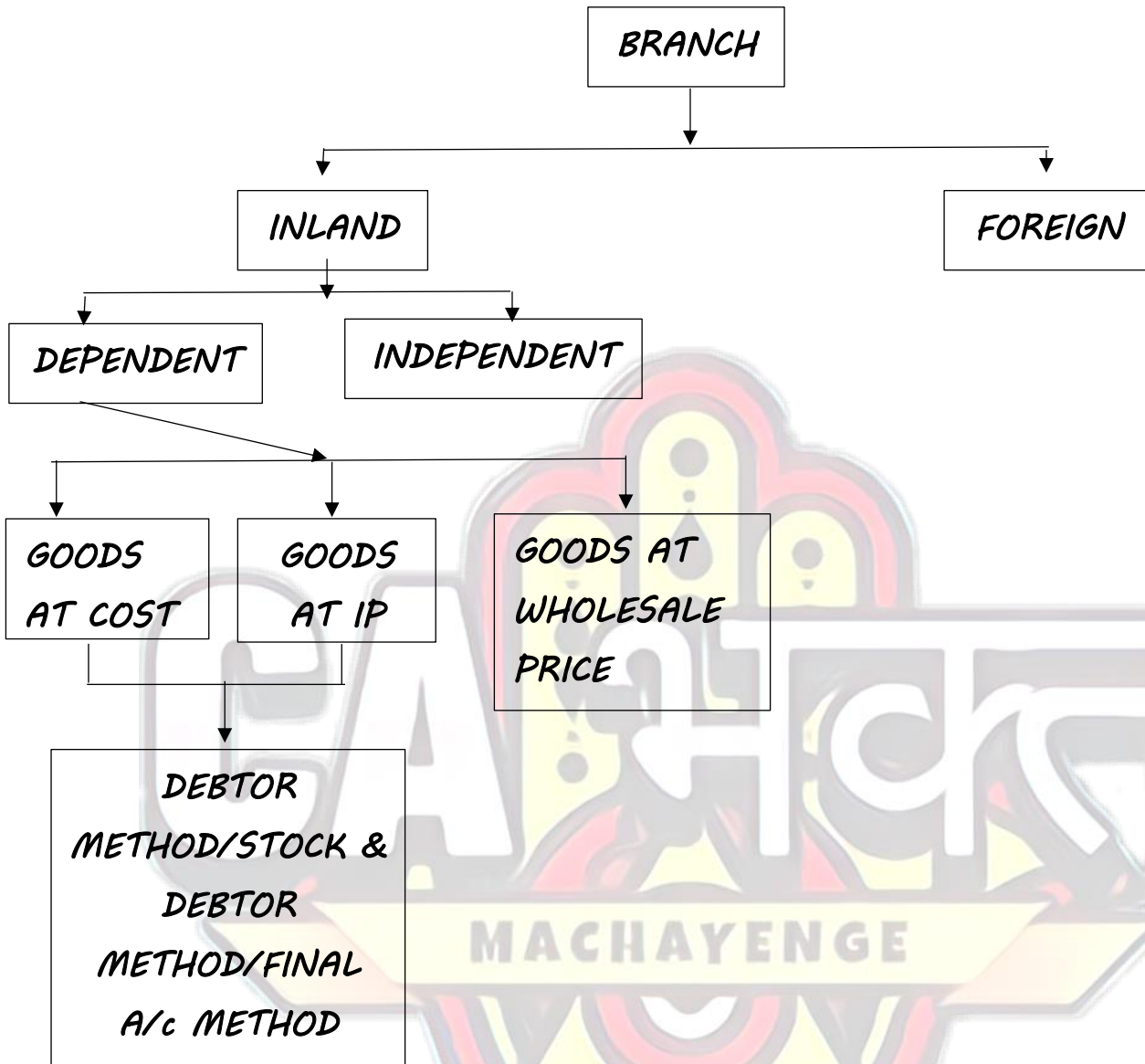


## Chapter 1 - Branch Accounts



**DEBTORS METHOD (DEPENDENT BRANCH)**

*Branch A/c*

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
<i>To Bal. b/d</i>		<i>By Bal. b/d</i>	
<i>Fixed assets</i>		<i>Liabilities</i>	
<i>Cash</i>		<i>O/s Expenses</i>	
<i>Debtors</i>		<i>By Goods Returned</i>	
<i>Stock</i>		<i>By Bank (Remittance to</i>	
<i>To goods send to branch</i>		<i>H.O. includes Cash sales</i>	
<i>To Bank (Expenses of</i>		<i>and collection from</i>	
<i>branch)</i>		<i>debtors)</i>	
<i>To Bank (Cash Remittance)</i>		<i>By goods send (Load)</i>	
<i>To goods returned (Load)</i>		<i>By opening stock reserve</i>	
<i>To closing stock reserve</i>		<i>By Bal. c/d</i>	
<i>To Bal. c/d</i>		<i>Fixed Assets</i>	
<i>Liabilities</i>		<i>Cash</i>	
<i>O/s Expenses</i>		<i>Debtors</i>	
<i>To Net Profit</i>		<i>Stock</i>	
		<i>By Net Loss</i>	

*Memorandum Stock A/c (at I.P.)*

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
<i>To Bal. b/d</i>		<i>By Goods returned by</i>	
<i>To Goods Sent to Branch</i>		<i>Branch</i>	
		<i>By sales (cash &amp; credit)</i>	
		<i>(-) sales returns</i>	
		<i>By Normal Loss</i>	
		<i>By Abnormal Loss</i>	
		<i>By Bal. c/d</i>	

**Memorandum Debtor A/c**

Particulars	Amount	Particulars	Amount
To Bal. b/d		By Cash	
To Credit sales		By Bad debts	
		By Sales Returns	
		By Discount	
		By Bal. c/d	

**Petty Cash A/c**

Particulars	Amount	Particulars	Amount
To Bal. b/d		By Bank (expenses)	
To Bank (cash received from H.O.)		By Bal. c/d	

**FINAL ACCOUNTS METHOD (DEPENDENT BRANCH)**
**Trading & P&L A/c**

Particulars	Amount	Particulars	Amount
To opening stock		By sales (cash+credit)	
To Goods sent to branch		(-) Sales Returns	
To Direct Expenses		By Goods returned by Branch	
To Gross Profit		By Abnormal Loss	
		By Closing Stock	
To Indirect Expenses		By Gross Profit	
-Expenses		By Insurance Claim	
-Bad Debts			
-Discount			
To Abnormal Losses			
To Net profit		By Net Loss	

**STOCK AND DEBTOR METHOD (DEPENDENT BRANCH)**

<i>Branch Stock A/c (at I.P.)</i>			
<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
<i>To Bal. b/d</i> <i>To Goods sent to Branch</i> <i>To Branch Debtors (sales returns)</i> <i>To Branch Adjustment A/c (surplus)</i>		<i>By Bank (cash sales)</i> <i>By Branch Debtors (credit sales)</i> <i>By Goods Returned to H.O.</i> <i>By Abnormal Loss (Load - Branch Adj. Cost - P&amp;L A/c)</i> <i>By Normal Loss</i> <i>By Bal. c/d</i>	
<i>Branch Adjustment A/c</i>			
<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
<i>To Goods returned to H.O. (Load)</i> <i>To Abnormal Loss (Load)</i> <i>To Normal Loss (Full Amount)</i> <i>To Closing Stock Reserve</i> <i>To Branch P&amp;L A/c (G.P.)</i>		<i>By Opening Stock Reserve</i> <i>By Goods sent to branch (Load)</i> <i>By Branch Stock (surplus)</i>	
<i>Branch Debtor A/c</i>			
<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
<i>To Bal. b/d</i> <i>To Branch stock (credit sales)</i>		<i>By Bank (collection from debtors)</i> <i>By Branch Stock (sales returns)</i> <i>By Branch P&amp;L A/c (discount)</i>	

		By Branch P&L A/c (bad debts)	
		By Bal. c/d	
<b>Branch Expenses A/c</b>			
<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
To Bank (All expenses by branch)		By P&L	
<b>Branch P&amp;L A/c</b>			
<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
To Branch Expenses A/c		By Branch Adjustment A/c (G.P.)	
To branch debtor's A/c (discount + Bad debts)		By Bank (insurance claim)	
To abnormal losses		By Net Loss	
To Net profit			
<b>Goods sent to branch A/c</b>			
<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
To Branch Stock (returns)		By Branch Stock (send)	
To Branch Adjustment (load)		By Branch Adjustment (load)	
To purchases (b/f)			

**WHOLESALE PRICE METHOD (DEPENDENT BRANCH)**

<b>Trading and P&amp;L A/c</b>					
<i>Particulars</i>	<i>H.O.</i>	<i>Branch</i>	<i>Particulars</i>	<i>H.O.</i>	<i>Branch</i>
To opening Stock	xxx	xxx	By sales	xxx	xxx
To purchases	xxx	-	By goods sent to branch	xxx	-

To goods received from H.O.	-	xxx	By closing stock (b/f)	xxx	xxx
To Gross Profit	xxx	xxx			
To Indirect expenses	xxx	xxx	By Gross Profit	xxx	xxx
To closing stock reserve	xxx	-	By opening stock reserve	xxx	-
To net profit	xxx	xxx	By net loss	xxx	xxx

### ACCOUNTING FOR INDEPENDENT BRANCH

Particulars	In the Books of H.O.	In the Books of Branch
Goods send by H.O. to Branch	Branch A/c Dr. To Goods sent to Branch A/c	Goods received from H.O. A/c Dr. To H.O. A/c
Goods returned by branch to H.O.	Goods sent to branch A/c Dr. To branch A/c	H.O. A/c Dr. To goods received from H.O. A/c
Branch Expenses	-	Expenses A/c Dr. To Bank A/c
Branch expenses paid by H.o.	Branch A/c Dr. To Bank A/c	Expenses A/c Dr. To H.O. A/c
Allocation of expenses by H.O. to branch	Branch A/c Dr. To expenses A/c	Expenses A/c Dr. To H.O. A/c
Purchases by branch	-	Purchases A/c Dr. To bank/Creditors A/c
Sales By branch	-	Bank/Debtors A/c Dr. To sales A/c

<i>Branch Debtors collection by H.o.</i>	<i>Bank/cash A/c Dr. To branch A/c</i>	<i>H.O. A/c Dr. To debtor's A/c</i>
<i>Purchases made by branch payment by H.o.</i>	<i>Branch A/c Dr. To bank A/c</i>	<i>Purchases A/c Dr. To H.O. A/c</i>
<i>Asset Purchase by branch</i>	<i>-</i>	<i>Assets A/c Dr. To bank/Creditors for assets A/c</i>
<i>Asset purchase by branch but A/c maintained by H.o.</i>	<i>Branch Assets A/c Dr. To Branch A/c</i>	<i>H.o. A/c Dr. To Bank/Creditors for assets A/c</i>
<i>Depreciation on above</i>	<i>Branch A/c Dr. To branch assets A/c</i>	<i>Depreciation A/c Dr. To H.O. A/c</i>
<i>Remittances</i>	<i>Bank A/c Dr. To Branch A/c</i>	<i>H.O. A/c Dr. To bank A/c</i>
<i>Goods in transit</i>	<i>-</i>	<i>Goods in transit A/c Dr. To H.O. A/c</i>
<i>Cash in Transit</i>	<i>Cash in Transit A/c Dr. To Branch A/c</i>	<i>-</i>

*Note: Adjustments should be made for the goods or cash in transit before solving the questions of independent branches.*

### ACCOUNTING FOR INTER BRANCH TRANSACTIONS

*A Delhi head office passes one entry at the end of each month to adjust the position arising out of inter-branch transactions during the month. From the following inter-branch transactions in March 2013, make the entries in the books of Delhi Head office.*

*(a) Kolkata Branch:*

*(i) Received goods from Patna branch ` 9,000 and Ahmedabad branch 6,000.*

(ii) Sent goods to Ahmedabad branch ₹ 15,000 and Patna branch 12,000.

