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CA DARSHAN JAIN

CA , CS , LLB , DISA , DIRM , B.COM

CO FOUNDER

- Chartered Accountant by profession & educator by passion
- Teaching Financial Accounting , Financial Management & Strategic Management to CA Students For 12 Years.
- Practicing Chartered Accountant For Past 13 years in The Field of Audit , Direct & Indirect Taxes & Management Consultancy
- Elected as Convenor of The Jalna CA CPE Chapter of WIRC of ICAI For 2 consecutive years 20-21 & 21-22.
- He Has Successfully Completed & Qualified Following Certificate Course Conducted By ICAI

1. Forensic Accounting & Fraud Detection
2. Concurrent Audit of Banks
3. Goods & Service Tax (GST)
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5. Drafting & Pleading Before Authorities
6. Wealth management & Financial Planning
7. Artificial Intelligence

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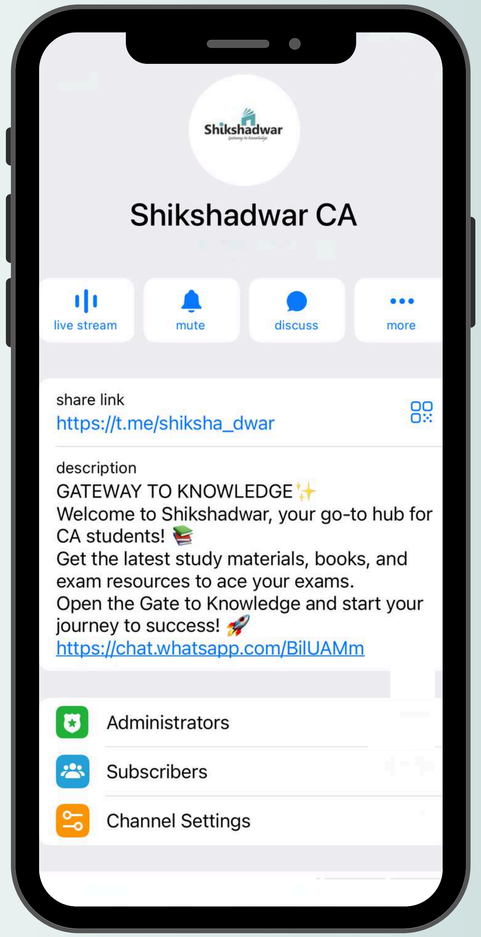


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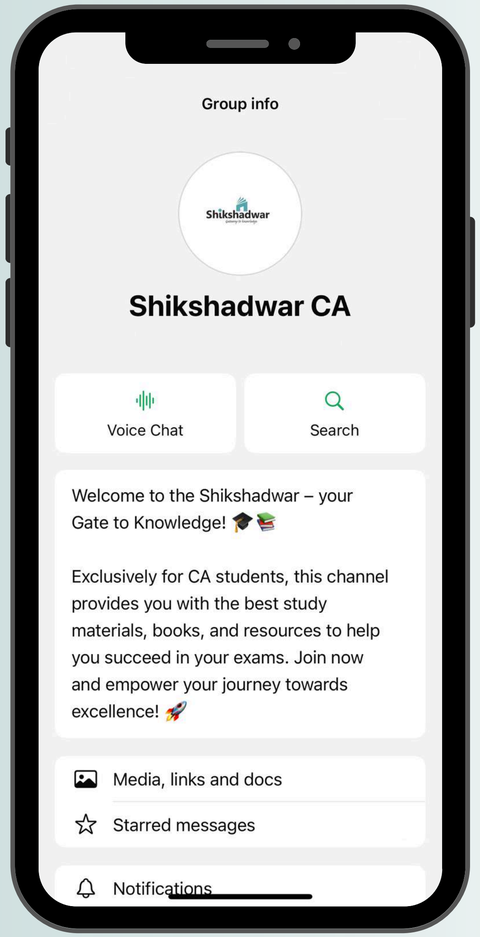
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- Frequently invited as a visiting faculty for Taxation at reputed coaching institutes.
- Loved by students for his interactive teaching style, real-life examples, and exam-oriented approach.

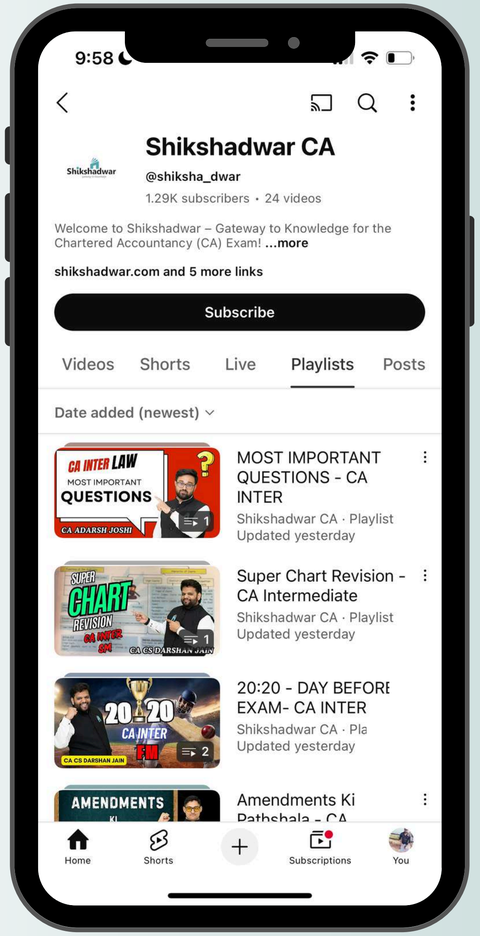
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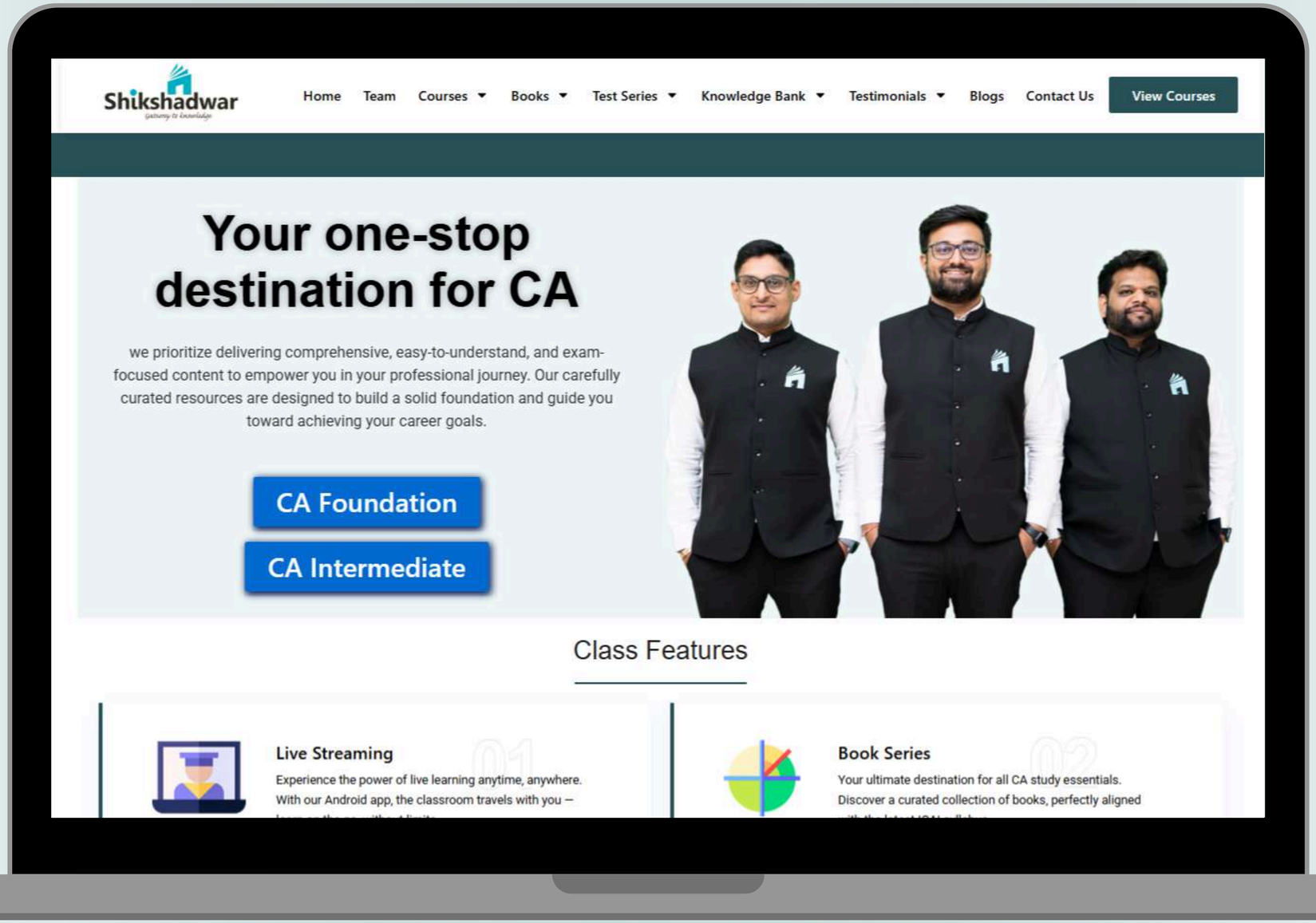




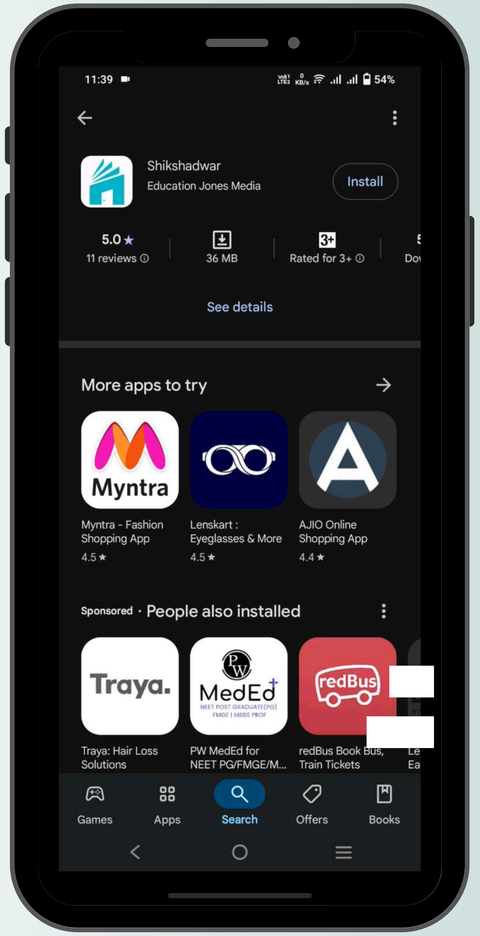


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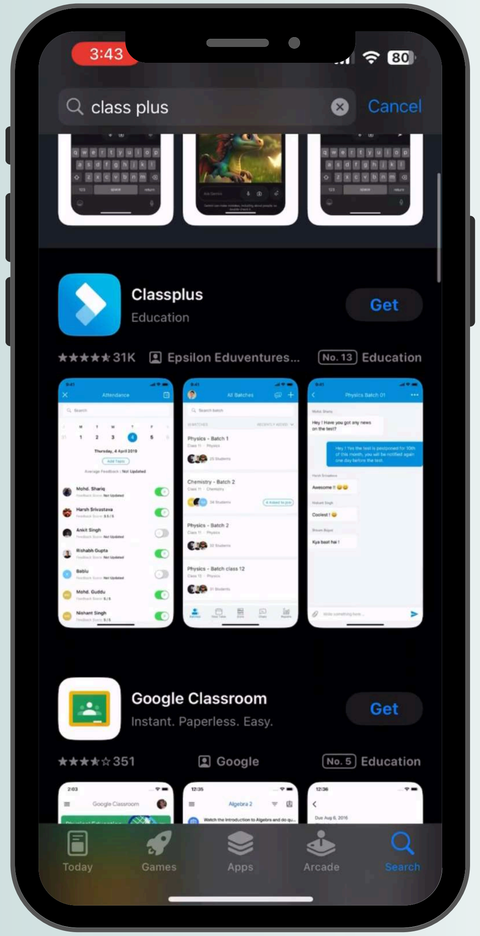


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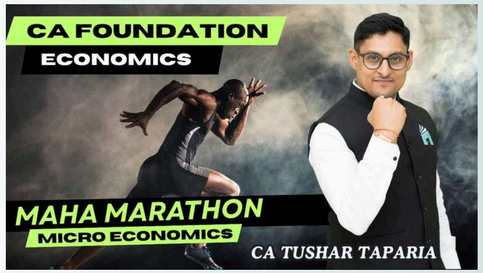
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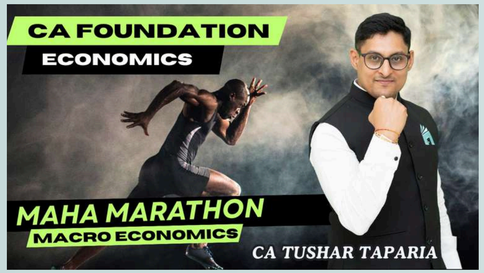
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CA FOUNDATION MAY 25

Marathons Live Streams



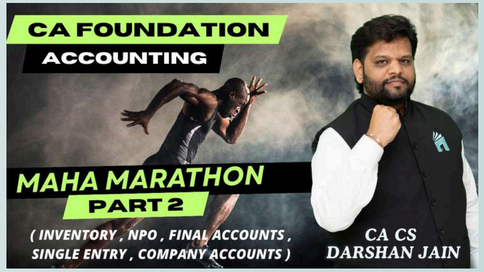




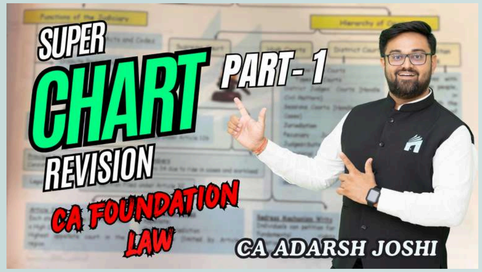


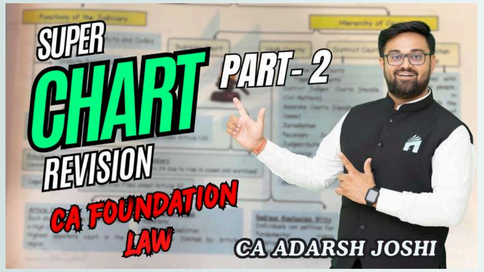
MAHA MARATHONS ECONOMICS





MAHA MARATHONS ACCOUNTING





SUPER CHART REVISION



20 -20 SERIES



SUPER 80



AAKHRI WAR

CA FOUDATION MAY 25

Marathons Schedule With Links

DATE	TIME	EDUCATOR	SUBJECT	TOPICS	YOUTUBE LINK
28/4/2025	1.00 PM	CA TUSHAR TAPARIA	ECONOMICS	MICRO ECONOMICS	WATCH NOW
29/4/2025	8.00 AM	CA ADARSH JOSHI	LAW	SUPER CHART REVISION - PART I	WATCH NOW
1/5/2025	2.00 PM	CA TUSHAR TAPARIA	ECONOMICS	MICRO ECONOMICS - MCQ'S	WATCH NOW
3/5/2025	1.00 PM	CA TUSHAR TAPARIA	ECONOMICS	MACRO ECONOMICS	WATCH NOW
4/5/2025	8.00 AM	CA CS DARSHAN JAIN	ACCOUNTING	MAHA MARATHON - PART I	WATCH NOW
6/5/2025	8.00 AM	CA ADARSH JOSHI	LAW	SUPER CHART REVISION - PART II	WATCH NOW

DATE	TIME	EDUCATOR	SUBJECT	TOPICS	YOUTUBE LINK
9/5/2025	2.00 PM	CA TUSHAR TAPARIA	ECONOMICS	MACRO ECONOMICS - MCQ'S	
11/5/2025	8.00 AM	CA CS DARSHAN JAIN	ACCOUNTING	MAHA MARATHON - PART II	
14/5/2025	8.00 AM	CA CS DARSHAN JAIN	ACCOUNTING	20-20	
16/5/2025	8:00 am	CA ADARSH JOSHI	LAW	SUPER 80	
20/5/2025	3.00 PM	CA TUSHAR TAPARIA	ECONOMICS	AAKHRI WAR	



INDIA'S

BIGGEST

12HOURS

LIVE MARATHON

FOR CA FOUNDATION ACCOUNTS

CA FOUNDATION

ACCOUNTING



MAHA MARATHON

PART 1

(BASICS , ROE , BRS , BOE , DEPRECIATION , PARTNERSHIP)

CA CS
DARSHAN JAIN

CA FOUNDATION

ACCOUNTING



MAHA MARATHON

PART 2

(INVENTORY , NPO , FINAL ACCOUNTS , SINGLE ENTRY , COMPANY ACCOUNTS)



CA CS
DARSHAN JAIN


20 20
CA FOUNDATION
ACCOUNTING
CA CS DARSHAN JAIN

MAHAMARATHON – PART I

1. **Meaning & Scope Of Accounting**
2. **Accounting Cycle**
3. **Subsidiary Books & Cash Book**
4. **Accounting Concepts Principles & Policies**
5. **Capital & Revenue Expenditure and Receipts**
6. **Contingent Liabilities & Provisions**
7. **Rectification of Errors**
8. **Bank Reconciliation Statement**

TOPICS TO BE COVERED



10. **Depreciation & Amortisation**
11. **Partnership – Basics**
12. **Partnership – Valuation of Goodwill**
13. **Partnership – Admission of Partner**
14. **Partnership – Retirement of Partner**
15. **Partnership – Change in PSR**
16. **Partnership – Death of a Partner**
17. **Partnership – Dissolution of Partnership**

TOPICS TO BE COVERED



MAHAMARATHON – PART II

1. **Inventory valuation**
2. **Final Accounts of Non- Manufacturing Entity**
3. **Final Accounts of Manufacturing Entity**
4. **Financial Statements of NPO**
5. **Single Entry System**
6. **Company Accounts & Accounting For Shares**
7. **Accounting For Bonus Issue & Right Issue**

TOPICS TO BE COVERED



8. **Issue of Debentures**

9. **Redemption of Debentures**

10. **Redemption of Preference Shares**

TOPICS TO BE COVERED



BASICS OF ACCOUNTS

MEANING
&
SCOPE OF ACCOUNTING

BIRDS EYE VIEW

- Introduction
- Meaning of Accounting – Traditional & Modern Definition
- Procedural Aspects of Accounting
- Objectives of Accounting
- Functions of Accounting
- Advantages of Accounting
- Limitations of Accounting
- Book Keeping , Accounting & Accountancy
- User’s of Accounting Information
- Relationship of Accounting with other Disciplines
- Role of Chartered Accountant in Society

INTRODUCTION

The development in the field of accounting has been closely associated with the growth of business. The business today has become large in size and complex in nature. In view of utility of accounting statements, it is necessary to recognize scientific approach to the recording and reporting of business transactions. In the absence of scientific approach, accountants will be free to use their own language and whatever they will record, will not necessarily be understood in the same sense by other person concerned. Thus the uniformity in understanding the accounting records is possible only when same standard language is used. Accounting is often called the language of business. The basic function of any language is to serve as a means of communication. Accounting also serves this function.

In its oldest form accounting aided the stewards to discharge their stewardship function. The wealthy men employed stewards to manage their property ; the stewards in turn rendered an account periodically of their stewardship. This ‘Stewardship Accounting’ was the root of financial accounting system. The presently followed system of double –entry book-keeping has been developed only in the 15th Century. However, historians found records of debit and credit dating back to the 12th century. Although double –entry system was followed, “Stewardship Accounting” served the purpose of business and wealthy persons at that time. In India too, stewardship accounting was prevalent till the emergence of large scale enterprise in the form of public limited companies.

MEANING OF ACCOUNTING

Traditional Definition

''accounting is an art of recording, classifying and summarizing in a significant manner and in terms of money, business transaction and events which are in part at least, of financial character and interpreting the results thereof.''

Modern Definition

"Accounting can alternatively be defined as an information System, which accepts the financial transactions and events as input, process them in the form of Ledger and Trial Balance, Final Accounts, Fund Flow Statement, Cash Flow Statement, analysis and interpretation etc. and the output of which is accounting Reports which are communicated to users of accounts."

MEANING OF TRANSACTION

Transactions : In common parlance, Transaction means the act of performance, an exchange, a transfer, etc. However, for the purpose of accounting, only those transactions are taken into consideration which are of financial nature. Financial transactions are those transactions :

--- which alter the financial position of concern, and

--- which can be measured in the terms of money.

