. Dalal. Necessary entries were not made in the books.

Prepare (i) Revaluation Account, (i) The Capital Accounts of the partners, (ii) Balance Sheet of the firm after admission of Mr. Mistri.

#### **Problem No 20:**

A and B are in partnership sharing profits and losses at the ratio 3:2. They take C as a new partner. Calculate the new profit sharing ratio if

- C purchases 1/10 share from A
- A and B agree to sacrifice 1/10th share to C in the ratio of 2:3
- Simply gets 1/10th share of profit

**Problem No 21:**

A and B are in the partnership sharing profits and losses in the proportion of three-fourth and one-fourth respectively. Their balance sheet as on 31st March, 2016 was as follows: Cash Rs.1,000; trade receivables RS.25,000; Inventory Rs.22,000; plant and machinery Rs.4,000; trade payables Rs.12,000; bank overdraft Rs.15,000; A's capital Rs.15,000; B's capital Rs.10,000.

- i. C to purchase one-third of the goodwill for Rs.2,000 and provide Rs.10,000 as capital. Goodwill not to appear in books.
  - ii. Further profits and losses are to be shared by A, B and C equally.
  - iii. Plant and machinery is to be reduced by 10% and Rs.500 is to be provided for estimated bad debts. Inventory is to be taken at a valuation of Rs.24,940
  - iv. By bringing in or withdrawing cash and capitals of A and B are to be made proportionate to that of C on their profit-sharing basis.
- Set out entries to the above arrangement in the firm's journal and give the partners' capital accounts in tabular form.

**Problem No 22:**

A and B are partners of X & Co. sharing profits and losses in 3:2 ratio between themselves. On 31st March, 2016, the balance sheet of the firm was as follows:

Balance Sheet of X & Co. as at 31.3.2016

Liabilities	Rs.	Rs.	Assets	Rs.
Capital accounts:			Plant and machinery	20,000
A	37,000		Furniture and fittings	5,000
B	28,000		Inventories	15,000
		65,000	Trade receivables	20,000
Trade payables		5,000	Cash in hand	10,000
		70,000		70,000

X agrees to join the business on the following conditions as and from 1.4.2016:

- a. He will introduce Rs.25,000 as his capital and pay Rs.15,000 to the partners as premium for goodwill for 1/3rd share of the future profits of the firm.

b. A revaluation of assets of the firm will be made by reducing the value of plant and machinery to Rs.15,000, Inventory by 10%, furniture and fitting by Rs.1,000 and by making a provision of bad and doubtful debts at Rs.750 on trade receivables.

Prepare profit and loss adjustment account, capital accounts of partners including the incoming partner X assuming that the relative ratios of the old partners will be in equal proportion after admission.

**Problem No 23:**

A and B are in partnership sharing profits and losses equally. The Balance Sheet M/s. A and B as on 31.12.2016, was as follows:

Liabilities	Rs	Assets	Rs
Capital A/cs		Sundry Fixed Assets	60,000
A	45,000	Inventories	30,000
B	45,000	Bank	20,000
Trade payables	20,000		
	1,10,000		1,10,000

On 1.1.2017 they agreed to take C as 1/3rd partner to increase the capital base to Rs.1,35,000. C agrees to pay Rs.60,000. Show the necessary journal entries and prepare partners' capital accounts.

**\*PAST FROM THE BLAST\***

**Problem No 24:**

The Balance Sheet of X and Y who shares profits and losses in the ratio of 3:2, at 31st March, 2019 was as follows:

Liabilities	₹	Assets	₹
Creditors	36,000	Cash at Bank	20,000
Workmen's Compensation Fund	24,000	Debtors	
		1,30,000	
			1,20,000

		Less: Provision	
		0,000	
Employees' Provident Fund	20,000	Stock	60,000
General Reserve	40,000	Investments	1,00,000
X's Capital	1,68,000	Patents	20,000
Y's Capital	1,12,000	Goodwill	80,000
	4,00,000		4,00,000

They decided to admit Zon that date for  $\frac{1}{4}$ th share on the following terms:

- New Profit sharing ratio will be 6:9:5. Z is to bring in capital equal to  $\frac{1}{4}$ th of the total capital of the new firm.
- Goodwill of the firm is to be valued at 4 years purchase of the average super profits of the last three years. Average profits of the last three years are 70,000, while the normal profits that can be earned with the capital employed are 30,000. No Goodwill is to appear in the books. Z brings in 24,000 cash out of his share of Goodwill.
- Patents to be written down to 3,000 and Stock is undervalued by 2,000. 20% of General Reserve to be transferred to Provision for Doubtful Debts. 9,000 included in Sundry Creditors be written back as no longer payable.
- Out of the amount of insurance which was debited entirely to P&L A/c 10,000 be carried forward as an Unexpired Insurance. Unaccounted Accrued Income of 2,000 to be provided for A debtor whose dues of ₹ 10,000 were written off as Bad Debts paid 80% in full settlement. A claim of 6,000 on account of workmen's compensation to be provided for
- The market value of investments was 90,000. Half of the investments were to be taken over by old partners in their old profit sharing ratio.

Prepare Revaluation Account, Capital Accounts of the Partners and the Balance Sheet of new firm

**SOLUTION:**

#### Revaluation Account

Particulars		Particulars	
-------------	--	-------------	--

To Patents	17,000	By Sundry Creditors	9,000
To Investments	10,000	By Prepaid Insurance	10,000
To Profit on Revaluation t/f to:		By Bad Debts Recovered	8,000
X's Capital A/c 2,400		By Stock	2,000
Y's Capital A/c 1,600	4,000	By Accrued Income	2,000
	31,000		31,000

## Partner's Capital Accounts

Particulars	X	Y	Z	Particulars	X	Y	Z
To Goodwill A/c	48,000	32,000		By Balance b/d	1,68,000	1,12,000	
To Investment s A/c	27,000	18,000		By General Reserve A/c	19,200	12,800	
To X's Capital A/c		8,000	40,000	By Revaluation A/c	2,400	1,600	
To Balance c/d		75,600	83,000	By Workmen's Compensatio n A/c	10,800	7,200	
				By Bank A/c (Premium for Goodwill)			24,000
				By Z's Current A/c			16,000
				By Y's Capital A/c	8,000		

				By Z's Capital A/c	40,000		
				By Bank A/c			83,000
	2,48,400	1,33,600	1,23,000		2,48,400	1,33,600	1,23,000

Balance Sheet of New Firm as at 31st March, 2019

Liabilities	₹	Assets	₹
Creditors	27,000	Cash at Bank	1,35,000
Employees' Provident Fund	20,000	Debtors 1,30,000	
Workmen's Compensation Claim	6,000	Less: Provision (18,000)	1,12,000
X's Capital A/c	1,73,400	Stock	62,000
Y's Capital A/c	75,600	Investments	45,000
Z's Capital A/c	83,000	Patents	3,000
		Prepaid Insurance	10,000
		Accrued Income	2,000
		Z's Current A/c	16,000
	3,85,000		3,85,000

## Working Notes:

1. X's sacrifice =  $3/5 - 6/20 = 6/20$ , Y's gain =  $2/5 - 9/20 = (1/20)$
2. Firm's Goodwill = "Super Profits  $\times 4 = 70,000 - 30,000) \times 4 = 1,60,000$
3. Z's Share of Goodwill =  $1,60,000 \times 1/4 = 40,000$
4. Y's Share of Goodwill =  $1,60,000 \times 1/20 = 8,000$
5. Z's New Capital =  $1,73,400 + 75,600) \times 1/3 = 83,000$

## Cash at Bank Account

Particulars	Amounts	Particulars	Amounts
To Balance b/d	20,000	By Balance c/d	1,35,000
To Z's Capital A/c	83,000		





## Admission of a Partner

To Bad Debts Recovered	8,000		
To Premium for Goodwill	24,000		
	1,35,000		1,35,000

**CH 12. (B) RETIREMENT OF A PARTNER**

➤ **Retirement of a partner:** A Partner may retire

- With the consent of all partners
- As per express agreement by the partners
- By serving a written notice to all other partners in case of partnership at will

➤ **Adjustments:** The following are the factors that are involved in case of retirement of a partner:

- a) New Profit Sharing Ratio and Gaining Ratio
- b) Revaluation of assets and liabilities
- c) Distribution of Reserves and surplus
- d) Goodwill Adjustment
- e) Adjustment of Joint life policy
- f) Determination of Final Amount due to retiring partner and mode of settlement.
- g) Capital Account adjustments

➤ **New Profit Sharing Ratio and Gaining Ratio:**

- a) The ratio in which continuing partners agrees to share profits or losses is known as new profit sharing ratio.
- b) The ratio in which continuing partners acquire the share of outgoing partner is known as gaining ratio.
- c)  $\text{Gaining Ratio} = \text{New Ratio} - \text{old Ratio}.$

➤ **Treatment of joint Life Policy:**

- a) If a life insurance policy is taken on the lives of all partners it is known as joint life policy.
- b) The firm pays premium on such policy and policy amount is payable to the firm either on maturity or death of any of partner of the firm whichever is earlier.

- c) The objective is to minimize the financial hardships to the event of payment of huge amount to the legal representatives of deceased or retiring partner.
- d) The following are the two common methods following for accounting for JLP.

• **Treat Premium as an Expense:**

Particulars		Debit	Credit
For payment of premium:			
JLP Insurance Premium A/c	Dr	xxx	
To Bank A/c			xxx
For charging premium to profit and loss A/c:		xxx	
Profit and Loss A/c	Dr		xxx
To JLP Insurance Premium A/c			
On maturity of ILP:			
Insurance Company/ Bank A/c	Dr	xxx	
To Individual Partners Capital A/c's			xxx

• **Treat Premium as an Asset**

Particulars		Debit	Credit
For payment of premium:			
Joint Life Policy A/c	Dr	xxx	
To Bank A/c			xxx
For Adjusting Policy to surrender value at the end of the year:			
Profit and Loss A/c	Dr	xxx	
To Joint Life Policy A/c			xxx
On maturity of JLP:			
Insurance Company/ Bank A/c	Dr	xxx	
To Joint Life Policy A/c			xxx

➤ **Calculation of amount due to retiring partners:** The aggregate of the following is considered as the amount due to retiring partners.

- a) The balance in his capital account
- b) The balance in his current account
- c) His share in accumulated profits or losses
- d) His share in revaluation profit or losses
- e) His share of goodwill
- f) His share in estimated profits of the firm till the date of retirement
- g) Less: Drawings and interest on drawings etc.

➤ **Modes of settlement of retiring partner:**

a) **Payment at a time:**

Retiring partner Capital A/c	Dr XXX	
To Bank A/c		XXX

b) **If past payment made in cash and balance transferred to loan account:**

Retiring partner Capital A/c	Dr XXX	
To Retiring Partner Loan A/c		XXX

c) **Complete amount transfer to loan account:**

Retiring Partner Capital A/c	Dr XXX	
To Retiring Partner Loan A/c		XXX

**PRACTICAL PROBLEMS****Problem No 01: (Basic problem)**

A and B are partners in a business sharing profit and losses as A-3/5th and B-2/5th. Their balance sheet as on 1st January, 2015 is given below:

Liabilities		Rs.	Assets	Rs.
Capital Accounts			Plant and Machinery	20,000
A	20,000		Inventories	16,000
B	15,000	35,000	Trade receivables	15,000
Reserve Account		15,000	Balance at Bank	6,000
Trade payables		7,500	Cash in hand	500
		57,500		57,500

B retires from the business owing to illness and A takes it over. The following revaluation was made:

- The goodwill of the firm is valued at Rs.25,000.
- Depreciate Plant & Machinery by 7.5% and Inventories by 15%.
- Doubtful debts provision is raised against trade receivables at 5% and a discount reserve against trade payables at 2%.

Journalize the above transactions in the books of the firm and close the Partners' Accounts as on 1st January 2015. Give also the opening Balance Sheet of A.

**Problem No 02:**

F, G and K were partners sharing profits and losses at the 2:2:1. K wants to retire on 31.12.2015. Given below is the Balance Sheet of the partnership as well as other information:

Balance Sheet as on 31.12.2015

Liabilities	Rs.	Assets	Rs.
Capital A/cs		Sundry Fixed Assets	1,50,000
F	1,20,000	Inventories	50,000
G	80,000	Trade receivables	70,000

K	60,000	(Including Bills Receivable 20,000)	
Reserve	10,000	Bank	50,000
Trade payables	50,000		
	3,20,000		3,20,000

F and G agree to share profits and losses at the ratio of 3: 2 in future. Value of Good will is taken to be Rs. 50,000. Sundry Fixed Assets are revalued upward by Rs.30,000 and Inventories by Rs.10,000. Bills Receivable dishonored Rs.5,000 on 31.12.2015 but not recorded in the books. Dishonour of bill was due to insolvency of the customer. F and G agree to bring sufficient cash to discharge claim of K and to make their capital proportionate. Also they wanted to maintain Rs.75,000 bank balance for working capital.

Pass necessary journal entries and draft the Balance Sheet of M/s F & G. Also prepare capital accounts of partners and draft the Balance Sheet of M/s/ F & G after K's retirement.