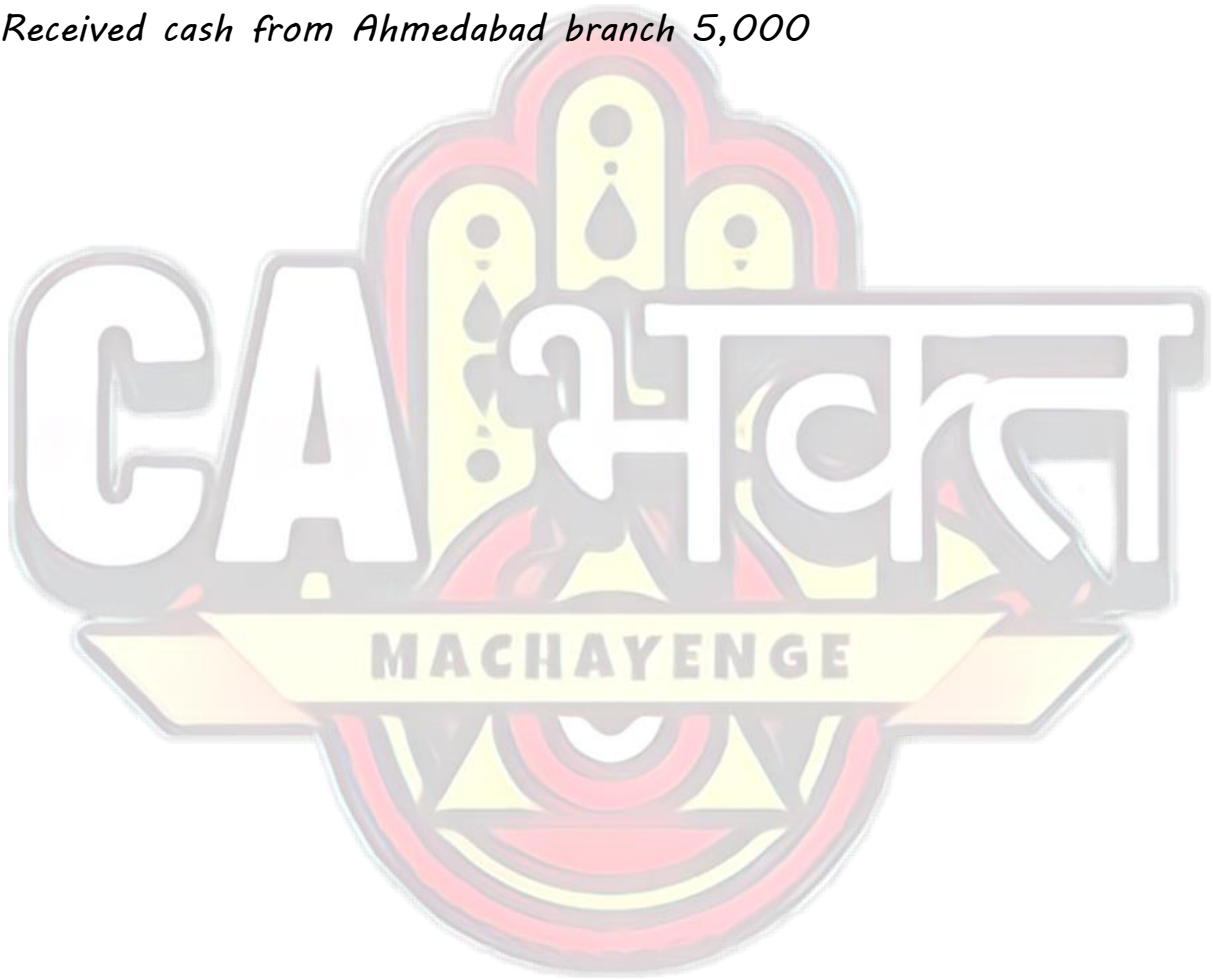
(iii) Sent acceptances to Patna branch ₹ 6,000 and Ahmedabad branch 3,000.

(b) Kanpur branch [apart from (a) above]:

(i) Sent goods to Ahmedabad branch 9,000.

(ii) Received B/R from Ahmedabad branch 9,000.

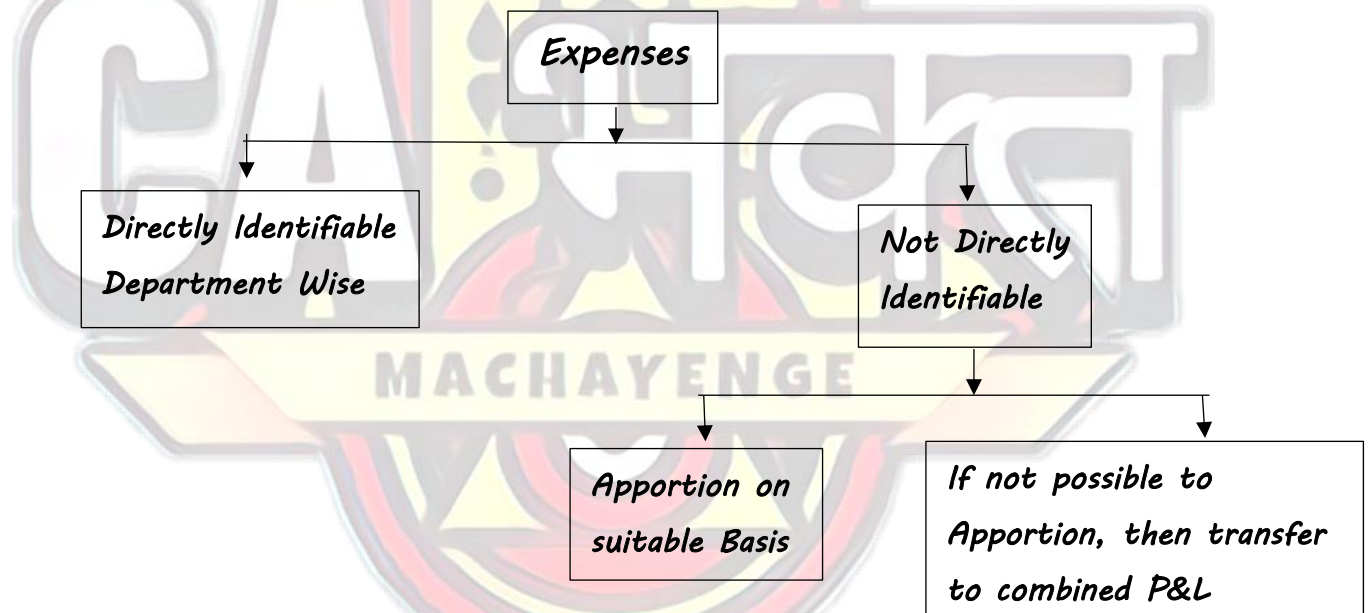
(iii) Received cash from Ahmedabad branch 5,000



## Chapter 2 – Department Accounts

### FORMAT OF DEPARTMENTAL TRADING AND P&L A/C

Particulars	A	B	Particulars	A	B
To opening stock			By sales		
To purchases			By closing stock		
To direct expenses					
To gross profit					
To indirect expenses			By gross Profit		
To Net profit			By Indirect Income		
			By Net Loss		



Particulars	Basis
Salaries & Wages	No. of employees as per time worked on each department
PF/ESI	Salaries and wages
Carriage Inwards/Carriage outwards	Purchases/sales
Discount Allowed/Received	Sales/purchases
Lighting and energy	Energy consumption

<i>Bad debts</i>	<i>Sales</i>
<i>Rent rates and taxes</i>	<i>Floor area/ Time basis</i>
<i>Labour welfare expenses</i>	<i>No. of employees</i>
<i>Insurance of building</i>	<i>Floor Area</i>
<i>Administrative expenses</i>	<i>Time devoted/Equally if nothing mentioned</i>
<i>Depreciation, Insurance of capital assets &amp; Repairs</i>	<i>Value of capital assets</i>
<i>P&amp;L on sale of investment</i>	<i>Value of investment sold by each department</i>
<i>Interest on Loan</i>	<i>Loan taken by each department</i>

<b>Combined P&amp;L A/c</b>			
<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>
<i>To common expenses</i>		<i>By Net profit</i>	
<i>To net profit</i>		<i>Department A</i>	
		<i>Department B</i>	
		<i>By common Incomes</i>	

### INTER DEPARTMENT TRANSFERS (At Cost/IP)

<b>Particulars</b>	<b>A</b>	<b>B</b>	<b>Particulars</b>	<b>A</b>	<b>B</b>
<i>To opening stock</i>			<i>By sales</i>		
<i>To purchases</i>			<i>By Transfer to B</i>	<i>xxx</i>	<i>-</i>
<i>To Transfer by A</i>	<i>-</i>	<i>xxx</i>	<i>By closing stock</i>		
<i>To gross profit</i>					
<i>To indirect expenses</i>			<i>By gross Profit</i>		
<i>To Net profit</i>			<i>By Indirect Income</i>		
			<i>By Net Loss</i>		

*If transfer at Cost: No problem*

*If transfer at IP: we need to check whether the closing stock include the transferred goods from other dept., then we need to calculate stock reserve.*



**CORRECT MANAGER'S COMMISSION**

<i>Particulars</i>	<i>A</i>	<i>B</i>
<i>Profit after charging manager's Commission</i>		
<i>(+) Wrong Commission = Profit Given * <math>\frac{\text{Commission \%}}{100 - \text{Commission \%}}</math></i>		
<i>Profit before charging commission</i>		
<i>(-) Unrealised Profits</i>		
<i>Correct Profit for Commission</i>		
<i>(-) Manager's Commission</i>		
<i>Correct Profit after commission</i>		

**PROFIT CALCULATION WITH ABNORMAL ITEMS**

<i>Particulars</i>	<i>A</i>	<i>B</i>
<i>Sales Given in the Question</i>		
<i>(+) Discount given in abnormal sales</i>		
<i>Normal Sales</i>		
<i>G.P. Ratio</i>		
<i>(-) Discount</i>		
<i>Correct Profit</i>		

*Note: Question may also ask to calculate closing stock for that you need to prepare trading account and find out balancing figure as closing stock.*

**G.P. RATIO FOR ALL DEPARTMENT IS SAME**

<i>Particulars</i>	<i>Amount</i>
<i>Sales (No. of unit's purchases* S.P.)</i>	
<i>(-) Total Purchase cost</i>	
<i>Gross Profit</i>	

$$\text{G.P. Ratio} = \frac{\text{Gross Profit}}{\text{Sales}}$$

$$\text{Cost per unit} = \text{Selling price per unit} - \text{G.P. \%}$$

*Note: If Question does not provide units, then find Bal. Fig. of Missing item.*



(+) Mark Down in closing stock given in question	
Normal closing stock	
Mark up of closing stock = Normal closing stock * Percentage / 100+%	
Net amount of closing stock (Mark Up - Mark Down)	
Value of closing stock at cost	Cl. Stock at I.P. - Net Markup



## Chapter 3 – Hire Purchase



*Hire purchase price (i.e., purchase price) represents the total sum payable by the hirer under a hire purchase agreement by way of a deposit or initial payment (called, down payment) and subsequent periodical instalments.*

**Hire Purchase Price = Cash Price + Interest or Down payment + Instalment**

*Cash price represents the price at which the goods may be purchased by the hirer for cash (i.e., on cash basis).*

*Interest, therefore, represents the difference between the hire purchase price of the goods and the cash price of the same goods.*

*Down Payment is the amount paid by the hirer to the hire vendor at the time of signing the agreement or at the time of taking delivery of the goods by the hirer from hire vendor.*

*Instalment represents a part of the difference between the hire purchase price and down payment (payable by the hirer to the hire vendor periodically as per agreement)*

*Repossession refers to the hire seller taking back the possession of the asset which was sold to the hire purchaser on hire purchase system for non-payment of one or more instalments.*

*Hire Purchaser means the person who obtains the possession of goods from the owner of the goods under hire purchase agreement.*

### TYPES OF QUESTIONS

**CASE 1:** Cash price 100000, Down Payment 25000, Balance in 3 Equal annual instalments along with 10% p.a. Interest

Outstanding	Interest	Principal Payment	Instalment
75000			
50000			
25000			

**CASE 2:** Cash Price 100000, Down Payment 25000, Balance in 3 Equal Instalments of 30000 each along with interest of 10% p.a.