Examples –

a) Purchase of Assets for Rs. 1,00,000 is a financial transaction, Because it alters the financial position of the concern, i.e. reduce the cash balance by Rs. 1,00,000 and increase the Assets by Rs. 1,00,000

b) Suppose the customers of a firm are unsatisfied,, due to a sudden change in the sales policies, then although it would have a very bad effect on business, but since that effect cannot be measured in terms of money, so this is not a financial transaction, and so will not be recorded in the books of account.

MEANING OF EVENT

Events : The consequence of a transaction is known as events. The distinction between transactions and events can be properly understood with the help of following example:

Suppose Mr. X starts business with the cash of RS. 1,00,000. During the whole year, he makes purchase and sale of goods and thus earns the net profit of Rs. 10,000. At the end of the year, he has the cash balance of Rs. 15,000, stock of goods of Rs. 50,000 and sundry debtors of Rs. 45,000.

In this situation, starting of business, purchasing of goods and selling of goods are financial transactions and earning the profit of RS. 10,000, having the cash balance of Rs. 15,000, having the stock of Rs. 50,000 and having the sundry debtors of Rs. 45,000 are the events.

PROCEDURAL ASPECTS OF ACCOUNTING

1. **Recording** -- This is the basic function of accounting. All business transactions of a financial character, as evidenced by some documents such as sales bill, pass book, salary slip etc. are recorded in the books of account. Recording is done in a book called ''Journal.''

2. **Classifying –** Classification is concerned with the systematic analysis of the recorded data, with a view to group transactions or entries of one nature at one place so as to put information in compact and usable form. The book containing classified information is called "Ledger". This book contains on different pages, individual account heads under which, all financial transactions of similar nature are collected. For example, there may be separate account heads for Salaries. Rent, Printing and Stationeries, Advertisement etc. All expenses under these heads, after being recorded in the Journal, will be classified under separate heads in the ledger. This will help in finding out the total expenditure incurred under each of the above heads.

3. **Summarizing –** It is concerned with the preparation and presentation of the classified data in a manner useful to the internal as well as the external users of financial statements. This process leads to the preparation of the following financial statements: a) Trial balance b) Profit and Loss account c) Balance Sheet d) Cash-flow Statement.

4. **Analyzing –** The term ‘Analysis’ means methodical classification of the data given in the financial statements. The figures given in the financial statements will not help anyone unless they are in a simplified form. For example, all items relating to fixed assets are put at one place while all items relating to current assets are put at another place.

5. **Interpreting –** This is the final function of accounting . it is concerned with explaining the meaning and significance of the relationship as established by the analysis of accounting data. The recorded financial data is analyzed and interpreted in a manner that will enable the end- users to make a meaningful judgement about the financial condition and profitability of the business operations. The financial statement should explain not only what had happened but also why it happened and what is likely to happen under specified conditions.

6. **Communicating –** It is concerned with the transmission of summarized, analysed and interpreted information to the end-users to enable them to make rational decisions. This is done through preparation and distribution of accounting reports, which include besides the usual profit and loss account and the balance sheet, additional information in the form of accounting ratios, graphs, diagrams, fund flow statements etc.

OBJECTIVES OF ACCOUNTING

1. **Systematic recording of transactions –** Basic objective of accounting is to systematically record the financial aspects of business transactions i.e. book-keeping. These recorded transactions are later on classified and summarized logically for the preparation of financial statements and for their analysis and interpretation.

2. **Ascertainment of results of above recorded transaction –** accountant prepares profit and loss account to know the results of business operations for a particular period of time. If revenue exceed expenses then it is said that business is running Profitably but if expenses exceed revenue then it can be said that business is running under loss. The profit and loss account helps the management and different stakeholders in taking rational decisions.

3. **Ascertainment of the financial position of the business –** Businessman is not only interested in knowing the results of the business in terms of profits or loss for a particular period but is also anxious to know that what he owes (liability) to the outsiders and what he owns (assets) on a certain date. To know this, accountant prepares a financial position statement popularly known as Balance Sheet. The balance sheet is a statement of assets and liabilities of the business at a particular point of time and helps in ascertaining the financial health of the business.

4. **Providing information to the users for rational decision-making –** Accounting as a language of business' communicates the financial results of an enterprise to various stakeholders by means of financial statements. Accounting aims to meet the information needs of the decision – makers and helps them in rational decision-making .

5. **To know the solvency position -** By preparing the balance sheet, management not only reveals what is owned and owed by the enterprise, but also it gives the information regarding concern's ability to meet its liabilities in the short run (liquidity position) and also in the long-run (solvency position) as and when they fall due.

FUNCTIONS OF ACCOUNTING

In 1970 , The Accounting principles Board (APB) of American Institute of Certified Public Accountants (AICPA) enumerated the functions of accounting as follows-

“The function of Accounting is to provide quantitative information, primarily of financial nature , about economic entities , that is needed to be useful in making economic decisions”.

The other specific functions of accounting are as follows -

1. **Measurement :** Accounting measures past performance of the business entity and depicts its current financial position.

2. **Forecasting :** Accounting helps in forecasting future performance and financial position of the enterprise using past data.

3. **Decision-making :** Accounting provides relevant information to the users of accounts to aid rational decision-making.

4. **Comparison & Evaluation :** Accounting assesses performance achieved in relation to targets and discloses information regarding accounting policies and contingent liabilities which play an important role in predicting, comparing and evaluating the financial results.

5. **Control :** Accounting also identifies weaknesses of the operational system and provides feedbacks regarding effectiveness of measures adopted to check such weaknesses.

6. **Government Regulation and Taxation :** Accounting provides necessary information to the government to exercise control on the entity as well as in collection of tax revenues.

ADVANTAGES OF ACCOUNTING

1. **Facilitates to Replace Memory :** Accounting facilitates to replace human memory by maintaining complete record of financial transactions. Human memory is limited by its very nature. Accounting helps to overcome this limitation.

2. **Facilitates to Comply with Legal Requirements :** Accounting facilitates to comply with legal requirements which require an enterprise to maintain books of accounts.

3. **Facilitates to Ascertain Net Result of Operations :** Accounting facilitates to ascertain net results of operations by preparing income statement.

4. **Facilitates to Ascertain Financial Position :** Accounting facilitates to ascertain financial position by preparing Position Statement.

5. **Facilitates the Users to take Decisions :** Accounting facilitates the users to take decisions by communicating accounting information to them.

6. **Assists the Management :** Accounting assists the management in planning and controlling business activities and in taking decisions.

7. **Facilitates a Comparative Study :**

i) Comparison of actual figures with standard or budgeted figures for the same period and the same firm;
ii) Intra-firm comparison
iii) Inter-firm comparison
iv) Pattern Comparison

8. **Facilitates Control over Assets :** Accounting facilitates control over assets by providing information regarding Cash Balance. Bank Balance, debtors, Fixed Assets, Stock etc.

9. **Facilitates the Settlement of Tax Liability :** Accounting facilitates the settlement of tax liability with the authorities by maintaining proper books of accounts in systematic manner.

10. **Facilitates the Ascertainment of Value of Business :** Accounting facilitates the ascertainment of value of business in case of transfer of business to another entity.

11. **Facilitates Raising Loans :** Accounting facilitates raising loans from lenders by providing them historical and projected financial statements.

12. **Acts as Legal Evidence :** Proper books of accounts maintained in systematic manner act as legal evidence in case of disputes.

LIMITATIONS OF ACCOUNTING

1. Only transactions which can be measured in terms of money can be entered in the accounts. So events how so ever important they may be to the business, do not find a place in the accounts, if they cannot be measured in terms of money.

2. Balance Sheet shows the position of the business on the day of its preparation and not on the future date while the users of the accounts are interested in knowing the position of the business in the near future and also in long run and not for the past date.

3. According to the cost concept, assets are recorded at historical cost and ignore the changes in value of assets brought about by changing value of money and market factors.

4. Accounting ignores changes in some money factors like inflation etc.

5. There is conflict between one accounting principle and another e.g. stock-in-trade is valued on the basis of cost or market price whichever is lower. Therefore in one year cost basis may be taken, whereas in another year it may be market price. This system contravenes the accounting principle of consistency.

6. The balance-sheets is largely the result of personal judgment of the accountant with regard to adoption of accounting policies. Therefore accounts are affected by subjectivity factor.

MEANING OF BOOK KEEPING

Book-keeping is a part of accounting and is concerned with record keeping or maintenance of books of accounting which is often routine and clerical in nature. It only covers the following four activities:

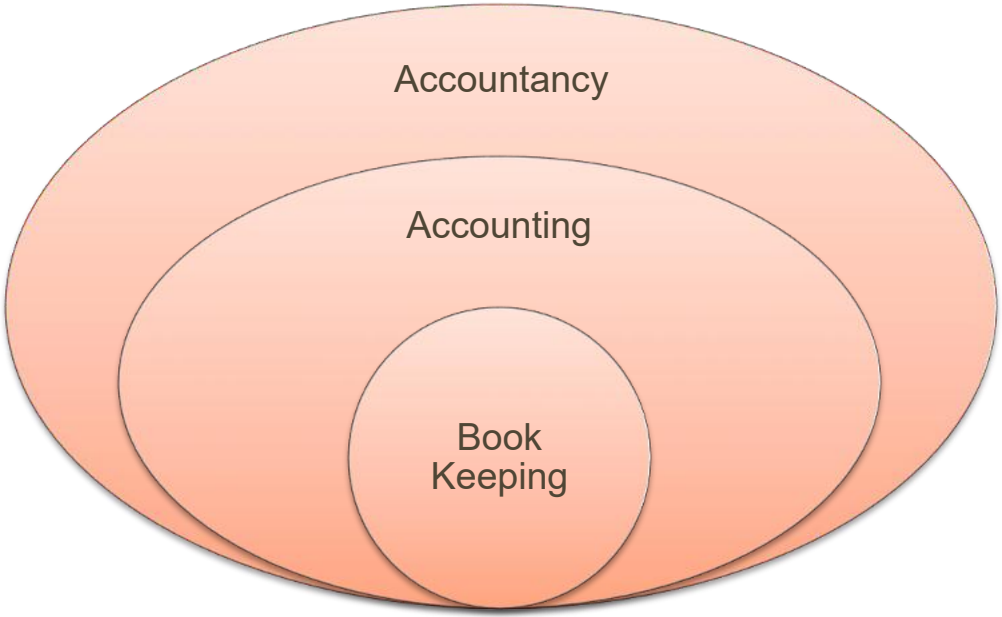
a) Identifying the transactions and events

b) Measuring the identified transactions and events in a common measuring unit

c) Recording the identified and measured transactions and events in Proper Books of Accounts

d) Classifying the recorded transactions and events in ledger.

RELATION OF BOOK KEEPING , ACCOUNTING & ACCOUNTANCY



DIFFERENCE BETWEEN BOOK KEEPING & ACCOUNTING

S.No.	Book – Keeping	Accounting
1	It is a process concerned with recording & Classification of transactions.	It is a process concerned with summarizing of the recorded transactions.
2	It constitutes as a base for accounting.	It is considered as a language of the business.
3	Financial statements do not form part of this process.	Financial statements are prepared in this process on the basis of book – keeping records.
4	Managerial decisions cannot be taken with the help of these records.	Management takes decisions on the basis of these records.
5	There is no sub – field of book – keeping.	It has several sub-fields like financial accounting, management accounting etc.
6	Financial position of the business cannot be ascertained through book-keeping records.	Financial position of the business is ascertained on the basis of the accounting reports.

SUB FIELDS OF ACCOUNTING

1. **Financial Accounting :** it is the original form of Accounting Basically, it is concerned with the recording and classifying, Analyzing, Summarizing and interpreting of financial transaction and events and communicating the results, derived therefrom to the users of the financial statements.

   The main purpose of this accounting is –

- To keep up-to-date record of events and transactions.
- To ascertain the financial Result & Financial position of the concern

2. **Management Accounting :** As the name suggests, it is the accounting for management. This accounting provides useful information to management to discharge their functions. The management accounting covers various areas, such as financial accounting, cost accounting, budgetary control, inventory control, statistical methods, internal auditing etc.

3. **Cost Accounting :** it is mainly concerned with the determination of the cost of each product so that the reasonable selling price of the product may be determined. The purpose of this branch of accounting is to ascertain the cost, to control the cost and to communicate the information to the decision maker.

4. **Social responsibility Accounting :** Nowadays, this new branch of accounting has also been developed. It is the accounting of social aspect of business. It is the process of identifying and measuring the social effects of the business decisions and communicating to the users of accounts and society.

5. **Human Resource Accounting** : Human Resource Accounting is an attempt to identify, quantify and report investment made in human resources of an organization.

6. **Inflation Accounting :** The Accounting which deals with effects of price-rise is known as inflation accounting

USERS OF ACCOUNTING – INTERNAL USERS

1. **Management** : They need information about :

a) Short-term solvency of the firm
b) Long-term solvency of the firm
c) Activity position of the firm (viz., effective Utilization of its resources)
d) Profitability in relation to turnover
e) profitability in relation to investments.

USERS OF ACCOUNTING – EXTERNAL USERS

1. **Short-term Creditors :** They need information to determine :
a) Whether the amount Owing to them will be paid When due
b) Whether they should extend, maintain or restrict Credit to an individual enterprise.

2. **Long-Term Creditors :** Long-term creditors need information to determine :
a) Whether their principal and the interest thereon will be paid when due
b) Whether they should extend, maintain or restrict the Credit to an enterprise.

3. **Present Investors :** Present investors need information :
a) To judge prospects for their investment, and
b) To determine whether they should buy, hold or sell the shares

4. **Potential investors :** potential investors need information :
a) To judge prospects of an enterprise, and
b) To determine whether they should buy the shares.

5. **Employee Groups :** Employee groups need information to form judgment About :

a) Stability, continuity and growth of the enterprise,

b) The ability of a firm to pay wages and other benefits And enhancement.

6. **General Public :** The general public needs information to evaluate the effectiveness of the economic entity from which it buys goods or services.

7. **Tax Authorities :** Tax Authorities need information to assess the tax liabilities of an enterprise.

ACCOUNTING & OTHER DISCIPLINE

1. **Relationship of Accounting With Economics**
2. **Relationship of Accounting with Mathematics**
3. **Relationship of accounting with Statistics**
4. **Relationship of Accounting with Law**
5. **Relationship of accounting with Management**

RELATIONSHIP OF ACCOUNTING WITH ECONOMICS

Prof. Robbins has defined the term ‘economics’ as follows –

‘’Economics is the science, which studies human behavior as a relationship between ends and scarce means which have alternative uses.’’

However when a person is to take any economic decision, he has to depend mainly on the accounting information. Generally an accountant is concerned with the economic problems of only one enterprise, but an economist is concerned with the problems of an industry as a whole.

Micro level data, arranged by the accounting system, is summed up to get macro level data base. Thus, at the macro level, accounting provides the basic data,upon which the economic models are developed.

However, there exists a wide gulf between economists & accountants, concepts of income & capital For example, The profit according to an economist is not same thing as the profit according to an accountant.

No doubt ,accountants have derived the ideas of value, income and capital maintenance from economists, but suitably modified to make them usable in practical circumstances. Thus, Economics and Accounting are closely related subjects.

RELATIONSHIP OF ACCOUNTING WITH MATHEMATICS

Knowledge of arithmetic and algebra is a per-requisite for accounting computations and measurements. Calculation of interest and annuity, etc. are some examples of fundamental uses of mathematics in accounting.

Presently graphs and charts are being widely used for communicating accounting information to the users. Thus the knowledge in geometry and trigonometry has become essential to have a better understanding about the accounting communication system.

RELATIONSHIP OF ACCOUNTING WITH STATISTICS

Collection, Tabulation, Analysis and presentation of data are some primary functions, which are performed by both Accountants and statisticians.

An accountant is mainly concerned with the monetary data, although to some extent, he is also concerned with the quantitative data. But a statistician is concerned equally with the monetary and quantitative data.

The use of statistics, in accounting can be appreciated better in the context of the nature of accounting records. Accounting information is very precise; it is exact to the last paisa. But for decision-making purposes, such precision is not necessary and hence the statistical approximations are sought.

Accounting records are generally confined to one year, while statistical analysis is more useful if a longer period is taken.

Statistical methods are helpful in developing accounting data and in their inter-relation. Therefore the study and application of statistical methods will add extra edge to the accounting data.

RELATIONSHIP OF ACCOUNTING WITH LAW

Every business house has to work within legal environment. All the transactions with suppliers and customers are governed by the Contract Act, Sale of goods Act. Negotiable Instruments Act, etc. The entity, itself, is created and controlled by law. For example, a partnership business is controlled by Partnership Act, a company is created and controlled by the Companies Act. Very often the accounting system to be followed has been prescribed by the law. For example, the companies Act has prescribed the format of financial statements.

However, legal prescription about the accounting system is the product of development in accounting knowledge. That is to say a legislation about accounting system cannot be enacted unless there is a corresponding development in the accounting discipline. In that way, accounting influences law and is also influenced by law.

RELATIONSHIP OF ACCOUNTING WITH MANAGEMENT

Management is a broad occupational field, which comprises many functions and application of many disciplines including statistics, mathematics, economics, etc. Accountants are well placed in the management and play a key role in the management team. A large portion of accounting information is prepared for management decision-making. In the management team, an accountant is in a better position to understand and use data. In other words, since an accountant plays an active role in management, he understands the data requirement. So, accounting system can be moulded to serve the management purpose.

ROLE OF CHARTERED ACCOUNTANT IN SOCIETY

1. Chartered Accountant in Practice
2. Chartered Accountant in Industry
3. Chartered Accountant in Public Sector Enterprise
4. Chartered Accountant in Framing Fiscal Policies

AREA OF SERVICE BY A PRACTICING CHARTERED ACCOUNTANT

- Maintenance of Books of Accounts
- Statutory Audit
- Internal Audit
- Taxation
- Management Accounting & Consultancy
- Financial Advise
- Investments
- Insurance
- Business Expansion
- Investigations & Secretarial Work



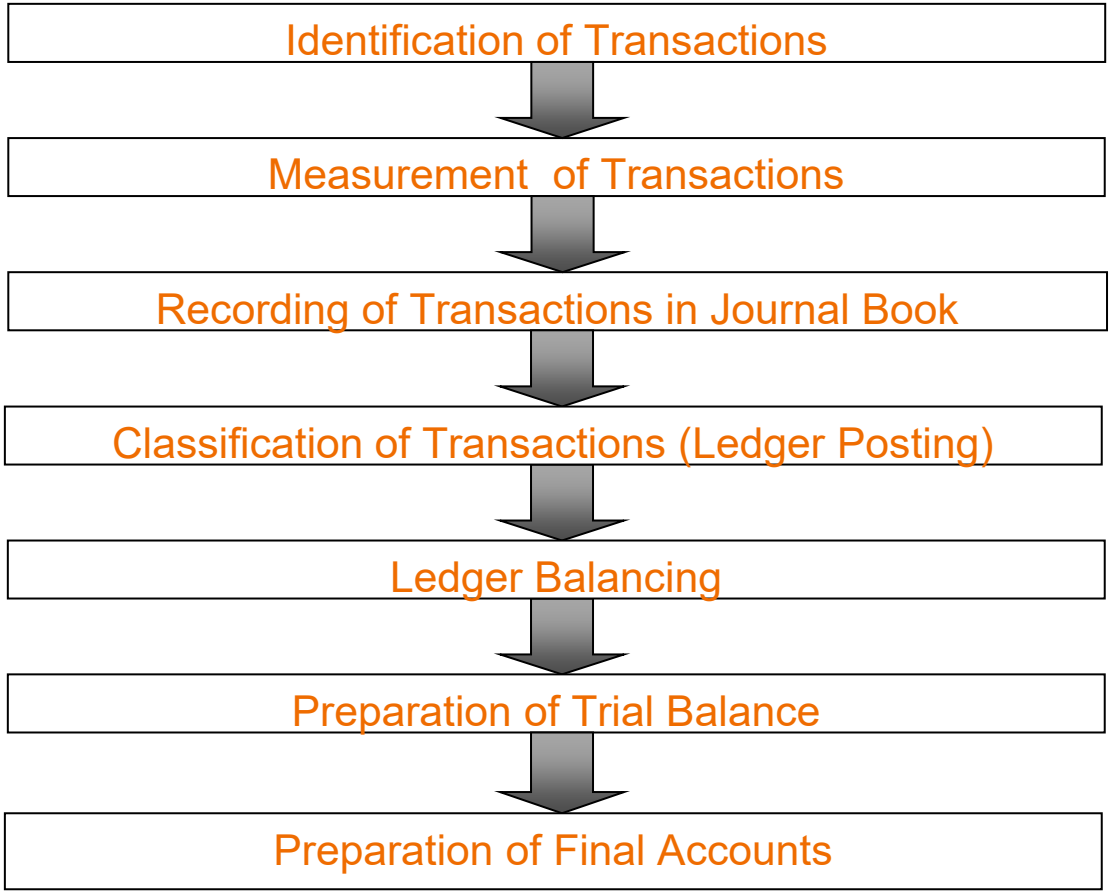
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ACCOUNTING CYCLE

BIRDS EYE VIEW

- Accounting Process
- Identification of Transactions – Financial or Non-Financial
- Recording of Transactions in Journal – Meaning , Format & Procedure
- Classification of Accounts – Traditional & Modern Approach
- Rules of Debit & Credit - Traditional & Modern Approach
- Ledger Posting – Meaning , Format & Procedure
- Ledger Balancing – Meaning & Procedure
- Preparation of Trial Balance - Meaning & Methods
- Preparation of financial Statements
- Concept of Accounting Equation

ACCOUNTING CYCLE



IDENTIFICATION OF TRANSACTION

Transactions : In common parlance, Transaction means the act of performance, an exchange, a transfer, etc. However, for the purpose of accounting, only those transactions are taken into consideration which are related to business and are of financial nature. Financial transactions are those transactions :

--- which alter the financial position of concern, and

--- which can be measured in the terms of money.