### Problem No 03:

A, B & C were in partnership sharing profits in the proportions of 5:4:3. The balance sheet of the firm as on 31st March, 2015 was as under:

Liabilities	Rs.	Assets	Rs.
Capital accounts:		Goodwill	40,000
A	1,35,930	Fixtures	8,200
B	95,120	Inventories	1,57,300
C	61,170	Trade receivables	93,500
Trade payables	41,690	Cash	34,910
	3,33,910		3,33,910

A had been suffering from ill-health and gave notice that he wished to retire. An entered agreement was, therefore, into as on 31st March, 2015, the terms of which were as follows

a) The profit and loss account for the year ended 31st March, 2015 which showed a net profit of Rs.48,000 was to be re-opened. B was to be credited with Rs.4,000 as bonus, in consideration of the extra work which had devolved upon him during the year. The profit sharing was to be revised from 1st April, 2014, a. as 3:4:4

b) Goodwill was to be valued at two years' purchase of the average profits of the preceding five years. The fixtures were to be valued by an independent valuer. A provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book values.

The valuations arising out of the above agreement were goodwill Rs.56,800 and fixtures Rs.10,980. B and C agreed, as between themselves, to continue the business, sharing profits in the ratio of 3:2 and decided to eliminate goodwill from the balance sheet, to retain the fixtures on the books at the revised value, and to increase the provision for doubtful debts to 6%.

Submit the journal entries necessary to give effect to the above arrangements and to draw up the capital account of the partners after carrying out all adjusting entries as stated above.

#### Problem No 04:

K,L& Mare partners sharing profits and losses in the ratio 5:3:2. Due to illness, L wanted to retire from the firm on 31.3.2015 and admit his son N in his place.

Balance Sheet of K, Land M as on 31.3.2015

Liabilities	Rs	Rs	Assets	Rs
Capital:			Goodwill	30,000
K	40,000		Furniture	20,000
L	60,000		Trade receivables	50,000
M	30,000	1,30,000	Inventory in Trade	50,000
Reserve		50,000	Cash and Bank balances	50,000
Trade payables		20,000		
		2,00,000		2,00,000

On retirement of L assets were revalued: Goodwill Rs.50,000, furniture Rs.10,000 and Inventory in trade Rs.30,000. 50% of the amount due to L was paid off in cash and the balance was retained in the firm as capital of N. On admission of the new partner, goodwill has been written off. M is paid off his extra balance to make capital proportionate.

You are required to give: (i) Necessary journal entries; (ii) balance sheet of M/s K, M and N as on 1.4.2015; (iii) capital accounts of partners.

#### Problem No 05:

Dowell & Co. is a partnership firm with partners Mr. A, Mr. B and Mr. C, sharing profits and losses in the ratio of 10:6:4. The balance sheet of the firm as at 31st March, 2015 is as under:

Liabilities		Rs.	Assets	Rs.
Capitals:			Land	10,000
Mr.A	80,000		Buildings	2,00,000
Mr.B	20,000		Plant and Machinery	1,30,000
Mr.C	30,000	1,30,000	Furniture	43,000
Reserves (un-appropriated profit)		20,000	Investments	12,000
Long Term Debt		3,00,000	Inventories	1,30,000
Bank Overdraft		44,000	Trade receivables	1,39,000
Trade payables		1,70,000		
		6,64,000		6,64,000

It was mutually agreed that Mr. B will retire from partnership and in his place Mr. D will be admitted as a partner with effect from 1st April, 2015. For this purpose, the following adjustments are to be made:

- Goodwill is to be valued at Rs.1 lakh but the same will not appear as an asset in the books of the reconstituted firm.





- ii. Buildings and plant and machinery are to be depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at Rs. 15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.
- iii. In the reconstituted firm, the total capital will be Rs.2 lakhs which will be contributed by Mr.A, Mr. C and Mr. D in their new profit sharing ratio, which is 2:2:1.
- iv. The surplus funds, if any, will be used for repaying bank overdraft.
- v. The amount due to retiring partner shall be transferred to his loan account.

Prepare

- (a) Revaluation account;
- (b) Partners' capital accounts;
- (c) Bank account; and
- (d) Balance sheet of the reconstituted firm as on 1st April, 2015

**Problem No 06:**

M/s X and Co. is a partnership firm with the partners A, B and C sharing profits and losses in the ratio of 3:2:5. The balance sheet of the firm as on 30th June 2015, was as under: Balance Sheet of X and Co. as on 30.06.2015

Liabilities	Rs..	Assets	Rs
A's Capital A/c	1,04,000	Land	1,00,000
B's Capital A/c	76,000	Building	2,00,000
C's Capital A/c	1,40,000	Plant and Machinery	3,80,000
Long Term Loan	4,00,000	Investments	22,000
Bank Overdraft	44,000	Inventories	1,16,000
Trade payables	1,93,000	Trade receivables	1,39,000
	9,57,000		9,57,000

It was mutually agreed that B will retire from partnership and in his place D will be admitted as a partner with effect from 1st July, 2015. For this purpose, the following adjustments are to be made:

- (a) Goodwill of the firm is to be valued at Rs.2 lakhs due to the firm's locational advantage but the same will not appear as an asset in the books of the reconstituted firm.
  - (b) Buildings and plant and machinery are to be valued at 90% and 85% of the respective balance sheet values. Investments are to be taken over by the retiring partner at Rs.25,000. Trade receivables are considered good only upto 90% of balance sheet figure. Balance be considered bad.
  - (c) In the reconstituted firm, the total capital will be Rs.3 lakhs, which will be contributed by A, C and D in their new profit sharing ratio, which is 3:4:3.
  - (d) The amount due to retiring partner shall be transferred to his loan account.
- Prepare Revaluation Account and Partners' Capital Accounts.

**Problem No 07: (Icmaj study material )**

P, Q and R sharing profits and losses equally, had been trading for many years. R decided to retire on 31.3.2022 on which date Balance Sheet of the firm is as follows.

Liabilities	(₹)	Assets	(₹)
Capital accounts:	1,20,000	Cash	36,000
P	85,000	Debtors	74,000
Q	75,000	Stock	60,000
R	85,000	Plant and Machinery	1,20,000
Creditors		Land and Building	75,000
	3,65,000		3,65,000

Value of goodwill was agreed as ₹93,000. Land and building increased in value, it being agreed at ₹1,05,600, plant and machinery was revalued at ₹1,00,500 and it was agreed to provide 6% in respect of debtors. Prepare Revaluation Account, Capital Accounts and Balance Sheet.

**Problem No 08: (Icmai study material)**

Compass, Cone and Circle are in partnership sharing profits and losses in the ratio of 3 : 2 : 1. The Balance Sheet of the firm as on 31st December, 2021 was as follows :

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital accounts :			Machinery (at Cost)	50,000	
Compass	40,000		Less : Provision for Dep.	8,000	42,000
Cone	60,000				
Circle	20,000	1,20,000	Furniture		1,000
Reserve		30,000	Sundry Debtors	80,000	
Sundry Creditors		60,000	Less : Prov. for Doubtful Debts	3,000	77,000
			Stocks		50,000
			Cash at Bank		40,000
		2,10,000			2,10,000

On 31st March, 2022 Cone retired and Compass and Circle continued in partnership, sharing profits and losses in the ratio of 3 : 2. It was agreed that adjustments were to be made in the Balance Sheet as on 31st March, 2022, in respect of the following :

- The Machinery was to be revalued at ₹ 45,000
- The Stock was to be reduced by 2%
- The Furniture was to be reduced to ₹ 600
- The Provision for Doubtful Debts would be ₹ 4,000
- A provision of ₹ 300 was to be made for Outstanding Expenses.

The Partnership agreement provided that on the retirement of a partner, goodwill was to be valued at ₹ 24,000 and Cone's share of the same was to be adjusted into the accounts of Compass and Circle. The profit up to the date of retirement was estimated at ₹ 18,000. Cone was to be paid off in full, Compass and Circle were to bring such an amount in cash so as to make their capital in proportion to the new profit sharing ratio. Subject to the condition that a cash balance of ₹ 20,000 was to be maintained as working capital.

Pass the necessary journal entries to give effect to the above arrangements and prepare the Partners' Capital Accounts on 31st March, 2022.

**Problem No 09: (Icmai study material)**

X, Y and Z are partners sharing profits and losses in the proportion to 3:2:2, respectively. The Balance Sheet of the firm as on 01.01.2022 was as follows:

Liabilities	(₹)	Assets	(₹)
Capital Accounts;		Plant and Machinery	72,000
(₹)		Furniture	28,000
X 1,00,000		Stock	1,12,000
Y 80,000		Sundry Debtors	96,000
Z 70,000	2,50,000	Cash at Bank	18,000
Bank overdraft	20,000		
Sundry Creditors	56,000		
	3,26,000		3,26,000

X retired on 01.01.2022 on which date R is admitted as new partner. For the purpose of adjusting the rights as between partners' goodwill to be valued at ₹ 84,000 and Sundry Debtors and Stock to be reduced by ₹ 16,000 and to ₹ 1,00,000 respectively. X is to receive ₹ 44,000 in cash on the date of retirement and the balance due to him is to remain as loan at 8% p.a. Repayment of loan to be made at the end of each year by annual installments representing 25% of the future profit before charging interest on

loan. R is to bring in ` 1,00,000 in cash as his capital on the date of admission. The new partners are to share profits and losses equally after paying the interest on X's Loan. The net profit for the year ended 31st December 2013, is ` 64,000 before taking into account the installment payable to X.

You are required to show:

- i. Profit and Loss Appropriation Account for the year ended 31st December, 2021.
- ii. Capital Accounts of the new partners; and
- iii. X's Loan Account as on 31st Dec, 2022.

**Problem No 10:**

Red, White and Black shared profits and losses in the ratio of 5:3:2. They took out a joint life Policy in 2011 for Rs.50,000, a premium of Rs.3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows: 2011 nil; 2012 Rs. 900; 2013 Rs. 2,000; 2014 Rs. 3,600. Black retires on 15th April, 2015. Prepare ledger accounts assuming no Joint Life Policy Account is maintained.

**Problem No 11:**

Red, White and Black shared profits and losses in the ratio of 5: 3: 2. They took out a Joint Life Policy in 2007 8. for Rs. 50,000, a premium of Rs. 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows: 2011 nil; 2012 Rs. 900; 2013 Rs. 2,000; 2014 Rs. 3,600. Black retires on 15th April, 2015.

Required: Prepare ledger accounts assuming Joint Life Policy Account is maintained on surrender value basis.

**Problem No 12: (Important Question)**

B and C are in partnership sharing profits and losses at the ratio of 5:3: 2. The balance sheet of the firm on 31.12.2015 was as follows:

**Balance Sheet**

Liabilities	Rs.	Assets	Rs.
Capital A/cs:		Sundry Fixed Assets	80,000
A	50,000	Inventories	50,000
B	40,000	Trade receivables	30,000
C	30,000	Joint Life Policy	20,000
Bank Loan	40,000	Bank	10,000
Trade payables	30,000		
	1,90,000		1,90,000

On 1.1.2016, A wants to retire, B and C agreed to continue at 2:1. Joint Life Policy was taken on 1.1.2010 for Rs. 1,00,000 and its surrender value as on 31.12.2015 was Rs. 25,000. For the purpose of A's retirement goodwill was raised for Rs. 1,00,000. Sundry Fixed Assets was revalued for Rs. 1,10,000. But B and C did not prefer to show such increase in assets in the Balance Sheet. Also they agreed to bring necessary cash to discharge 50% of the A's claim, to make the bank balance Rs.25,000 and to make their capital proportionate. Prepare necessary journal entries.