Outstanding	Interest	Principal Payment	Instalment
			30000
			30000
			30000

**CASE 3:** Down payment 50000, Rate of interest 8%, Instalments 472000, 340000, 216000.

Outstanding at beginning	Interest	Outstanding before payment	Instalment	Outstanding at end
			216000	0
			340000	
			472000	

**CASE 4:** Cash Price 150000, Hire purchase price = 180000, Down Payment = 30000 Instalments 50000, 50000, 30000, 20000

Year	Cash Flows	PVF @__%	PV	PVF__%	PV
0	30000				
1	50000				
2	50000				

3	30000				
4	20000				

Rate of Interest =  $\% + \frac{\text{Difference in \%}}{\text{Difference in PV Amount}} * \text{Difference in O/s cash price and PV}$

Outstanding	Interest	Principal Payment	Instalment
			50000
			50000
			30000
			20000

**CASE 5:** Instalments 82500, 55000, 27500. Down payment 25000

Interest(a)	Principal Payment (b)	Instalment (a+b)
3i	P	82500
2i	P	55000
i	P	27500

### JOURNAL ENTRY UNDER CASH PRICE/SALES METHOD

<i>Journal Entries in books of Hire Purchaser</i>	
<b>1. At the time of entering into the agreement</b>	
Asset Account Dr. [Full cash price]	To Hire Vendor Account
<b>2. When down payment is made</b>	
Hire Vendor Account Dr. [Down payment]	To Cash/Bank Account
<b>3. When an instalment becomes due</b>	
Interest Account Dr. [Interest on outstanding balance]	To Hire Vendor Account

<b>4. When an instalment is paid</b>
Hire Vendor Account Dr. [Amount of instalment]
To Bank Account
<b>5. When depreciation is charged on the asset</b>
Depreciation Account Dr. [Calculated on cash price]
To Asset Account
<b>6. For closing interest and depreciation account</b>
Profit and Loss Account Dr.
To Interest Account
To Depreciation Account

<b>HIRE VENDOR A/c</b>					
Date	Particulars	Amount	Date	Particulars	Amount
	To bank (P + Int.)			By Assets	
	To Bal C/d			By Interest	
	Total			Total	
	To Bank (P + Int.)			By Bal. b/d	
				By Interest	
	Total			Total	

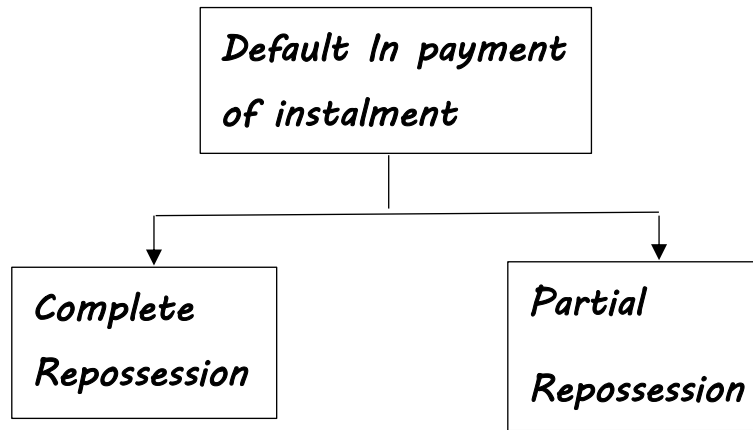
<b>ASSET A/c</b>					
Date	Particulars	Amount	Date	Particulars	Amount
	To Hire Vendor			By Depreciation	
				By Bal. c/d	
	Total			Total	
	To Bal. b/d			By Depreciation	
				By Bal. c/d	
	Total			Total	

Note: If Question demands the Depreciation and Interest payable account can also be maintained. No Difference in Depreciation A/c and Interest Payable A/c.

<i>Journal Entries in the books of Hire Vendor</i>	
<b>1. When goods are sold and delivered under hire purchase</b>	
Hire Purchaser Account Dr. [Full cash price]	
To H.P. Sales Account	
<b>2. When the down payment is received</b>	
Bank Account Dr. [Down payment]	
To Hire Purchaser Account	
<b>3. When an instalment becomes due</b>	
Hire Purchaser Account Dr. [Amount of instalment]	
To Interest Account	
<b>4. When the amount of instalment is received</b>	
Bank Account Dr. [Amount of instalment]	
To Hire Purchaser Account	
<b>5. For closing interest Account</b>	
Interest Account Dr.	
To Profit and Loss Account	
<b>6. For closing Hire Purchase Sales Account</b>	
H.P. Sales Account Dr.	
To Trading Account	

<b>HIRE PURCHASER A/c</b>					
<b>Date</b>	<b>Particulars</b>	<b>Amount</b>	<b>Date</b>	<b>Particulars</b>	<b>Amount</b>
	To H.P. Sales			By Bank	
	To Interest			By Bal. c/d	
	Total			Total	
	To Bal. b/d			By Bank	
	To Interest				
	Total			Total	

Note: If question demands interest Receivable account it is needed to be prepared.



**COMPLETE REPOSESSION**

*In The Books of Hire Purchaser*

HIRE VENDOR A/c					
Date	Particulars	Amount	Date	Particulars	Amount
	To bank (P + Int.)			By Assets	
	To Bal C/d			By Interest	
	Total			Total	
	To Asset			By Bal. b/d	
				By Interest	
	Total			Total	
ASSET A/c					
Date	Particulars	Amount	Date	Particulars	Amount
	To Hire Vendor			By Depreciation	
				By Bal. c/d	
	Total			Total	
	To Bal. b/d			By Depreciation	
	To P&L A/c (profit)			By Hire Vendor	
				By P&L A/c (loss)	
	Total			Total	

*In The Books of Hire Vendor*

HIRE PURCHASER A/c					
Date	Particulars	Amount	Date	Particulars	Amount
	To H.P. Sales			By Bank	
	To Interest			By Bal. c/d	

	Total			Total	
	To Bal. b/d			By Goods Repossessed A/c	
	To Interest			By P&L A/c (loss)	
	To P&L A/c (profit)				
	Total			Total	

**Goods Repossessed A/c**

Date	Particulars	Amount	Date	Particulars	Amount
	To Hire Purchaser A/c			By Bank (sale)	
	To Bank (Renovation)			By P&L A/c (loss)	
	To P&L A/c (profit)				
	Total			Total	

**PARTIAL REPOSSESSION**

*In The Books of Hire Purchaser*

**HIRE VENDOR A/c**

Date	Particulars	Amount	Date	Particulars	Amount
	To bank (P + Int.)			By Assets	
	To Bal C/d			By Interest	
	Total			Total	
	To Asset			By Bal. b/d	
	To Bal. c/d			By Interest	
	Total			Total	

**ASSET A/c**

Date	Particulars	Amount	Date	Particulars	Amount
	To Hire Vendor			By Depreciation	
				By Bal. c/d	
	Total			Total	
	To Bal. b/d			By Depreciation	
	To P&L A/c (profit)			By Hire Vendor	
				By P&L A/c (loss)	

				By Bal. c/d	
	Total			Total	

*In The Books of Hire Vendor*

<b>HIRE PURCHASER A/c</b>					
Date	Particulars	Amount	Date	Particulars	Amount
	To H.P. Sales			By Bank	
	To Interest			By Bal. c/d	
	Total			Total	
	To Bal. b/d			By Goods Repossessed A/c	
	To Interest			By bal. c/d	
	Total			Total	

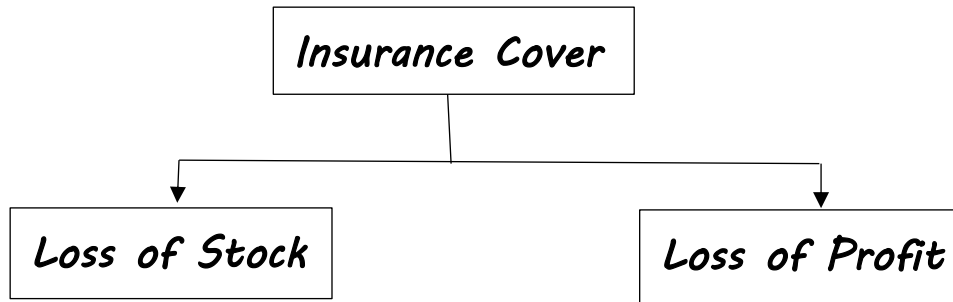
<b>Goods Repossessed A/c</b>					
Date	Particulars	Amount	Date	Particulars	Amount
	To Hire Purchaser A/c			By Bank (sale)	
	To Bank (Renovation)			By P&L A/c (loss)	
	To P&L A/c (profit)				
	Total			Total	

*Value of asset repossessed is to be taken as decided by hire vendor*

Particulars	Amount as per Hire Vendor	Amount as per Hire Purchaser
Cost		
(-) Depreciation		
Value of Asset		

*Note: Difference in value calculated by hire purchaser and hire vendor is loss on repossession.*

## Chapter 4 – Insurance Claim



### LOSS OF STOCK

We Took Insurance cover for stock to prevent ourselves from Abnormal Situations.

As on the date of fire if the records are also got destroyed then we need to find out the amount of stock as on the date of fire to serve as an evidence to the insurance company.

*Trading A/c (From beginning of the year till date of fire)*

Particulars	Amount	Particulars	Amount
To opening stock		By sales	
To purchases		By closing Stock (b/f)	
To direct expenses			
To Gross Profit			
Total		Total	

Amount of Claim = Amount of Policy / Stock Loss, whichever is lower

If salvage value is given in question, then concept of average clause applicable

Note: Average clause is applicable in case of under insurance only.

Amount of claim =  $\frac{\text{Policy amount} * \text{Loss of stock}}{\text{Stock on date of fire}}$

Note: Amount of policy is not given then assume it to be 100%

## VARIOUS TYPES OF QUESTIONS

- + *G.P. Ratio is not given in the question, but data of the previous year is given then prepare trading account of previous year to find out G.P. Ratio for current year.*
- + *G.P. Ratio is not given in the question but data of previous several years is given then prepare trading account of all the years and check the trend of the G.P. Ratio. If no trend is present then use average of the G.P. Ratios for current year.*
- + *Adjustments May be given in the question*
  - ❖ *Goods send but not invoiced (Goods bhej diye hai but bill nahi banaye hai) - Treat it as sales*
  - ❖ *Goods Received but not invoiced (Goods mil gaye hai but bill nahi aaya hai) - Treat it as purchase*
  - ❖ *Goods Invoiced but not send (Bills ban gya hai but goods bheje nahi hai) - Not consider as sales*
  - ❖ *Goods invoiced but not received (Bill aa gya hai but goods nahi aaye hai) - Not consider as purchases.*
- + *Other basic Adjustments*

Particulars	Treatment
<i>Goods sold on approval basis (approved)</i>	<i>Treat it as sales</i>
<i>Goods sold on approval basis (Not yet approved)</i>	<i>Deduct it from sales and show in the cr. Side on trading A/c at Cost Price</i>
<i>Cash Sales misappropriation</i>	<i>Add in sales value</i>
<i>Drawings, Free samples, Charity, etc</i>	<i>Deduct from Purchases</i>
<i>Overvaluation of stock</i>	<i>Stock = <math>\frac{\text{Given amount of stock}}{\% \text{ Of current level}}</math></i>
<i>Undervaluation of stock</i>	
<i>Capital expenditure included in Direct expenses</i>	<i>Reduce it Direct expenses</i>

**ABNORMAL ITEMS GIVEN IN THE QUESTION**

*Trading A/c (previous year) [To find G.P. Ratio]*

<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
<i>To opening stock</i>		<i>By sales</i>	
<i>To purchases</i>		<i>By Closing stock (before abnormal items)</i>	
<i>To direct expenses</i>			
<i>To gross Profit</i>			
<i>Total</i>		<i>Total</i>	

*Trading A/c (Current year)*

<i>Particulars</i>	<i>Normal</i>	<i>Abnormal</i>	<i>Total</i>	<i>Particulars</i>	<i>Normal</i>	<i>Abnormal</i>	<i>Total</i>
<i>To opening stock</i>				<i>By sales</i>			
<i>To purchases</i>				<i>By Loss on sale of abnormal items</i>			
<i>To direct Expenses</i>				<i>By revaluation loss (if any)</i>			
<i>To gross profit</i>				<i>By Closing stock</i>			

**LOSS OF PROFIT POLICY**

*Due the fire in the premises the business got effected and for that period the profit got effected for that period, so business used to take the loss of profit policy which covers*

- *Loss of profit*
- *Standing charges*
- *Additional Expenses*



### Step 3: Loss of profit

Short sales \* G.P. Ratio

### Step 4: Additional expenses claim

Lower of

1. Actual Additional Expenses
2.  $\frac{\text{Actual Additional Expenses} * \text{Adjusted annual turnover} * \text{G.P. Ratio}}{\text{Adjusted annual turnover} * \text{G.P. Ratio} + \text{Uninsured standing charges}}$
3. Sales due to Additional Expenses (if not given take the total sales of disturbed period) \* G.P. Ratio

Adjusted Annual Turnover = 12 months Sales immediately preceding date of fire (+/-) Trend [if any] only for the months of previous year

Note: If AAT is not given then take the sales of previous year

### Step 5: Calculation of claim

Total Loss = Loss of profit + Additional Expenses - Savings In insured standing charges

$\text{Claim Amount} = \frac{\text{Total Loss} * \text{Insured Amount}}{\text{Adjusted Annual Turnover} * \text{G.P. Ratio}}$

Average clause is only applicable in case when Insurable amount > Insured amount.

Insurable amount = Adjusted Annual Turnover \* G.P. Ratio

### CALCULATION OF POLICY AMOUNT TO BE TAKEN

$\text{G.P. Ratio} = \frac{\text{Net Profit} + \text{All Standing Charges}}{\text{Net Sales}}$

Gross Profit = Expected turnover in C.Y. \* G.P. Ratio

Amount of policy to be taken = Gross profit + Expected Additional expenses

Note: If sales are not given prepare trading A/c to find the same.