Only financial transactions are recorded in books of accounts & there is no place for non-financial transactions in accounting.

RECORDING OF TRANSACTION

The transactions are recorded in **Journal**. A Journal is a book in which transactions are recorded in the order in which they occur, i.e in chronological order. A journal is called a book of prime entry because all business transactions are entered first in this book. The process of recording a transaction in the journal is called **Journalising.** An entry made in the Journal is called **Journal Entry.**

Format of Journal

Date	Particulars	L.F	Debit Amount Rs.	Credit Amount Rs.

STEPS IN JOURNALIZING

1. Ascertain what accounts are involved in a transaction.
2. Ascertain what is a nature of the accounts involved.
3. Ascertain which is the rule of debit and credit as is applicable for each of the accounts involved.
4. Ascertain which accounts is to be debited and which is to be credited.
5. Record the date of transaction in the ‘Date column’ .
6. Write the name of the account to be debited, very close to the left hand side (i.e. the line demarcating the ‘Date column’ and the ‘Particulars column’) along with the abbreviation ‘Dr’ on the same line against the name of the account in the ‘Particulars column’ and the amount to be debited in the ‘Debit Amount column’ against the name of the account.
7. Write the name of the account to be credited in the next line preceded by the word ‘to’ at a few spaces towards right in the ‘Particulars column’ and the amount to be credited in the ‘Credit Amount column’ against the name of the account.

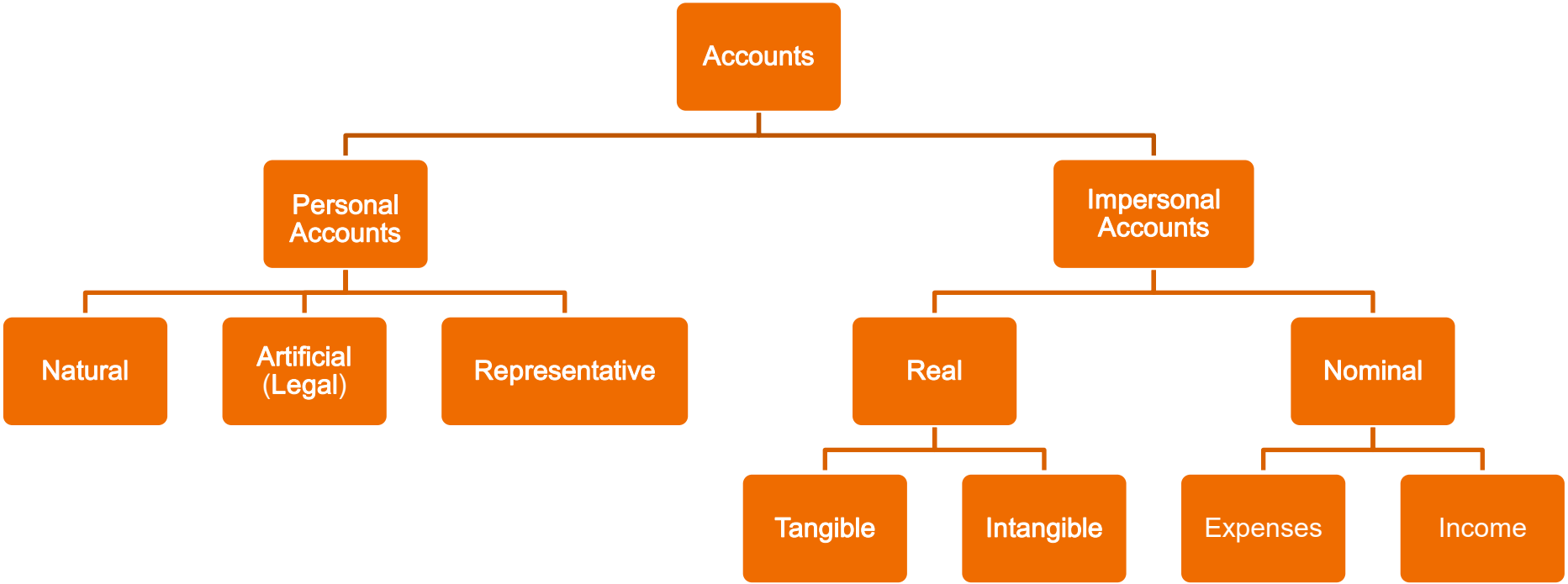
CLASSIFICATION OF ACCOUNTS

An Account is the summary of the relevant transaction at one place relating to a particular head. It records not only the amount of transaction but also their effect and directions. The following are the two approaches for Classification of Accounts :

1. Traditional Approach

2. Modern/Accounting Equation Approach

TRADITIONAL APPROACH FOR CLASSIFICATION OF ACCOUNTS



1. **Personal Accounts** : Personal Accounts relate to Persons,debtors or creditors. Personal Accounts are further sub classified into 3 categories :

a) **Natural Persons accounts** : It relates to transactions of human beings like Ram , Rita etc.

b) **Artificial (Legal) Persons Accounts :** For business purpose , business entities are treated to have separate entity. They are recognized as persons accounts. They are recognized as persons in the eye of the law for dealing with the other persons.

Example : Government, Companies (private or limited) Clubs Co-operative societies.

c) **Representative personal accounts :** These are not in the name of any persons or organization but are represented as per personal accounts. They either represent natural person or artificial person.

Example : outstanding liability account or prepaid account , capital account, drawing account.

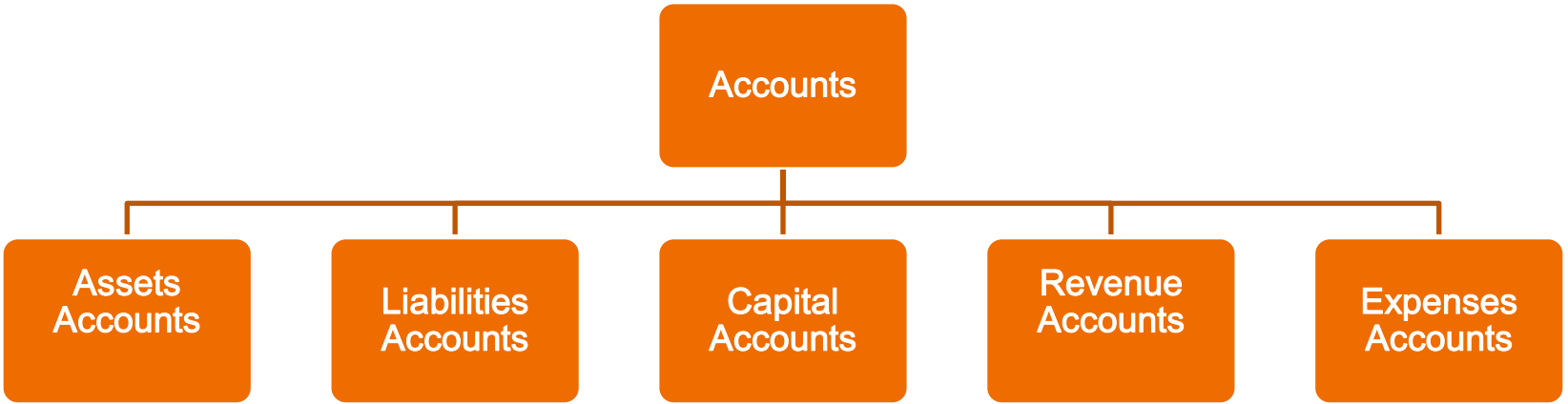
2. **Real Accounts :** Accounts which relates to Tangible & Intangible assets & Properties of the business but not debt.

Example : Land , Building , Investment , FD , Goodwill , Patents , Cash , Cash at Bank.

3. **Nominal Accounts :** Accounts which relate to Expenses , Loses , Gains , Revenue etc. The net result of all the nominal accounts is reflected as profit or loss which is transferred to the capital account & therefore Nominal accounts are temporary accounts.

Example : Salary , Interest Paid , Commission Received , Telephone Expenses etc.

MODERN APPROACH FOR CLASSIFICATION OF ACCOUNTS



1. **Assets Accounts :** These accounts relate to Tangible or Intangible real assets. It also includes receivables & debt.
   Example : Land , Building , Investment , FD , Goodwill , Patents , Cash , Cash at Bank ,Sundry Drs, Prepaid rent ,Loans & advances given etc

2. **Liabilities Accounts :** These accounts relate to the financial obligations of a business.
   Example : Trade Creditors , Outstanding Expenses , Bank overdraft , Term Loans etc.

3. **Capital Accounts :** These accounts relate to owners of an enterprise/business.
   Example : Capital A/c , Drawings A/c.

4. **Revenue Accounts :** These accounts relate to the amount charged for goods sold or services rendered or the revenue earned in the course of business.
   Example : Sales , Discount Received , Dividend Received , Interest Received etc.

5. **Expenses Accounts :** These accounts relate to the amount incurred or lost in the process of earning revenue.
   Example : Purchases , Discount Allowed , Interest Paid , Loss by Fire , Depreciation etc.

GOLDEN RULES OF ACCOUNTING – TRADITIONAL APPROACH

Debit & credit are simply additions to or subtraction from an account. In accounting , Debit refers to the left hand side of any account and credit refers to right hand side. Asset , Expenses & Losses accounts generally have Debit balance & Liability , Income & Capital accounts normally have Credit balances.

Rules for Dr. & Cr. Under Traditional Approach :

Types of Accounts	Rules for Debit	Rules for Credit
Personal Accounts	Debit the receiver	Credit the giver
Real Accounts	Debit what comes in	Credit what goes out
Nominal Accounts	Debit all expenses & losses	Credit all incomes & gains.

GOLDEN RULES OF ACCOUNTING – MODERN APPROACH

Rules for Dr. & Cr. Under Modern Approach :

Types of Accounts	Rules for Debit	Rules for Credit
Assets Accounts	Debit the increase	Credit the decrease
Liabilities Accounts	Debit the decrease	Credit the increase
Capital Accounts	Debit the decrease	Credit the increase
Revenue Accounts	Debit the decrease	Credit the increase
Expenses Accounts	Debit the increase	Credit the decrease

DOUBLE ENTRY BOOK KEEPING SYSTEM

Double Entry book keeping system was introduced & developed by Luca Paciouli. It is a scientific system of accounting. According to it , Every business transaction affects two or more accounts. Under Double entry system, equal debit & credit entries are made for every transaction & every Debit has equal amount of credit so the total of all debits must be equal to total of all credits.

ILLUSTRATION

Prepare Journal Entries for the following transactions in the books of Gamma Bros.

(i) Employees had taken stock worth ₹ 10,000 (Cost price ₹ 7,500) on the eve of Deepawali and the same was deducted from their salaries in the subsequent month.

(ii) Wages paid for erection of Machinery ₹ 8,000.

(iii) Income tax liability of proprietor ₹ 1,700 was paid out of petty cash.

(iv) Purchase of goods from Naveen of the list price of ₹ 2,000. He allowed 10% trade discount, ₹ 50 cash discount was also allowed for quick payment.

In the Books of Gamma Bros.
Journal Entries

Date	Particulars	LF	Debit	Credit
1	Salary A/c…..Dr		7500	
	To Purchase A/c			7500
2	Machinery A/c…..Dr		8000	
	To Cash A/c			8000
3	Drawings A/c…..Dr		1700	
	To Cash A/c			1700

Date	Particulars	LF	Debit	Credit
4	Purchase A/c……Dr		1800	
	To Cash A/c			1750
	To Discount Recieved			50

ILLUSTRATION

Pass a journal entry in each of the following cases.

(i) A running business was purchased by Mohan with following assets and liabilities:

Cash ₹ 2,000, Land ₹ 4,000, Furniture ₹ 1,000, Stock ₹ 2,000, Creditors ₹ 1,000, Bank Overdraft ₹ 2,000.

(ii) Goods distributed by way of free samples, ₹ 1,000.

(iii) Rahim became an insolvent and could pay only 50 paise in a rupee. Amount due from him ₹ 600.

In the Books of ……..
Journal Entries

Date	Particulars	LF	Debit	Credit
1	Cash A/c….Dr		2000	
	Land A/c…..Dr		4000	
	Furniture A/c…..Dr		1000	
	Stock A/c…..Dr		2000	
	To Creditors A/c			1000
	To Bank Overdraft A/c			2000
	To Vendor A/c			6000

Date	Particulars	LF	Debit	Credit
2	Advertisement A/c…..Dr		1000	
	To Purchase A/c			1000
3	Cash A/c….Dr		300	
	Bad Debts A/c…Dr		300	
	To Rahim A/c			600

ILLUSTRATION

You are required to pass necessary journal entries in the books of Kewal:

(i) Cheque amounting ₹ 9,000 from Hari Krishan in full settlement of his account for ₹ 10,000.

(ii) Withdrawn for personal use: Goods (Sales Price ₹ 8,000, Cost ₹ 6,000), cash ₹1,000

(iii) Goods costing ₹ 3,000 (Sale price ₹4,000) distributed as free samples.

(iv) Received commission ₹ 10,000, half of which does not relate of current year and is received in advance.

(v) Purchased second hand machinery from Jawahar for ₹30,000 against a cheque. Goods of ₹ 12,000 (Cost ₹ 9,000) used in repairs of this machinery which is necessary to make it ready for working.

In the Books of Kewal
Journal Entries

Date	Particulars	LF	Debit	Credit
1	Bank A/c…Dr		9000	
	Discount Allowed A/c….Dr		1000	
	To Harikishan A/c			10000
2	Drawings A/c….Dr		7000	
	To Purchase A/c			6000
	To Cash A/c			1000

Date	Particulars	LF	Debit	Credit
3	Advertisement A/c….Dr		3000	
	To Purchases A/c			3000
4	Cash A/c….Dr		10000	
	To Commission Received A/c			5000
	To Commission Received in Advance			5000
5	Machinery A/c….Dr		39000	
	To Bank A/c			30000
	To Purchase A/c			9000

LEDGER POSTING

After Recording the transactions in the journal , recorded entries are classified & grouped into by preparation of accounts and the book which contains all set of accounts , is known as **Ledger**. The ledger is the principal book of accounts where similar transactions relating to a particular person or thing are recorded. The owner of a business is not interested to know the effect of individual transaction on the financial statements, what he wants is the accumulated effect of each type of account. Therefore , a ledger represents a detailed record of change that have occurred in a particular Asset , Liability , Expenses , Loss , Gain or Capital during an accounting period.

Format of Ledger

Date	Particulars	Amount	Date	Particulars	Amount

PROCEDURE FOR LEDGER POSTING

1. With the help of an index , open that page on which the debited account appears.

2. Enter the date of the transaction, in the “Date column” on the debit side.

3. Record the name of the account credited in the journal, in the “Particulars column” on the debit side as “To… (name of the account credited)

4. Enter the relevant amount in the “Amount column” on the debit side.

5. With the help of an index , open that page on which the credited account appears.

6. Enter the date of the transaction, in the “Date column” on the credit side.

7. Record the name of the account debited in the journal, in the “Particulars column” on the credit side as “By… (name of the account debited)

8. Enter the relevant amount in the “Amount column” on the credit side.

OPENING ENTRY

A journal entry by means of which the balances of various assets, liabilities and capital appearing in the balance sheet of previous accounting period are brought forward in the books of the current accounting period, is known as ‘opening Entry’. The procedure of posting an opening entry is the same as in case of an ordinary journal entry except that in case of an account which has been debited, the words ‘To balance b/d’ are recorded in the Particulars column on the debit side and in case of an account which has been credited, the words ‘By balance b/d’ are recorded in the Particulars column on the credit side.

LEDGER BALANCING

1. After posting into the ledger, the next stage is to ascertain the net effect of all the transactions posted to an account. The process of ascertaining the difference between the total of debits and total of credits appearing in an account, is known as ‘Ledger Balancing.’

2. Ledger balancing signifies the net effect of all transactions posted to that account during a given period. It may be a debit balance or a credit balance or a nil balance, depending upon whether the debit or the credit total is higher.

3. Where the total of debit side exceeds the total of the credits side the account is said to have debit balance.

4. Where the total of credits side exceeds the total of the debit side the account is said to have a credit balance.

5. Normally, Personal Accounts and Real Accounts are balanced.. nominal Accounts are not usually balanced but are closed by transferring to Trading and Profit & Loss Account.

STEPS IN LEDGER BALANCING

1. Take the total of debit side & credit side

2. Compute the difference of the total of two sides.

3. If the debit side total is more put the difference on the credit side amount column by writing the words in particular column ‘By Balance c/d’. If the credit side total is more put the difference on the debit side amount column by writing the words in particular column ‘To Balance c/d’

4. After putting the difference in the appropriate side of the account add both the sides of the account. Draw a thin line above and below the total.

5. Bring down the debit balance on the debit side by writing the words in particular column ‘To balance b/d’. Similarly bring down the credit balance on the credit side by writing the words in the particular column ‘By Balance b/d’.

TRIAL BALANCE

Preparation of Trial Balance is the Next phase in Accounting Cycle. It is nothing but summarization of account balances existing at a particular point of Time. A Trial balance is a statement, which is drawn basically to test the arithmetical accuracy of books of accounts. Generally, this statement is prepared at the year end, when all the ledger accounts have been drawn and Final Accounts are yet to be prepared.

In the trial balance, there are two sides, one debit and other credit. In the debit side, all the debit balances of every account are written and similarly in the credit side, all the credit balances of every account are written. If both sides, i.e. total of debit and total of credit, are tallied after recording all the items, then it means there is no mathematical error in the books of accounts. However, if there is any difference between the two sides, then it would mean there is definitely some mathematical error in the books of accounts.

It is further to be noted that :

1. The Trial Balance checks only the Arithmetical Accuracy of books of Accounts. It is not the proof of final accuracy of Account.
2. Trial Balance is a statement. It is not an account.

METHODS OF PREPARING TRIAL BALANCE

1. **Total Method :** under this method, every ledger account is totaled and that total amount (both of debit side and credit side) is transferred to trial balance. In this method, trial balance can be prepared as soon as ledger account is totaled. Time taken to balance the ledger accounts is saved under this method as balance can be found out in the trial balance itself. The difference of totals of each ledger account is the balance of that particular account. This method is not commonly used as it cannot help in the preparation of the financial statements.

2. **Balance Method :** under this method, every ledger account is balanced and those balances only are carry forward to the trial balance. This method is used commonly by the accountants and helps in the preparation of the financial statements. Financial statements are prepared on the basis of the balances of the ledger accounts.

3. **Total And Balance Method :** under this method, the above two explained methods are combined. Under this method statement of trial balance contains seven columns instead of five columns.

ILLUSTRATION

From the following ledger balances, prepare a trial balance of Anuradha Traders as on 31st March, 2020:

Account Head	₹
Capital	1,00,000
Sales	1,66,000
Purchases	1,50,000
Sales return	1,000
Discount allowed	2,000
Expenses	10,000
Trade receivables	75,000
Trade payables	25,000
Investments	15,000
Cash at bank and in hand	37,000
Interest received on investments	1,500
Insurance paid	2,500

Trial Balance of Anuradha Traders as on 31.03.2020

Dr. balance	₹	Cr. balance	₹
Purchases	1,50,000	Capital	1,00,000
Sales return	1,000	Sales	1,66,000
Discount allowed	2,000	Trade payables	25,000
Expenses	10,000	Interest received on investments	1,500
Trade receivables	75,000		
Investments	15,000		
Cash at bank and in hand	37,000		
Insurance paid	2,500		
Total	2,92,500		2,92,500

ILLUSTRATION

One of your clients, Mr. Singhania has asked you to finalise his accounts for the year ended 31st March, 2020. Till date, he himself has recorded the transactions in books of accounts. As a basis for audit, Mr. Singhania furnished you with the following statement.