### Problem No 13:

A, B and C are in partnership sharing Profits and Losses in the ratio 3:2:1 respectively. The Balance Sheet of the partnership firm as on 31<sup>st</sup> March, 2022 is as under:

Capital & Liabilities	(')	(')	Assets	(')	(')
Capital	1,70,000		Premises		1 80,000
Accounts	1,30,000		Plant		74,000
A	70,000		Vehicles		30,000
B		3,70,000	Fixtures		4,000
C			Current Account		
Current Accounts			B		5,018
A	7,428		Stock		1,24,758
C	9,356		Debtors		69,960
		16,784	Cash in hand		1,520

**C decides to retire from the business as on the above date and D is admitted as a partner on that date. The following matters agreed:**

- You are required to prepare Revaluation Account, Partners' Capital Accounts, Partners' Current Accounts, C's Loan Account, Bank Account and Balance Sheet of the newly constituted firm as at April 1, 2022.**

**\*PAST FROM THE BLAST\*****Problem No 14:**

X, Y and Z are partners sharing profit and losses in the ratio 4:3:1

Their Balance Sheet as on 31st. March 2022 was as under

Liabilities	Amount (₹)	Assets	₹
Sundry Creditors	7,00,000	Cash in hand	20,000
Bills Payable	4,00,000	Cash at Bank	8,80,000
Genera Reserve	8,00,000	Stock	750,000
Capital Accounts		Debtors	
X	20,00,000	Less; Prov. for B.D	12,50,000
Y	30,00,00	Joint Life Policy	15,00,000
Z	20,00,000	Investments	10,00,000
		Plant and Machinery	12, 00,000
		Building	23,00,000
	89,00,000		89,00,000

On the above date Y retires t from the firm selling his share of profits to X for Y 3.60 000 and to Z for 4,50,000 in the ratio of 4:5. Stock is to be appreciated by 20% and Building by 10%. Joint Life Policy is surrendered at 7,00,000 to Insurance company provision for doubtful debt is Increased to 10% Investments are sold for 23,00,000 The Capital of the newly constituted firm is fixed at 60,00,000 to be divided among X and Y in the profit-sharing ratio and adjustments to be made in cash . Y is paid the amount due Prepare Revaluation Account, Cash Account, Partner Capital Account and the Balance sheet of the new firm

**SOLUTION:**

In the books of the firm

**Revaluation Account**

Particulars	Amount	Particulars	Amount
To Joint life policy	15,00,000	By stock A/c	1,50,000
To Investment	10,00,000	By Building A/c	2,30,000





To Provision for Doubtful Debts (1,30,000 - 50,000)	80,000	By Bank A/c (JLP Surrendered)	7,00,000
To Partners Capital A/c		By Bank A/c(Investment)	23,00,000
X 4,00,000			
Y 3,00,000			
Z 1,00,000	8,00,000		
	33,80,000		33,80,000

## Partner's Capital Account

Particulars	X	Y	Z	Particulars	X	Y	Z
By Y's cap	3,60,000		4,50,000	By Balance b/d	20,00,000	30,00,000	20,00,000
To Bank A/c		44,10,000		By Revaluation A/c	4,00,000	3,00,000	1,00,000
To Balance c/d	40,00,000		20,00,000	By General Reserve	4,00,000	3,00,000	1,00,000
				By X's cap. A/c		3,60,000	
				By Z's cap. A/c		4,50,000	
				By Bank A/c	15,60,000		2,50,000
	43,60,000	44,10,000	24,60,000		43,60,000	44,10,000	24,60,000
	0	0	0		0	0	0

## Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d (cash + bank)	9,00,00	By Y's capital A/c	44,10,000
To Revaluation (7,00,000+ 23,00,000) (JLP Investment)	30,00,00	By Balance cd	13,00,000
To X's capital	15,60,000		
	2,50,000		
	57,10,000		57,10,000

## Balance Sheet of New Firm

Liabilities	Amount	Assets	Amount
Sundry creditors	7,00,000	Cash	13,00,000
Bills payable	4,00,000	Stock	9,00,000
Capital: X	40,00,00	Debtors 13,00,000	
Z	20,00,000	Less: Provision of BD (1,30,000)	11,70,000
		Plant and machinery	12,00,000
		Building	25,30,000
	71,00,000		71,00,000

## Working Notes:

## New Ratio:

$$X's \text{ share} = (4/8) + \{(3/8) \times (4/9)\} = (48/72) = (2/3)$$

$$Z's \text{ share} = (1/8) + \{(3/8) \times (5/9)\} = (24/72) = (1/3)$$

Then new ratio of X & Z is 2:1

**Problem No 15:**

P, Q and R sharing profits and losses equally, had been trading for many years. R decided to retire on 31-3-2017 on which date Balance Sheet of the Firm is as follows.

		₹		₹
Capital accounts.	P	1,20,000	Cash	36,000
	Q	85,000	Debtors	74,000
	R	75,000	Stock	60,000
Creditors		85,000	Plant and Machinery	1,20,000
			Land and Building	75,000
		3,65,000		3,65,000

Value of goodwill was agreed as 93,000. Land and building increased in value, it being agreed at 1,05,600, plant and machinery was revalued at 1,00,500 and it was agreed to provide 62% in respect of debtors. Prepare revaluation account, capital accounts and balance sheet.

**SOLUTION:****Revaluation Account**

Particulars		Particulars	
To Depreciation on plant & machinery	19,500	By Land & building	30,600
To Provision for bad and doubtful debts	4,440		
To Profit-P	2,220		
Profit-Q	2,220		
Profit-R	2,220		
	30,600		30,600

**Capital Account**

Particular	P	Q	R	Particular	P	Q	R
To R's loan			1,08,220	By Balance b/d	1,20,000	85,000	75,000

Balance c/d	1,53,220	1,18,220		By Revaluation	2,220	2,220	2,220
				Bf Goodwill	31,000	31,000	31,000
	1,53,220	1,18,220	1,18,220		1,53,220	1,18,220	1,18,220

## Balance Sheet

Liabilities	₹	Assets	₹
Creditors	85,000	Cash	36,000
Rs Loan	1,08,220	Debtors [74,000 - 4,440]	69,560
Capital: P	1,53,220	Stock	60,000
Q	1,18,220	Plant and machinery	1,00,500
		Land and building	1,05,600
		Goodwill	93,000
	4,64,660		464,660

## CH 12. (C) DEATH OF A PARTNER

- **Death:** If the partner dies the partnership is usually dissolved but if the surviving partners decide so they may purchase the share of deceased partner and carry on the business.
- **Adjustments:** In case of death of a partner the following adjustments are required in the books of the firm which are very similar to in case of retirement of a partner

- a) New profit-sharing ratio and gaining ratio
- b) Revaluation of assets and liabilities
- c) Distribution of accumulated reserves and surplus
- d) Goodwill adjustment
- e) Adjustment for Joint Life Policy
- f) Capital Account Adjustments
- g) Determination of amount due to deceased partner.
- h) Mode of settlement of amount due to deceased partner

- **Determination of amount due and Modes of settlement:** The following two important factors should be considered:

- a) **Amount due to deceased partner:** The total amount payable to the legal representatives includes the following:

- i. Deceased partners' capital and current account balance.
- ii. His share in undistributed profits or loss.
- iii. His share in goodwill of the firm
- iv. His share of joint life policy.
- v. His share of profit or loss made by the firm between the last year ending and the date of his death.

b) **Modes of Settlement:** The mode of payment to the deceased partner is depended on the partnership agreement between the partners:

- i. Lump sum payment.
- ii. Loan payment
- iii. Partial payment and balance transfer to legal representatives loan Account

➤ **Share in profits of the firm up to the date of death:**

a) If death of the partner occurs during the year, the legal representatives of deceased partner are entitled to his share of profits earned by the firm till the date of his death.

b) Such profits may be estimated either using time basis or turnover basis.

c) **Accounting Treatment**

Profit and loss Suspense A/c Dr XXX

To Deceased Partner Capital A/c XXX

➤ **Treatment of joint Life Policy:**

- a) If a life insurance policy is taken on the lives of all partners it is known as joint life policy.
- b) The firm pays premium on such policy and policy amount is payable to the firm either on maturity or death of any of partner of the firm whichever is earlier.
- c) The objective is to minimize the financial hardships to the event of payment of huge amount to the legal representatives of deceased or retiring partner.
- d) The following are the two common methods following for accounting for JLP.

• **Treat Premium as an Expense:**

Particulars	Debit	Credit
or payment of premium:		
LP Insurance Premium A/c Dr	XXX	
To Bank A/c		XXX

<b>For charging premium to Profit and Loss A/c</b>		
Profit and loss A/c    Dr	xxx	
To JLP Insurance Premium A/c		xxx
<b>On maturity of JLP:</b>		
Insurance Company / Bank A/c    Dr	xxx	
To Individual Partners Capital A/C's		xxx

• Treat Premium as an Asset

Particulars	Debit	Credit
<b>for payment of premium:</b>		
Joint Life Policy A/c    Dr	xxx	
To Bank A/c		xxx
<b>For Adjusting Policy to surrender value at the end of the year:</b>		
Profit and loss A/c    Dr	xxx	
To Joint Life Policy A/c		xxx
<b>On maturity of JLP:</b>		
Insurance Company / Bank A/c    Dr	xxx	
To Joint Life Policy A/c		xxx
<b>For Sharing difference between amount received and surrender value of policy on maturity:</b>		
Joint Life Policy A/c    Dr	xxx	
To Individual Partners Capital A/c's		xxx

**PRACTICAL PROBLEMS****Problem No 01: (Basic problem)**

The following was the Balance Sheet of Om & Co. in which X, Y, Z were partners sharing profits and losses in the ratio of 1:2:2 as on 31.3.2016. Mr. Z died on 31st December, 2016. His account has to be settled under the following terms

**Balance Sheet of Om & Co. as on 31.3.2016**

Liabilities	Rs.	Rs.	Assets	Rs.
Trade payables		20,000	Goodwill	30,000
Bank loan		50,000	Building	1,20,000
General reserve		30,000	Computers	80,000
Capital accounts:			Inventories	20,000
X	40,000		Trade receivables	20,000
Y	80,000		Cash at bank	20,000
Z	80,000	2,00,000	Investments	10,000
		3,00,000		3,00,000

Goodwill is to be calculated at the rate of two years purchase on the basis of average of three years' profits and losses. The profits and losses for the three years were detailed as below:

Year ending on	Profit/loss
31.3.2016	30,000
31.3.2015	20,000
31.3.2014	(10,000) Loss

Profit for the period from 1.4.2016 to 31.12.2016 shall be ascertained proportionately on the basis of average profits and losses of the preceding three years. During the year ending on 31.3.2016 a car costing Rs. 40,000 was purchased on 1.4.2015 and debited to traveling expenses account on which depreciation is to be calculated at 20% p.a. This asset is to be brought into account at the depreciated value. Other values of assets were agreed as follows:



Inventory at Rs. 16,000, building at Rs. 1,40,000, computers at Rs. 50,000; investments at Rs. 6,000. Trade receivables were considered good

(i) Calculate goodwill and Z's share in the profits of the firm for the period 1.4.2016 to 31.12.2016.

(ii) Prepare revaluation account assuming that other items of assets and liabilities remained the same.

(iii) Prepare partners' capital accounts and balance sheet of the firm Om & Co. as on 31.12.2016

#### Problem No 02:

The partnership agreement of a firm consisting of three partners A, B and C (who share profits in proportion of  $\frac{1}{2}$ ,  $\frac{1}{4}$  and  $\frac{1}{4}$  and whose fixed capitals are Rs. 10,000; Rs. 6,000 and Rs. 4,000 respectively) provides as follows:

- a) That partners be allowed interest at 10 per cent per annum on their fixed capitals, but no interest be allowed on undrawn profits or charged on drawings.
- b) That upon the death of a partner, the goodwill of the firm be valued at two years' purchase of the average net profits (after charging interest on capital) for the three years to 31st December preceding the death of a partner.
- c) That an insurance policy of Rs. 10,000 each to be taken in individual names of each partner, the premium is to be charged against the profit of the firm
- d) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals etc. calculated upon 31st December following his death,
- e) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death
- f) That the partnership books be closed annually on 31st December.

A died on 30th September 2016, the amount standing to the credit of his current account on 31st December, 2015 was Rs. 450 and from that date to the date of death he had withdrawn Rs. 3,000 from the business. An unrecorded liability of Rs. 2,000 was discovered on 30th September, 2016. It was decided to record it and be immediately paid off. The trading result of the firm (before charging interest on capital) had been as

follows: 2013 Profit Rs. 9,640; 2014 Profit Rs. 6,720; 2015 Loss Rs. 640; 2016 Profit Rs. 3,670. Assuming the surrender value of the policy to be 20 percent of the sum assured. Prepare an account showing the amount due to A's legal representative as on 31st December, 2016.

**Problem No 03:**

The following is the Balance Sheet of M/s. ABC Bros as at 31st December, 2013.

Balance Sheet as at 31st December, 2015

Liabilities	Rs.	Assets	Rs.
Capital		Machinery	5,000
A	4,100	Furniture	2,800
B	4,100	Fixture	2,100
C	4,500	Cash	1,500
General Reserve	1,500	Inventories	950
Trade payables	2,350	Trade receivable	
		4,500	
		Less: Provision for	4,200
		Doubtful debts	
		300	
	16,550		16,550

C died on 3rd January, 2016 and the following agreement was to be put into effect.

- Assets were to be revalued: Machinery to Rs. 5,850; Furniture to Rs. 2,300; Inventory to Rs. 750.
- Goodwill was valued at Rs. 3,000 and was to be credited with his share, without using a Goodwill Account
- Rs. 1,000 was to be paid away to the executors of the dead partner on 5th January, 2016.

Required to show:

- The Journal Entry for Goodwill adjustment.
- The Revaluation Account and Capital Accounts of the partners.

(ii) Which account would be debited and which account credited if the provision for doubtful debts in the Balance Sheet was to be found unnecessary to maintain at the death of C.