Gross Profit = Sales - Variable cost (or) Net Profit + Standing charges - Indirect Income [if any]

## Chapter 5 – Incomplete Records

### CAPITAL COMPARISON APPROACH

#### Opening statement of Affairs

Liabilities	Amount	Assets	Amount
Liabilities		Fixed Assets	
Capital at beginning (b/f)		Current Assets	

#### Closing statement of Affairs

Liabilities	Amount	Assets	Amount
Liabilities		Fixed Assets	
Capital at end (b/f)		Current Assets	

#### Capital A/c

Particulars	Amount	Particulars	Amount
To Drawings		By Bal. b/d	
To Interest on Drawings		By Interest on capital	
To Loss (b/f)		By Cash/bank (capital introduced)	
To Bal. c/d		By Profit (b/f)	

### FINAL ACCOUNTS APPROACH

We need to prepare Trading and P&L A/c and Balance sheet

#### Debtors A/c

Particulars	Amount	Particulars	Amount
To Opening balance		By Sales returns	
To sales		By Discount/Allowances	
To bank (dishonour of cheque)		By cash/bank	
To Bills Receivable (dishonour)		By Bad debts	
To Bank (noting charges)		By Bills receivable (drawn)	
To Bank (discounted bill Dis.)		By Closing balance	

To Creditor (Bill dishonoured)			
--------------------------------	--	--	--

**Bills Receivable A/c**

Particulars	Amount	Particulars	Amount
To Opening balance		By Bank (discounting)	
To Debtors		By Discounting charges	
		By Bill sent for collection	
		By Creditors	
		By Cash (collected)	
		By Debtors (dishonour)	
		By Closing balance	

**Creditors A/c**

Particulars	Amount	Particulars	Amount
To Cash/Bank		By Opening balance	
To Purchase Returns		By Purchases	
To Discount		By Bills Payable (dishonour)	
To Bills receivable (endorsed)		By Noting charges	
To Bills Payable (accepted)		By Debtor (Bill dishonoured)	
To Closing Balance		By Bank (cheque dishonour)	

**Bills Payable A/c**

Particulars	Amount	Particulars	Amount
To Bank		By Opening Balance	
To Creditors (dishonour)		By Creditors (accepted)	
To Closing balance			

**Expenses A/c**

Particulars	Amount	Particulars	Amount
To prepaid opening		By O/s opening	
To cash/bank		By P&L A/c	
To O/s Closing		By Prepaid closing	

## Chapter 6 – Self Balancing Ledger

Since in the Sales or Bought ledgers, double entry is not completed, in the system outlined above, a separate trial balance cannot be taken out from these ledgers. If these ledgers are maintained in such a way as to offer separate trial balances, the system would be known as “self-Balancing”. In such a case “general Ledger Adjustment Account” is prepared in each of the subsidiary ledgers. The General Ledger would have:

- (i) Debtors Ledger Adjustment Account (Total Debtors Account) and
- (ii) Creditors Ledger Adjustment Accounts (Total Creditors Account).

These accounts are known as Control Accounts. The system on which entries are made in the adjustment account is described below:

### DEBTOR’S LEDGER ADJUSTMENT A/C

In General Ledger					
Debtor’s Ledger Adjustment A/c					
Date	Particulars	Amount	Date	Particulars	Amount
	To, Balance b/d			By, Balance b/d (Advance)	
	To General Ledger			To General Ledger	
	Adjustment A/c			Adjustment A/c:	
	-Credit Sales			-Cash/ Cheque received	
	-Carriage and Sundry Charges			-Bad Debts	
	Debited to customer-			-Return Inward	
	-Bills Receivable Dishonoured			-Discount Allowed	
	-Cheque received and dishonoured			-Other Allowances	
	-Interest and Charges etc.			-Bills Receivable	
	-Refund- Cash paid to customers			-Transfer to or from other Ledgers	
	-B/R discounted and dishonoured				
	-B/R endorsed and dishonoured				
	-Interest charged to overdue Account				

	To Balance c/d (Advance)			By Balance c/d	
<b>In Debtor's Ledger General Ledger Adjustment A/c</b>					
Date	Particulars	Amount	Date	Particulars	Amount
	To, Balance b/d (if any) To Debtors / Sold Ledger Adjustment A/c -Cash/ Cheque received -Bad Debts -Returns Inward -Discount Allowed -Other Allowance -Bills Receivable -Transfer to or from other Ledger -Balance c/d			By Balance b/d By Debtors /Sold Ledger Adjustment A/c: -Credit sales -Carriage and Sundry Charges -Bills Receivable Dishonoured -Cheque received and dishonoured -Interest and Charges etc. -Refund-Cash paid to customers -B/R discounted and dishonoured -B/R endorsed and dishonoured -Interest charged to overdue account By Balance c/d	

### CREDITOR'S LEDGER ADJUSTMENT A/C

<b>In General Ledger Creditor's Ledger Adjustment A/c</b>					
Date	Particulars	Amount	Date	Particulars	Amount
	To, Balance b/d To General Ledger Adjustment A/c -Cash Paid			By Balance b/d (if any) By General Ledger Adjustment A/c: -Credit Purchases	

	-Bills Payable Accepted -Discount Received -Returns Outward By Balance c/d			-Bills Payable Dishonoured -Interest and Charges By Balance c/d (if any)	
<b>In Creditor's Ledger General Ledger Adjustment A/c</b>					
Date	Particulars	Amount	Date	Particulars	Amount
	To, Balance b/d To Creditors/Bought Ledger Adjustment A/c -Credit Purchases -Bills Payable Dishonoured -Interest and Charges To Balance c/d			By Balance b/d By Creditors/Bought Ledger Adjustment A/c -Cash Paid -Bills Payable Accepted -Discount Received -Returns Outward By Balance c/d	

### Transfer Entries

The entry for this purpose will be Creditors Account debited and Debtors Account credit. As a result of this transfer both debtors ledger and creditors ledger together with general ledger are affected. For example, debtors include 10,000 due from Mr. A whereas Creditor include ` 8,000 due to Mr. A.

Usual entry is

(a) A (in Creditors Ledger) A/c Dr. 8,000

To A (in Debtors ledger) A/c 8,000

Under Self-balancing, the entry will be

(a) Creditors Ledger Adjustment A/c Dr. 8,000

To General Ledger Adjustment A/c 8,000

(b) General Ledger Adjustment A/c Dr. 8,000

To Debtors Ledger Adjustment A/c 8,000

## Chapter 7 – Royalty

The owner of an asset (e.g. mines, quarries, patent, copyright, etc), as a business arrangement, may allow other party (lessee, licensee, publisher, etc) the right to use that asset against some consideration. Such consideration is calculated with reference to the quantity produced or sold. This payment to the owner by the user of the asset is termed as Royalty.

**Minimum Rent / Dead Rent:** Minimum Guaranteed Amount By lessee to lessor when actual royalty is less than minimum rent. The minimum rent is also called dead rent, certain rent, fixed rent, etc.

**Short workings/Redeemable Dead Rent:** Short workings is the amount by which the minimum rent exceeds the actual royalty. It is the difference between Actual Rent and Minimum Rent.

**Excess working:** It refers to the amount by which the actual royalty exceeds the minimum rent.

**Ground Rent/Surface Rent:** It refers to the fixed yearly or half-yearly rent payable by the lessee to the landlord in addition to the minimum rent.

**Recoupment of Short workings:** Generally, the royalty agreement contains a provision for carrying forward of short workings with a view to adjust it in the future. In the subsequent years, such short working is adjusted against the surplus royalty. This process of adjustment is called recoupment of short workings.

**(i) Fixed right:** When the lessee can recoup short workings within a certain period from the date of the lease it is known as fixed right.

**(ii) Fluctuating right:** In this type of agreement, lessee can recoup short workings of any year during the next following year(s).

**Strike and Lockout, etc:** If agreement so provides, the minimum rent may be proportionately reduced in the event of strike and/ or lockout. So special

entry is required for the same except the adjustment of minimum rent for that particular year.

### Accounting Entries in the Books of the Lessee

1. Where a minimum rent exists with right to recoup short workings

(a) Where the actual royalty is less than the minimum rent:

(i) Royalties (payable) Account Dr. [Actual royalties for the period]

Short workings Account Dr. [Minimum rent - Actual royalties]

To Landlord Account [Minimum rent]

(ii) Landlord Account Dr. [Minimum rent]

To Bank Account [Net amount paid]

To Income Tax Payable Account [Tax deducted at source]

(iii) Manufacturing / Profit & Loss Account Dr. [Transfer]

To Royalties (payable) Account [Actual royalties for the period]

(b) Where the actual royalty is more than the minimum rent:

(i) Royalties (payable) Account Dr.

To Landlord Account [Actual royalties for the period]

(ii) Landlord Account Dr.

To Short workings Account (Short workings, if any, recouped)

(iii) Landlord Account Dr.

To Bank Account

To Income Tax Payable Account

(iv) Profit & Loss Account Dr.

To Short workings Account

(Short workings, which can not be recouped)

(v) Manufacturing / Profit & Loss Account Dr.

To Royalties (payable) Account

### Accounting Entries in the Books of the Landlord / Lessor

1. Where a minimum rent exists with right to recoup short workings

(a) Where the actual royalty is less than the minimum rent:

(i) Lessee Account Dr. [Minimum rent]

To Royalty Receivable Account [Actual Royalties for the period]
To Royalty Suspense Account/Or Short workings Allowable A/c [Short fall in Royalties]
(ii) Bank Account Dr. [Net amount paid]
Tax Deducted at source Dr. [Tax deducted at source]
To Lessee Account [Minimum rent]
(iii) Royalties Receivable Account Dr.
To Profit & Loss Account [Transfer]
(b) Where the actual royalty is more than the minimum rent :
(ii) Royalty Suspense Account/Or Short workings Allowable A/c Dr.
To Lessee Account [Recoupment of Short workings, if any]
(iii) Bank Account Dr. [Net amount paid]
Tax Deducted at source Dr. [Tax deducted at source]
To Lessee Account
(iv) Royalties (Receivable) Account Dr.
To Profit & Loss Account [Transfer]
(v) Royalty Suspense Account/Or Short workings Allowable A/c Dr.
To Profit and Loss Account [Short workings, which cannot be recouped]

## Chapter 8 – Non-Profit Organisation

Not for profit organization refer to those organization which are formed for the purpose of promoting commerce, art, science, religion, charity, education etc. e.g. Institute of cost accountants of India.

**Receipt and Payment Accounts** shows the summary of transactions of a cashbook. *Paisa paisa karta hai aur paise me hi marta hai*)

Receipt	Amount	Payments	Amount
To Bal. b/d (cash+bank)	xxx	By All payments	xxx
To all receipts (capital or revenue May be related to any period past, present, future)	xxx	(capital or revenue May be related to any period past, present, future)	xxx
		By Bal. c/d (cash+bank)	

**Income and Expenditure Account** is like a profit and loss account, which show summary of revenue income, revenue losses for current accounting period. (only loves present revenue, dedication next level)

Expenses	Amount	Incomes	Amount
To revenue expenses (only related to current period)	xxx	By revenue receipts (only related to current period)	xxx
To surplus (profit)	xxx	By deficit (loss)	xxx

**Balance Sheet** NPO registered under section 8 of Companies Act, 2013 are required to prepare their Income & Expenditure A/c and Balance Sheet as per Schedule III to Companies Act. Until & unless question specifies, we will always assume that NPO referred in the question is not registered u/s 8 of Companies Act, 2013 and therefore financial statements are prepared in the normal manner.

### *Special Items of NPO and their Treatment in Books of Accounts*

**1-Subscription** It is the regular fees received by an institution from its members. It is a revenue receipt for the concern and shown on the credit side of Income and Expenditure A/c

Computation of Amount of subscription to be transferred to Income & Expenditure A/c

<i>Particulars</i>	<i>Amount</i>
<i>Subscription received during the year</i>	<i>xxx</i>
<i>Add: Outstanding subscription at the end of the year</i>	<i>xxx</i>
<i>Add: Prepaid subscription at the beginning of the year</i>	<i>xxx</i>
<i>Less: Outstanding subscription at the beginning of the year</i>	<i>(xxx)</i>
<i>Less: Prepaid subscription at the end of the year</i>	<i>(xxx)</i>
<i>Amount of subscription to be transferred to Income &amp; Expenditure A/c</i>	<i>xxx</i>

**Q.** From the following information compute the amount of subscription to be credited to the income and expenditure account for the year ended 31/3/2022,

<i>Particulars</i>	<i>1/4/2021</i>	<i>31/3/2022</i>
<i>Outstanding subscriptions</i>	<i>50,000</i>	<i>25,000</i>
<i>Prepaid subscriptions</i>	<i>30,000</i>	<i>70,000</i>

*Subscription received during the year ended 31/3/2022 ₹ 3,00,000.*

**2-Donation** it is gift in cash or kind from some person. It may be of two types:-

**(a) Specific Donation** It is received for certain specific purpose like Building Donation, Library Books donation etc. It should be capitalized and shown on the liabilities side of the balance sheet.

**(b) General Donation** It is not received for any specific purpose and shown on the credit side of Income and Expenditure Account.