	Dr. Balance (₹)	Cr. Balance (₹)
Singhania's Capital		1,556
Singhania's Drawings	564	
Leasehold premises	750	
Sales		2,750
Due from customers		530
Purchases	1,259	
Purchases return	264	
Loan from bank		256
Trade payables	528	

	Dr. Balance (₹)	Cr. Balance (₹)
Trade expenses	700	
Cash at bank	226	
Bills payable	100	
Salaries and wages	600	
Inventories (1.4.2019)		264
Rent and rates	463	
Sales return		98
	5,454	5,454

The closing inventory on 31st March, 2020 was valued at ₹ 574. Mr. Singhania claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance.

Corrected Trial Balance of Mr. Singhania as on 31st March, 2020

Particulars	Dr. Amount ₹	Cr.Amount ₹
Singhania's Capital		1,556
Singhania's Drawings	564	
Leasehold premises	750	
Sales		2,750
Due from customers	530	
Purchases	1,259	
Purchases returns		264
Loan from Bank		256
Creditor/Suppliers		528
Trade expenses	700	
Cash at Bank	226	
Bills payable		100
Salaries and Wages	600	
Inventory (1.4.2019)	264	
Rent and rates	463	
Sales return	98	
	5,454	5,454

ILLUSTRATION

An inexperienced bookkeeper has drawn up a Trial Balance for the year ended 30th June, 2020.

	Debit (₹)	Credit (₹)
Provision for Doubtful Debts	200	–
Bank Overdraft	1,654	–
Capital	–	4,591
Trade payables	–	1,637
Trade receivables	2,983	–
Discount Received	252	–
Discount Allowed	–	733
Drawings	1,200	–
Office Furniture	2,155	–
General Expenses	–	829

Purchases	10,923	–
Returns Inward	–	330
Rent & Rates	314	–
Salaries	2,520	–
Sales	–	16,882
Inventory	2,418	–
Provision for Depreciation on Furniture	364	–
Total	24,983	25,002

Required:

Draw up a 'Corrected' Trial Balance, debiting or crediting any residual errors to a Suspense Account.

Trial Balance as on 30th June, 2020

Heads of Accounts	Debit ₹	Credit ₹
Provision for Doubtful Debts	–	200
Bank overdraft	–	1,654
Capital	–	4,591
Trade payables	–	1,637
Trade receivables	2,983	–
Discount Received	–	252
Discount allowed	733	–
Drawings	1,200	–
Office furniture	2,155	–
General Expenses	829	–
Purchases	10,923	–
Returns Inward	330	–
Rent & Rates	314	–
Salaries	2,520	–
Inventory	2,418	–
Provision for Depreciation on Furniture	–	364
Sales	–	16,882
Suspense Account (Balancing figure)	1,175	–
Total	25,580	25,580

PREPARATION OF FINANCIAL STATEMENTS

The next phase in Accounting Cycle is preparation of Financial Statements i.e Trading A/c , Manufacturing A/c , Profit & Loss A/c & Balance sheet. It is also known as preparation of Final Accounts. We will learn the above concept in detail in our last chapter of the Syllabus "Final Accounts.

Key points for preparation of Financial statements are as follows :

1. Every debit balance item in a trial balance represents either expenditure/loss or asset therefore it will always appear either on Debit side of Profit & Loss A/c or Asset side of Balance Sheet.

2. Every credit balance item in trial balance represents either Income/gain or liability therefore it will always appear on credit side of Profit & Loss A/c or Liability side of Balance sheet.

3. The net result of Trading A/c or Manufacturing A/c will be transferred to Profit & Loss A/c.

4. The net result of Profit & loss A/c will be transferred to Capital A/c.

ACCOUNTING EQUATION

The relationship of assets with that of liabilities and owner's equity in the equation form is known as 'Accounting Equation'. Basic accounting equation comes into picture when sum total of capital and liabilities equalizes assets, where assets are what the business owns and capital and liabilities are what the business owes. Under double entry system, every business transaction has two-fold effect on the business enterprise where each transaction affects changes in assets, liabilities or capital In such a way that an accounting equation is completed and equated. This accounting equation holds good at all points of time and for any number of transactions and events except when there are errors in accounting process.

Thus, We have Accounting Equation :

Capital + Liabilities = Assets

Or

Capital + Long term Liabilities + Current Liabilities = Fixed Assets + Current Assets



thank you!

SUBSIDIARY BOOKS
&
CASH BOOK

BIRDS EYE VIEW

- Meaning , Need, Types & Advantages of Subsidiary Books
- Purchase Book
- Sales Book
- Sales Return/Return Inwards Book
- Purchase Return/Return Outwards Book
- Bills Receivable & Bills Payable Book
- Journal Book
- Cash Book – Meaning & Types of Cash Book
- Single , Double , Triple Columnar Cash Book
- Petty Cash Book – Meaning ,Advantages & Methods.

MEANING & NEED OF SUBSIDIARY BOOKS

Meaning

Subsidiary Books refer to the journals meant for specific transactions of similar nature. In nutshell, Subsidiary books are nothing but sub division of Journal.

Need

When the number of transactions are large. It is practically impossible to record all the transactions through one journal because of the following limitations of journal :

1. The system of recording all transactions in journal requires (a) writing down of the name of the account involved as many times as the transactions occur and (b) an individual postings of each account debited and credited and hence, involves the repetitive journalizing.
2. Such a system does not provide the information on prompt basis
3. Such a system does not facilitate the installations of an internal check system since, the journal is handled only by 1 person.
4. The journal becomes bulky and voluminous.

TYPES OF SUBSIDIARY BOOKS

1. Purchase book/Purchase Journal/ Purchase Register
2. Sales book/Sales Journal/Sales Register
3. Purchase Return Book/Return Outward Book/Debit Note Journal
4. Sales Return Book/Return inward Book/ Credit Note Journal
5. Bills Receivable Book
6. Bills Payable Book
7. Journal Proper Book
8. Cash Book

ADVANTAGES OF SUBSIDIARY BOOKS

1. Division of work : Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.

2. Specializations and efficiency : When the same work is allotted to particular persons over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus the accounting work will be done efficiently.

3. Saving of time : Various accounting process can be undertaken simultaneously because of the use of number of books. This will lead to the work being completed quickly.

4. Availability of information : Since a separate register or books is kept for each class of transactions the information relating to each transaction will be available at one place.

5. Facility in checking *:* When the trial balance does not agree the locations of the error or errors are facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.

PURCHASE BOOK

1. Purchase book is one of the subsidiary books which is used for the purpose of recording the credit purchase of Trading goods/merchandise (i.e. the goods in which the enterprise deals in). Neither the cash purchase of the merchandise is recorded in purchases book nor the purchase of any asset on credit basis is recorded.
2. The entries in the purchase book are made on the basis of purchase invoice received from the suppliers with the amounts net of trade discount/ quantity discount.
3. The individual entries and the total of the book are posted in to ledger as follows :

Posting of Individual Amount	Posting of Periodic Total
Individual amounts are daily posted to the credit of supplier's accounts by writing **'By purchase A/c'** in the particular column.	Periodic total is posted to the debit of purchase account by writing **'To Sundries as per purchase book'** in the particulars column.

4. **Usually the following information is provided in this book;**

a) Date of purchase,
b) Purchase Invoice Number
c) Name of the supplier,
d) Page No. of the ledger on which Supplier account appears, and
e) Amount of purchase invoice net of trade discount (If Any).

5. The simplest format of a purchase book is shown below :

Date	Purchase Invoice no.	Name of supplier	LF	Details		Amount	
				Rs.	P.	Rs.	P.

SALES BOOK

1. Sales book is one of the subsidiary books which is used for the purpose of recording the credit sales of merchandise. Neither the cash sales of the merchandise nor sales of any asset on credit basis are recorded in sales book.

2. The entries in the sales book are recorded on the basis of the *sales invoice issued to the customers* with the amounts net of trade discount/ quantity discount.

3. The individual entries and the total of the book are posted into the ledger as follows:

Posting of Individual Amount	Posting of Periodic Total
Individual amounts are daily posted to the debit of the customer accounts by writing **"To sales A/c"** in the particular column.	Periodic total is posted to the credit of the sales account by writing **"By Sundries as per sales book"** in the particular column.

4. Usually, the following information is provided in this book

a) Date of sale.

b) Sales Invoice Number

c) Name of the customer,

d) Page number of the ledger on which the Customer's Account appears, and

e) Amount of sales invoice net trade discount (if any)

Note : *In case the firm deals in taxable goods, one additional column may be added to record the GST recovered from the customers.*

5. The simplest format of a Sales book is shown below :

Date	Sales Invoice no.	Name of Customer	LF	Details		Amount	
				Rs.	P.	Rs.	P.

PURCHASE RETURN BOOK

1. Purchase return book (also known as Return outward book/ Journal) is one of the subsidiary books which are used to record return of the goods purchased on credit. Neither the return of goods purchased on cash basis nor the return of any asset other than the merchandise is recorded in purchase return book.

2. The entries in the purchase returns book are usually made on the basis of *debit note issued to the suppliers or credit notes received from the suppliers.*
   Note : A debit note is a document prepared by the purchase to inform the supplier that his account has been debited with the amount mentioned and for the reasons stated therein. A debit note contains the date of the good returned, reasons for returning the goods. Each debit note is serially numbered.

3. If some trade discount had been received at the time of original purchase and some expenses on purchase (e.g. cartage) had been charged by the supplier, the appropriate adjustment should be made so as to arrive at the correct value of goods returned.

4. The individual entries and the periodic total of the book are posted in to ledger as follows:

Posting of Individual Amount	Posting of Periodic Total
Individual amounts are daily posted to the debit of suppliers Accounts by writing "To Purchase returns A/c" in the particular column.	Periodic total is posted to the credit of purchase returns account by writing "By Sundries as per purchase returns book" in the particulars book in the particular column.

5. Usually, the following information is provided in this book:

a) Date of return
b) Debit note number
c) Name of the supplier
d) Page number of the ledger on which supplier A/c appears and
e) Amount of goods returned to the supplier.

6. The simplest format of a purchase Return book is shown below :

Date	Debit Note no.	Name of Supplier	LF	Details		Amount	
				Rs.	P.	Rs.	P.

SALES RETURN RETURN BOOK

1. Sales returns book (also known as return inward book/ journal) is one of the subsidiary books which is used for the purpose of recording the return of merchandise sold on credit. Neither the return of merchandise sold on cash basis *nor* the returns of any asset other than the merchandise are recorded in sales return book.

2. The entries in the sales returns book are usually on the basis of *credit notes issue*d *to the customers* or *debit notes issued by the customers.*
   Note : A credit note is document prepared by the seller to inform the buyer that his account has been credited with the amount mentioned and for the reasons stated therein. A credit note contains the date of return of goods. The name of the customer who has returned the goods details of goods received back and the amount of such goods. Each credit note is serially numbered.

3. If some trade discount had been allowed and some expenses on sales (e.g. cartage) had been charged from the customer the appropriate adjustment should be made so as to arrive at the correct value of goods returned.

4. The individual entries and the periodic total of the book are posted in to ledger as follows:

Posting of Individual Amount	Posting of Periodic Total
Individual amount are daily posted to the credit of customers accounts by writing "By sales returns A/c" in particulars column	Periodic total is posted to the debit of sales return account by writing" To Sundries as per sales return book" in particular column.

5. Usually the following information is provided in this book :

a) Date of return
b) Credit note number
c) Name of the customer,
d) Page number of ledger on which customer A/c appears and
e) Amount of goods returned by the customer.

6. The simplest format of a Sales Return book is shown below :

Date	Credit Note no.	Name of Customer	LF	Details		Amount	
				Rs.	P.	Rs.	P.

BILLS RECEIVABLE BOOK

1. Bills receivable book is one of the subsidiary books which are used for the purpose of recording the details of bills receivable in favor of person who is maintaining the bills receivable book.

2. Individual amounts are daily posted to the credit of the accounts of individual debtors from whom the bill are received periodic total is posted to the debit of bills receivable account in the ledger by writing “To Sundries as per B/R Book”

BILLS PAYABLE BOOK

1. Bills payable book is one of the subsidiary books which is used for the purpose of recording the details of bills payable accepted by the person who is maintaining the bills Payable Book.

2. Individual amounts are daily posted to the debit of the accounts of individual creditors to whom acceptances have been given. The periodic total is posted to the credit of Bills Payable Account in the ledger by writing “By Sundries as per B/P Book”.

JOURNAL PROPER

Journal proper is residuary book in which those transaction are recorded which cannot be recorded in any other subsidiary book such as a) cash book (b) purchase book (c) sales book (d) purchase returns book(e)sales return book (f) bills receivable book and (g) Bills payable book. The format of the Journal Proper is same as of Journal Book.

Examples of Transactions entered in Journal Proper :

a) Opening Entries
b) Closing entries – Transfer of Net profit to Capital A/c etc
c) Adjusting Entries – O/s Exp , Prepaid Exp , Int. on Capital , Depreciation etc
d) Rectifying Entries
e) Capital Brought in Kind
f) Credit Purchase of Asset
g) Credit Sales of Asset
h) Return of Assets Purchased/Sold on Credit
i) Endorsement of Bills Receivable
j) Dishonor of Bills Receivable
k) Cancellation of Bills Payable
l) Loss of stock/Asset by Fire , Accident ,Theft etc
m) Writing off Bad Debts
n) Drawings by proprietor In Kind.
o) Goods distributed as free samples.

ILLUSTRATION

From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer and post them to ledger :

Date	*Debit Note No.*	*Particulars*
04.01.2018	101	Returned to Goyal Mills, Surat – 5 polyester sarees @ ₹ 100.
09.01.2018		Garg Mills, Kota – accepted the return of sarees (which were purchased for cash) – 5 Kota sarees @ ₹ 40.
16.01.2018	102	Returned to Mittal Mills, Bangalore –5 silk sarees @ ₹ 260.
30.01.2018		Returned one typewriter (being defective) @ ₹ 3,500 to B & Co.

Purchase Returns Book

Date	*Debit Note No.*	*Name of supplier*	*L.F.*	*Amount*
2018				
Jan. 4	101	Goyal Mills, Surat		500
Jan. 16	102	Mittal Mills, Bangalore		1,300
Jan. 31		Purchases Returns Account (Cr.)		1,800

MEANING & TYPE OF CASH BOOK

A Cash book is special journal which is used for recording all cash receipts and cash payments.

The cash book is book of original entry (or prime entry) since transactions are recorded for the first time from the source documents. The cash book is ledger in the sense that it is designed in the form of cash account and records cash receipts on the debit side and cash payments on the credit side. Thus, the cash book is both a journal and a ledger.

There are 3 Types of Cash Book :

1. Single Column Cash Book / Simple Cash Book (Cash)
2. Double Columnar Cash Book (Cash , Discount)
3. Triple Columnar Cash Book (Cash , Discount , Bank)

SINGLE COLUMNAR CASH BOOK

1. Single column cash book has one amount column on each side. All cash receipts are recorded on the debit side and all cash payments on the credit side. In fact, this book is nothing but a Cash Account. Hence, there is no need to open this account in the ledger. It is to be kept in mind that the Debit side is always bigger than the credit side since the payment cannot exceed the available cash.

2. The format of single column cash book is given below:

Date	Particulars	LF	Amount Rs.	Date	Particulars	LF	Amount Rs.

DOUBLE COLUMNAR CASH BOOK

Cash Book with Discount Column has two columns (one for cash and another for discount) on each side. All cash receipts and cash discount allowed are recorded on the debit side and all cash payments and discount received are recorded on the credit side.

It is to kept in mind that discount columns in the cash book are not accounts & hence they are not balanced. The total of discount columns are posted in discount ledger.

The format of cash book with discount column is given below :

Date	Particulars	LF	Discount Rs.	Cash Rs.	Date	Particulars	LF	Discount Rs.	Cash Rs.

TRIPLE COLUMNAR CASH BOOK

1. Three column cash book has three amount columns (one for cash one for bank and one for discount) on each side. All cash receipts deposits in to bank and discount allowed are recorded on debit side and all cash payments, withdraws from bank and discount received are recorded on credit side. In fact a three column cash book serves the purpose of cash account and bank account. Hence there is no need to open these two accounts.

2. Format of three columnar cash book

Date	Particulars	LF	Disc. Rs.	Cash Rs.	Bank Rs.	Date	Particulars	LF	Disc. Rs.	Cash Rs.	Bank Rs.

3. Both the debit effect & credit effect of transaction in case of contra entries will be recorded in this type of cash book. However , “C” needs to mentioned in the particulars column in case of such entries.

4. If cheque is received it will be first treated as cash receipt & hence it will appear on debit side of Cash column & when it is deposited in the bank the entry shall be as of Cash deposited in Bank

5. If some cheque sent to the bank is dishonoured i.e the bank is not able to collect the amount , It is entered in the bank column on the credit side with the name of the related party in the particulars column.

6. If some cheque issued by the firm is not paid on presentation , it is entered in the bank column on the debit side with the name of the party to whom the cheque is given.

ILLUSTRATION

Prepare a Triple Column Cash Book from the following transactions and bring down the balance for the start of next month:

2017			₹
Nov.	1	Cash in hand	3,000
	1	Cash at bank	12,000
	2	Paid into bank	1,000
	5	Bought furniture and issued cheque	1,500
	8	Purchased goods for cash	500
	12	Received cash from Mohan	980
		Discount allowed to him	20

14	Cash sales	5,000
16	Paid to Amar by cheque	1,450
	Discount received	50
19	Paid into Bank	500
23	Withdrawn from Bank for Private expenses	600
24	Received cheque from Parul	1,430
	Allowed him discount	20
26	Deposited Parul's cheque into Bank	
28	Withdrew cash from Bank for Office use	2,000
30	Paid rent by cheque	800

Triple Column Cash Book

Dr.											*Cr.*
Date		*Particulars*	*Discount*	*Cash*	*Bank*	*Date*		*Particulars*	*Discount*	*Cash*	*Bank*
2017			₹	₹	₹	*2017*			₹	₹	₹
Nov. 1	To	Balance b/d	–	3,000	12,000	Nov. 2	By	Bank (C)		1,000	
Nov. 2	To	Cash (C)		–	1,000	Nov. 5	By	Furniture A/c			1,500
Nov. 12	To	Mohan	20	980		Nov. 8	By	Purchase A/c		500	
Nov. 14	To	Sales A/c		5,000		Nov. 16	By	Amar	50		1,450
Nov. 19	To	Cash (C)			500	Nov. 19	By	Bank (C)		500	
Nov. 24	To	Parul (Note 2)	20	1,430		Nov. 23	By	Drawings A/c			600
Nov. 26	To	Cash (C)			1,430	Nov. 26	By	Bank (C)		1,430	
Nov. 28	To	Bank (C)		2,000		Nov. 28	By	Cash (C)			2,000
						Nov. 30	By	Rent A/c			800
						Nov. 30	By	Balance c/d		8,980	8,580
			40	12,410	14,930				50	12,410	14,930
Dec. 1	To	Balance b/d		8,980	8,580						

Note:

(1) Discount allowed and discount received ₹ 40 and ₹ 50 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

ILLUSTRATION

Prepare a Triple Column Cash Book for the month of April 2018 from the following transactions and bring down the balance for the start of next month:

Date		₹
1	Cash in hand	4,500
1	Cash at bank	18,000
2	Paid into bank	1,500
5	Bought furniture and issued cheque	2,250
8	Purchased goods for cash	750
12	Received cash from Mr. K	1,470
	Discount allowed to him	30

14	Cash sales	7,500
16	Paid to Mr. P by cheque	2,175
	Discount received	75
19	Paid into Bank	750
23	Withdrawn from Bank for Private expenses	900
24	Received cheque from Mr. B	2,145
	Allowed him discount	30
26	Deposited Mr. B's cheque into Bank	
28	Withdrew cash from Bank for Office use	3,000
30	Paid rent by cheque	1,200

Triple Column Cash Book

Dr.											Cr.
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2017			₹	₹	₹	2017			₹	₹	₹
April 1	To	Balance b/d		4,500	18,000	April 2	By	Bank (C)		1,500	
April 2	To	Cash (C)			1,500	April 5	By	Furniture A/c			2,250
April 12	To	Mr. K	30	1,470		April 8	By	Purchase A/c		750	
April 14	To	Sales A/c		7,500		April 16	By	Mr. P	75		2,175
April 19	To	Cash (C)			750	April 19	By	Bank (C)		750	
April 24	To	Mr.B (Note 2)	30	2,145		April 23	By	Drawings A/c			900
April 26	To	Cash (C)			2,145	April 26	By	Bank (C)		2,145	

April 28	To	Bank (C)		3,000		April 28	By	Cash (C)			3,000
						April 30	By	Rent A/c			1,200
						April 30	By	Balance c/d		13,470	12,870
			60	18,615	22,395				75	18,615	22,395
May 1	To	Balance b/d		13,470	12,870						

Note:

(1) Discount allowed and discount received ₹ 60 and ₹ 75 respectively should be posted in respective Accounts in the ledger.