**Problem No 04:**

B and N were partners. The partnership deed provides inter alia:

i. That the accounts be balanced on 31st December each year.

ii. That the profits be divided as follows:

B: One-half; N: One-third; and carried to Reserve Account: One-sixth

ii. That in the event of death of a partner, his executor will be entitled to the following:

a. The capital to his credit at the date of death;

b. his proportion of profit to date of death based on the average profits of the last three completed years;

c. his share of good will based on three years' purchases of the average profits for the three preceding completed years

**Trial Balance on 31st December, 2015**

Particulars	Dr.(Rs.)	Cr. (Rs.)
B's Capital	50,000	90,000
N's Capital		60,000
Reserve		30,000
Bills receivable		
Investments	40,000	
Cash	1,10,000	
Trade payables		20,000
Total	20,0000	20,0000

The profits for the three years were 2013: Rs. 42,000; 2014: Rs. 39,000 and 2015: Rs. 45,000. N died on 1st May, 2016.

Show the calculation of N (i) Share of Profits; (ii) Share of Goodwill; (iii) Draw up N's Executors Account as would appear in the firms' ledger transferring the amount to the Loan Account.

**Problem No 05: (Icmai study material)**

A, B and C are partners in a firm sharing profits and losses as 3:2:1. Their Balance Sheet as on 31st March, 2021 was as follows:

(` in Lakh)

Liabilities	(`)		Assets	(`)
Partners' Capital A/c			Land and Building	210
A		145	Plant and Machinery	255
B		110	Stock	125
C		75	Debtors	95
General Reserve		165	Bills Receivable	25
Partners' Loan:			Cash in Hand	3
A		30	Cash at Bank	37
B		20		
Sundry Creditors		205		
		750		750

B died on 1 August, 2021. His account is to be settled under the following terms:

- Goodwill will be valued at 3 years purchase of last four accounting years average profit. Profits were :2017-2018 `135 Lakh, 2018-2019 `145 Lakh, 2019-2020 `131 Lakh and 2020-2021 `165 Lakh.
- Land and Building will be valued at ` 250 Lakh and Plant and Machinery will be valued at ` 240 Lakh.
- For the purpose of calculating B's share in the profits of 01.04.2021 to 31.07.2021, the profits for the year 2020-2021 will be taken as base.
- Interest on Partners' Loan will be calculated @ 6% per annum.
- A sum of ` 50 Lakh to be paid immediately to B's Executor and the balance to be paid on 1 December, 2021 together with interest @ 10% per annum.

You are required to pass necessary journal entries to record the above transactions and amount payable to B's Executor's Account.

**Problem No 06: (Icmai study material )**

The following was the Balance Sheet of A, B and C who shared profits in the ratio of 1:2:2 as on 31st December, 2021:

Liabilities	(`)	Assets	(`)
Sundry Creditors	10,000	Goodwill	15,000
Capital A/c :		Debtors	10,000
A     10,000		Machinery	20,000
B     20,000		Buildings	30,000
C     20,000	50,000	Stock	10,000
General Reserve	5,000	Cash at Bank	5,000
Investment	3,000	Investments	10,000
Fluctuation Fund			
Bad Debts Reserve	2,000		
Bank Loan	30,000		
	1,00,000		1,00,000

C died on 31st March, 2022. His account is to be settled under the following terms :  
 Goodwill is to be calculated at the rate of 2 years purchase on the basis of the average of 5 years profit or loss. Profit for January to March 2022 is to be calculated proportionately on the average profit of 3 years. The profits were: 2017: ` 3,000, 2018: ` 7,000, 2019: ` 10,000, 2020: ` 14,000, 2021: Loss ` 12,000. During 2021, a Moped costing ` 4,000 was purchased and debited to Travelling Expenses Account on which depreciation is to be calculated @ 25%. Other values agreed on assets are : Stock ` 12,000, Building ` 35,000, Machinery ` 25,000 and Investments ` 8,000. Debtors are considered good.  
 Prepare new Balance Sheet of the firm, necessary Journal entries and Ledger Accounts of the Partners.

**\*PAST FROM THE BLAST\*****Problem No 07:**

Jaggu, Makkhu and Tikku are partners sharing Profit and Loss in the ratio of 3:2:1 The Balance Sheet of the Firm as on 31st March 2013 was as follows

Liabilities	Amount	Assets	Amount
Sundry Creditors	2,10,000	Cash in Hand	19,400
Bills Payable	50,000	Bill Receivable	28,600
General Reserve	75,000	Sundry Debtor	2,60,000
Investment Fluctuation Reserve	18,000	Stock	2,10,000
Bank Loan	2,50,000	Investments	1,10,000
Capital A/Cs		Joint Life Policy	85,000
Jaggu	3,60,000	(surrender value 4,00,000)	
Makkhu	2,50,000	Plant & Machinery	2,00,000
Tikku	1,50,000	Land & Building	4,50,000
	13,63,000		13,63,000

Tikku Died on 31<sup>st</sup> May, 2013. He was entitled to an annual salary of ₹30,000 and interest on capital @ 15 % per annum. According to Partnership deed Goodwill is to be valued at rate of 2 year purchase on the basis of average of 5 years profit and loss. Profit for April and May, 2013 is to be calculated proportionately on the average profit last 2 years.

The Profit and loss for last 5 years were.

Year 2008-09 ₹1,02,000; Year 2009-10 ₹1,38,000, Year 2010-11 (Loss) ₹35,000 and Year 2012-13 ₹1,45,000 year 2011-12 ₹95,000 (profit)

The full amount of Joint Life Policy of 4,00,000 was received by the Firm and the stock, Plant & Machinery were revalued at 90% of their Book value, Land & Building was revalued at 25% of Book value.

you are required to prepare an account showing amount payable to Tikku's executors.

**SOLUTION:**

**Executor of Tikku's Account**

Date	Particulars	Amounts	Date	Particulars	Amounts
31-5-13	To Balance c/d	2,71,667	31-5-13	By Balance b/d (Capital)	1,50,000
				By General Reserve Ac	12,500
				By Investment Fluctuation Reserve A/c	3,000
				By Tikku's Salary A/c	5,000
				By Interest on Capital [1,50,000 x 15% x 2/12]	3,750
				By Profit & Loss Suspense A/c- Share of Profits (1,20,000 x 2/12 x 1/6)	3,333
				By Goodwill (1,78,000 x 1/6)	29,667
				By Revaluation A/c (71,500 x 1/6)	11,917
				By Joint Life Policy A/c (4,00,000- 85,000) x 1/6	52,500
		2,71,667			2,71,667

**Workings:**

**1. Goodwill.**

Average Profit of last 5 years x 2 =  $[(1,02,000 + 1,38,000 + (-35,000) + 95,000 + 1,45,000)/5]$

x 2 = 89,000 x 2 = 1,78,000

2. Profit for the year of death =  $(95,000 + 1,45,000)/2 = 1,20,000$

3. Profit on revaluation =  $4,50,000 \times 25\% - 21,000 - 20,000 = 71,500$

**Problem No 08:**

Kapi, Manoj and Chetan are partners sharing profits and losses in the ratio of 2:2:1 On 1st January 2010, they took out a joint life policy of 2,00,000. Annual premium of 10,000

was payable on 1st January each year. Last premium was paid on 1st January, 2013, Manoj died on 1st March,

2013, and policy money was received on 31st March 2013. The surrender value of policy as on 31st March each year were as follows:

2010: Nil

2011: 2,000

2012: 5,000

Show Joint Life Policy accounts as on 31st March each year assuming that;

(i) The premium is charged to profit and loss account every year

(ii) The premium is debited to joint life policy account and the balance of the Joint life policy account is adjusted every year to its surrender value

### SOLUTION:

In this case, premium paid is charged to Profit & Loss account every year. So, nothing will appear in the joint life policy account of 2010, 2011 and 2012. However, in 2013, the joint life policy account will appear as follows:

#### Joint Life Policy A/c

Date	Particulars	₹	Date	Particulars	₹
31.03.13	To Partner's Capital A/c (Kapil = 80,000 Manoj = 80,000 Chetan = 40,000)	2,00,000	31.03.13	By Bank (policy money received)	2,00,000
		2,00,000			2,00,000

#### (ii) Joint Life Policy A/c

Date	Particulars	₹	Date	Particulars	₹
01.1.10	To Bank A/c	10,000	31.03.10	By P&L a/c	10,000





## Death of a Partner

		10,000			10,000
01.01.11	To Bank A/c	10,000	31.03.11	By P&L a/c	8,000
				By Balance c/d	2,000
		10,000			10,000
01.04.11	To Balance b/d	2,000	31.03.12	By P&L a/c	7,000
		10,000	31.03.12	By Balance c/d	5,000
		12,000			12,000
31.03.13	To Partner's capital A/c (Kapil 74,000, Manoj 74,000, Chetan 37,000)	1,85,000		By Bank a/c (policy money received)	2,00,000
		2,00,000			2,00,000

## CH 12.(D) DISSOLUTION OF FIRM & INSOLVENCY OF A PARTNER

### ➤ DISSOLUTION OF FIRM:

- **Dissolution of Partnership:** Whenever reconstitution takes place within a partnership in the form of:

- a) Admission.
- b) Retirement.
- c) Death of a partner.

The existing partnership is dissolved; however, the partnership firm will continue if the remaining partners desires to continue the business operations

### ➤ Modes of Dissolution of firm: Dissolution of partnership firm may take place in any one of the following ways:

- a) By mutual consent of all partners.
- b) By giving a notice in writing by one of the partners to all other partner in case of partnership at will.
- c) On happening of any one of the following events:
  - Expiry of terms in case of partnership for fixed period.
  - Completion of the adventures for which the firm was constituted.
  - Death of the partner.
  - Adjudication of a partner as on insolvent.
- d) Compulsory dissolution:
  - Where all partners become insolvents
  - When the business carried on by the firm become illegal or immoral.
- e) Dissolution by court order.

➤ **SETTLEMENT OF ACCOUNTS ON DISSOLUTION:**

- Settlement of accounts depends on the partnership agreement or a partnership deed.
- a) **Regarding the losses:** Losses shall be paid first out of profits, next out of the capital and lastly if necessary by the partners individually in this profit-sharing ratio.
- b) **Regarding assets:** The assets of a firm shall be applied in the following manner and order:
  - Payment of debts to third parties (external liabilities)
  - If anything left for payment of loans from the partners
  - If anything left, pay to the partners towards capital contributions.
  - Any residual balance should be distributed among the partners in their profit-sharing ratio.

➤ **ACCOUNTING ENTRIES RELATING TO DISSOLUTION:**

Dissolution of a partnership firm consists of the following two important accounting considerations:

- A. Realization of assets and payment of liabilities.
- B. Settlement of dues to the partners.

Transaction	Accounting JE
Transfer of all assets except cash, bank and fictitious assets at its book values to realization A/c	Realisation A/c    Dr To Sundry Assets A/c
Transfer of all external liabilities to the realization account	External liabilities A/c Dr To Realisation A/c
Realisation of the assets	Bank A/c To Realisation
If any assets are taken over by the partners	Partners' Capital A/c To Realisation A/c

If any assets are realised for consideration of any securities	Share or securities A/c To Realisation A/c
Discharge of external liabilities	Realisation A/c Dr. To Bank A/
External liabilities taken over by any partners	Realisation A/c Dr To Partners capital A/c
Unrecorded assets sold or taken over by any partners	Bank A/c (or) partners' capital A/c To Realisation A/c
If any unrecorded liability paid off	Realisation A/c To Bank A/c
If any unrecorded liability taken over by partners	Realisation A/c To Partners capital A/c
Payment of realisation expenses	Realisation A/ c Dr. To Bank A/c
Payment of realisation expenses	Realisation A/c To Bank Ac
If realisation expenses are met by any partner	Realisation A/c To partners' capital A/c
Distribution of realisation losses	Partners' Capital A/c To realisation A/c
For transferring current A/c of any partner to partners' capital A/c	Partners current A/c To partners' capital A/c
Distribution of accumulated profits	Accumulated profits A/c Dr. To Partners capital A/c
Distribution of accumulated losses	Partners' capital A/c To accumulated losses A/c
Any loan taken from any partners	Partners loan account To Bank A/c
Any loan given by the firm to the partners	Bank A/c To Loans to partners A/c

If any partners capital A/c showing a debit balance, he needs to bring the cash into the firm

Bank A/c

To Partners capital A/c

Payment of credit balance to the partners

Partners Capital A/c

To Bank A/c

➤ **INSOLVENCY OF A PARTNER:**

- i. If assets of a partner are not sufficient to pay his liabilities, it is known as insolvency of a partner
- ii. Accounting treatment for insolvency of a partner is prescribed by the following:
  - **Accounting Treatment as per GARNER VS MURRAY:**
    - Solvent partners should bring in cash to the extent of their share in realization loss.
    - Solvent partners should share the loss on account of insolvency of a partner in their capital's ratio i.e. Fixed Capitals (Opening Capitals) (or) Fluctuating Capitals (Opening Balance Share in P/L Debit balance).
    - If any solvent partner is having debit balance then he is not required to share loss on account of insolvency of a partner
- iii. **Accounting Treatment as per Indian Partnership Act, 1932:**

Solvent partners should share the loss on account of insolvency of a partner in their capital's ratio i.e. Fixed Capitals (Opening Capitals) (or) Fluctuating Capitals (Opening Balance - Share in P/L Debit balance). If any solvent partner is having debit balance then he is not required to share loss on account of insolvency of a partner.