**3. Entrance Fees** It may also be known as admission fees. As per AS-9, Entrance Fees should be capitalized and added to the capital fund for all organization. If the question gives any specific treatment of Entrance fees, then it should be followed accordingly.

**4. Legacy** It is an amount received by an organization as per the will (vasiyat) of the person. It should be capitalized and shown on the liabilities side of the balance sheet by adding to the Capital Fund.

**5. Life Membership Fees** It should be capitalized and shown on the liabilities side of the balance sheet.

If the question gives any specific treatment of Life membership Fees, then it should be followed accordingly.

**6. Endowment Fund Donation** It is a donation received and only income from that donation is to be used for certain specific purpose for e.g. CMA institute receives certain prize fund donation with specified purpose that only income is to be used for giving prizes. In such cases income relating to special funds should be added to these funds in the liabilities side of the B/S. All the expenses should be deducted from that fund on the liabilities side of the B/S.

**7. Capital Fund** It consists of contribution made by promoters of the concern, surplus accumulated over the year and other capitalized item like Entrance Fees etc. It is also known as General Fund.

**8. Treatment of Sale of Old Newspaper and Periodicals** The amount received on such sale is shown as Income.

**9. Sale of old Fixed Assets** The Sale proceeds of old Fixed Assets are treated as capital receipts. The profit or loss on sale of fixed asset is shown in the Income and Expenditure A/c.

### 10. Combined Expenses Account

Computation of Amount of expenses to be transferred to Income & Expenditure A/c

Particulars	Amount
Payment during the year	xxx
Add: Outstanding expense at the end of the year	xxx
Add: Prepaid expense at the beginning of the year	xxx
Less: Outstanding expense at the beginning of the year	(xxx)
Less: Prepaid expense at the end of the year	(xxx)
Amount of expenses to be transferred to Income & Expenditure A/c	xxx

Q. Compute the salaries for the year 2020-2021 from the following information:

Particulars	1/4/2021	31/3/2022
Outstanding salaries	10,500	13,000
Prepaid salaries	5,000	9,500
Salary paid during the year 2021-2022		1,70,000

### 12. Consumables

Sometimes NPO consume some consumable item e.g. stationery, sports material, medicines, etc. A separate stock account is prepared for each consumable item to ascertain the amount of consumable item consumed during the year. Such amount is to be debited to Income & Expenditure account.

In some cases, the amount of items consumed is not directly given so we need to prepare the creditors for item account and stock account for that item to find out the amount of consumption.

### Stock A/c

Particulars	Amount	Particulars	Amount
To Bal. b/d	xxx	By Income and expenditure, A/c	xxx
To Purchases	xxx		
: cash	xxx		
: credit	xxx	By Bal. c/d	xxx

### Creditors for stock A/c

Particulars	Amount	Particulars	Amount
To Bank/cash (payment)	xxx	By Bal. b/d	xxx
	xxx		
To Bal. c/d		By Stock A/c (Purchases of stock)	xxx

Q. Calculate the amount of sports material to be transferred to income and expenditure account for the year ended 31/3/2022

Particulars	Amount
Sports material sold during the year (book value 50,000)	56,000
Amount paid to creditors for sports material	91,000
Cash purchases of sports material	40,000
Sports material as on 31/3/2021	50,000
Sports material as on 31/3/2022	55,000
Creditors for sports material as on 31/3/2021	37,000
Creditors for sports material as on 31/3/2022	45,000

### 13. Honorarium

The honorarium payment is a type of an outside expense for the organisation and the expenses which are paid to outsiders are a type of revenue expense. Thus, honorarium expenditure is of revenue nature.

## Chapter 9 – Final Accounts of sole proprietor



- \*Manufacturing A/c
- \*Trading A/c
- \*Profit and loss A/c
- \*Balance Sheet



- \*Trading A/c
- \*Profit and loss A/c
- \*Balance Sheet



- \*Profit and loss A/c
- \*Balance Sheet

**Manufacturing Account:** Those concerns which convert raw materials into finished goods are required to find out the cost of goods manufactured besides gross and net profit of the concern. These are manufacturing cum trading concerns.

### Manufacturing A/c

Particulars	Amount	Particulars	Amount
To opening work in progress	xxx	By Closing Work-in-Progress	xxx
To raw material Consumed		By Trading A/c (Cost of production)	xxx
Opening stock of RM	xxx		
(+ ) Purchases of RM	xxx		
(- ) Closing stock of RM	xxx		
To Direct wages	xxx	By Sale of scrap (Realisable value)	xxx
To Direct Expenses	xxx	By sale of By product (R·V)	xxx
To Factory Overheads			
:Factory rent			
:Repairs & Maintenance of plant and machinery			
:Depreciation on plant and machinery			
:Depreciation on factory building			
:Indirect wages	xxx		
<b>Total</b>	xxx	<b>Total</b>	xxx

**Trading Account:**

It is an account which is prepared by a merchandising concern which purchases goods and sells the same during a particular period. The purpose of it to find out the gross profit or gross loss which is an important indicator of business efficiency.

**Trading A/c**

Particulars	Amount	Particulars	Amount
To Opening Stock	xxx	By Sales (net of returns)	xxx
To Purchases (net of Returns)	xxx	By Closing Stock	xxx
To Direct Expenses like Freight Inward, Octroi, Wages, etc.	xxx	By Loss of stock, Usage of stock, Goods sent on consignment, etc	xxx
To Gross Profit	xxx	By Gross Loss	xxx
Total	xxx	Total	xxx

**Profit and Loss Account: (Performance statement)**

The term profit and loss (P&L) statement refers to a financial statement that summarizes the revenues, costs, and expenses incurred during a specified period, usually a quarter or fiscal year. It shows the results of operations.

Particulars	Amount	Particulars	Amount
To Gross loss b/d		By Gross profit b/d	
<b>Management expenses:</b>		<b>Income:</b>	
To salaries		By Discount received	
To office rent, rates, and taxes		By Commission received	
To printing and stationery		By Bank interest	
To Telephone charges		<b>Non-trading income:</b>	
To Insurance		By Rent received	
To Audit fees		By Dividend received	
To Legal charges		By Bad debts recovered	
To Electricity charges		<b>Abnormal gains:</b>	
To Maintenance expenses		By Profit on sale of machinery	
To Repairs and renewals		By Profit on sale of investments	
To Depreciation		By Net Loss	
<b>Selling distribution expenses:</b>			
To Salaries			
To Advertisement			
To Godown Rent			
To Carriage outward			
To Bad debts			
To Provision for bad debts			
To Selling commission			

<b>Financial expenses:</b> To Bank charges To Interest on loan To Discount allowed			
<b>Abnormal losses:</b> To Loss on sale of machinery To Loss on sale of investments To Loss by fire To Net Profit			
<b>Total</b>	<b>xxx</b>	<b>Total</b>	<b>xxx</b>

### Balance Sheet: (Position Statement)

The Balance Sheet shows the list of resources and the funding of the resources i.e. assets and liabilities (towards owners and outsiders). It is also referred as sources of funds (i.e. liabilities & capital) and application of funds (i.e. assets). It shows the financial position.

Liabilities	Amount	Assets	Amount
Capital	xxx	Fixed Assets	xxx
Reserves & Surplus	xxx	Investments	xxx
Loans	xxx	Current Assets	xxx
Current Liabilities	xxx		
<b>Total</b>	<b>xxx</b>	<b>Total</b>	<b>xxx</b>

### Profit and Loss Appropriation Account:

We know that the net profit or loss is added to or deducted from owner's equity. The net profit may be used by the business to distribute dividends, to create reserves etc. In order to show these adjustments, a P & L Appropriation A/c is maintained. Distribution of profits is only appropriation and does not mean expenses. After passing such distribution entries, the remaining surplus is added in owner's equity.

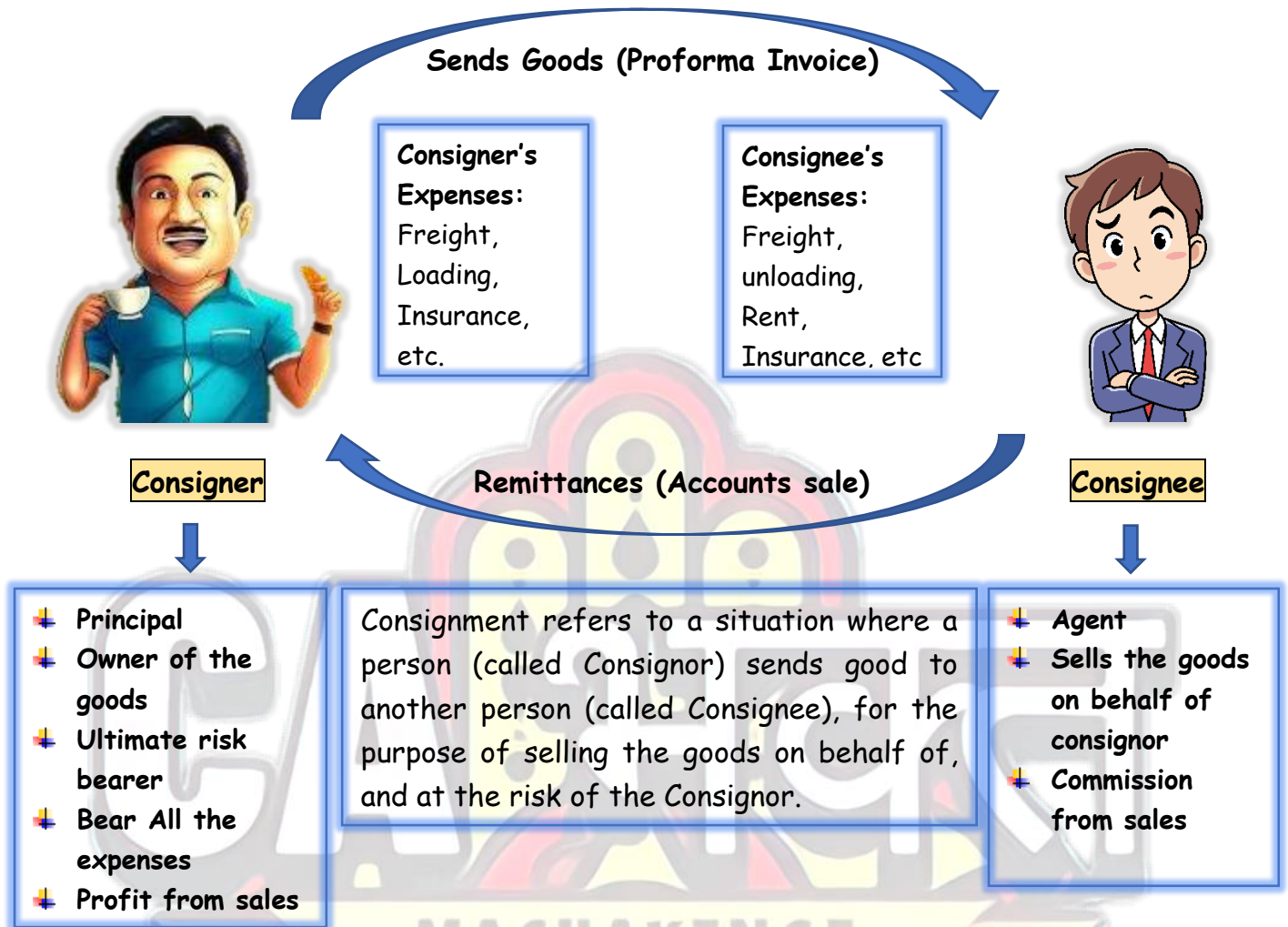
Particulars	Amount	Particulars	Amount
To proposed Dividend	xxx	By net profit	xxx
To Transfer to G/R	xxx		
To Surplus carried to Capital A/c	xxx		
<b>Total</b>	<b>xxx</b>	<b>Total</b>	<b>xxx</b>

### Adjustments while preparation of Final Accounts

S.no	Particulars	Adjustment
1.	Bad debts	Appearing in Trial balance: P&L A/c Appearing in Adjustment: P&L A/c + Deduct from debtors
2.	Provision for bad debts	Appearing in Trial balance: P&L A/c

3.	Provision for Discount on debtors	Appearing in Adjustment: P&L A/c + Deduct from debtors
4.	Goods withdrawn by Proprietor for personal use.	Appearing in Adjustment: P&L A/c + Deduct from debtors
5.	Goods given away as charity/ donation.	Drawings A/c + Purchases A/c
6.	Goods distributed as free Sample.	Charity A/c + Purchases A/c
7.	Goods used for repairs and maintains of business premises or machinery.	Advertisement A/c + Purchases A/c
8.	Goods used in business, for construction of building or machinery.	Repairs A/c + Purchases A/c
9.	Manager's Commission	Building/Machinery A/c + Purchases A/c
10.	Incomes Treatment	Before charging such commission: R/100 After charging such commission: R/100+R
11.	Expenses Treatment	Advance Income: Liabilities Accrued Income: Assets
12.	Abnormal Loss	Prepaid Expenses: Assets Outstanding Expenses: Liabilities
13.	Depreciation	Credited to trading A/c Debited to P&L A/c (The amount of P&L is net of insurance claim)
14.	Interest on capital	Appearing in Trial balance: P&L A/c only
15.	Interest on Drawings	Appearing in Adjustment: P&L A/c + Deducted from Respective Assets
16.	Closing stock	Added to capital + Debited to P&L A/c
17.	Adjusted Purchase	Deducted to capital + Credited to P&L A/c
		Appearing in Trail balance: Only in B/s
		Appearing in Adjustment: Trading A/c + B/s Assets Side.
		Opening stock+ Purchases - Closing stock