(2) When cheque is not promptly deposited into Bank, first it is entered in the Cash Column and subsequently at the time of deposit, Bank Account is debited and Cash Account is credited.

PETTY CASH BOOK

Petty cash book is one of the subsidiary books which are used for the purpose of recording the payment of petty cash expenses.

Petty cashier is the person who is authorized to make payments of petty cash expenses and to record them in petty cash book.

FEATURES OF PETTY CASH BOOK

1. The amount of cash received from the main cashier is recorded on the left hand side column.

2. The payment of petty cash expenses are recorded on the right hand side in the respective columns.

3. It can never show a credit balance because the cash payment can never exceed the cash receipts.

4. Its balance represents unspent petty cash in hand.

5. Recording is done on the basis of internal as well as external vouchers. Whenever external vouchers are not received (e.g. in case of auto rickshaw charge, coolie charge, postage stamps etc.) internal vouchers are prepared and get verified by an authorized person.

6. All the columns of expenses are totaled periodically and such periodic totals are individual posted to the debit side of respective expenses accounts in the ledger by writing ”To Sundries as per Petty Cash Book” in the particulars column.

7. Petty cash book is book of original entry as well as a book of final entry. In other words it serves the purpose of both journal and ledger. It is a journal in the sense that all petty cash payments are recorded in it for first time from the source documents. It is ledger in the sense that it serves the purpose of petty cash account in which cash receipt from main cashier are recorded on the debit side and cash payments are recorded on the credit side.
   Hence, there is no need to open Petty Cash Account in the ledger.

ADVANTAGES OF PETTY CASH BOOK

1. **Saving of chief cashier time :** The time of chief cashier is saved when petty expenses are recorded in petty cash book.

2. **Saving of Labour in posting :** There is saving in labour in posting because of the following two reasons :
   a) Limited number of accounts are opened for head of petty expenses only,
   b) Periodical totals (say monthly) of each column of expenses are posted to the debit of the respective ledger accounts.

3. **Controls over the mistakes :** The chances of mistakes are reduced since the chief cashier regularly examine the petty cash book.

4. **Control over Petty Expenses :** Petty expenses are kept within the limits of imprest since the petty cashier can never spend more than the available petty cash.

5. **Control over Fraud :** Misappropriation if any, is always kept within the limits of Imprest

6. **Benefits of Specialization :** The benefits of specialization are available since recording of cash transactions is divided between main cash book and petty cash book.

IMPREST V/S NON-IMPREST SYSTEM OF PETTY CASH BOOK

a) "**Imprest' or 'Float'** is the amount which the main cashier hands over to the petty cashier in order to meet the petty cash expenses of a given period.

b) Petty cash book may be maintained on Imprest system or no Imprest system.

(i) **Imprest System of petty cash –** under Imprest system. The chief cashier ***makes the reimbursement*** of the amount spent by the petty cashier and the petty cashier again has the same amount of petty cash at the end as in the beginning.

(ii) **Non Imprest system of Petty Cash -** Under the non Imprest system the Chief Cashier may hand over the cash to the Petty Cashier equal to/ more than / less than the amount spent by the petty cashier. The petty cashier may or may not have the same closing balance of petty cash as opening balance.

FEATURES OF IMPREST SYSTEM OF PETTY CASH BOOK

1. **Estimation by Chief Cashier :** The chief cashier estimates the total petty cash expenses for a particular fixed period.

2. **Advance by chief cashier :** The chief cashier advance the estimate amount to the petty cashier in the beginning of the period

3. **Submission of petty cash book by petty cashier :** The petty cashier submits the petty cash book along with supporting vouchers to the chief cashier at the end of the period.

4. **Examinations of petty cash book by chief cashier** : The chief cashier examine the petty cash book.

5. **Reimbursement of Amount Spent** : The Chief Cashier **makes the reimbursement** of the amount the petty cashier.

6. **Availability of same amount of petty cash** : The petty cashier again has the same amount of petty cash in the beginning of new period.

POSTINGS FROM PETTY CASH BOOK

All the heads of expenses (including miscellaneous) are totaled periodically (usually monthly) and such periodic totals are individually posted to the debit side of the concerned ledger accounts in the ledger by writing " To Sundries as per Petty Cash Book" in the particular column.

<u>The accounting entry Shall Be :</u>

a) At the time of Providing Cash to Petty cashier

Petty Cashier A/c ……. Dr

To Cash A/c

b) At the time of recording of expenditure

Head of Exp ……. Dr

To Petty Cashier A/c.

ILLUSTRATION

Prepare a Petty Cash Book on the Imprest System from the following:

2019		₹
April 1	Received ₹ 20,000 for petty cash	
" 2	Paid auto fare	500
" 3	Paid cartage	2,500
" 4	Paid for Postage & Telegrams	500
" 5	Paid wages	600
" 5	Paid for stationery	400
" 6	Paid for the repairs to machinery	1,500
" 6	Bus fare	100
" 7	Cartage	400
" 7	Postage and Telegrams	700
" 8	Cartage	3,000
" 9	Stationery	2,000
" 10	Sundry expenses	5,000

PETTY CASH BOOK

Receipts ₹	Date 2019	V. No.	Particulars	Total ₹	Con-veyance ₹	Cartage ₹	Statio-nery ₹	Postage & Telegrams ₹	Wages ₹	Sundries ₹
20,000	April1		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500		
	5	4	By Wages	600					600	
	5	5	By Stationery	400			400			
	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		
	8	10	By Cartage	3,000		3,000				
	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							



thank you!

ACCOUNTING CONCEPTS , PRINCIPLES & POLICIES

BIRDS EYE VIEW

- Accounting Principles - Meaning
- Accounting Concepts : Separate Entity Concept , Going Concern Concept , Money Measurement Concept, Cost Concept, Dual Aspect Concept, Periodicity Concept, Matching Concept, Realization Concept , Accrual Concept , Objectivity Concept.
- Accounting Conventions : Conservatism or Prudence, Full Disclosure, Consistency , Materiality.
- Fundamental Accounting Assumptions
- Accounting Policies – Meaning , Examples & Considerations in selecting Accounting Policies , Change in Accounting Policy
- Methods of Book-Keeping
- Methods of Accounting
- Qualitative Characteristics of Financial Statements

ACCOUNTING PRINCIPLE - MEANING

Accounting is the language of business which communicates the position of a business house to the outside world. In order to make this language easy and commonly understandable by all , it is necessary that it should be based on certain uniform doctrines and standards which are known as Accounting Principles.

Thus, Accounting principles may be defined as those rules , doctrine and standards Which are followed by all the accountants universally at the time of recording business transactions and events

The Accounting principles can be classified into the following categories :

1. Accounting Concepts
2. Accounting Conventions

ACCOUNTING CONCEPTS - MEANING

Accounting concepts define the assumption on the basis of which financial statement of Business entities are prepared. Certain concepts are perceived, assumed and accepted in accounting to provide a unifying structure and internal logic to accounting process. The word concept means idea or notion, which has universal application. Financial transactions are interpreted in the light of the concepts, which govern accounting methods. Concepts are those basic assumptions and conditions, which form the basis upon which accountancy has been laid. These accounting concepts lay the foundations on the basis of which the accounting principles are formulated.

ACCOUNTING CONCEPTS

1. Separate Entity or Business Entity Concept
2. Going Concern Concept
3. Money Measurement Concept
4. Cost Concept
5. Dual Aspect Concept
6. Periodicity Concept
7. Matching Concept
8. Realization Concept
9. Accrual Concept
10. Objective Concept

ACCOUNTING CONVENTIONS

Accounting conventions emerge out of accounting practices, commonly known as accounting principles, adopted by various organizations over period of time. These conventions are derived by usage and practice. The accountancy bodies of the world may change any of the conventions to improve the quality of accounting information. Accounting convention need not have universal application.

The following are the Accounting Conventions :

1. Conservatism or Prudence
2. Full Disclosure
3. Consistency
4. Materiality

In the study material, the terms ‘Accounting Concepts.’ ‘Accounting Principles’ and ‘Accounting Conventions’ have been used interchangeably to mean those basic points of agreement on which financial accounting theory and practice are founded. Let’s deal with each Accounting Concepts & Convention in detail.

SEPARATE ENTITY CONCEPT OR BUSINESS ENTITY CONCEPT

According to this concept, business and businessman, both should be treated as separate entities at the time of recording transactions in the books of business. This concept makes it possible –

- To record the transactions between businessman and business,
- Not to record the private transactions of businessman in the books of business,
- To present the true and fair view of the business affairs.

Why this concept?

If this concept is not followed. Then the private transactions of the proprietor will be mixed up with the transactions of business and then, the true and fair position of the business could not be known. That is why, when one person invests Rs. 1,00,000 into business, it is deemed that the proprietor has given that amount to the business and therefore, this amount is shown as a liability in the books of the business. In case the proprietor withdraws Rs. 20,000 from the business, it will be charged to him and therefore, the net amount payable by the business to businessman will be shown as Rs. 80,000.

Conflict with law

The concept of separate entity is applicable to all forms of business organizations. The relationship, created by law between business and businessman, should not be taken into consideration at the time of recording transaction. For example, in case of a partnership business or in case of a sole proprietorship business, the partner or sole proprietor are not considered as separate entities in the eyes of law, but for accounting purposes they will be considered as separate entities.

GOING CONCERN CONCEPT

As per this concept, unless otherwise known, it is assumed that the firm is a going concern and its business will continue for an indefinite time. A firm is said to be a going concern, if there is neither intention nor necessity to wind up the affairs of business or substantially curtail the scale of its operation. It is due to this concept that :

- Proper distinction is made between capital and revenue expenditure,
- Assets are classified into current assets and fixed assets,
- Liabilities are classified into short-term liabilities and long-term liabilities

MONEY MEASUREMENT CONCEPT

As per this concept, only monetary transactions are recorded in the books of accounts. The transactions, which cannot be expressed in monetary terms, do not find place in the books of accounts, although they may be very useful for the business.

For example, if a business has got a team of dedicated and trusted employees, it is definitely an asset to the business, but since their monetary measurement is not possible, they are not shown in the books of the business. Similarly, inefficiency of management, poor industrial relation, lack of coordination between managers etc. are non-monetary events and not recorded in the Books of Business.

Measurement of business transactions in money helps in understanding the state of affairs of the business in a better way. For example, if a business owns cash of Rs.10,000, 600 kg. of raw materials, two trucks, 1000 square feet of building space etc. these items cannot be added together to produce a meaningful total, what the business owns. However, if these items are expressed in monetary items such as Rs. 10,000 of cash, Rs. 12,000 of raw materials (600 kg.), Rs. 2,00,000 of two trucks and Rs. 5,00,000 of 1000 square feet of building, all such items can be added and a better estimate about the assets of the business will be available.

Some people think that the Accounting gives a full picture of business. It is never true, Because in Accounting, only monetary items are recorded ; no record is made for non-monetary items. Thus, accounting does not give the picture of non-monetary items.

COST CONCEPT

According to this concept –

- Fixed asset is recorded in the books at the price which is paid to acquire it, and
- This cost is the basis for all subsequent accounting for that asset.

For example, if a plot of land is purchased for Rs. 1,50,000, then as per this concept, the asset will be recorded in the books at Rs. 1,50,000, even if its market value at that time is Rs. 2,00,000. In case a year later, the market value of this asset comes down to Rs. 1,00,000 it will continue to be shown at Rs. 1,50,000 and not at Rs. 1,00,000.

The cost concept does not mean that the asset will always be shown at cost. It has also been stated above that cost becomes the basis for all further accounting for the asset. It means that asset is recorded at cost at the time of its purchase, but it may systematically be reduced in its value by charging depreciation.

Advantage : Cost concept has the advantage of bringing objectivity in the preparation and presentation of financial statements. In the absence of this concept, the figures shown in the accounting records would have depended on the subjective views of a person.

Drawbacks : However, if cost concept is followed in the following situations, then the financial statements will not depict the true and fair position of the business -

- In case of inflationary trend in the price of the assets (such as land), the historical cost does not have relevance. For example, suppose during the financial year, a Land is purchased for Rs. 50,000 and at the end of financial year, its market value is Rs.2,00,000. In the financial statements, the land will be shown at Rs. 50,000, which will not depict the true and fair view of the land.

- In case, asset does not have any acquisition value, (for example, assets acquired by the firm by way of gift), such assets will not be shown in the financial statement, if cost concept is followed, because nothing is paid for it. This will adversely affect the concept of true and fair view.

DUAL ASPECT CONCEPT

This is a basic concept of accounting. According to this concept, every business transaction has dual effect

a. It increases one Asset and decreases other Asset,
b. It Increases One liability and decreases other liability,
c. It increases one Asset and simultaneously increases liability,
d. It decreases one Asset and simultaneously decreases a liability.

For example, suppose Mr. A purchases some goods worth Rs.1,000 in cash in this business transaction, Mr. A gets the goods of worth Rs.1,000, but on the other hand, he lost the cash of Rs.1,000. So, Goods Account and Cash Account shall be affected by this transaction.

Thus, in every business transaction, one aspect represents the assets or expenses and other represents the liability or income and these two aspects are always equal.

ACCOUNTING PERIOD CONCEPT OR PERIODICITY CONCEPT

This concept is based on Going Concern concept. As per the going concern concept, the life of the business is considered to be indefinite. However, the measurement of income and study of the financial position of a business house after a very long period would not be helpful in taking the corrective action within the right time.

In order to tackle the above problem, Accounting period concept is developed. As per this concept, the life of the business is divided into appropriate segments or into time interval and after every time interval, the businessman must 'Stop' and 'see back', 'how things are going'. A segment or time interval is called 'Accounting Period'. Which is usually one year. In India generally the accounting period starts on April 1st & ends on March 31st next year.

Thus, at the end of each accounting period, an income Statement and a Balance Sheet are prepared. The Income Statement discloses the profit or loss, made by the business during the accounting period, while the Balance Sheet depicts the financial position of the business at the end of Accounting Period.

Further, it is to be noted that this concept is also necessary for the allocation of expenses between capital and revenue. That portion of capital expenditure, which is consumed during the current period, is charged as an expense to income statement and unconsumed portion is shown in the balance sheet as an asset for the future consumption.

MATCHING CONCEPT

This is based on the Accounting Period Concept. The main object of running a business is to earn profit. In order to ascertain the profits, made by the business during a period, it is necessary that 'cost' of the period should be matched with the 'revenue' of that period. The effect of this principle can be summarized as follows :

a. When an item of revenue is entered in the profit and loss account, then all the expenses, incurred to earn that income (whether paid or not) should be entered on the expenses side.

b. When some amount is spent in the current year, and the income against it will be earned in the subsequent years, then the expenditure should be shown in the subsequent years, when the income is earned.

It is due to this concept that necessary entries are made for outstanding expense, pre-paid expenses, accrued income and unaccrued income in the books of accounts.

REALISATION CONCEPT

This concept deals with the problem, when the revenue should be recognized ? According to this concept, the sale should be recognized at the point, when the property in goods passes to the buyer and he becomes legally liable to pay and other income is recognised, when they accrue.

Mr. A places an order with Mr. B for supply of certain goods, which are yet to be manufactured. On receipt of order, Mr. B Purchases raw materials, employs workers, produces the goods and delivers finished goods to Mr. A. Mr. A makes payment on receipt of goods. In this case, the sale will be presumed to have been made not at the time of receipt of the order for the goods, but at the time, when goods are delivered to Mr. A.

ACCRUAL CONCEPT

According to this principle –

- all the revenues should be recognized when they are earned, not when they are received in cash, and
- Similarly, the expenses should be recognized when they are incurred, not when they are paid.

This concept is based on the matching concept of accounting.

For example, suppose a building is taken on rent for the purpose of business on 1st May the financial year ends on 31st March. In such a situation, as per accrual concept, the total rent for eleven months should be shown in the profit and loss account, irrespective of the actual amount paid for rent during the year.

OBJECTIVITY CONCEPT

According to this concept, the accounting data and accounting information should be verifiable and free from personal bias. For example, in the case of Fixed Assets. The amount can be verified by purchase bill. Etc. they should be objective (out of one's mind), not subjective (of one's mind).

However, there are some areas in Accounting, where evidence cannot be made available to verify information and where estimations are made. For example, the estimation of depreciation, estimation of Bad and Doubtful debts, etc. These estimates should be free from any bias and should be based on reasonable analysis.

CONSERVATISM OR PRUDENCE

This principle suggests that ‘’the future profits should not be recognized in present, but all the possible future losses should be provided at present’’.

On account of this convention, the inventory is valued at cost or NRV whichever is lower; a provision is made for possible bad and doubtful debts against debtors, but a provision for discount on creditors is not made.

Effect : It is to be noted that this principle mainly affects the current assets. The Fixed assets are not affected by this principle. Inventory valuation, estimation of doubtful debts etc. are some areas, where this principle plays important role.

Drawbacks : This doctrine of accounting has been seriously criticized by experts on the following grounds:

a. **Conflict with the convention of consistency** : If this principle is followed, then it is possible that the stock of one accounting period is valued on the cost and of other year at NRV. Thus this principle conflicts with the principle of consistency.
b. **Creation of Secret Reserves** : When excessive provision is made for doubtful debts or depreciation then it leads to the creation of secret reserves. Thus, this principle conflicts with the principle of full disclosure.
c. **Based on subjective judgments :** The estimation of future losses is a subjective judgment and thus this principle conflicts with the principles of disclosure.

Whatever the criticism may be, ultimately we see that the main intention of this principle is to prohibit the ‘’window Dressing’’ of Financial Statements, i.e. showing a position better than what it is.

FULL DISCLOSURE

According to this principle, the financial statement should act as means of conveying information and not as means of concealing information. Therefore. Financial statement must disclose, truly and fairly, all the information,
- Which they purport to represent, and
- Which are of material interest to the users of account.

However, Full Disclosure does not mean that all the information, that one might expect, should be given in the financial statement. If the information is of material interest to the users of accounts, such information must be disclosed in Financial Statements.

It is due to this principle the Companies Act 2013 requires that income statement and Balance Sheet of a company must be given in a prescribed form. Generally, different notes, such as notes about contingent liabilities or market value of investments etc. are annexed with the financial statement, which do not find place in the accounting this is done in pursuance of convention of full disclosure.

CONSISTENCY

According to this convention, accounting policies should remain unchanged from one period to another, For example, if the stock is valued by FIFO method in one accounting year, then this policy should be followed in the subsequent years also. Similarly, if depreciation is charged in accordance with WDV Method, then this method should be followed year after year.

MATERIALITY

This principle is basically a modified form of the principle of Full Disclosure. The full disclosure principle requires that all facts, necessary to ensure that the financial statements are not misleading, must be disclosed. However, according to the materiality principle, only material items are required to be disclosed in the financial statements and the items which are immaterial to the users of accounts may not be disclosed.

Now the question arises, “What is the meaning of Material Information?” This is because what information is material from the view-point of one person may be immaterial from view-point of other person. This is a question of fact and circumstances. However, as per AS-1, issued by ICAI, any information, misstatement of which may change the decision of users of financial statements, shall be deemed to be the material information and should be properly disclosed in the financial statements.

FUNDAMENTAL ACCOUNTING ASSUMPTIONS

The Accounting standard (AS – 1) “Disclosure of Accounting Policies” issued by ICAI , states that there are 3 fundamental accounting assumptions which are as follows :

1. Going Concern
2. Consistency
3. Accrual

If the fundamental accounting assumptions , viz. Going Concern , Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed , the fact should be disclosed.

ACCOUNTING POLICIES

Accounting policies refer to the specific accounting principles and method of applying those principles adopted by the enterprise in the preparations and presentation of financial statement. There is no single list of accounting policies which are applicable to all enterprise in all circumstances. The management of each enterprise has to select appropriate accounting policies having regard to the nature and circumstances of the enterprise.

Following are the examples of some of the area in which different accounting policies may be adopted by different enterprise :

a. Methods of depreciations, depletion and amortizations,
b. Valuations of inventories etc

The change in accounting policies is recommended only in the following circumstances :

a. If it is required by statute for compliance with an accounting standard.
b. If it is considered that the change would result in more appropriate presentation of financial statement of an enterprise.