➤ **Garner Vs Murray Rule:**

In the case of dissolution of a partnership firm due to insolvency, Garner vs Murray rule

1. **Principles laid down:**

- **Sharing loss of insolvent partners:** That the solvent partners having credit balances in capital accounts, should bear the loss arising due to insolvency of a partner in their capital ratio.
- i. **Fluctuating capitals ratio:** Capital balances should be adjusted for past accumulated reserves, profits or losses, drawings, interest on drawings/capitals, remuneration to partners etc, to the date of dissolution but before making adjustment for profit or loss on realization in case of fluctuating capital.
- ii. **Fixed Capitals Ratio -** Loss should be distributed in opening capitals ratio of solvent partners.
- **Bringing cash equals to realisation loss:** The solvent partners should bring in cash equal to their respective shares of the loss on realization.
- 2. **Non-Applicability:** This rule is not applicable when:
  - a) the solvent partner has a debit balance in the capital account.
  - b) only one partner is solvent.
  - c) all partners are insolvent.
  - d) the partnership deed provides for a specific method to be followed in case of insolvency of a partner, then the conditions given in the deed would prevail.
- 3. **Criticism:**
  - a) If any solvent partner has a debit balance in capital account, he must not bear the deficiency of the insolvent partner;
  - b) This principle does not apply if there are only two partners;
  - c) In spite of having a credit balance in capital account the solvent partner must bring cash equal to the amount of loss on realisation which is immaterial and useless; and
  - d) If any solvent partner who possess more private asset but contributes less capital, he will naturally, as per Garner vs. Murray decision, bear less amount of deficiency of the insolvent partner than the other solvent partner who possess fewer private assets but contributes more capital to the firm. This is not justified.

➤ **Sec 37 of the Indian Partnership Act 1932:**

- The retiring partner or legal representatives of deceased partner are entitled for the **Interest on outstanding balance which is not settled at maximum rate of Interest 6% p.a., if partnership deed is silent.**
- Conditions:
  - a) The surviving partners/continuing partners continue to carry on the business of the firm.
  - b) The business is carried on without any final settlement of accounts between the continuing partners and the outgoing partners or his estate.
  - c) There is no contract to the contrary of the options contained in Section 37 i.e. share in the profits or interest @ 6% p.a. on the unsettled capital.

**PRACTICAL PROBLEMS****Problem No 01:**

X, Y and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of 4:3:2 Following is the Balance Sheet of the firm as at 31st March, 20X1

**Balance Sheet as at 31st March, 20X1**

Liabilities	Rs.	Assets	Rs.
Partners' Capitals:		Fixed Assets	5,00,000
X	4,00,000	Stock in trade	3,00,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	<b>13,10,000</b>		<b>13,10,000</b>

- Realisation account;
- Partners' capital account; and
- Cash account.

**Problem No 02:**

P, Q and R were partners sharing profits and losses in the ratio of 3:2:1, no partnership salary or interest on capital being allowed. Their balance sheet on 30th June, 20X1 is as follows:

Liabilities		Rs.	Assets		Rs.
Fixed Capital			Fixed assets:		
P	20,000		Goodwill		40,000
Q	20,000		freehold Property		8,000
R	10,000	50,000	Plant and Equipment		12,800
Current Accounts:			Motor Vehicle		700



P	500		Current Assets		
Q	9,000	9,500	Stock		3,900
Loan from P		8,000	Trade Debtors		
			2,000		
Trade Creditors		12,400	Less: Provision		1,900
			(100)		
			cash at Bank		200
			Miscellaneous		
			losses		
			R's Current		400
			Account		
			Profit and Loss		12,000
			Account		
		79,900			79,900

On 1st July, 20X1 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of Rs 500 but no cash passed specifically in respect of this transaction. Sale of other assets realized the following amounts:

	Rs.
Goodwill	Nil
Freehold Property	7,000
Plant and Equipment	5,000
Stock	3,000
Trade Debtor	1,600

Trade Creditors were paid Rs. 11,700 in full settlement of their debts. The costs of dissolution amounted to Rs. 1,500. The loan from P was repaid, P and Q were both fully solvent and able to bring in any cash required but R was forced into bankruptcy and was only able to bring 1/3 or the amount due.

You are required to show:

- Cash at Bank Account,
- Realisation Account, and

## c. Partners Fixed Capital Accounts (after transferring Current Accounts' balances).

Problem No 03: (Icmai study material)

A, B and C sharing profits in 3 : 1 : 1 agree upon dissolution. They each decide to take over certain assets and liabilities and continue business separately.

**Balance Sheet as on date of dissolution**

	Liabilities	(`)	Assets	(`)
Creditors		6,000	Cash at Bank	3,200
Loan		1,500	Sundry Assets	17,000
Capitals:			Debtors	
A	27,500		24,200	
B	10,000		Less: Bad Debts Provision	
C	7,000	44,500	1,200	23,000
			Stock	7800
			Furnitures	1,000
		52,000		52,000

It is agreed as follows:

- Goodwill is to be ignored.
- A is to take over all the Fixtures at ` 800; Debtors amounting to ` 20,000 at ` 17,200. The creditors of ` 6,000 to be assumed by A at the figure.
- B is to take over all the stocks at ` 7,000 and certain of the sundry assets at ` 7,200 (being book value less 10%)
- C is take over the remaining sundry assets at 90% of book values less ` 100 allowances and assume responsibility for the discharge of the loan, together with accruing interest of ` 30 which has not been recorded in the books of the firm.
- The expenses of dissolution were ` 270. The remaining debtors were sold to a debt collecting agency for 50% of book values.

Prepare Realisation Account, partners' Capital Accounts and Bank Account.

**Problem No 04: (Icmai study material)**

Ram, Rahim and Robert are partners of the firm ABC sharing profits and losses in the ratio of 5: 3: 2. The Balance Sheet of the firm as on 01.4.2022 is given below:

Liabilities	(₹)	Assets	(₹)
Partners Capital:		Goodwill	50,000
Ram	3,00,000	Machinery	4,55,000
Rahim	2,50,000	Furniture	10,000
Robert	2,00,000	Stock	2,00,000
General Reserve	1,05,000	Debtors	3,00,000
Loan	95,000	Cash & Bank	35,000
Sundry Creditors	1,00,000		
	<b>10,50,000</b>		<b>10,50,000</b>

Partners of firm decided to dissolve the firm. The firm decided to settle the loan creditors directly. Ram took over goodwill for 75,000. Rahim took over machinery and furniture at 90% of book value and sundry creditors at book value.

Robert took over stock at 95% of book value and debtors at 90% of the book value.

Partners have to pay cash if the assets taken over had exceeded the amounts due to them.

**Prepare:**

- Realisation Account;
- Partners Capital Account; and
- Cash Account of the firm to show the dissolution proceedings.

**Problem No 05:**

A, B, C and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 20X1 when their balance sheet was as under:

Liabilities		Rs.	Assets	Rs.
Creditors		15,700	Bank	535
Employees Provident		6,300	Debtors	15,850

<b>Capital Accounts :</b>			<b>Stock</b>	<b>25,200</b>
<b>A</b>	<b>40,000</b>		<b>Prepaid Expense</b>	<b>800</b>
<b>B</b>	<b>20,000</b>	<b>60,000</b>	<b>Plant &amp; Machinery</b>	<b>20,000</b>
			<b>Patents</b>	<b>8,000</b>
			<b>C's Capital A/c</b>	<b>3,200</b>
			<b>D s Capital A/c</b>	<b>8,415</b>
		<b>82,000</b>		<b>82,000</b>

Following information is given to you:

- 1) One of the creditors took some of the patents whose book value was Rs. 5,000 at a valuation of Rs. 3,200. Balance of the creditors were paid at a discount of Rs. 400.
- 2) There was a joint life policy of Rs. 20,000 (not mentioned in the balance sheet) and this was surrendered for Rs. 4,500.
- 3) The remaining assets were realised at the following values- Debtors Rs. 10,800; Stock Rs. 15,600; Plant and Machinery Rs. 12,000; and Patents at 60% of their book-values. Expenses of realisation amounted Rs. 1,500.
- 4) D became insolvent and a dividend of 25 paise in a rupee was received in respect of the firms claim against his estate. Prepare necessary ledger accounts.

#### Problem No-06:

M/s X, Y and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 had respectively, had respectively, the following Balance Sheet as at December 31, 20X1:

<b>Liabilities</b>		<b>Rs.</b>	<b>Assets</b>		<b>Rs.</b>
<b>Capital</b>			<b>Fixed Assets</b>		<b>40,000</b>
<b>X</b>	<b>29,200</b>		<b>Stock</b>		<b>25,000</b>
<b>Y</b>	<b>10,800</b>		<b>Book Debts</b>	<b>25,000</b>	
<b>Z</b>	<b>10,000</b>	<b>50,000</b>	<b>Less: Provision</b>	<b>(5,000)</b>	<b>20,000</b>
<b>Z's Loan</b>		<b>5,000</b>	<b>Cash</b>		<b>1,000</b>
<b>Loan from Mrs. X</b>		<b>10,000</b>	<b>Advance to Y )</b>		<b>4,000</b>

Sundry Trade Creditors		25,000			
		90,000			90,000

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to Rs. 4,000 have been purchased in November, 20X1 and had been received but the purchase was not recorded in books. Fixed assets realised Rs. 20,000; Stock RS. 21,000 and Book Debt Rs. 20,500. Similarly, the creditors allowed a discount of 29% on the average. The expenses of realisation come to Rs. 1,080. X agreed to take over the loan of Mrs. X. Y is insolvent, and his estate is unable to contribute anything. Give accounts to close the books; work according to the decision in Garner vs. Murray.

**Problem No 07: (Icmai study material )**

, Q, R and T have been carrying on business in partnership sharing profits and losses in the ratio of 4:1:2:3. The following is their Balance Sheet as on 31st March, 2022:

Liabilities	(')	(')	Assets	(')	(')
Capital			Premises		2,80,000
Accounts:			Furnitures		30,000
P	7,00,000		Stock-in-		2,00,000
T	3,00,000		Trade		
Trade		10,00,000	Trade Debtors	3,50,000	
Creditors		3,00,000	Less:	50,000	3,00,000
			Provision for		
			Bad Debts		
			Cash at Bank		1,40,000
			Capital		
			Accounts:		
			Q	2,00,000	
			R	1,50,000	3,50,000

		13,00,000			13,00,000
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It has been agreed to dissolve the partnership on 1st April, 2022, on basis of the following points agreed upon between the partners:

- i. P is to take over Trade Debtors at 80% of Book Value ( ` 3,50,000);
- ii. T is to take over the stock in Trade at 95% of the value; and (iii) R is to discharge Trade Creditors.
- iii. The realisation is: Premises ` 2,75,000 and Furnitures ` 25,000.
- iv. The expenses of realisation come to ` 30,000.
- v. Q is found insolvent and ` 21,900 is realised from his estate.

**Note:** The loss arising out of capital deficiency may be distributed following decision in Garner vs. Murray.

You are required to prepare:

- a) Realisation Account
- b) Bank/Cash Account
- c) Capital Accounts of the Partners.

#### Problem No 08:

A, B, C and D are sharing profits and losses in the ratio 5:5:4: 2. Frauds committed by C during the year were found out and it was decided to dissolve the partnership on 31st March 2010 when their Balance Sheet was as under

Liabilities	Amount	Assets	Amount
Capital		Building	120000
A	90,000	Stock	85,500
B	90,000	Investments	29,000
C	-	Debtors	42,000
D	35,000	Cash	14,500
General Reserve	24,000	C	15,000
Trade Creditors	47,000		

Bills payable	20,000		
	3,06,000		3,06,000

Following information are given to you:

- A cheque for Rs.4,300 received from debtor was not recorded in the books and was misappropriated by C.
  - Investments costing Rs.5,400 were sold by C at Rs.7,900 and the funds transferred to his personal account. This sale was omitted from the firm's books.
  - A creditor agreed to take over investments of the book value of Rs.5,400 at Rs.8,400. The rest of the creditors were paid off at a discount of 2%.
  - The other assets realised as follows:
 

Building	105% of book value
Stock	Rs.78,000
Investments	The rest of investments were sold at a profit of Rs.4,800.
Debtors	The rest of the debtors were realised at a discount of 12%.
  - The bills payable were settled at a discount of Rs.400.
  - The expenses of dissolution amounted to Rs.4,900.
  - It was found out that realisation from C's private assets would only be Rs.4000.
- Prepare the necessary Ledger Account.

**Problem No-09:**

Amal and Bimal are in equal partnership. Their balance sheet stood as under on 1st March, 20X1

Particulars	Amount	Particulars	Amount
Creditors A/c		Plant Machinery	2,500
Amal's Capital A/c		Furniture	500
		Debtors	1,000
		Stock	800
		Cash	200
		Bimal's drawings	550
	5,550		5,550

The assets realised as under:

Particulars	Amount
Plant & Machinery	1,250
Furniture	150
Debtors	400
Stock	500

The expenses of realisation amounted to Rs. 175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of Rs. 200 only. Show necessary ledger accounts to close the books of the firm.