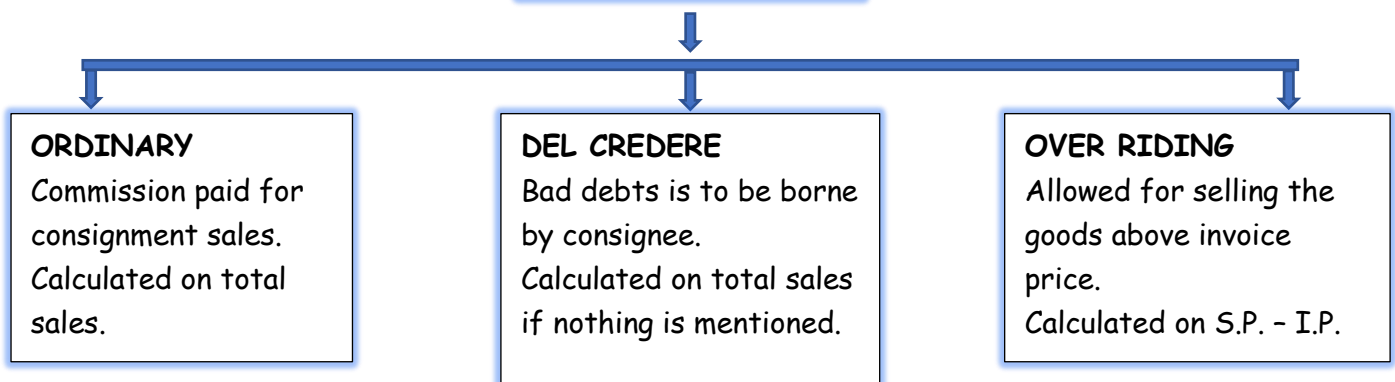
## Chapter 10 – Consignment



*Some basics about consignment:*

- + *Consignment Account is a Nominal Account*
- + *Consignee Account is a Personal Account*
- + *Consignment Stock Account is a Real Account*
- + *Consignment Account is done on Accrual Basis only.*

### Types of Commission



**Types of Expenses**

**DIRECT EXPENSES**  
Expenses incurred till the goods reached consignee's godown. Considered while valuation of closing stock.

**INDIRECT EXPENSES**  
All expenses apart from Direct expenses are called indirect expenses. Not considered at the time of valuation of closing stock.

**Types of Losses**

**NORMAL LOSS**  
Loss of stock due to unavoidable reason. Normal loss is absorbed by good units.  
Cost per unit =  $\frac{\text{Total cost} \dots\dots\dots}{\text{Total units} - \text{Normal loss units}}$

**ABNORMAL LOSS**  
Loss of stock due to avoidable reason. Abnormal loss is charges to P&L A/c.

**INTRANSIT LOSS**  
For calculation of cost per unit **Cost of goods + Consignor's Expenses** is considered

**LOSS IN GODOWN**  
For calculation of cost per unit **cost of goods + Consignor's expenses + Consignee's Direct expenses** considered

**Valuation of Closing Stock**

Particulars	Amount
Cost of Goods	xxx
+ Direct expenses by Consignor	xxx
+ Direct expenses by consignee	xxx
Total cost of Goods (a)	xxx
Number of units (b)	xxx
Cost per unit (a÷b)	xxx

### Consignment A/c

Particulars	Amount	Particulars	Amount
To Goods sent on consignment A/c		By Goods sent on Consignment	
To Bank A/c (Expenses of Consignor)		(Return)	
To Consignee A/c (Expenses of Consignee)		By Consignee A/c (Sale Proceeds)	
To Consignee A/c (Commission)		By Consignment Stock Account	
To Consignee A/c (Bad Debts)		By Profit & Loss Account	
To Profit & Loss Account (Profit)		(Loss)	
To Profit & Loss Account (Profit) (Balancing Figure)		(Balancing Figure)	
<b>Total</b>		<b>Total</b>	

### Consignee A/c

Particulars	Amount	Particulars	Amount
To Consignment		By Cash/Bank/B/R (Advance)	
		By Consignment A/c (Expenses)	
		By Consignment A/c (Commission)	
		By Consignment A/c (Bad Debts)	
		By Cash/Bank/B/R A/c (Bal. Fig.)	
<b>Total</b>		<b>Total</b>	

Basis	Consignment	Sales
<b>Parties involved</b>	2 Parties - Consignor + Consignee	2 Parties - Seller + Buyer
<b>Ownership of Goods</b>	Ownership remains with Consignor till goods are sold. There is no transfer of ownership to the Consignee	Ownership will be transferred to the Buyer immediately upon sale.
<b>Risk</b>	Risk of loss or damage of goods lies with the Consignor only	Risk of loss or damage of goods lies with buyer once the goods are sold.
<b>Relationship b/w Parties</b>	Principal + Agent	Debtor + Creditor
<b>Expenses</b>	Expenses done by consignee to receive goods & to keep it safely are borne by consignor unless there is any other agreement.	Expenses incurred by the buyer are to be borne by the buyer itself after the transfer of goods

<b>Invoice</b>	Proforma Invoice	Sale Invoice
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**Goods Consigned At Invoice Price:** If the Consignor does not want to reveal real cost of goods consigned to the consignee, he may prepare the Proforma Invoice at a value higher than the Cost thereof. **Invoice Price = Cost + Load (Profit)**

**Selling Price = Invoice price/Invoice price + Profit.**

**JOURNAL ENTRIES IN THE BOOKS OF CONSIGNOR**

1. On dispatch of Goods to consignee:	Consignment A/c	To Goods sent on Consignment A/c
2. If goods are consigned on a price above cost, adjustment entry is required for the difference between the cost and invoice price:	Goods Sent on Consignment A/c	To Consignment A/c
3. For expenses incurred by Consignor	Consignment A/c	To Cash/Bank A/c
4. On receipt of advance from Consignee:	Cash/Bank A/c	To Consignee A/c
5. If consignee has accepted a bill of exchange:	Bill Receivable A/c	To Consignee A/c
6. With the sale price of goods sold by consignee:	Consignee A/c	To Consignment A/c
7. For expenses incurred by consignee:	Consignment A/c	To consignee A/c
8. For closing stock held by consignee:	Consignment Stock A/c	To Consignment A/c
9. For adjustment of Profit in Closing Stock:	Consignment A/c	To Consignment Stock Reserve A/c
10. Abnormal Loss of Goods:		
(i) For total value of goods damaged:	Loss of Stock A/c	To Consignment A/c

(ii) For amount of insurance claim:

Bank A/c

To Loss of Stock A/c

(iii) For net loss of stock:

Profit and Loss Account

To Loss of Stock A/c

11. For profit on consignment:

Consignment A/c

To Profit and Loss Account

**JOURNAL ENTRIES IN THE BOOKS OF CONSIGNEE**

1. On payment of expenses for consignor:

Consignor A/c

To Cash

2. On sale of goods for Cash:

Cash A/c

To Consignor A/c

3. On sale of goods on credit:

Sundry Debtors A/c

To Consignor A/c

4. For commission of consignee:

Consignor A/c

To Commission A/c

5. Bad debt on sales, when no del credere commission is payable:

Consignor A/c

To Sundry Debtors A/c

6. Bad Debt on sale, when del credere commission is received by consignee:

Commission A/c

To Sundry Debtors A/c

7. Realisation from sundry debtors

Cash A/c

To Sundry Debtors A/c

8. Payment of final sum due to consignor:

Consignor A/c

To Cash A/c

## Chapter 11 – Depreciation

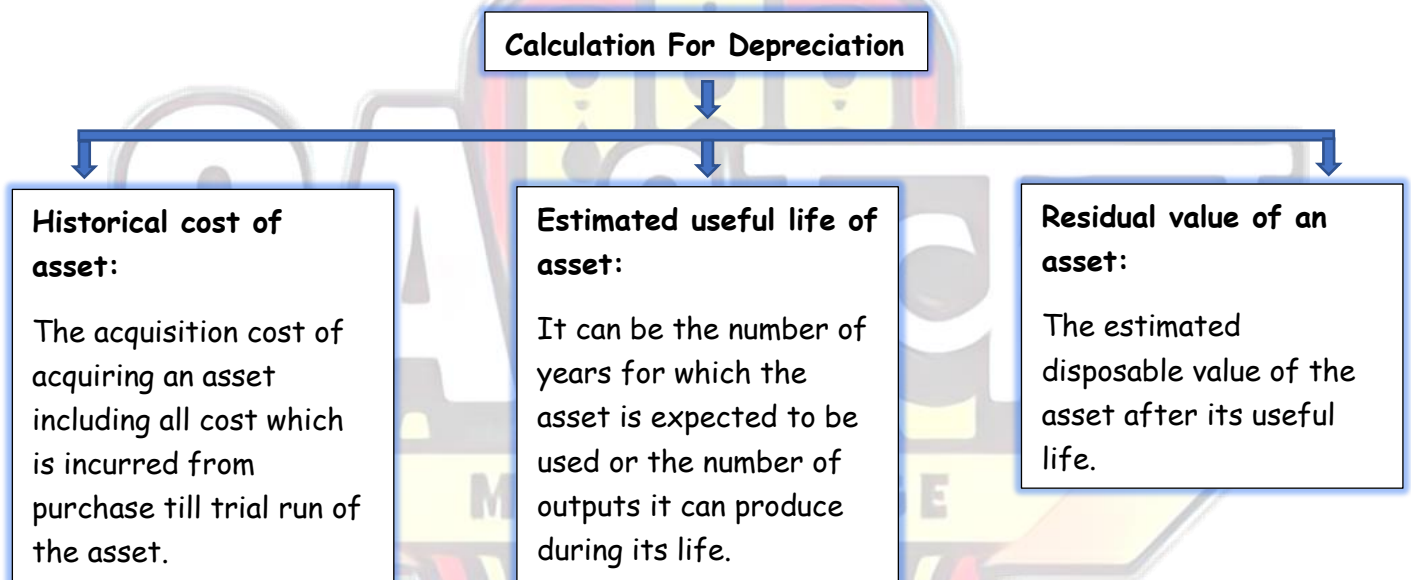
**Meaning of Depreciation,** it is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation starts from the day asset is available for use.

**Property, plant and equipment are tangible items that**

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than a period of 12 months.

It is necessary that part of the acquisition cost of the fixed assets is treated or allocated as an expense in each of the accounting period in which the asset is utilized. The amount of fixed assets allocated in such manner to respective accounting period is called depreciation.



**Depreciable Amount = Historical cost of Asset - Estimated useful**

Method of Providing Depreciation	Formula Used
<b>Straight Line Method</b>	$\text{Depreciation} = \frac{\text{Cost of asset} - \text{Residual value}}{\text{Estimated useful life}}$ $\% \text{ of depreciation} = \frac{\text{Depreciation under SLM}}{\text{Cost of asset}} \times 100$
<b>Written Down Value Method</b>	$\text{Depreciation} = 1 - \sqrt[n]{\frac{\text{Residual value}}{\text{cost of asset}}}$ <p>where n = number of estimated useful life</p>

<i>Sum of Years of Digit Method</i>	$\text{Depreciation} = \text{Depreciable amount} \times \frac{\text{No. of years of balance useful life (including current year)}}{\text{Total of Digits of the Useful Life of the Asset (in years)}}$
<i>Depletion Method</i>	$\text{Depreciation} = \text{Depreciable amount} \times \frac{\text{Quantity extracted (C.Y.)}}{\text{Total Quantity of mine (life)}}$
<i>Production Units Method</i>	$\text{Depreciation} = \text{Depreciable amount} \times \frac{\text{Production units (C.Y.)}}{\text{Total estimated production (life)}}$
<i>Machine Hour Method</i>	$\text{Depreciation} = \text{Depreciable amount} \times \frac{\text{Machine hours (C.Y.)}}{\text{Total machine hours (life)}}$
<i>Annuity Method</i>	$\text{Depreciation} = \frac{\text{Depreciable value}}{\text{Annuity factor}}$
<i>Sinking Fund Method</i>	$\text{Depreciation} = \text{Depreciable amount} \times \text{present value of rs. 1 at sinking fund table for given rate of interest.}$

### **Amortization**

Intangible assets such as goodwill, trademarks and patents are written off over a number of accounting periods covering their estimated useful lives. This periodic write off is known as Amortization and that is quite similar to depreciation of tangible assets.