CONSIDERATIONS IN SELECTING OF ACCOUNTING POLICIES

The primary consideration in the selection of accounting policies should be to prepare and present financial statements in a way that they represent a true and fair view of state of affairs of the enterprise as at balance sheet date and of the profit and loss account for period ended on that date. The major considerations governing the selections and application of accounting policies are as under :

1. Prudence : uncertainties inevitable surround many transaction. This should be recognized by exercising prudence in preparing financial statements. Prudence does not, however, justify the creation of secret or hidden reserve.

2. Substance over form : Transaction and other events should be accounted for and presented in accordance with their substance and financial reality and not merely with their legal form.

3. Materiality : financial statement should disclose all material items, that is, items, the knowledge of which might influence the decision of users of the financial statements.

SYSTEMS OR METHODS OF BOOK KEEPING

1. Single Entry System
2. Double Entry System

Single Entry System

a) An incomplete double entry system can be termed as a single entry system. Under this system the preliminary books of accounting such as cash book, purchase book, sales book etc. are maintained in the proper way. The ledger is also maintained, but in the ledger, only personal accounts are opened and the posting is made from the original books only in the personal account. In this system the nominal accounts and real accounts are not opened in the ledger.

b) In nutshell, the businessman keeps the record of only essential information i.e. record of cash, bank and personal accounts. Thus under this system, some transaction are recorded in both sides, some are recorded only on single side and other are completely omitted.
For example, if Rs 1,000 is paid for telephone expenses, then under the single entry system, its entry shall be made in the payment side of cash book, but no account shall be opened for telephone expenses, which is of nominal nature. However if Rs 1000 is paid to Mr. Ram , who is a creditor, then its entry shall be made in the payment side of cash book and the corresponding entry will be made in in Ram Account, which is of personal nature.

c) Since all records are not kept in this system, so it is not reliable and is suitable only by small business houses.

Double Entry System

According to this system, every business transaction has a two field effect & both these effects of every transaction are recorded in the books of accounts. In fact, this system of accounting is based on the dual aspect concept of accounting.

For example , suppose Mr. A purchase some goods worth Rs 1,000 in cash. In this business transaction, Mr. A gets the goods worth Rs 1,000 but lost the cash of Rs 1,000, goods account and cash account shall be affected by this transaction.

METHODS OF ACCOUNTING

Mercantile System

This system of accounting is based on Accrual concept. In this system –

- All the revenue are recognized when they are earned, not when they are received in cash, and
- Expenses are matched against such revenue or the expenses should be recognized when they are incurred, not when they are paid

For example, suppose a building is taken on rent for the purpose of business on 1st May. The rent is paid only for 10 months. The financial year ends on 31st March. In such a situation, if mercantile system of accounting is followed, then the total rent for eleven months should be shown in the profit and loss account, irrespective of the actual amount paid for rent during the year.

Cash System

In cash system of accounting :

- All the revenue are recognized when they are received in cash, not when they are earned, and
- Similarly, the expenses are recognized, when they are paid in cash, not only when they are incurred.

In the case of above example, if the cash system of accounting is followed, then the rent for only 10 months shall be in the profit and loss account.

Thus, under this system, only cash receipt and payment are recorded. No treatment is done for outstanding and prepaid items.

QUALITATIVE CHARACTERSTICS OF FINANCIAL STATEMENT

1. **Understandability :** Financial Statement must be readily understandable by the users. But this does not mean that complex and not easily understandable information should not be included in financial statement, even if it is relevant for decision making by the users.

2. **Relevance :** Financial statement must contain all the information, which is relevant, i.e. material, to the users of financial statement. As per AS-1 (issued by ICAI), information becomes material, if its omission or misstatement could influence the economic decisions of users of the financial statement. Thus, materiality provides a threshold or a base to decide what information to be included in financial statements and what not.

3. **Reliability & Faithful Representation :** Reliability is another qualitative characteristic, which the financial statements must possess to be useful to the users. If the information, contained in the financial statements is not reliable, it could not serve purpose of users. Fraud and errors make the financial statements unreliable. Therefore there should be faithful representation of transaction and events in the financial statement.

4. **Comparability :** The financial statement should also have the characteristic of comparability. Usually the users want to make the following comparison :
   - **Intra-Firm Comparison** i.e. the comparison of the figures of one accounting year with those of the other accounting year of the same firm,
   - **Inter-Firm Comparison** i.e. the comparison of the figures of one firm with those of another firm of the same industry, and
   - **Pattern Comparison** i.e. comparison of the figures of one firm with those of industry to which the firm belongs. By this way the users want to develop some judgments.

5. **Substance over Form :** The financial information must be presented in accordance with their substance, not by their legal form.

   For Example, in the case of Hire purchase sale, legally, the ownership in goods is transferred by seller to the buyer only at the payment of last installment. But in reality, the buyer uses the assets as owner from the date of entering into transaction, not on the date of payment of last installment. Similarly, all the significant risks and returns, inherent in the ownership of goods, are also transferred on the same date. Such transaction therefore, should be treated as purchase of assets on the date of entering into the transaction, not on the date of payment of last installment.

6. **Prudence :** Financial statements should have the characteristics of Prudence, i.e. accounting uncertainties should be dealt in such a way that assets and incomes are not overstated and similarly, liabilities and losses are not understated.

7. **Completeness :** The information contained in the financial statements should be complete in all respects. All the transactions and events of financial nature should be reflected in the financial statements. Not only the financial information, but the non-financial information, which may be useful to the users of accounts, should also be disclosed in the financial statements. For example, if the organization has followed any rules and regulations, and due to non-compliance of these rules and regulations, the government may give order for closing up of the business, then such non-financial information must be disclosed in the financial statement as per Auditing Standards.

8. **True & Fair Picture :** True & Fair presentation of information is the fundamental rule that should be strictly followed at the time of preparation and presentation of financial statements.



thank you!

CAPITAL & REVENUE EXPENDITURE & RECIEPT

BIRDS EYE VIEW

- Type of Expenditures
- Capital Expenditure
- Revenue Expenditure
- Deferred Revenue Expenditure
- Consideration in Determining Capital & Revenue Expenditure
- Difference between Deferred Revenue Expenditure & Prepaid Expenses
- Capital & revenue Receipts

INTRODUCTION

Types of Expenditures

Capital Expenditure

- Non Recurring
- Benefits arises for Longer period
- Expenditure to acquire new asset or to increase efficiency/capacity of Existing asset
- Shown on asset side of B/s.

Revenue Expenditure

- Recurring in nature
- Benefit not exceeding 1 year
- Expenses for day to day running of business
- Shown in Trading & PL A/c

Deferred Revenue Expenditure

- These are those revenue expenditure whose benefit is for more than 1 year
- Written off portion appears on Dr of PL A/c & balance on Asset side of B/s.

CAPITAL EXPENDITURE

1. It is an expenditure which is incurred :
   a. To acquire or bring into existence an asset, or
   b. To acquire or bring into existence an advantage or benefit of an enduring nature, or
   c. To increase the productivity or earning capacity.

2. It normally yields benefits beyond current accounting period.

3. It is debited to the Respective Asset Account & shown on asset side of balance sheet.

4. Examples : Purchase of Land & Building , Machinery , Furniture , Car.

REVENUE EXPENDITURE

1. It is an expenditure which is incurred :
   a. To maintain the productivity or earning capacity of a business.
   b. To carry out operating activities in the normal course of business

2. It normally does not yield benefits beyond current accounting period.

3. It is debited to Trading/Profit & Loss account.

4. Examples : Depreciation on machines , Rent , Insurance , Salary etc.

DEFFERED REVENUE EXPENDITURE

1. According to the guidance note on 'Terms used in Financial Statements' , issued by ICAI 'Deferred revenue expenditure is the expenditure for which payment has been made or a liability has been incurred but which is carried forward on the presumption that it will be of benefit over a subsequent period or periods'. In short it refers to that expenditure which is For the time being, deferred from being charged to Profit & Loss account.

2. Example : Heavy advertising to launch a new product is a deferred revenue expenditure since the benefit from it will be availed over the next 3 to 5 years.

3. Normally such expenditure should be written off over a period of 3 to 5 years The written off portion during the year shall be debited to PL account & balance portion shall be shown on asset side.

CONSIDERATION IN DETERMINING NATURE OF EXPENSES

1. **Nature of business** : For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset. Therefore, the nature of business is very important criteria in separating an expenditure between capital and revenue.

2. **Recurring nature of expenditure** : If the frequency of an expenses is quite often in an accounting year then it said to be expenditure of revenue nature while non recurring expenditure is infrequent in nature and do not occur often in an accounting year. Monthly salary or rent is the example of revenue expenditure as they are incurred every month while purchase of assets is not the transaction done on regularly therefore, classified as capital expenditure unless materiality criteria defines it as revenue expenditure.

3. **Purpose of expenses :** Expenses for repairs of machine may be incurred in course of normal maintenances of the asset. Such expenses are revenue in nature. On the other hand, expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature. However, determination of the cost of maintenance and ordinary repairs which should be expensed, as opposed to a cost which ought to be capitalized, is not always simple.

4. **Effect on revenue generating capacity of business :** The expenses which help to generate income/ revenue in the current period are revenue in nature and should be matched against the revenue earned in the current period. On the other hand, if expenditure helps to generate revenue over more than one accounting period, it is generally called capital expenditure

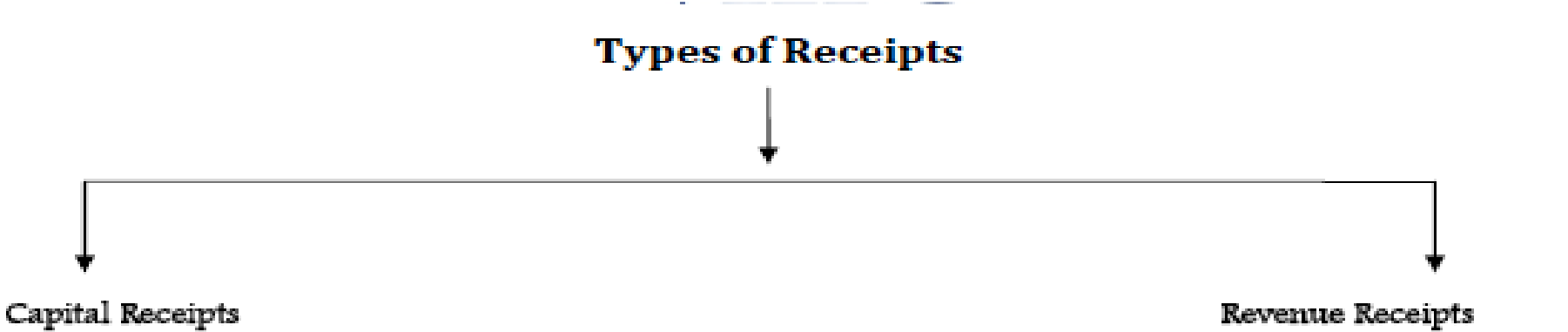
   When the expenditure on improvement and repair of fixed asset is done, it has to be charged to Profit and Loss Account if the expected future benefits from fixed assets do not change, and it will be included in book value of fixed asset, where the expected future benefits from assets increase.

5. **Materiality of the amount involved :** Relative proportion of the amount involved is another important consideration in distinction between revenue and capital. Even, if expenditure does not increase the production capacity of an asset, it may be capitalized because the amount is material or expenditure may increase the asset value and yet to be expensed because the amount is immaterial.

DIFFERENCE BETWEEN DEFFERRED REVENUE EXPENDITURE AND PREPAID EXPENDITURE

A thin line of difference exists between deferred revenue expenses and prepaid expenses. The benefits available from prepaid expenses can be precisely estimated but that is not so in case of deferred revenue expenses. Heavy advertising to launch a new product is a deferred expenditure since the benefit from it will be available over the next three to seven years but one cannot say precisely how long the benefit would be available and the exact amount of benefit. On the other hand, insurance premium paid say, for the year ending 30th June, 2021 when the accounting years ends on 31st March, 2021 will be an example of prepaid expense to the extent of premium relating to three months period i. e. from 1st April, 2021 to 30th June 2021. Thus the insurance protection will be available precisely for three months after the close of the Year and the amount of the premium, to be carried forward can be calculated exactly.

TYPES OF RECEIPTS



- It arises out of ordinary course of Business.
- It is receipts from sale of fixed assets , Investments Loans , owner's capital etc
- It may or may not be credited to P/L A/c

- It arises in the ordinary course of business.
- It is receipts against sale of stock misc. receipts of business etc.
- It is credited to P/L A/c

CAPITAL RECEIPT

- Capital receipts refer to those receipts which are not revenue in nature & rise out of normal course of business.
- These are credited to the respective account of capital nature.
- Examples : Sale of land & building by a person other than a dealer in real estate , Raising of loan by a person other than one engaged in the business of banking/financing , Raising of capital.

REVENUE RECEIPT

- Revenue Receipts refer to those receipts which arise in the normal course of business.
- These are credited to Trading/Profit & Loss Account.
- Examples : Sale of land & building by a dealer in real estate , Raising of loan by a person engaged in the business of Finance/Banking

GURU MANTRAS

1. Any necessary Expenditure incurred on Fixed Asset to Acquire it or Incurred Before it is Put to use , Shall be Capital Expenditure.

2. Any Expenditure incurred for the maintenance of capital asset is Revenue Expenditure.

3. Any **Annual** Expenditure is always a Revenue Expenditure

4. Any Expenditure which increases Future benefits or reduces future cost (that is increases efficiency) & gives rise to a capital asset , shall be Capital Expenditure

5. Any Expenditure incurred Due to pressure of law & which Does Not Give any Benefits , Shall be Revenue Expenditure.

6. Any Expenditure incurred For improvement in Existing Asset , Shall be Capital Expenditure

ILLUSTRATIVE LIST OF CAPITAL & REVENUE EXP.

Sr. No	Item of expenditure	Nature of expenditure	Reason for classification
1.	Expenses on a foreign tour to purchase a machinery.	Capital	These are incurred to acquire a capital asset.
2.	Cost of Machinery Purchased.	Capital	These are incurred to acquire a capital asset.
3.	Insurance and freight on machinery purchased.	Capital	These are incurred to acquire a capital asset.
4.	Custom duty on imported machinery.	Capital	These are incurred to acquire a capital asset.
5.	Wages for erection of machinery.	Capital	These are incurred to put capital asset to use.
6.	Installation charges of a machinery purchased	Capital	These are incurred to put the capital asset to use.
7.	Cost of a second hand machinery purchased.	Capital	These are incurred to acquire a capital asset.

8.	Repair of second hand machinery before put to use.	Capital	These are incurred to put the capital asset to use.
9.	Interest on a term loan for the purchase of machinery. The commercial production has not began till the date of the accounting year.	Capital	These are incurred to acquire capital asset and the commercial production has not yet began.
10.	Interest on term loan for the purchase of machinery the commercial production has already began.	Revenue	The commercial production has already begun & due to matching concept it needs to be taken to P/L A/c.
11.	Repairs of machine after the machine is put to use.	Revenue	These are incurred to maintain capital asset.
12.	Amount spent for replacement of worn out part of machine.	Revenue	These are incurred to maintain capital asset.
13.	Annual maintenance fee of a machine.	Revenue	These are incurred to maintain capital asset.
14.	Money spent to reduce working expenses.	Capital	These are incurred to acquire long term benefits. May Be Treated as DRE if Doesn't Give Existence to Capital Asset

15.	Amount spent for replacement of petrol driven engine by CNG Kits.	Capital	These are incurred to reduce the operating costs and provide Long Term benefits
16.	Cost of rings and pistons of an engine changed to get fuel efficiency.	Capital	These are incurred to reduce the operating costs and provide Long Term benefits
17.	Overhauling expenses for the engine of a motorcar to get better fuel efficiency.	Capital	These are incurred to reduce the operating costs and provide Long Term benefits
18.	Legal expenses to acquire a building.	Capital	These are incurred to acquire ownership right of the capital asset.
19.	Legal expenses to defend suit claiming that firms factory site belongs to plaintiff.	Revenue	These are incurred to maintain the capital asset.
20.	Amount spent on repainting an old building for the first time on purchase.	Capital	These are incurred to put the capital asset to use.
21.	Amount spent on annual repainting of building.	Revenue	These are incurred to maintain the capital asset.

22.	Expense to obtain a license for starting business.	Capital	These are incurred to acquire the right to carry on business.
23.	Annual renewal fee for license for next year.	Revenue	These are incurred for the maintain the capital asset. (i.e. right to carry on business)
24.	Amount spent for the construction of temporary huts for storing building material while constructing a building.	Capital	These are incurred for the construction of building and hence to be capitalized with the cost of building.
25.	Expenses for removal of stock to new site.	Revenue	Such expenditure is neither bringing enduring benefits nor enhancing the value of capital asset.
26.	Fines imposed.	Revenue	Such expenditure is neither bringing enduring benefit nor enhancing the value of capital asset.
27.	Annual fire insurance Rs 12,000 paid on 1st January 2006 during accounting year ending on 31.3.2006.	Revenue	Rs 3,000 as current years revenue expenses Rs. 9,000 as prepaid expenses for next year.

28.	Inauguration expenses on opening of new branch of an existing business or free gift to customers or Tournament sponsoring exp or Advertisement companies to launch a new product.	Revenue	Such expenditure is not enhancing value of capital asset. Since it has an enduring effect on the future revenue generating capability of business it may be treated as deferred revenue expenses ,If it does not Give Existence to any Capital Asset
29.	Compensation paid to workers under voluntary retirement scheme.	Revenue	Such expenditure is not enhancing value of capital asset having regard to large amount it may be better to treat it as deferred revenue expenditure which may be w/o over future years.
30.	Amount spent on demolition of building to construct a bigger building on the same site.	Capital	These are incurred for the construction of new building.

31.	Loss on sale of machine.	Revenue loss	it's a Loss & Not Expenses.
32.	Legal expenses to recover dues from customer.	Revenue	These are incurred to maintain present revenue generating capability.
33.	Festival advance to employees.	Not an exp	It is an item of loan and advance.
34.	Advance to supplier of goods.	Not an exp	It is an item of loan and advance.
35.	Cost of improvement in electric wiring system.	Capital	This is incurred to acquire capital asset.
36.	Purchase of patent right.	Capital	This is incurred to acquire capital asset.
37.	Purchase of goodwill.	Capital	This is incurred to acquire capital asset.
38.	Purchase of technical know how.	Capital	This is incurred to acquire capital asset.

39.	Purchase of live stock by farmer.	Capital	This is incurred to acquire capital asset.
40.	Amount spent on neon sign board at airport.	Capital	This is incurred to acquire capital asset.
41.	Import duty on purchase of materials.	Revenue	This is incurred on operating activities in the normal course of business.
42.	Compensations paid to employees who were retrenched.	Revenue	Such expenditure is neither bringing enduring benefit nor enhancing the value of capital asset.
43.	Imported goods confiscated by custom authorities.	Revenue loss	it's a Loss & Not Expenses.

ILLUSTRATIVE LIST OF CAPITAL & REVENUE RECEIPTS

Sr. No.	Item of receipt	Nature of receipt	Reasons for classification
1.	Sale of plant and machinery.	Capital	It is arising from investing activities and not from operating activities in the normal course of business.
2.	Sale of investment.	Capital	It is arising from investing activities and not from operating activities in the normal course of business.
3.	Capital introduced.	Capital	It is arising from financing activities and not from operating activities in the normal course of business.
4.	Loans raised.	Capital	It is arising from financial activities and not from operating activities in the normal course of business.
5.	Interest received on investments.	Revenue	It is arising from operating activities in the normal course of business.

6.	Interest accrued on investment.	Revenue	It is arising from operating activities in the normal course of business.
7.	Cash received from debtors.	Revenue	It is arising from operating activities in the normal course of business.
8.	B/R collected.	Revenue	It is arising from operating activities in the normal course of business.
9.	Sale of goods for cash.	Revenue	It is arising from operating activities in the normal course of business.
10.	Sale of Goods on credit.	Revenue	It is arising from operating activities in the normal course of business.
11.	Insurance claim for stock damaged by fire.	Revenue	It is arising from operating activities in the normal course of business.

12.	Insurance claim for machinery damaged by fire.	Capital	It is arising from investing activities and not from operating activities in the normal course of business.
13.	Subsidy received from government for plot of land.	Capital	It is arising from investing activities and not from operating activities in the normal course of business.
14.	General subsidy received from government.	Revenue	It is not for purchase of any capital asset.
15.	Bad Debts Recovered	Revenue	It is arising from operating activities in the normal course of business.
16.	Premium received on issue of shares.	Capital	It is arising from financing activities and not from operating activities in the normal course of business.

ILLUSTRATION

Classify the following expenditures as capital or revenue expenditure:

(i) Amount spent on making a few more exists in a Cinema Hall to comply with Government orders.

(ii) Travelling expenses of the directors for trips abroad for purchase of capital assets.