**Problem No 10:**

P, Q and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 20X1 is as follows:

Liabilities	Amount	Assets	Amount
Capital accounts:		Plant and Machinery	1,08,000
P 1,20,000		Fixtures	24,000
Q 48,000		Stock	60,000
R 24,000	1,92,000	Sundry debtors	48,000
Reserve Fund	60,000	Cash	60,000
Creditors	48,000		
	3,00,000		3,00,000

They decided to dissolve the business. The following are the amounts realized

Particulars	Amount
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,000

Creditors allowed a discount of 5% and realisation expenses amounted to Rs. 1,500.

There was an unrecorded asset of Rs. 6,000 which was taken over by Q at Rs. 4,800. A



bill for Rs. 4,200 due for sales tax was received during the course of realisation and this was also paid

You are required to prepare:

- Realisation account.
- Partners' capital accounts.
- Cash account.

**Problem No II:**

Thin, 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1

On 30th September, 20X1 their Balance Sheet was as follows:

liabilities	Amount	Assets	Amount
Capital accounts		Premises	50,000
Thin 80,000		Fixtures	1,25,000
Short 50,000		Plant	32,500
Fat 20,000	1,50,000	Stock	43,200
Current Accounts:		Debtor	54,780
Thin 29,700			
Short 11,300			
Fat (Dr) (14,500)	26,500		
Sundry Creditors	84,650		
Bank Overdraft	44,330		
	3,05,480		3,05,480

Thin' decides to retire on 30th September, 20X1 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so all three partners decide to dissolve the partnership with effect from 30th September, 20X1. It then transpires that Fat' has no private assets whatsoever. The premises are sold for Rs. 60,000 and the plant for Rs. 1,07,500. The fixtures realize Rs. 20,000 and the stock is acquired by another firm at book value less 5%. Debtors realise Rs. 45,900. Realisation expenses amount to Rs. 4,500.

The bank overdraft is discharged and the creditors are also paid in full.

You are required to write up the following ledger accounts in the partnership books following the rules in Garner vs. Murray:

- a. Realisation Account;
- b. Partners' Current Accounts;
- c. Partners' Capital Accounts showing the closing of the firm's books.

**Problem No 12: (Important Question)**

**Balance Sheet as at 30.10.2021**

Liabilities	(₹)	Asset	(₹)
Capitals		Fixed Assets	1,00,000
P	5,000	Cash	10,000
Q	3,000		
R	2,000		
Bank Loan	60,000		
Sundry Creditors	40,000		
	<b>1,10,000</b>		<b>1,10,000</b>

All the partners were declared insolvent. Profit sharing ratio : 5 : 3 : 2. Assets realized ₹ 60,000. Prepare necessary ledger accounts to close the books of the firm.s

## CH 12. (E) PIECEMEAL DISTRIBUTION

➤ **Dissolution**

- a) It refers to a situation where the available assets to a firm is not sufficient to repay all its liabilities.
- b) When the firm goes to dissolution all assets will be sold off and all liabilities will be settled. However, realization of assets will be done gradually over a period of time accordingly liabilities will be settled gradually, which is known as piecemeal distribution.

➤ **Order:** The following is the order of payment of liabilities:

- a) Realization expenses
- b) Preferential creditors.
- c) Unsecured creditors
- d) Partners loans
- e) Partners capitals

➤ **Methods:** Piece meal distribution can be carried out using any of the following methods.

- Surplus Capital Method / proportionate capitals method / Highest relative contribution Method.
- Maximum possible loss method.

➤ **Proportionate Capitals Method:**

- a) identify the net amount due to the partners towards capital and loans.
- b) Identify the profit-sharing ratio of partners.
- c) Calculate capital maintained per point of sharing in profit for all partners.

- d) Calculate proportionate capitals of partners on the basis of such partner who contributed least amount of capital per point of sharing Calculate surplus capital of partners (Step a - step d)
- e) Repeat the above procedure for required number of times and set priority of repayment of capitals to partners.

➤ **Maximum Loss Method:**

- a) For each realization maximum possible loss should be calculated assuming that it is the last realization.
- b) If any partners capital is coming negative such partner will be treated as insolvent partner.
- c) Deficiency of insolvent partner shall be shared by other solvent partner having positive capital balance in their capital contribution ratio.

**PRACTICAL PROBLEMS**

**Problem No 01:**

The partners A, B and C have called you to assist them in winding up the affairs of their partnership on 30th June, 2012. Their Balance Sheet as on that date is given below:

Liabilities	Rs	Assets	Rs
Sundry Creditors	17,000	Cash at Bank	6,000
Capital Accounts:		Sundry Debtors	22,000
A	67,000	Stock in trade	14,000
B	45,000	Plant and Equipment	99,000
C	31,500	Loan-A	12,000
		Loan-B	7,500
	1,60,500		1,60,500

- (1) The partners share profit and losses in the ratio of 5:3:2
- (2) Cash is distributed to the partners at the end of each month
- (3) A summary of liquidation transactions are as follows:

**July 2012**

Rs. 16,500- collected from Debtors; balance is uncollectable.

Rs. 10,000-received from sale of entire stock.

Rs. 1,000- liquidation expenses paid.

Rs. 8,000- cash retained in the business at the end of the month.

**August 2012**

Rs. 1,500- liquidation expenses paid. As part payment of his Capital, C accepted a piece of equipment for Rs. 10,000 (book value Rs. 4,000).

Rs. 2,500 cash retained in the business at the end of the month.

**September 2012**

Rs. 75,000 received on sale of remaining plant and equipment.

Rs. 1,000- liquidation expenses paid. No cash retained in the business.

Required: Prepare a schedule of cash payments as of September 30, showing how the cash was distributed.

**Problem No 02:**

Ajay Enterprise, a Partnership firm in which A, B and C are three partners sharing profit and losses in the ratio of 4 : 3 : 3. The Balance Sheet of the firm as on 31st December, 2011 is as below:

Liabilities	Amount	Assets	Amount
A's Capital	15,000	Factory Building	24,160
B's Capital	7,500	Plant & Machinery	16,275
C's Capital	15,000	Debtors	5,400
B's Loan A/c	4,500	Stock	12,390
Sundry Creditors	16,500	Cash at Bank	275
	58,500		58,500

On the balance sheet date all the three partners have decided to dissolve their partnership. Since the realization of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint C who was to get as his remuneration 1% of the value of the assets realized other than cash at Bank and 10% of the amount distributed to the partners.

Assets were realized piece-meal as under	Rs
First instalment	18,650
Second instalment	17,320
Third instalment	10,000
Last instalment	7,000
Dissolution expenses were provided for estimated amount of	3,000
The creditors were settled finally for	15,900

Prepare a statement showing distribution of cash amongst the partners by 'Higher Relative Capital Method'.

**Problem No 03: (Icmal study material)**

A partnership firm was dissolved on 30th June, 2021. Its Balance Sheet on the date of dissolution was as follows :

Liabilities	(`)	Assets	(`)
Capitals :		Cash	5,400
Atrik	38,000	Sundry Assets	94,600
Mohit	24,000		
Rupa	18,000		
Loan A/c – Mohit	5,000		
Sundry Creditors	15,000		
	<b>1,00,000</b>		<b>1,00,000</b>

The assets were realised in instalments and the payments were made on the proportionate capital basis. Creditors were paid ` 14,500 in full settlement of their account. Expenses of realisation were estimated to be ` 2,700 but actual amount spent on this account was ` 2,000. This amount was paid on 15th September. Draw up a Memorandum of distribution of Cash, which was realised as follows :

On 5th July	12,600
On 30th August	30,000
On 15th September	40,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Give working notes.

**Problem No 04: (Icmai study material )**

The following is the Balance Sheet of P, Q and R on 31st August, 2021 when they decided to dissolve the partnership. They share profits in the ratio of 2 : 2 : 1.

Liabilities	(`)	Assets	(`)
Creditors	2,000	Sundry Assets	48,500
P's Loan	5,000	Cash	500
P's Capital	15,000		
Q's Capital	18,000		
R's Capital	9,000		
	<b>49,000</b>		<b>49,000</b>

The assets realised the following sums in instalments.

I- ` 1,000, II- ` 3,000, III- ` 3,900, IV- ` 6,000, V- ` 20,000.

The expenses of realisation were expected to be ₹ 500 but ultimately amounted to ₹ 400 only.

**Required :** Show, how at each stage, the cash received should be distributed among partners according to Maximum Loss Method.

**Problem No 05: (Same as question 2)**

The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2013. Their balance sheet as on that date is given below:

Liabilities	Amount	Assets	Amount
Capital Accounts:		land & Building	50,000
P	65,000	Plant & Machinery	46,000
Q	50,500	Furniture & Fixture	10,000
R	32,000	Stock	14,500
Sundry Creditors	16,000	Debtors	14,000
		Cash at Bank	9,000
		Loan P	13,000
		Loan Q	7,000
Total	1,63,500	Total	1,63,500

(a) The partners share profit and losses in the ratio of 4:3:2.

(b) Cash is distributed to the partners at the end of each month.

A summary of liquidation transactions are as follows:

**January 2014**

- Rs. 9,000 -collected from debtors; balance is uncollectable.
- Rs. 8,000 -received from the sale of entire furniture
- Rs. 1,000- Liquidation expenses paid.
- Rs. 6,000 Cash retained in the business at the end of month

**February 2014**

- Rs. 1,000- Liquidation expenses paid.
- As part payment of his capital, R accepted a machinery for Rs. 9,000 (book value Rs. 3,500)



- Rs. 2,000- Cash retained in the business at the end of month

#### March 2014

- Rs.38,000-received on the sale of remaining plant and machinery.
- Rs. 10,000 received from the sale of entire stock.
- Rs. 1,700 -Liquidation expenses paid.
- Rs. 41,000 -Received on sale of land & building.
- No Cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method".

#### Problem No 06:

M/s x, Y and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 had respectively, had respectively, the following Balance Sheet as at December 31, 20X1:

Liabilities		Rs.	Assets		Rs.
Capital			Fixed Assets		40,000
X	29,200		Stock		25,000
Y	10,800		Book Debts	25,000	
Z	10,000	50,000	Less: Provision	(5,000)	20,000
Z's Loan		5,000	Cash		1,000
Loan from Mrs. X		10,000	Advance to Y )		4,000
Sundry Trade Creditors		25,000			
		90,000			90,000

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to Rs. 4,000 have been purchased in November, 20X1 and had been received but the purchase was not recorded in books. Fixed assets realised Rs. 20,000; Stock RS. 21,000 and Book Debt Rs. 20,500. Similarly, the creditors allowed a discount of 29% on the average. The expenses of realisation come to Rs. 1,080. X agreed to take over the loan of Mrs. X. Y is

insolvent, and his estate is unable to contribute anything. Give accounts to close the books; work according to the decision in Garner vs. Murray.

**Problem No 07:**

The following is the Balance Sheet of A, B, C on 31st December, 2012 when they decided to dissolve the partnership:

<b>Liabilities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
Sundry Creditors	2,000	Sundry Assets	48,500
A's Loan	5000	Cash	500
Capital Accounts:			
A	15,000		
B	18,000		
C	9,000		
	<b>49,000</b>		<b>49,000</b>

The assets realized the following sums in instalments:

- I 1,000
- II 3,000
- III 3,900
- IV 6,000
- V 20,100\*
- 34,000**

Includes savings of Rs. 100 in expense

The expenses of realization were expected to be Rs. 500 but ultimately amounted to Rs. 400 only. Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1.

**Problem No 08:**

A, B and C are partners sharing profits and losses in the ratio of 5 : 3 : 2. Their capitals were Rs.9,600; Rs.6,000 and Rs.8,400 respectively.

After paying creditors, the liabilities and assets of the firm were:

Liabilities	Rs.	Assets	Rs.
Liability for interest on loans from		Investments	1,000
Spouses of partners	2,000	Furniture	2,000
Partners	1,000	Machinery	1,200
		Stock	4,000

The assets realized in full in the order in which they are listed above. B is insolvent. You are required to prepare a statement showing the distribution of cash as and when available, applying maximum possible loss procedure.

**Problem No 09: (Icmai study material )**

Rahul, Roshan and Rohan were in partnership sharing profits and losses in the ratio of 3 : 2 : 1 respectively. The partnership was dissolved on 30th June, 2021 when the position was as follows :

Liabilities	(`)	Assets	(`)
Capitals :		Cash in hand	28,000
Rahul	1,40,000	Sundry Debtors	2,94,000
Roshan	70,000	Stock in trade	1,12,000
Rohan	14,000		
Creditors	2,10,000		
	4,34,000		4,34,000

There was bill for ` 10,000, due on 30th November, 2021, under discount. It was agreed that the net realisations should be distributed in their due order (at end of each month) but as safely as possible. The realisations and expenses were as under :

Date	Stock and Debtors (₹)	Expenses (₹)
31st July	84,000	7,000
31st August	1,26,000	5,400
30th September	70,000	4,900
31st October	77,000	3,500
30th November	35,500	3,500

The Stock was completely disposed off and amounts due from debtors were realised, the balance being irrecoverable. The acceptor of the bill under discount met the bill on the due date. Prepare a Statement showing the piecemeal distribution of cash according to Maximum Loss Method.