### **Depletion**

This method is especially suited to mines, oil wells, quarries, sandpits and similar assets of a wasting character. In this method, the cost of the asset is divided by the total workable deposits of the mine etc., and by following the above manner rate of depreciation can be ascertained.

### **Obsolescence**

The term 'Obsolescence' refers to loss of usefulness arising from such factors as technological changes, improvement in production methods, change in market demand for the product output of the asset or service or legal or medical or other restrictions.

### **Dilapidation**

In one sentence Dilapidation means a state of deterioration due to old age or long use. This term refers to damage done to a building or other property during tenancy.

## Chapter 12 – Joint Venture

Joint Venture may be described as a temporary partnership between two or more persons without the use of the firm name, for a limited purpose. In other words, under Joint Venture, two or more persons agree to undertake a particular venture (e.g. Joint consignment of goods, Joint construction of a building, Joint underwriting of a particular issue of shares or debentures) and to share the profits and losses thereof in an agreed ratio (if agreement is silent on this point, then in equal ratio).

### FEATURES OF JOINT VENTURE ACCOUNT

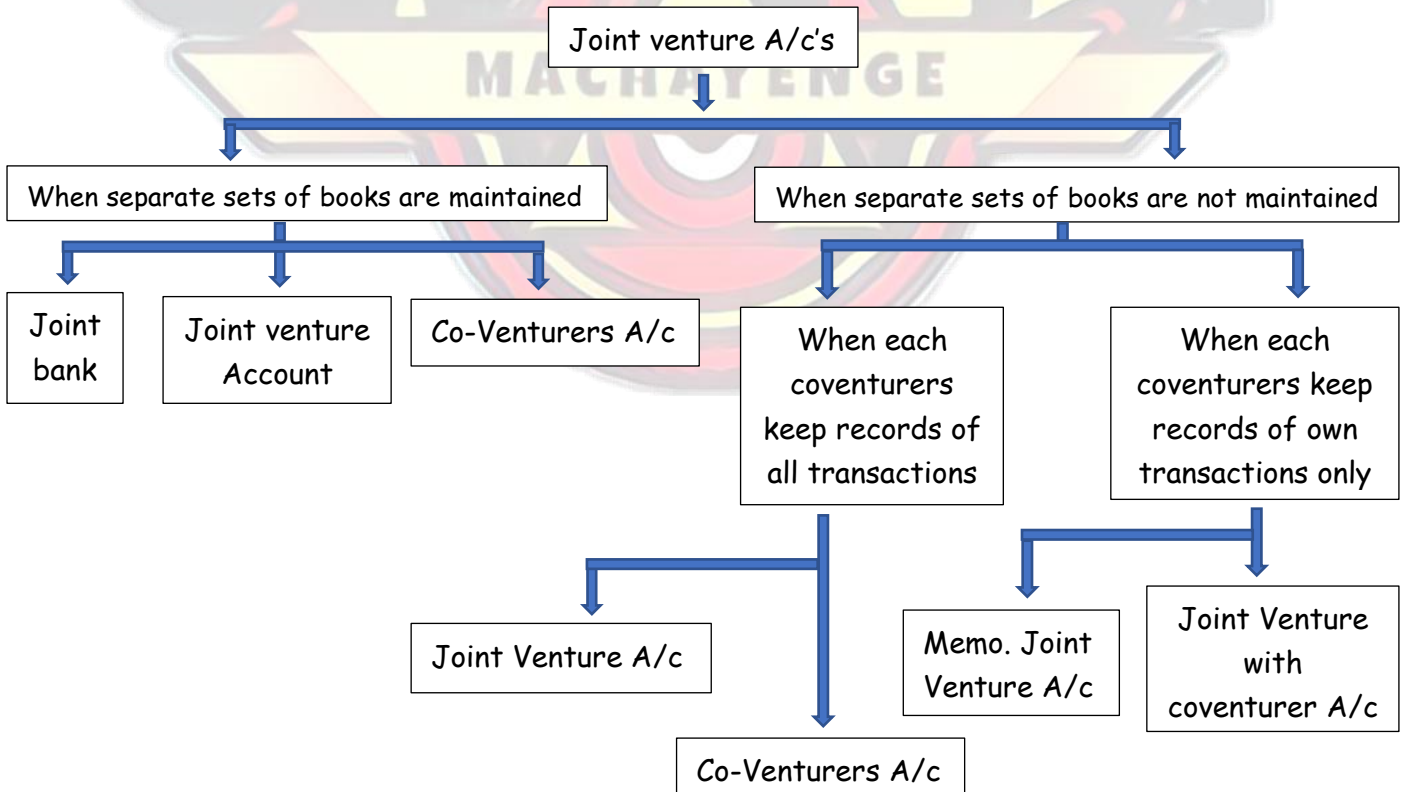
Some important features of joint venture business are as follows:

- (i) It is short duration special purpose partnership. Parties in venture are called co-venturers.
- (ii) Co-venturers may contribute funds for running the venture or supply stock from their regular business.
- (iii) Co-venturers share profit/loss of the venture at an agreed ratio likewise partnership.
- (iv) Generally, profit/loss of the venture is computed on completion of the venture.
- (v) Going concern assumption of accounting is not appropriate for joint venture accounting.

### METHODS OF MAINTAINING JOINT VENTURE ACCOUNTS

Co-venturers can maintain the accounts for joint venture in the manner that suits them in a particular situation. Generally, there are two ways to keep records of joint venture:

1. When separate set of books are maintained.
2. When no separate set of books are maintained.



**WHEN SEPARATE SET OF BOOKS ARE MAINTAINED**

**(i) Joint Bank Account:** The co-venturers open a separate bank account for the venture transactions by making initial contributions.

**(ii) Joint Venture Account:** This account is prepared for measurement of venture profit. This account is debited for all venture expenses and is credited for all sales or collections. Venture profit/loss is transferred to co-venturers' accounts.

**(iii) Co-venturers' Accounts:** Personal accounts of the venturers are maintained to keep record of their contributions of cash, goods or meeting venture expenditure directly and direct payment received by them on venture transactions.

<b>Journal Entries</b>	
<b>(a) For initial contribution by the co-venturers in Joint Bank Account</b>	
Joint Bank A/c Dr.	
To Co-venturers' A/c	
<b>(b) For expenses paid out of Joint Bank Account</b>	
Joint Venture A/c Dr.	
To Joint Bank A/c	
<b>(c) For material supplied by venturers or direct payment made by venturers</b>	
Joint Venture A/c Dr.	
To Co-venturers' A/cs	
<b>(d) For sale or payment received</b>	
Joint Bank A/c Dr.	
To Joint Venture A/c	
<b>(e) For sale or payment received directly by the venturers</b>	
Co-venturers' A/cs Dr.	
To Joint Venture A/c	
<b>(f) For profit on Joint Venture</b>	
Joint Venture A/c Dr.	
To Co-venturers' A/cs	
<b>or For loss on Joint Venture</b>	
Co-venturers' A/cs Dr.	
To Joint Venture A/c	
<b>(g) For closing the Joint Bank A/c</b>	
Co-venturers' A/cs Dr.	
To Joint Bank A/c	

### WHEN NO SEPARATE SET OF BOOKS ARE MAINTAINED

When no separate set of books of account are maintained for joint venture, each venture maintains accounts independently for the venture transactions. The standard practice is to keep full records of own transactions as well as transactions of the co-venturer relating to the venture. But sometimes the parties to a venture keep record of their own transactions only. In that case a Memorandum Joint Venture Account is prepared by the parties.

### WHEN EACH CO-VENTURER KEEPS RECORDS OF ALL TRANSACTIONS

Journal Entries
(i) For supply of goods to venture out of business stock
Joint Venture A/c Dr.
To Purchase A/c
(ii) For meeting expenses of venture
Joint Venture A/c Dr.
To Bank A/c
(iii) When co-venturer supplies goods and incurs expenses for venture
Joint Venture A/c Dr.
To Co-venturer A/c
(iv) For venture sale
Bank A/c Dr.
To Joint Venture A/c
(v) For venture sale made by the co-venturer
Co-venturer A/c Dr.
To Joint Venture A/c
(vi) For venture profit
Joint Venture A/c Dr.
To Profit and Loss A/c (for own shares)
To Co-venturer A/c (for co-venturer's share)
(vii) For venture loss
Profit and Loss A/c Dr. (for own share)
Co-venturer A/c Dr. (for co-venturer's share)
To Joint Venture A/c
(viii) For settlement of claims
When payment is due to co-venturer
Co-venturer A/c Dr.
To Bank A/c
When payment is due from co-venturer
Bank A/c Dr.

To Co-venturer A/c

**WHEN EACH CO-VENTURER KEEPS RECORDS OF THEIR OWN TRANSACTIONS ONLY**

**Journal Entries**

(a) For supply of material from stores:

Joint Venture with X A/c Dr.

To Purchases A/c

(b) For payment of expenses

Joint Venture with X A/c Dr.

To Bank/Cash A/c

(c) For sale on venture

Bank A/c Dr.

To Joint Venture with X A/c

(d) For profit on venture

Joint Venture with X A/c Dr.

To Profit & Loss A/c

(e) For final payment to co-venturer

Joint Venture with X A/c Dr.

To Bank A/c

or For final payment made by co-venturer

Bank A/c Dr.

To Joint Venture with X A/c

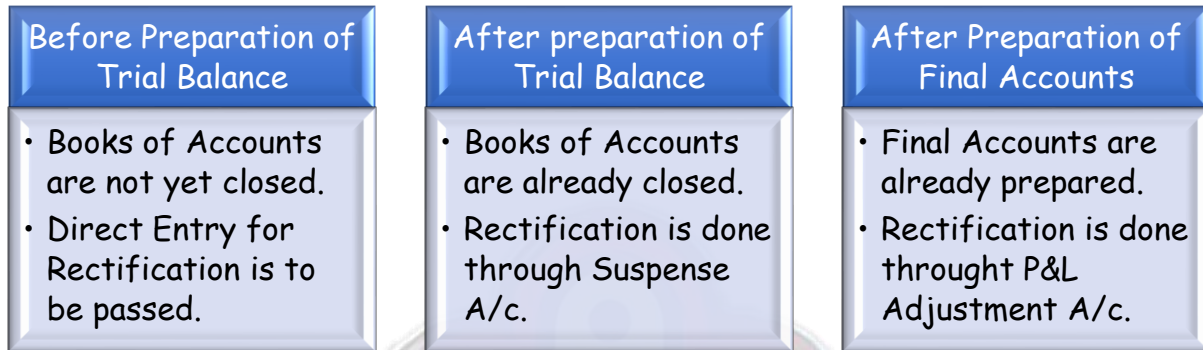
**Memorandum Joint Venture Account**

It is a rough statement prepared by the venturers for determination of venture profit when they do not maintain full records of venture transactions in the books of accounts.