(iii) Amount spent to reduce working expenses.

(iv) Amount paid for removal of stock to a new site.

(v) Cost of repairs on second-hand car purchased to bring it into working condition.

(i) Revenue Expenditure.

(ii) Capital Expenditure.

(iii) Revenue Expenditure.

(iv)

(v) Capital Expenditure.

ILLUSTRATION

Classify each of the following transactions into capital or revenue transactions:

-- Complete repaint of existing building.

-- Installation of a new central heating system.

-- Repainting of a delivery van.

-- Providing drainage for a new piece of water-extraction equipment.

-- Legal fees on the acquisition of land.

-- Carriage costs on a replacement part for a piece of machinery.

Complete repaint: revenue.

-- Installation of new heating system: capital.

-- Repainting van: revenue.

-- Drainage for new equipment: capital.

-- Legal fees on acquisition of land: capital

-- Carriage costs on replacement part: revenue.

ILLUSTRATION

Classify the following expenditures and receipts as capital or revenue:

(i) ₹ 10,000 spent as import duty on machinery purchased.

(ii) Amount received from debtors during the year.

(iii) Cost of testing whether the equipment is functioning properly.

(iv) Insurance claim received on account of a machinery damaged by fire.

(i) Capital expenditure

(ii) Revenue receipt.

(iii) Capital expenditure.

(iv) Capital receipt.

ILLUSTRATION

Classify the following expenditures as capital or revenue expenditure:

(i) An extension of railway tracks in the factory area.

(ii) Amount spent on painting the factory.

(iii) Payment of wages for building a new office extension.

(iv) Amount paid for removal of stock to a new site.

(v) Rings and Pistons of an engine were changed to get full efficiency.

ANSWERS

(i) Expenses incurred for extension of railway tracks in the factory area should be treated as a Capital Expenditure because it will yield benefit for more than one accounting period.

(ii) Painting of the factory should be treated as a Revenue Expenditure because it has been incurred to maintain the factory building.

(iii) Payment of wages for building a new office extension should be treated as a Capital Expenditure.

(iv) Amount paid for removal of stock to a new site is treated as a Revenue Expenditure because it is not enhancing the value of any asset.



thank you!

CONTINGENT ASSETS
&
CONTINGENT LIABILITIES

BIRDS EYE VIEW

- Contingent Assets : Meaning , Example , Recognition Criteria
- Contingent Liabilities : Meaning , Example , recognition Criteria
- Provision : Meaning , Recognition Criteria
- Distinction Between Provision & Contingent Liability
- Treatment of Present/Possible Obligation under Various Situations

CONTINGENT ASSET

1. A contingent asset is possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise. It usually arises from unplanned or unexpected events that give rise to the possibility of an inflow of economic benefits to the enterprise.
   Example : A Claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset.

2. No Recognition in Financial Statements : As per the concept of prudence as well as the present accounting standards, an enterprise should not recognize a contingent assets. It is possible that recognition of contingent asset may result in recognition of income that may never be realized. However, when the realization of income is virtually certain, then the related asset no longer remains as contingent asset.

3. Disclosure Requirements : A Contingent asset need not be disclosed in the financial statements. A Contingent asset is usually disclosed in the report of the approval authority (*i.e.* Board of Directors in the case of company, and the correspondence approving authority in the case of any other enterprise), if an inflow of economic benefits is probable.

4. When Recognized : Contingent assets are assessed continually and if it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the changes occurs.

CONTINGENT LIABILITY

1. ‘Contingent liability’ is

   a) A possible obligation that arises from past events the existence of which will be confirmed only by the occurrence or non- occurrence of one or more uncertain future events not wholly within the control of the enterprise; *or*

   b) A present obligation that arises from past events but is not recognized because :
      i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; *or*
      ii) A reliable estimate of the amount of the obligations cannot be made.

- Possible obligation - An obligation is a possible if, based on the evidence available, its existence at the balance sheet date is considered not probable

- Present Obligation - An obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable. i.e. more likely than not.

2. No Recognition in Financial Statements : An enterprise should be not recognize a contingent liability.

3. Disclosure Requirements : A Contingent liability is required to be disclosed by way of note to the balance sheet unless possibility of outflow of resources embodying economic benefits is remote.

4. When Recognized : Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow or future economic benefits will be required for item previously dealt with as a contingent liability, a provision is recognized in financial statements of the period in which the change in probability occurs except in the extremely rare circumstances where no reliable estimate can be made.

PROVISION

1. Meaning : A provision is a liability which can be measured only by using a substantial degree of estimation.

2. Conditions for Recognition of Provision : A provision should be recognized when :
   a) An enterprise has a present obligation as a result of past events
   b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and
   c) A reliable estimate can be made of the amount of the obligation.

DIFFERENCE BETWEEN CONTINGENT LIABILITY & PROVISION

Basis of Distinction	Provision	Contingent Liability
Meaning	Provision is present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation.	A Contingent liability is a possible obligation that may or may not crystallize depending on the occurrence of one or more uncertain future events.
Recognition Criteria	A provision meets the recognition criteria.	A Contingent liability fails to meet the same.
Conditions for Recognition	Provision is recognized when (a) an enterprise has a present obligation arising from past events an outflow of resources embodying economic benefits is probable, and (b) a reliable estimate can be made of the amount of the obligation.	Contingent liability includes present obligations that do not meet the recognition criteria because either it is not probable that settlement of those obligation will require outflow of economic benefits, or the amount cannot be estimated.
Judgment of Management	If the management estimates that it is probable that the settlement of an obligation will result in outflow of economic benefits, it recognizes a provision in the balance sheet.	If the management estimates, that it is less likely that any economic benefit will outflow the firm to settle the obligation, it discloses the obligation as a contingent liability.

EXAMPLE TO UNDERSTAND THE DIFFERENCE BETWEEN CONTINGENT LIABILITY & PROVISION

The Value Added Tax officer imposes a penalty on *X* Ltd. for violation of a provision in the Value Added Tax Act. The Company files an appeal. If the management of the company estimates that it is probable that the company will have to pay the penalty, it recognizes a provision for the liability. On the other hand, if the management anticipates that the judgment of the appellate authority will be in its favor and it is less likely that the company will have to pay the penalty, it will disclose the obligation as a contingent liability instead of recognizing a provision for the same.

TREATMENT OF PRESENT/POSSIBLE OBLIGATION UNDER VARIOUS SITUATION

Nature of obligation Situation	Present Obligation	Possible Obligation
Probable outflow And reliable estimate	Recognize as ‘Provision’	Disclose as ‘Contingent Liability’
Probable outflow and no reliable estimate	Disclose as ‘Contingent Liability’	Disclose as ‘Contingent Liability’
No probable outflow/ Liability and No Reliable estimate	Disclose as ‘Contingent Liability’	Do Nothing

MCQ 1

Present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation, is termed as –

a) Provision
b) Liability
c) Contingent liability
d) None of the above

MCQ 2

If an inflow of economic benefits is probable then a contingent asset is disclosed.

a) In the financial statements.
b) In the report of the approving authority (Board of Directors in the case of a company.
c) In the cash flow statement.
d) None of the above.

MCQ 3

In the case of ……, either outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability.

a) Liability.
b) Provision
c) Contingent liabilities
d) Contingent assets.

MCQ 4

If a reliable estimate of probable outflow of resources to settle a present obligation can be made, it is -

a) To be recognized as a liability.
b) To be recognized as provision.
c) To be disclosed as a contingent liability.
d) None of these.

MCQ 5

If a reliable estimate of probable outflow of resource to settle a present obligation cannot be made, it is -

a) To be recognized as a liability.
b) To recognized as a provision
c) To be disclosed as a contingent liability
d) None of these.

MCQ 6

If a reliable estimate of probable outflow of resources to settle a possible obligation can be made, it is -

a) To be recognized as a liability
b) To be recognized as provision
c) To be disclosed as a contingent liability
d) None of these.

MCQ 7

If a reliable estimate of probable outflow of resources to settle a possible obligation cannot be made, it is -

a) To be recognized as a liability.
b) To be recognized as a provision
c) To be disclosed as a contingent liability
d) None of these.

MCQ 8

If the likelihood of an outflow of resources to settle a possible obligation is remote, it is ----

a) To be recognized as a liability
b) To be recognized as a provision
c) To be disclosed as a contingent liability
d) None of these.

MCQ 9

Contingent Asset is not recognized in the financial statements on the basis of …….. concept :

a) Prudence
b) Materiality
c) Substance over form
d) Going concern

MCQ 10

Which of the following is not a contingent liability?

a) Uncalled liability on partly paid shares
b) Claims against the company not acknowledged as debts
c) Arrears of cumulative fixed dividends
d) Debts include in debtors which are doubtful in nature

MCQ 11

This is not a contingent liability

a) Uncalled liability on party paid shares
b) Arrears of dividend on cumulative preference shares
c) Guarantee for loan
d) Unclaimed dividend

MCQ 12

Which of the following is not contingent liability?

a) Claims against the firm not acknowledged as debts
b) Guarantees given in respect of third parties
c) Amount due to trade creditors which is not disputed
d) Bill’s discounted from bank

MCQ 13

Contingent liabilities are shown :

a) As current liability
b) As Capital Fund
c) As footnotes to balance sheet
d) As Reserves

MCQ 14

“Workman Compensation Under Dispute” is an example of :

a) Contingent Liability
b) Contingent Asset
c) Current Liability
d) Current Asset

MCQ 15

Bill discounted with a bank is :

a) Contingent Liability
b) Current Liability
c) Current Asset
d) None of these

MCQ 16

Income Tax demand, disputed by a company is …… :

a) Contingent Liability
b) Current Liability
c) Long Term Liability
d) None of these

MCQ 17

Contingent liability if becomes probable then it is …….. .

a) Provided for in the books of A/c
b) Provided in Debtor’s report
c) Shown in notes to accounts
d) None of these

MCQ 18

In the financial statements, contingent liability is.

a) Recognized
b) Not recognized
c) Adjusted
d) None of the above.

MCQ 19

In the financial statements, contingent asset is-

a) Recognized
b) Not recognized
c) Adjusted
d) None of the above.

MCQ 20

In the financial statements, provision is-

a) Recognized
b) Not recognized
c) Adjusted
d) None of the above.

CONTINGENT LIABILITY AND PROVISION

1	A	16	A
2	B	17	A
3	C	18	B
4	B	19	B
5	C	20	A
6	C		
7	C		
8	D		
9	A		
10	D		
11	D		
12	C		
13	C		
14	A		
15	A		



thank you!

RECTIFICATION OF ERRORS

BIRDS EYE VIEW

- Error : Meaning & Example
- Rectification of Error : Meaning , Process , Need ,Timing
- How to Detect Errors
- Types of Errors : Errors of Omission , Errors of Commission , Compensating Errors & Errors of Principle
- One Sided Errors & Two Sided Errors
- Summary of Errors affecting Trial Balance
- Role of suspense Account in Rectification of Errors
- Effect of rectification of Errors on Profitability
- Rectification of errors after Finalization of Account
- Summary of Rectification of Stage 1 , Stage 2 & Stage 3 Errors

MEANING OF ERROR

Error is an accounting mistake. When a business transaction is not recorded in accordance with well accepted accounting principle and practices it is said that there is an error.

EXAMPLE OF ERROR

Goods purchased from Gopi for Rs. 68,000

This transaction may be recorded in the books of accounts wrongly by one of the following ways –

1) Omitted to be recorded in purchase day book
2) Recorded in purchase day book twice
3) Recorded in purchase day book as Rs. 86,000
4) Recorded in sales returns day book
5) Posted to Gopi's account as Rs. 86,000
6) Posted to the account of Gopika
7) Posted to the debit side of Gopi's account

WHAT IS RECTIFICATION OF ERROR

Rectification means correction of mistake. Rectification is a process whereby wrong effects given in the books are nullified (to make it nil) and correct effects are ensured.

PROCEDURE FOR RECTIFICATION OF ERROR

1. Note down the wrong entry passed in the books

2. Visualize the correct entry that needed to be passed & note down the same.

3. Pass rectified entry to ensure that the net effect of the transaction is as required by entry as passed in 2nd step i.e it should have net effects as of correct entry.

EXAMPLE

Goods purchased from Gopi for 68,000 recorded in the day book as 86,000

Recording	Particulars	Debit Rs.	Credit Rs.
Wrong entry	Purchase A/c Dr. To Gopi A/c	86,000	 86,000
Correct entry	Purchase A/c Dr. To Gopi A/c	68,000	 68,000
Rectification entry	Gopi A/c Dr. To purchase A/c	18,000	 18,000

Thus , Correct entry = Wrong entry + Rectification entry

It is to be noted that only wrong entry & rectified entry are passed in books of accounts

WHY TO RECTIFY ERRORS

Errors are required to be rectified –

a) To arrive at true & fair financial result /profitability of the business.

b) To arrive at true & fair financial position of the business

WHEN TO RECTIFY THE ERRORS

Errors can be rectified only when they are located or detected

Errors should be rectified at the earliest. Preferably errors should be detected and rectified before the end of the accounting or financial year.

However sometimes errors are not detected till the accounts for the financial year are finalized. In that case errors are required to be rectified in its detection only in the subsequent accounting year/s.

HOW TO DETECT THE ERROR OR HOW THE ERROR IS LOCATED

The mistake are identified or located on either of the following occasions.

- ❑ Non agreement of trial balance
- ❑ On preparing bank Reconciliation statements
- ❑ On reconciling of party's account
- ❑ On identifying mistakes during internal audit
- ❑ On identifying mistakes during statutory audit
- ❑ On scrutiny of accounts of business
- ❑ On receipt of money from customers
- ❑ On payment of dues to suppliers
- ❑ On routine checkup of transaction

TYPES OF ERRORS

1. Errors of Omission
2. Errors of Commission
3. Compensating Errors
4. Errors of Principle

ERROR OF OMISSION

This error arises when a transaction is completely or partially omitted to be

a) Recorded in the books of accounts or
b) Posted to the ledger.

Error of omission may be classified as under –

Error of complete omission

This error arises when any transaction is not recorded in the book of original entry at all or the transaction is recorded in General Journal but is not posted in the ledger at all. This error does not affect the agreement of trial balance.

Example - Goods purchased on credit from Ram not recorded in the purchase Book
Example - Goods sold on credit to Shyam not recorded in the Sales Book
Example - Furniture sold on credit to Mohan recorded in Journal proper but omitted to be posted.

ERROR OF OMISSION

Error of partial omission

An error of omission other than an error of complete omission is called as an error of partial omission. This error affects the agreement of trial balance.

The examples of errors of partial omission include the following :

a) Transaction correctly recorded in the books of original entry (other than Journal Proper) but not posted in the ledger at all. [e.g. A credit sale of goods to Shyam recorded in Sales Book but omitted to be posted in Shyam Account].

b) Omission in carrying forward the total from one page to the other

c) Omission to balance an account.

ERROR OF COMMISSION

This error arises due to wrong recording, wrong casting, wrong carry forward, wrong posting, wrong balancing etc.

Errors of commission may be classified as follows :

- ❑ Errors of Recording
- ❑ Errors of casting
- ❑ Errors in carrying forward
- ❑ Errors in posting

ERROR OF COMMISSION - ERROR OF RECORDING

Errors of Recording

This error arise when any transaction is incorrectly recorded in the books of original entry. This error does not affect the agreement of trial balance. These errors may be of following types :

Sr. No	Books of original entry in which the transaction was recorded	Name of the accounts used in recording	Amount with which the transaction was recorded	Whether affects the Trial Balance
1	Correct	Correct	Wrong	No
2	Correct	Wrong	Correct	No
3	Correct	Wrong	Wrong	No
4	Wrong	Correct	Correct	No
5	Wrong	Correct	Wrong	No
6	Wrong	Wrong	Correct	No
7	Wrong	Wrong	Wrong	No

Example Goods of Rs 500 purchased on credit from Ram are recorded in the Purchase Book for Rs 5,500

Example Goods of Rs 5,000 purchased on credit from Ram are recorded in the Sales Book.

ERROR OF COMMISSION

Error of Casting

This error arises when a mistake is committed in totalling. This error affects the agreement of trial balance.

Example - Purchase Book is totalled as Rs 1,000 instead of Rs 100
Example - Sales Book is totalled as Rs 500 instead of Rs 5,000

Error in Carrying Forward

This error arises when a mistake is committed in carrying forward a total of one page on the next page. This error affects the agreement of trial balance

Example - Total of Purchase Book is carried forward as Rs 1,000 instead of Rs 100
Example - Total of Sales Book is carried forward as Rs 100 instead of Rs 1,000

ERROR OF COMMISSION – ERROR OF POSTING

This error arises when information recorded in the books of original entry are incorrectly entered in the ledger. This error may or may not affect the agreement of trial balance.

These errors may be of following types :

Sr. No	Account to which the posting was made	Side (Dr/Cr) on which posting was made	Amounts with which posting was made	Whether affects the Trial Balance
1	Correct	Correct	Wrong	Yes
2	Correct	Wrong	Correct	Yes
3	Correct	Wrong	Wrong	Yes
4	Wrong	Correct	Correct	No
5	Wrong	Correct	Wrong	Yes
6	Wrong	Wrong	Correct	Yes
7	Wrong	Wrong	Wrong	Yes

COMPENSATING ERRORS

These errors arise when two or more errors are committed in such a way that the net effect of these errors on the debits and credits of accounts involved is nullified. In other words, compensating errors refers to such a group of errors wherein the effect of one error is compensated by the effect of other error or errors.

These errors do not affect agreement of the trial balance but may or may not affect the figure of net profit.

Example If the total of Purchase Book is posted in the ledger as Rs 1,000 instead of Rs 100 and at the same time Ram's A/c is credited in the ledger as Rs 1,000 instead of Rs 100, as a result of these errors, there is an excess credit of Rs 900 in Ram's Account and an excess debit of Rs 900 in Purchase Account. Thus, these two errors nullify the effects of each other. The first error will increase the figure of purchase and consequently will reduce the figure of profit.

Example If the total of Bills Receivable Book is posted in the ledger as Rs 1,000 instead of Rs 100 and at the same time total of Bills Payable Book is posted as Rs 1,000 instead of Rs 100, as a result of these errors, there is excess credit of Rs 900 in Bills Payable Account and an excess debit of Rs 900 in Bills Receivable Account. These two errors will nullify the effect of each other. These errors will not affect the figure of profit in anyway.

ERROR OF PRINCIPLE

This error arises when the transaction is recorded ignoring the distinction between the capital item and revenue item. In other words, this error involves an incorrect allocation of expenditure *or* receipt between Capital and Revenue. The correct allocation between Capital and Revenue is of paramount importance because any incorrect allocation would disturb the final result as disclosed by the Financial Statements. It may lead to under/ over stating of incomes or assets or liabilities. This error does not affect the agreement of trial balance.

Example - If Freight paid for bringing a new machinery is posted to Freight A/c, this error will increase the figure of freight and reduce the figure of depreciation and as a result, the figure of net profit shall be changed by the net effect (i.e. the difference between the amount of freight and amount of depreciation)

Important Points

- It is Always Assumed That Subsidiary Books are Maintained.

  Example - Goods purchased from Gopi for Rs. 68,000

  (Recorded in Purchase Book)

- If The Mistake is in Recording , The Same Mistake Shall be Followed in Ledger as ledger posting is Done on the Basis of Recording Only.

  Example - Goods purchased from Gopi for Rs. 68,000

  (Recorded in Sales Book)

  Effect Of Errors – Gopi is Debited & Sales is Credited

- If The Mistake is in Posting , Then the Mistake is in Ledger Only (Recording is Correctly Done).

  Example - Goods purchased from Gopi for Rs. 68,000

  (posted to A/c of Gopi as Rs. 86000)

  Effect Of Errors – Purchase is Debited With Rs. 68000 But Gopi is Credited With 86000)

ONE SIDED ERRORS & TWO SIDED ERRORS

One Sided Errors – The Errors Which Affects Either Debit Side or Credit Side is Known As One Sided Error. These Errors Affect Trial Balance.

Example – Error of Partial Omission , Error of Casting , Error of carrying Forward , Error of Posting (Other Than name).

Two Sided Errors – The Errors Which Affects Both Debit Side & Credit Side is Known As Two Sided Error. These Errors Does Not Affect Trial Balance.

Example – Error of Complete Omission , Error of Recording , Compensating Errors, Error of principle , Error of Posting (Name only).