## CH 12. (F) AMALGAMATION OF FIRM & CONVERSION TO A COMPANY

### ➤ Amalgamation

- a) refers "to one or more entities dissolved their business operations and transferring their assets and liabilities to a newly formed entity."
- b) If X Ltd and Y Ltd are liquidated and a newly formed company Z Ltd acquires the two businesses, it is termed as "Amalgamation"

### ➤ Absorption:

- a) refers "the business of one existing entity is taken over by another existing entity. The term amalgamation is also including the term absorption".
- b) If X Ltd is taken over by Y Ltd it is referred to as "Absorption". Here there is no formation of new entity, but there are one or more liquidations.

### ➤ Important Terms:

- a) **TRANSFEROR Entity:** The entity which is liquidating their business operations are known as transferor companies (Selling Companies).
- b) **TRANSFeree Entity:** The entity to whom Transferor companies are transferring their assets and liabilities are known as Transferee Company (purchasing Company).
- c) **PURCHASE CONSIDERATION:** The amount of consideration payable by the transferee company to the transferor company.

### ➤ Types of Amalgamations: Amalgamations are broadly classifiable into the following two types as per AS 14.

- a) Amalgamations in the nature of Merger
- b) Amalgamations in the nature of Purchase

**A. AMALGAMATIONS IN THE NATURE OF MERGER**

1. **MEANING:** Under this method there is genuine pooling of the interests of shareholders and of the business of these companies.
2. **METHOD OF ACCOUNTING:** Pooling of interest method is adopted in the books of Transferee Company.
3. **Conditions/ Situations:** Any amalgamation which satisfies the below mentioned five conditions should be classified as Amalgamation in the nature of merger.
  - a. All the assets and liabilities of the transferor company should become the assets and liabilities of Transferee Company.
  - b. Shareholders of Transferor Company holding not less than 90% of the face value of equity shares should become the shareholders of purchasing company immediately after the amalgamation.

**Note:** for calculation of said 90%, share already held prior to amalgamation by PC in SC, one or more subsidiaries of PC in SC and Nominees of PC in SC should be excluded.

- c. The purchase consideration is to be discharged to the equity shareholders of Purchasing company only by issue of equity shares in the Purchasing company, however cash can be paid out in case of fraction of shares adjustment.
  - d. The business of selling company is intended to be carried on, after the amalgamation by the purchasing company.
  - e. Assets & Liabilities of Selling company are incorporated in the financial statements of the Purchasing company at book values to ensure uniform accounting policies.

**B. AMALGAMATIONS IN THE NATURE OF PURCHASE**

- a. If any one of the above mentioned five conditions to merger is not satisfied, then such amalgamation should be classified as Amalgamation in the nature of purchase.
- b. In this type of amalgamation, Purchase method of accounting is adopted in the books of purchasing company or Transferee Company.

➤ **MODES OF DETERMINATION OF PURCHASE CONSIDERATION:**

- a. Purchase consideration refers to the amount payable by the purchasing company to the selling company in connection with the business transferred.
- b. Purchase consideration may be determined using any of the following three methods:
  - i. **Net Assets Method**= Assets taken over - Liabilities taken over.
  - ii. **Net Payment Method**= Aggregate of consideration paid to the shareholders (Equity and preference shares) in various forms i.e. shares / securities / cash.
  - iii. **Lumpsum Consideration Method.**

➤ **ACCOUNTING TREATMENT FOR AMALGAMATION**

• **In the books of transferor company:**

- a. AS 14 is not applicable to accounting in the books of Transferor Company.
- b. Accounting is independent of nature amalgamation and method of accounting in the books of Transferee Company.
- c. Accounting in the books of Transferor Company is carried out with the objective of closing books of accounts and simultaneous determination of profit or loss on closing of books of accounts.

**Journal Entries:**

Particulars	Debit	Credit
1. Transfer all assets taken over by purchasing company at book values to Realisation A/c: Realisation A/c    Dr To Assets A/c	xxx	xxx
2. Liabilities taken over by purchasing company at balance sheet value: Liabilities A/c        Dr To Realisation A/c	xxx	xxx
3. Purchase consideration due: Transferee Company A/c    Dr To Realisation A/c	xxx	xxx

<b>4. Receipt of purchase consideration:</b> <b>Shares /Securities / Bank A/c      Dr</b> <b>    To Transferee Company A/c</b>		
<b>5. Sale of assets not taken over by transferee company:</b> <b>Bank A/c                      Dr</b> <b>    To Asset A/c</b> <b>    To Realisation A/c</b>	xxx	xxx xxx
<b>6. Settlement of liabilities not taken over (Assuming at a discount)</b> <b>Liabilities A/c              Dr</b> <b>    To Bank A/c</b> <b>    To Realisation A/c</b>	xxx	xxx xxx
<b>7. Realisation expenses:</b> <b>Incurring by transferor company:</b> <b>Realisation A/c              Dr</b> <b>    To Bank A/c</b> <b>Incurring by transferee company: No JE</b> <b>Incurring by transferor company and reimbursed by transferee company:</b> <b>    a. on incurring expenses:</b> <b>Transferee company A/c      Dr</b> <b>    To Bank A/c</b> <b>On reimbursement:</b> <b>Bank A/c Dr</b> <b>    To Transferee company</b>	xxx  xxx  xxx	xxx  xxx  xxx
<b>Amount due to the equity shareholders:</b> <b>Equity Share Capital A/c      Dr</b> <b>Reserves A/c                      Dr</b> <b>    To Shareholders A/c</b>	xxx xxx	xxx
<b>Transfer of realisation profit to shareholders:</b>		





Realisation A/c	Dr	xxx	
To Equity Shareholders A/c			xxx
Transfer of realisation loss to shareholders:			
Equity Shareholders A/c	Dr	xxx	
To Realisation A/c			xxx

➤ **In the books of Transferee company**

Accounting should be done as provided in AS 14.

**Journal Entries:**

Particulars	Debit	Credit
a) Due entry for business purchased:		
Business purchase A/c	Dr	xxx
To Liquidator of transferor company, A/c		xxx
b) Incorporation of Assets and liabilities:		
Assets A/c	Dr	xxx
Goodwill A/c (B/f)	Dr	xxx
To Liabilities A/c		xxx
To Business purchase A/c		xxx
To Capital reserve A/c (BF)		xxx
c) Discharge of purchase consideration:		
Liquidator of transferor company A/c	Dr	xxx
To Share capital A/c		xxx
To Securities premium A/c		xxx
To bank A/c		xxx
d) Cancellation of inter-company Owings		
Creditor A/c	Dr	xxx
To Debtors A/c		xxx
e) Elimination of unrealised profits on goods sold by one company to other and remaining unsold on the date of amalgamation:		

Goodwill/Capital Reserve A/c	Dr	xxx	
To Stock reserve A/c			xxx
<b>f) Realisation expenses - Incurred by purchasing company:</b>			
Goodwill/ Capital reserve A/c	Dr	xxx	
To bank A/c			xxx
<b>g) Realisation expenses incurred by selling company but reimbursed by purchasing company:</b>			
Goodwill/ Capital reserve A/c	Dr	xxx	
To Bank Ac			xxx
<b>h) Incorporation of statutory reserve:</b>			
Amalgamation adjustment A/c	Dr	xxx	
To Statutory Reserve A/c			xxx

**PROBLEMS****Problem No 01:**

B and S are partners of S & Co. sharing profits and losses in the ratio of 3:1. S and T are partners of T & Co. sharing profits and losses in the ratio of 2:1. 1.

On 31st October, 20x1, they decided to amalgamate and form a new firm M/s. BST & Co. wherein B, S and T would be partners sharing profits and losses in the ratio of 3:2:1.

Their balance sheets on that date were as under:

Liabilities	S&Co.	T&Co	Assets	S&Co.	T&Co
Due to X & Co.	40,000		Cash in hand	10,000	5,000
Due to S & Co.		50,000	Cash at bank	15,000	20,000
Other Creditors	60,000	58,000	Due from T & Co.	50,000	
Reserves	25,000	50,000	Due from X & Co.		30,000
Capitals			Other Debtors	80,000	1,00,000
B	1,20,000		Stock	60,000	70,000
S	80,000	1,00,000	Furniture	10,000	3,000
T		50,000	Vehicles		80,000
			Machinery	75,000	
			Building	25,000	
	3,25,000	3,08,000		3,25,000	3,08,000

The amalgamated firm took over the business on the following terms

- Goodwill of S & Co. was worth Rs. 60,000 and that of T & Co. Rs. 50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded capital accounts of through the partners.
- Building, machinery and vehicles were taken over at Rs. 50,000, Rs. 90,000 and Rs. 1,00,000 respectively.
- Provision for doubtful debts has to be carried forward at Rs. 4,000 in respect of debtors of S & 5,000 in respect of debtors of T & Co.

You are required to:

- Compute the adjustments necessary for goodwill.

ii. Pass the journal entries in the books of BST & Co. assuming that excess/deficit capital (taking T's Capital as base) with reference to share in profits are to be transferred to current accounts.

**Problem No 02: (Same as Question 1)**

Firm X & Co. consists of partners A and B sharing Profits and Losses in the ratio of 3:2. The firm Y & Co. consists of partners B and C sharing Profits and Losses in the ratio of 5:3. On 31st March, 20X1 it was decided to amalgamate both the firms and form a new firm XY & Co wherein A, B and C would be partners sharing Profits and Losses in the ratio of 4:5:1.

Balance Sheet as at 31.3.20X1

Liabilities	X&Co	Y& Co	Assets	X&Co	Y& Co
	Rs.	Rs.		Rs.	Rs.
Capital:			Cash in hand/bank	40,000	30,000
A	1,50,000		Debtors	60,000	80,000
B	1,00,000	75,000	Stock	50,000	20,000
C		50,000	Vehicles		90,000
Reserve	50,000	40,000	Machinery	1,20,000	
Creditors	1,20,000	55,000	Building	1,50,000	
	4,20,000	2,20,000		4,20,000	2,20,000

The following were the terms of amalgamation:

- Goodwill of X & Co., was valued at Rs. 75,000. Goodwill of Y & Co. was valued at Rs. 40,000. Goodwill account not to be opened in the books of the new firm but adjusted through the Capital accounts of the partners.
- Building, Machinery and Vehicles are to be taken over at Rs. 2,00,000, Rs. 1,00,000 and Rs. 74,000 respectively.
- Provision for doubtful debts at Rs. 5,000 in respect of x & Co. and Rs. 4,000 in respect of Y & Co. are to be provided.

You are required to:

- i. Show, how the Goodwill value is adjusted amongst the partners.
- ii. Prepare the Balance Sheet of XY & Co. as at 31.3.20X1 by keeping partners capital in their profit sharing ratio by taking capital of 'B' as the basis. The excess or deficiency to be kept in the respective Partners' Current accounts

**Problem No 03: (Icmai study material)**

A and B carry on independent business and their position on 31.03.2022 are reflected in the Balance Sheet given below :

Liabilities	A (₹)	B (₹)	Assets	A (₹)	B (₹)
Sundry creditor for purchases	1,10,000	47,000	Stock-in-trade	1,70,000	98,000
Sundry creditors for expenses	750	2,000	Sundry Debtors	89,000	37,000
Bills payable	12,500	-	Cash at bank	13,000	7,500
Capital A/c	1,53,000	95,500	Cash in hand	987	234
	2,76,250	1,44,500	Furniture and Fixtures	2,750	1,766
			Investments	513	-
				2,76,250	1,44,500

Both of them want to form a partnership firm from 1.4.2022 in the style of AB & Co. on the following terms:

- a. The capital of the partnership firm would be ₹ 3,00,000 and to be contributed by them in the ratio of 2:1.
- b. The assets of the individual businesses would be evaluated by C at which values, the firm will take them over and the value would be adjusted against the contribution due by A and B.
- c. C gave his valuation report as follows :

**Assets of A :** Stock-in trade to be written-down by 15% and a portion of the sundry debtors amounting to ₹ 9,000 estimated unrealisable; furniture and fixtures to be valued at ₹ 2,000 and investments to be taken at market value of ₹ 1,000.

**Assets of B :** Stocks to be written-up by 10% and sundry debtors to be admitted at 85% of their value; rest of the assets to be assumed at their book values.

- d. The firm is not to consider any creditors other than the dues on account of purchases made.

You are required to pass necessary Journal entries in the books of A and B. Also prepare the opening Balance Sheet of the firm as on 01.04.2022.

**Problem No 04:**

Hari, Lal and Jay have been in partnership for a number of years, sharing profits/losses in the ratio of 2:2:1 as wholesale stationers trading under the name 'Hari Brothers'. They decide to convert their partnership into a limited company (with effect from 1st January, 20x2) to be known as Har Ltd.