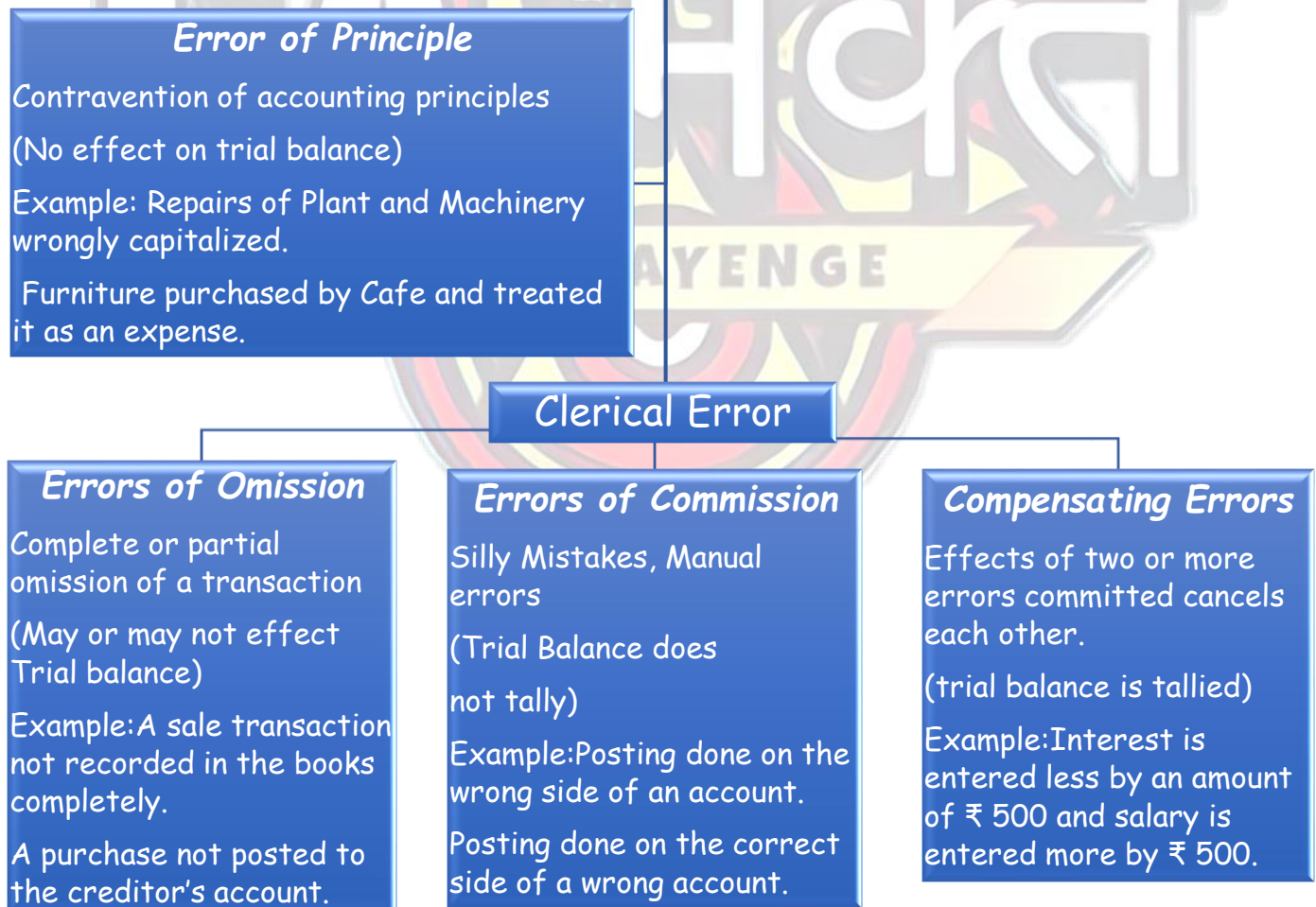
## Chapter 13 – Rectification of Errors

**Errors:** Refer to unintentional omission or commission of amount and accounts in the process of recording the transaction.

### LEVELS OF ERROR



### Types of Error

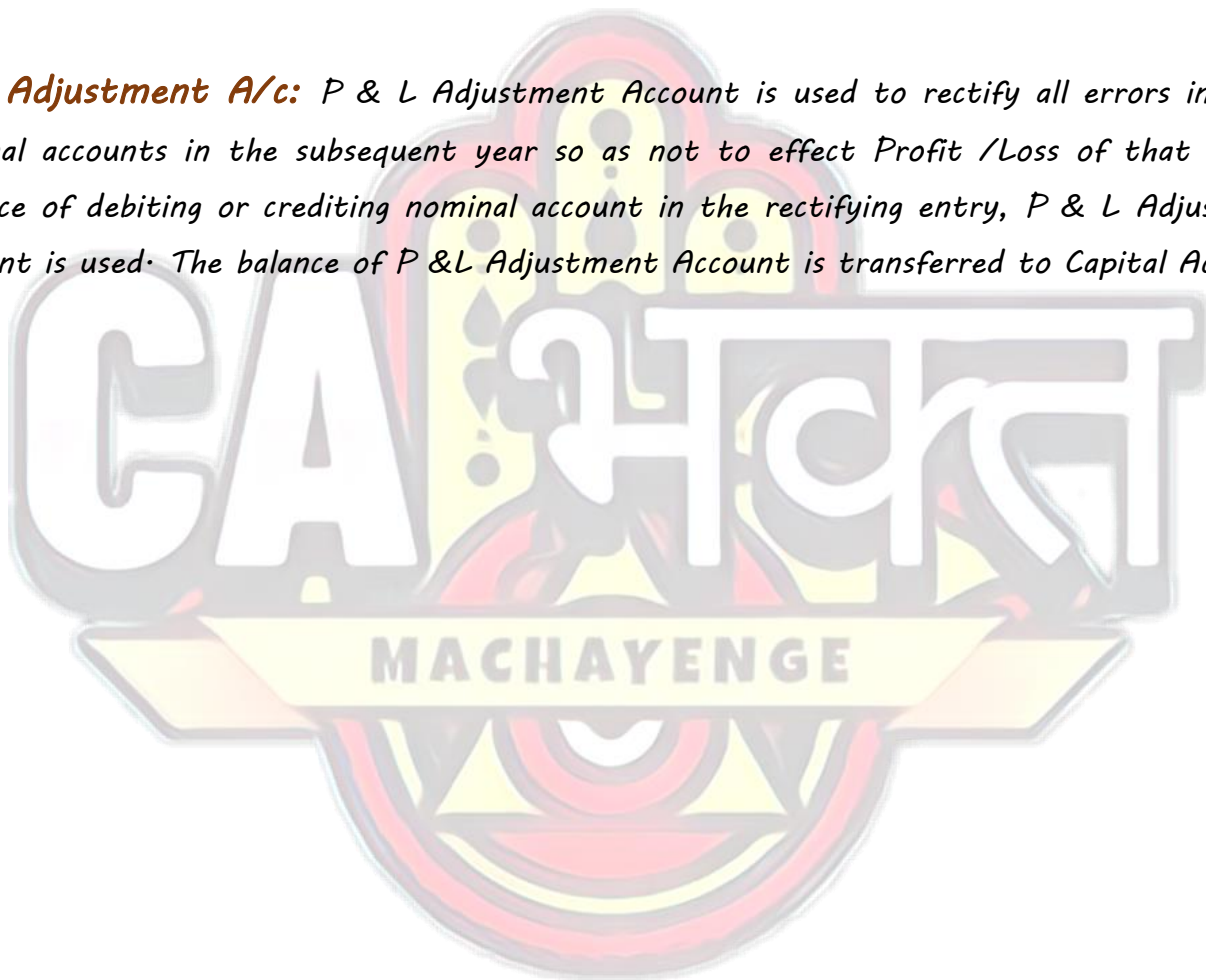


**Suspense Account:** When there exists difference in the Trial Balance, Suspense Account shall be created to tally the debit and credit side totals. It is created on the side whose total is less.

**Suspense Account is a combination of Real A/c, Personal A/c and Nominal A/c**

<b>Trial Balance</b>	<b>Balance in suspense A/c</b>	<b>Shown in Balance sheet</b>
Total of debit balance > Total of credit balance	Credit Balance in suspense A/c	Liabilities side
Total of credit balance > Total of debit balance	Debit Balance in suspense A/c	Assets side

**P&L Adjustment A/c:** P & L Adjustment Account is used to rectify all errors involving nominal accounts in the subsequent year so as not to effect Profit /Loss of that period. In place of debiting or crediting nominal account in the rectifying entry, P & L Adjustment Account is used. The balance of P & L Adjustment Account is transferred to Capital Account.



## Chapter 14 – Bills of Exchange

### Definition of Bills of Exchange

As per Sec. 5 of the Negotiable Instruments 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.

### Features of Bill of Exchange

- 1) A bill of exchange is in writing.
- 2) It is an order to make payment.
- 3) The order to make payment is unconditional.
- 4) The maker of the bill of exchange must sign it.
- 5) The payment to be made must be certain.
- 6) The date on which payment is made must also be certain.
- 7) The bill of exchange must be payable to a certain person.
- 8) The amount mentioned in the bill of exchange is payable either on demand or on the expiry of a fixed period of time.
- 9) It must be stamped as per the requirement of law.

### Parties of Bills of Exchange

- 1) The person who makes the order is known as the Drawer (or Maker), i.e. Seller of Goods.
- 2) The person who accepts the order is known as the Acceptor/ Drawee, i.e. Buyer of Goods.
- 3) The person to whom the amount is payable is known as the Payee.

### Definition of Promissory Note

As per Sec. 4 of the Negotiable Instruments Act, 1881, a Promissory Note is –

- + An instrument in writing (not being a Bank Note or a Currency Note),
- + Containing an unconditional undertaking,
- + Signed by the Maker,
- + To pay a certain sum of Money only,
- + To, or to the order of a certain person.

**Note:** A Promissory Note cannot be made payable to Bearer.

### Features of a Promissory Note

- 1) Promissory note must be in writing.
- 2) Promissory note must contain an undertaking/promise to pay. Mere acknowledgement of debt is not sufficient.
- 3) The undertaking/promise to pay should be unconditional and definite.
- 4) Promissory note should be signed by the Maker himself.
- 5) Promissory note should specify the Payee in clear terms.
- 6) Sum payable must be certain.
- 7) Promissory note must be duly stamped and dated.
- 8) It does not require any acceptance.

### Maturity of Bill and Due Date

Maturity means 'date when payment is due'. The date that comes after adding the 3 days of grace to the **due date** of the bill is known as 'date of maturity'.



### Due date

It is a date on which the payment is expected/due.

### Days of Grace

Drawee is given three extra days following the due date of the bill for making payment. These 3 days are known as 'Days of Grace'. It is a custom to add the days of grace.

### Bill at Sight/Bill on demand/Bill on presentation

Due date is the date on which a bill is presented for the payment.

**Note:** Days of grace is not applicable

### Bill after Sight

When a bill is drawn "after sight", the term of the bill starts from the date of acceptance of bill by drawee. For example, if the bill is drawn on 1st March and it is accepted on 5th March. In that case, if the maturity of the bill is 1 month after sight. Then the due date would be 5th March + 1 month = 5th April.

### Bill after Date

When a bill is drawn "after date", the term of bill starts from the date of drawing the bill. For example, if the bill is drawn on 1st January and its maturity is 30 days after date then its due date would be 1st January + 30 days = 31st January.

### Dishonour of Bill

Non-payment of Bill of Exchange on the due date is called Dishonour.

### Noting Charges

Noting Charges refers to the fees paid to a Public Official known as "Notary Public", who records the fact and causes of dishonour of B/E.

### Journal Entries in the Books of Parties

S.no	Transactions	Books of Drawer	Books of Drawee
1.	Sales/Purchase Made	Drawee A/c Dr. To Sales A/c	Purchases A/c Dr. To Drawer A/c
2.	Bill Drawn	Bills receivable A/c Dr. To Drawee A/c	Drawer A/c Dr. To Bills payable A/c
3.	Bill is retained till maturity	No entry	No entry
4.	Bill endorsed to creditors	Creditors A/c Dr. To Bills receivable A/c	No entry
5.	Bill discounted with bank	Bank A/c Dr. Discounting charges A/c Dr. To Bills receivable A/c	No entry
6.	Bill Sent for collection to bank	Bills sent for collection A/c Dr. To Bills receivable A/c	No entry
<b>Entries for Honour of Bill</b>			
7.	Bill retained till maturity	Cash A/c Dr. To Bill receivable A/c	Bill payable A/c Dr. To Cash A/c
8.	Bill endorsed to creditors	No entry	Bill payable A/c Dr. To Cash A/c
9.	Bill discounted with bank	No entry	Bill payable A/c Dr. To Cash A/c
10.	Bill sent for collection to bank	Bank A/c Dr. To Bill sent for collection A/c	Bill payable A/c Dr. To Cash A/c
<b>Entries for Dishonour of Bill</b>			
11.	Bill retained till maturity	Drawee A/c Dr. To Bill receivable A/c To Cash (Noting charges)	Bill payable A/c Dr. Noting Charges A/c Dr. To Drawer A/c

12.	Bill endorsed to creditors	Drawee A/c Dr. (Bill+Noting) To Creditors A/c	Bill payable A/c Dr. Noting Charges A/c Dr. To Drawer A/c
13.	Bill discounted with bank	Drawee A/c Dr. To Bank (Bill+Noting)	Bill payable A/c Dr. Noting Charges A/c Dr. To Drawer A/c
14.	Bill sent for collection to bank	Drawee A/c Dr. To Bill sent for Collection A/c	Bill payable A/c Dr. Noting Charges A/c Dr. To Drawer A/c

**Note:** Liability on account of bills discounted with bank will treated as Contingent Liability

**Note:** In the books of drawee of the bill, the amount not ultimately paid by him due to insolvency, should be credited to deficiency account.

### Renewal Of Bill Of Exchange

Sometimes the Acceptor of a Bill is unable to pay the amount on the due date. In such case, the Acceptor may request the Drawer for an extension of time period it is known as renewal of bill.

The interest is charged by the Drawer at the time for renewal of the bill for the period the new bill is drawn on the outstanding amount.

### Retirement Of Bill Of Exchange

When the Acceptor of a Bill is ready to pay the amount, even before the due date. So, the Acceptor may request the Payee, for settling the payment before due date it is known as Retirement of bill.

Also the Drawer allow the Drawee some discount based on the time period left it is known as rebate.

### Meaning of Accomodation Bill

As contrasted with the Trade Bill, Accommodation Bills are drawn and accepted with no consideration passed or received. The Bill, which is drawn just to oblige a friend, who is in need of money, of course without any trading activities, with sole intention of raising funds required for ready cash is known as Accommodation Bill.