Immediately prior to this conversion the balance sheet of partnership as at 31st December 20X1 was as follows:

**Balance Sheet as on 31st December 20X1**

Liabilities	Rs	Rs	Assets	Rs
Capital accounts			Fixed assets	
Hari	70,000		(at written down value)	
Lal	30,000		Land & Buildings	50,000
Jay	20,000	1,20,000	Plant & Machinery	30,000
Current accounts			Motor vehicles	20,000
Hari	7,000		Current Assets:	
Lal	5,000		Inventories	60,000
Jay	3,000	15,000	Debtors	25,000
			Axis Bank account	5,000
Current liabilities				
Creditors	25,000			
Dena Bank account	20,000	45,000		
long-term liabilities				
Loan-Hari	3,000			
Loan-Gopi Ltd.	7,000	10,000		

1,90,000

1,90,000

The terms of conversion are that Hari Ltd. is to take over the assets and liabilities of Hari Brothers as follows:

	Valuation for take-over
Land and Building	96,000
Plant and Machinery	28,000
Motor vehicles	15,000
Inventories	60,000
Debtors	24,000
Creditors	25,000
Goodwill	10,000

The closing balance in Axis Bank account is to be transferred to Dena Bank account before all the other dissolution entries are effected in the partnership ledgers.

Lal took over one of the motor vehicles at an agreed amount of Rs. 2,000. All other liabilities were paid from the Dena Bank account.

The purchase consideration is discharged by an issue at par of Rs. 60,000 10% Debentures (fully paid) to the partners in their capital account proportions as shown in the above balance sheet plus equity shares in Hari Ltd. of Rs. 1 each (fully paid to make up the balance due to each partner).

You are required to prepare

- (a) Realisation Account
- (b) Partners Capital Accounts
- (c) Bank account of Axis Bank

and Dena Bank in the books of Hari Brothers;

ii. Business purchase account' and 'Hari Brothers' account in Hari Ltd.'s books.

**Problem No 05:**

P and Q were carrying on business sharing profits and losses equally. The firm's Balance Sheet as at 31.12.20X1 was

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Accounts:			Plant		1,60,000
P	1,50,000		Building		48,000
Q	1,30,000	2,80,000	Debtors		75,000
Sundry Creditors		80,000	Stock		70,000
Bank Overdraft		45,000	Joint Life Policy		6,000
			Profit & Loss A/c		30,000
			Drawings Account		
			P	9,000	
			Q	7,000	16,000
		4,05,000			4,05,000

- a. The operations of the business were carried on till 30.06.20X2. P and Q both withdrew in equal amount half the amount of profit made during the current period of six months after charging depreciation at 10% per annum on plant and after writing off 5% on building During the current period of six months, creditors were reduced by Rs. 20,000 and bank overdraft by Rs. 5,000.
- b. The joint life policy was surrendered for Rs. 6,000 before 30th June 20X2. Stock was valued at Rs.84,000 and debtors at Rs. 68,000 on 30th June 20X2. The other items remained the same as at 31.12.20X1.
- c. On 30.06.20X2, the firm sold its business to PQ Ltd. The value of goodwill was estimated at Rs. 1,30,000 and the remaining assets were valued on the basis of the balance sheet as on 30.06.20X2. PQ Ltd. paid the purchase consideration in equity shares of Rs. 10 each. You are required to prepare:
  - i. Balance sheet of the firm as at 30.06.20X2,
  - ii. Realisation account,



**Partners' Capital Accounts showing the final settlement between them.**

**Problem No 06: (Same as Question 5)**

A and B were carrying on business sharing profits and losses equally. The firm's Balance Sheet as at 31.12.20X1 was:

Liabilities	Amount	Assets	Amount
Sundry Creditors	60,000	Stock	60,000
Bank overdraft	35,000	Machinery	1,50,000
Capital Acs:		Debtors	70,000
A-140000		Joint Life Policy	9,000
B-130000	2,70,000	Leasehold Premises	34,000
		Profit & Loss A/c	26,000
		Drawings Accounts:	
		A-100000	
		B- 6000	16000
	3,65,000		3,65,000

The business was carried on till 30.6.20x2. The partners withdrew in equal amounts half the amount of profits made during the period of six months after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by Rs. 10,000 and bank overdraft by Rs. 15,000. On 30.6.20x2, stock was valued at Rs. 75,000 and Debtors at Rs. 60,000; the Joint Life Policy had been surrendered for Rs. 9,000 before 30.6.20X2 and other items remained the same as at 31.12.20X1.

On 30.6.20x2, the firm sold the business to a Limited Company. The value of goodwill was fixed at Rs. 1,00,000 and the rest of the assets were valued on the basis of the Balance Sheet as at 30.6.20X2. The company paid the purchase consideration in Equity Shares of Rs. 10 each

You are required to prepare:

(a) Balance Sheet of the firm as at 30.6.20X2;

(b) The Realisation Account;

(c) Partners' Capital Accounts showing the final settlement between them.

**Problem No 07: (Icmai study material )**

Following are the Balance Sheets of partners X and Y (sharing profits and losses in the ratio of their capital) and the sole proprietor Z as on 31.03.2022 :

Liabilities	Partners X & Y	Sole Proprietor Z	Assets	Partners X & Y	Sole Proprietor Z
Capital		-	Goodwill	-	2,000
X	15,000	-	Building	25,000	-
Y	5,000		Stock	10,000	15,000
Z	-	10,000	Bills	5,000	5,000
Creditors	26,000	13,000	receivable		
Loan	-	5,000	Debtors	4,000	6,000
			Cash in Hand	2,000	-
	46,000	28,000		46,000	28,000

The partners decided to admit Z as a partner and Z agreed to amalgamate his business with that of the partnership on the following terms :

- The new profit-sharing ratio among X, Y, and Z will be in the ratio of their capitals.
- The building is to be appreciated by ` 15,000 and provision @ 5 % is to be created on debtors.
- The goodwill of the partnership is valued at ` 10,000 and of the sole proprietor at ` 1,500; both are to be recorded in the books.
- Stock is to be taken at ` 9,200 and ` 16,800, respectively of the firm and the sole proprietor.

Prepare ledger accounts to close the books of Z, to make necessary Journal entries in the books of the firm and prepare the Balance Sheet of the re-constituted partnership.

## CH 12.(G) ACCOUNTING FOR LIMITED LIABILITY PARTNERSHIP

### ➤ Introduction

- It is a specific form of business, consisting of partners whose liability is limited to the capital contribution made by them.
- It carries both the characteristics of partnership and company.
- The partners of a limited liability partnership have limited liability.
- LLP's are governed by the provisions of Limited Liability Partnership Act, 2008.

### ➤ Features of LLP:

- The following are the features of LLP.
  - a. LLP is a body corporate incorporated under LLP Act 2008.
  - b. Partner of an LLP may be Individual or body corporate.
  - c. Minimum two partners required to constitute LLP.
  - d. LLP should have minimum 2 designated partners who are individuals and at least one of them should be resident in India.
  - e. Name of LLP shall ends with words "limited liability partnership" or "LLP".

### ➤ Books of Accounts:

- i. A LLP shall maintain proper books of accounts on cash or accrual basis and as per double entry system of accounting at its registered office for the prescribed.
- ii. Every LLP shall keep books of accounts to facilitate
  - a. Disclose financial position with reasonable accuracy at any time
  - b. Enable the designated partners to ensure that any Statement of Account and Solvency prepared complies with the requirements of the Act.

- iii. The books of account shall contain:
    - a. Particulars of all sums of money received and expended by the LLP and the matters in respect of which the receipt and expenditure takes place.
    - b. A record of the assets and liabilities of the limited liability partnership;
    - c. Statements of goods purchased, Inventories, Work-in-progress, Finished goods and Cost of goods sold; and
    - d. Any other particulars which the partners may decide.
  - iv. LLP shall preserve books of accounts for a period of 8 Years.
  - v. **Penalty:** If LLP fails to comply Maintenance of books and preparation of statements,
    - a. LLP is punishable with fine minimum 25,000 and Maximum ₹ 5,00,000,
    - b. Every designated partner shall be punishable with fine Minimum ₹ 10,000 and Maximum ₹ 1,00,000.
- **Statement of Account and Insolvency**
- a. Every LLP shall prepare statement of account and Solvency within 6 months from the end of the accounting year.
  - b. Every LLP shall file statement of account and insolvency with ROC in Form 8 by payment of prescribed fees, within 30 days from the due date of its preparation.
  - c. Statement of Account and Insolvency filed by a LLP available with the Registrar for inspection by any person in such manner and on payment of such fees as may be prescribed.
  - d. Such Statement of Account and Solvency should be signed by its designated partners on behalf of LLP.
  - e. Statement of Account consists of the following two:
    - i. Statement of Assets and Liabilities; and
    - ii. Statement of Income and Expenditure.

➤ **The format of the Statement of Assets. and Liabilities is as follows:**

Particulars	Current Year In ₹	Last Year in ₹)
<b><u>CONTRIBUTION AND LIABILITIES</u></b>		
<b>A) Partner's funds:</b>		
Contribution received		
Reserves and surplus		
<b><u>B) Liabilities</u></b>		
Secured loans		
Unsecured loans		
Short term borrowings		
Creditors/Trade payables Amount of other liabilities		
Other liabilities (to specify)		
Provisions		
For taxation		
For contingencies		
For insurance		
Other provisions (if any)		
<b>Total</b>		
<b><u>ASSETS:</u></b>		
Gross Fixed assets		
Less: depreciation and amortization		
Net fixed assets		
Investments		
Loans and advances		
Inventories		
Debtors/trade receivables		
Cash and cash equivalents		
Amount of other assets		
Other assets (to specify)		
<b>Total</b>		

➤ **Format of Statement of Income and Expenditure:**

Particulars	Current Year In ₹	Last Year in ₹)
<b><u>A) Income</u></b>		
Gross turnover		
Less: Excise duty or service tax		
Net Turnover		
<b><u>Details:</u></b>		
Domestic turnover		
Sale of goods manufactured		
Sale of goods traded		
Sale or supply of services		
Export turnover		
Sale of goods manufactured		
Sale of goods traded		
Sale or supply of services		
Other income		
Increase/ (decrease) in stocks including for raw materials, work in progress and finished goods		
Total Income		
<b><u>B) Expenses</u></b>		
Raw material consumed		
Purchases made for re-sale		
Consumption of stores and spare parts		
Power and fuel		
Personnel Expenses		
Administrative expenses		



Payment to auditors		
Selling expenses		
Insurance expenses		
Depreciation and amortization		
Interest		
Other expenses		
Total expenditure		
Net Profit or Net Loss (before taxes) Provision for Tax		
Profit after Tax		
Profit transferred to Partners' account		
Profit transferred to Reserves and Surplus		

➤ **Annual Return**

- i. Every LLP shall file an Annual Return duly authenticated with the Registrar within 60 days from the closure of its financial year.
- ii. The Annual return filed by a LLP with the Registrar shall be available for inspection by any person in such manner and on payment of such fees as may be prescribed.
- iii. If in any return, any person makes any statement which is false in any material particular knowing it to be false or, which omits any material fact knowing it to be material, he shall be punishable
  - a. Imprisonment which may extend to two years and
  - b. fine Minimum ₹ 1,00,000 and Maximum ₹ 5,00,000.

➤ **Audit:**

- a. Books of accounts of LLP is subject to Audit as per rules.
- b. Auditors of LLP shall be appointed for each financial year of the LLP for auditing its accounts.
- c. Practicing Chartered Accountant is eligible to appoint as an Auditor of LLP

**PRACTICAL PROBLEMS****Problem No 01:**

P and Q are the partners of a limited liability partnership - M/s P&Q LLP dealing in electrical goods. The following is their trial balance as on March 31, 2022:

Name of Accounts	Dr. ₹)	Cr. (₹)
Inventories on April 1, 2021	4,50,000	
Equipment	5,50,000	
Premises	8,00,000	
Bank	9,46,500	
Sundry Debtors	3,60,000	
Sundry Creditors		1,65,000
Secured Loan		1,80,000
Unsecured loan		1,35,000
Returns outward		67,500
Outstanding expenses		24,000
Sales revenue from goods traded		53,00,000
Revenue from services rendered		2,35,000
Indirect Tax on turnover	1,35,000	
Interest received on investment		67,500
Purchases	29,47,500	
Salaries	8,45,000	
Rent & Rates	3,12,000	
Stationery charges	13,200	
Communication charges	27,300	
Insurance	54,800	
Advertisement	44,200	
Delivery charges	48,000	
Interest on debt	95,500	
Furniture & Fixture	5,40,000	



Long-term investments	3,15,000	
Cash	2,10,000	
General Reserve		2,70,000
P's contribution		13,00,000
Q's contribution		9,50,000
Total	86,94,000	86,94,000

**Additional information:**

I. Unsold inventories on 31.03.2022 worth 5,62,500.

II. Outstanding rent amounts to 36,000.

III. Rate of depreciation on Furniture & Fixture @ 10%.

IV. Depreciate equipment by ₹ 67,500

V. Provisions to be created: ₹ 22,500 for possible bad debts and 180,000 for taxation.

Considering the additional information provided above, you are required to prepare:

Statement of Income and Expenditure for the year ended March 31, 2022; and

Statement of Assets and Liabilities as on that date