SUMMARY OF ERRORS AND EFFECT ON TB

Sr.No	Error	Whether Affects TB	
		Yes	No
A	**Recording of Transaction in a Day Book**		
i	Omission to record a transaction		✓
ii	Transaction recorded twice in the books		✓
iii	Transaction recorded with wrong amount		✓
iv	Transaction recorded in wrong day book		✓
v	Transaction recorded on the wrong side of cash book (Receipt transaction entered as a payment or vice-versa)		✓
vi	Transaction recorded in the wrong column of the day book		✓
vii	Transaction recorded with wrong account head		✓
B	**Casting mistakes of the Day Book**	✓	
C	**Posting of Transaction from day book to ledger**		
i	Omission to post the transaction	✓	
ii	Posting to an account twice	✓	
iii	Posting with wrong amount	✓	
iv	Posting to wrong side	✓	
v	Posting to wrong account		✓

SUMMARY OF ERRORS AND EFFECT ON TB

Sr.No	Error	Whether Affects TB	
		Yes	No
D	**Brought forward of ledger account balance from previous year (Real & Personal Accounts)**		
i	Omission to record brought forward balance	✓	
ii	Balance brought forward twice	✓	
iii	Balance brought forward with wrong amount	✓	
iv	Balance brought forward to wrong side	✓	
v	Balance brought forward in wrong account		✓
E	**Casting & Balancing mistakes in Ledger Accounts**	✓	
F	**Preparation of Trial Balance**		
i	Omission to take ledger account balance	✓	
ii	Ledger account balance taken twice	✓	
iii	Ledger account balance taken with wrong amount	✓	
iv	Ledger account balance taken on wrong side	✓	
v	Ledger account balance taken to wrong account		✓

ROLE OF SUSPENSE ACCOUNT IN RECTIFICATION OF ERRORS

Meaning of Suspense Account : A Suspense Account is an account in which the amount of difference in the trial balance is put till such time that error are located and rectified.

Preparation of Suspense Account : The difference in the trial balance is transferred on the credit side of the Suspense Account (if the debit side of the trial balance exceeds the credit side) or on the debit side of the Suspense Account (if the credit side of the trial balance exceeds the debit side).

Objective of Suspense Account : The rationale behind the opening of a Suspense Account is to avoid delay in the preparation of financial statements.

Disposal of Suspense Account : When the errors affecting the Suspense Account are located, they are rectified with the help of the Suspense Account, when all the errors affecting the trial balance are located and rectified, the Suspense Account automatically stands balanced.

Treatment of Balance of Suspense Account : When the errors affecting the trial balance are still to be located and rectified, the suspense account will show outstanding balance. The balance of Suspense Account merely represents the net effect of errors which still remain undetected. Such balance will be shown in the balance sheet on the assets side (if debit balance) or on the liabilities side (if credit balance).

EFFECT OF RECTIFICATION OF ERRORS ON PROFIT OR LOSS

The effect of rectification of error on profit/ loss is summarized as under:

a) If nominal account is debited in a rectifying entry : Profit will decrease or Loss will increase
b) If nominal account is credited in a rectifying entry : Profit will increase or Loss will decrease

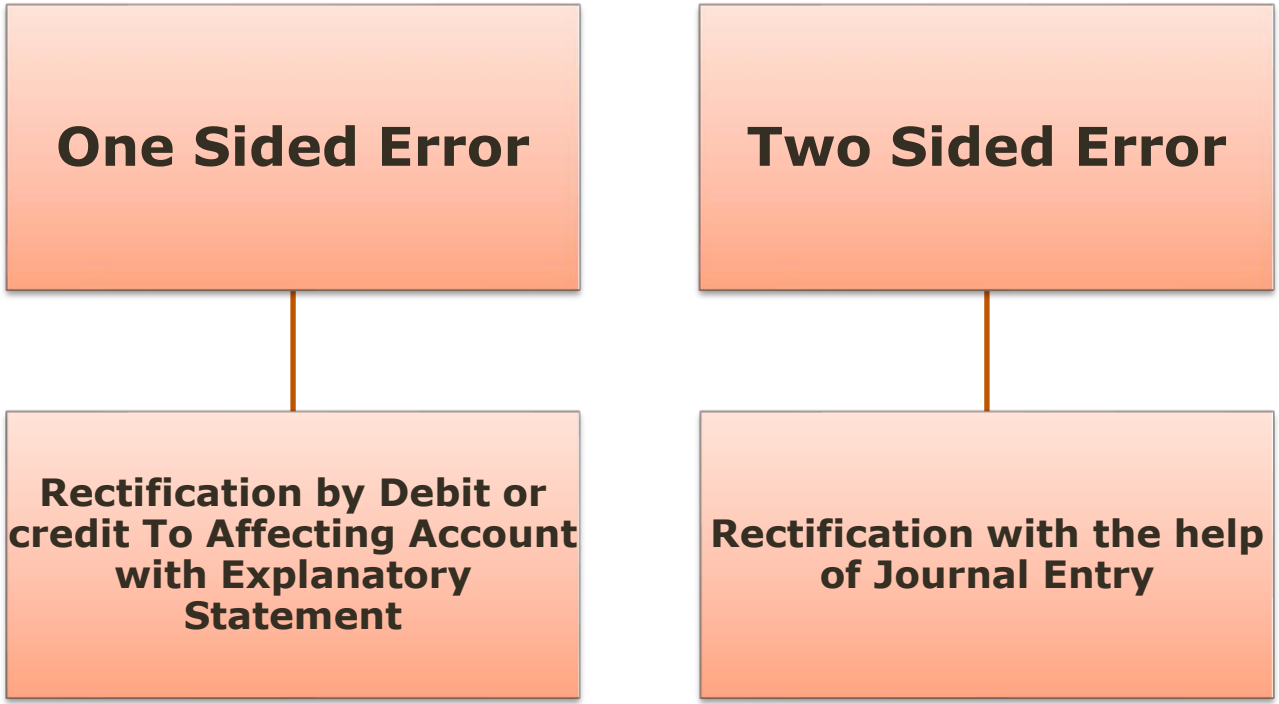
RECTIFICATION OF ERRORS AFTER PREPARING FINAL ACCOUNTS

After the preparation of final accounts, the errors affecting the nominal account (e.g. Sales A/c, Purchases A/c, Expense A/c) are rectified with the help of Profit and Loss Adjustment Account so that current year's profit or loss may not be affected as a result of rectification of such errors.

While passing a rectifying entry after the preparation of the final accounts, profit and loss Adjustment account is used in place of nominal accounts (s). It is to be Remembered That After Rectification of Stage 3 Errors, The Balance in Profit & Loss Adjustment needs to be transferred to Capital A/c.

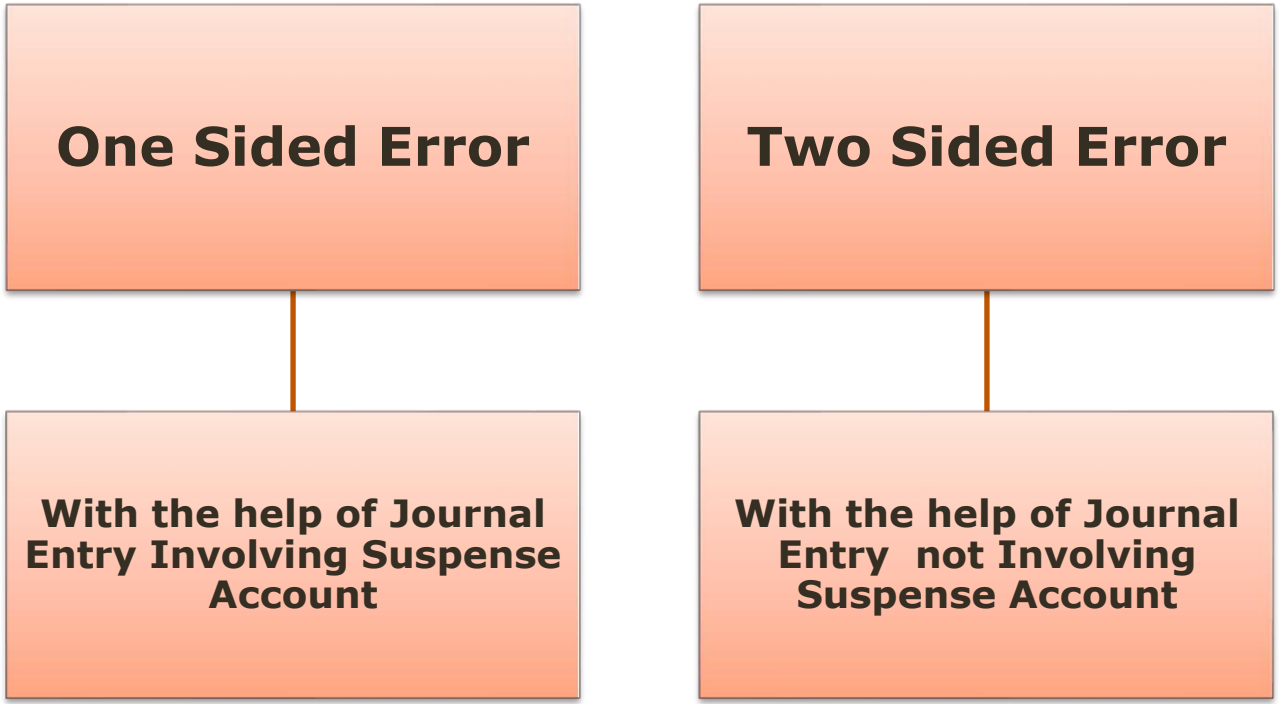
RECTIFICATION OF ERROR BEFORE PREPARATION OF TRIAL BALANCE

STAGE 1



RECTIFICATION OF ERROR AFTER PREPARATION OF TRIAL BALANCE BUT BEFORE PREPARATION OF FINAL ACCOUNTS

STAGE 2



RECTIFICATION OF ERROR AFTER PREPARATION OF FINAL ACCOUNTS

STAGE 3

One Sided Error

With the help of Journal Entry Involving Suspense Account , Profit & Loss Adjustment Account Shall also be used if Rectified Entry Involves Any Nominal Account.

Two Sided Error

With the help of Journal Entry not Involving Suspense Account , Profit & Loss Adjustment Account Shall also be used if Rectified Entry Involves Any Nominal Account.

ILLUSTRATION 1

Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

(i) Sale of furniture credited to Sales Account.

(ii) Purchase worth Rs. 500 from M not recorded in subsidiary books.

(iii) Credit sale wrongly passed through the Purchase Book.

(iv) Machinery sold on credit to Mohan recored in Journal Proper but omitted to be posted.

(v) Goods worth Rs. 5,000 purchased on credit from Ram recorded in the Purchase Book as Rs. 500.

(i) Error of Principle.

(ii) Error of Omission.

(iii) Error of Commission.

(iv) Error of Omission.

(v) Error of Commission

ILLUSTRATION 2

How would you rectify the following errors in the book of Rama & Co.?

1. *The total to the Purchases Book has been undercast by ₹ 100.*
2. *The Returns Inward Book has been undercast by ₹ 50.*
3. *A sum of ₹ 250 written off as depreciation on Machinery has not been debited to Depreciation Account.*
4. *A payment of ₹ 75 for salaries (to Mohan) has been posted twice to Salaries Account.*
5. *The total of Bills Receivable Book ₹ 1,500 has been posted to the credit of Bills Receivable Account.*
6. *An amount of ₹151 for a credit sale to Hari, although correctly entered in the Sales Book, has been posted as ₹ 115.*
7. *Discount allowed to Satish ₹ 25 has not been entered in the Discount Column of the Cash Book. the amount has been posted correctly to the credit of his personal account.*

1. The Purchases Account should receive another debit of ₹100 since it was debited short previously:

   "To Undercasting of Purchases Book for the month of --- ₹100."

2. Due to this error the Returns Inward Account has been posted short by ₹ 50 : the correct entry will be:

   "To Undercasting of Returns Inward Book for the month of --- ₹50."

3. The omission of the debit to the Depreciation Account will be rectified by the entry:

   "To Omission of posting on ₹ 250".

4. The excess debit will be removed by a credit in the Salaries Account by the entry:

   "By double posting on ₹ 75".

5. ₹1,500 should have been debited to the Bills Receivable Account and not credited. To correct the mistake, the Bills Receivable Account should be debited by ₹ 3,000 by the entry:

   "To Wrong posting of B/R received on ₹ 3,000"

6. Hari's personal A/c is debited ₹ 36 short. The rectification entry will be:

   "To Wrong posting ₹ 36".

7. Due to this error, the discount account has been debited short by ₹ 25. The required entry is :

   "To Omission of discount allowed to Satish on ₹ 25."

ILLUSTRATION 3

Correct the following errors (i) without opening a Suspense Account and (ii) opening a Suspense Account:

(a) The Sales Book has been totalled ₹100 short.

(b) Goods worth ₹150 returned by Green & Co. have not been recorded anywhere.

(c) Goods purchased ₹250 have been posted to the debit of the supplier Gupta & Co.

(d) Furniture purchased from Gulab & Bros, ₹1,000 has been entered in Purchases Day Book.

(e) Discount received from Red & Black ₹15 has not been entered in the Discount Column of the Cash Book.

(f) Discount allowed to G. Mohan & Co. ₹18 has not been entered in the Discount Column of the Cash Book. The account of G. Mohan & Co. has, however, been correctly posted.

If a Suspense Account is not opened.

Sr.No	Rectification of Error
a	The Correcting Entry is to credit the Sales Account by 100 as "By Wrong Totaling of the Sales Book"
b	Sales Return A/c……Dr 150 To Green & Co A/c 150
c	The Said Error needs to rectified by Crediting Gupta & Co. by Rs. 500 as "By Errors in Posting"
d	Furniture A/c….Dr 1000 to Purchase A/c 1000
e	Red & Black A/c….Dr 15 To Discount A/c 15
f	The Said Error needs to be Rectified by Debiting Discount Account by Rs. 18 as " To Omission of Entry in Cash Book "

If a Suspense Account is opened :

	Particulars		L.F.	Dr. ₹	Cr. ₹
(a)	Suspense Account	Dr.		100	
	To Sales Account				100
	(Being the correction arising from under- casting of Sales Day Book)				
(b)	Return Inward Account	Dr.		150	
	To Green & Co	.			150
	(Being the recording of unrecorded returns)				
(c)	Suspense Account	Dr.		500	
	To Gupta & Co.				500
	(Being the correction of the error by which Gupta & Co. was debited instead of being credited by ₹ 250).				

(d)	Furniture Account	Dr.		1,000	
	To Purchases Account				1,000
	(Being the correction of recording purchase of furniture as ordinary purchases)				
(e)	Red & black	Dr.		15	
	To Discount Account				15
	(Being the recording of discount omitted to be recorded)				
(f)	Discount Account	Dr.		18	
	To Suspense Account				18
	(Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly).				

ILLUSTRATION 4

The following errors were committed by the Accountant of Geete Dye-Chem.

(i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.

(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that :

(a) they were detected before preparation of Trial Balance.

(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.

(c) they were detected after preparing Final Accounts.

(i)

Before Preparation of Trial Balance

The Said Error will be Rectified by Debiting Trivedi & Co. A/c by Rs. 800 as "To Errors in Posting"

After Preparation of Trial Balance

Trivedi & Co. A/c.....Dr 800
To Suspense A/c 800

After Preparation of Final Accounts

Trivedi & Co. A/c.....Dr 800
To Suspense A/c 800

(ii)

Before Preparation of Trial Balance

Sales A/c.....Dr 240
Purchase A/c.....Dr 420
To Mantri & Co. A/c 660

After Preparation of Trial Balance

Sales A/c.....Dr 240
Purchase A/c.....Dr 420
To Mantri & Co. A/c 660

After Preparation of Final Accounts

Profit & Loss Adjustment A/c.....Dr 660
To Mantri & Co. A/c 660

ILLUSTRATION 5

The trial balance of Mr. W & H failed to agree and the difference ₹20,570 was put into suspense pending investigation which disclosed that:

(i) Purchase returns day book had been correctly entered and totalled at ₹6,160, but had not been posted to the ledger.

(ii) Discounts received ₹1,320 had been debited to discounts allowed.

(iii) The Sales account had been under added by ₹10,000.

(iv) A credit sale of ₹1,470 had been debited to a customer account at ₹1,740.

(v) A vehicle bought originally for ₹7,000 four years ago and depreciated to ₹1,200 had been sold for ₹1,500 in the beginning of the year but no entries, other than in the bank account had been passed through the books.

(vi) An accrual of ₹560 for telephone charges had been completely omitted.

(vii) A bad debt of ₹1,560 had not been written off and provision for doubtful debts should have been maintained at 10% of Trade receivables which are shown in the trial balance at ₹23,390 with a credit provision for bad debts at ₹2,320.

(viii) Tools bought for ₹1,200 had been inadvertently debited to purchases.

(ix) The proprietor had withdrawn, for personal use, goods worth ₹1,960. No entries had been made in the books.

You are required to give rectification entries without narration to correct the above errors before preparing annual accounts.

	Particulars		Dr.	Cr.
(i)	Suspense Account	Dr.	6,160	
	To Return Outward A/c			6,160
(ii)	Suspense Account	Dr.	2,640	
	To Discount Allowed Account			1,320
	To Discount Received Account			1,320
(iii)	Suspense Account	Dr.	10,000	
	To Sales Account			10,000
(iv)	Suspense Account	Dr.	270	
	To Customer Account			270
(v)	Suspense Account	Dr.	1,500	
	To Vehicle Account			1,200
	To Profit on Sale of Vehicle Account			300

(vi)	Telephone Charges Account	Dr.	560	
	To Outstanding Expenses Account			560
(vii)	Bad Debts Account	Dr.	1,560	
	To Trade receivables Account			1,560
	Provision for Doubtful Debts Account	Dr.	164	
	To Profit and Loss Account			164
(viii)	Loose Tools Account	Dr.	1,200	
	To Purchases Account			1,200
(ix)	Drawings Account	Dr.	1,960	
	To Purchases Account			1,960

Working Notes :

(i)	Trade receivables as per books		23,390
	Deduction vide item (iv) 270	270	
	Bad Debts	1,560	1,830
			21,560

ILLUSTRATION 6

Write out the Journal Entries to rectify the following errors, using a Suspense Account.

(1) *Goods of the value of ₹ 100 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;*

(2) *An amount of ₹150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;*

(3) *A sale of ₹ 200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as ₹ 20; and*

(4) *The total of "Discount Allowed" column in the Cash Book for the month of September, 2020 amounting to ₹ 250 was not posted.*

	Particulars		L.F.	Dr. ₹	Cr. ₹
(1)	Sales Account	Dr.		100	
	Sales Returns Account	Dr.		100	
	To Suspense Account				200
	(The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				

(2)	Suspense Account	Dr.		300	
	To Mr. Philip				300
	(Wrong debit to Mr. Philip for goods returned by him, now rectified)				
(3)	Mr. Ghanshyam	Dr.		200	
	To Mr. Radheshyam				20
	To Suspense Account				180
	(Omission of debit to Mr. Ghanshyam and wrong credit to Mr. Radhesham for sale of ₹ 200, now rectified)				
(4)	Discount Account	Dr.		250	
	To Suspense Account				250
	(The total of Discount allowed during September, 2020 not posted from the Cash Book; error now rectified)				

QUESTION 7

Mr. Joshi's trial balance as on 31st March, 2020 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

(i) The total of the Purchases Book of one page, ₹ 5,615 was carried forward to the next page as ₹ 6,551.

(ii) A sale of ₹ 281 was entered in the Sales Book as ₹ 821 and posted to the credit of the customer.

(iii) A return to creditor, ₹ 295 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.

(iv) Cash received from Senu, ₹ 895 was posted to debit of Sethu.

(v) Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.

(vi) *Goods worth ₹1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on Sale.*

(vii) *₹600 due from Mr. Q was omitted to be taken ·to the trial balance.*

(viii) *Sale of goods to Mr. R for ₹ 3,000 was omitted to be recorded.*

You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly.

Journal Entries

Sr.No	Particulars	LF	Debit	Credit
(i)	Suspense A/c…..Dr		936	
	To Profit & Loss Adjustment A/c			936
	(Being purchase book Carried Forward Wrongly			
	Earlier , Now Rectified)			
(ii)	Profit & Loss Adjustment A/c….Dr		540	
	Customer’s Ac….Dr		1102	
	To Suspense A/c			1642
	(Being Error Rectified)			

Date	Particulars	LF	Debit	Credit
(iii)	Suspense A/c….Dr		590	
	To P/L Adjustment A/c			590
	(Being Error Rectified)			
(iv)	Suspense A/c….Dr		1790	
	To Senu A/c			895
	To Sethu A/c			895
	(Being Cash Received From Senu Posted to Sethu Earlier , now Rectified)			

Date	Particulars	LF	Debit	Credit
(v)	Customer's A/c….Dr		1400	
	To profit & Loss Adjustment A/c			1400
	(Being Sales made Earlier not Recorded , Now Recorded)			
(vi)	Profit & Loss Adjustment A/c….Dr		1600	
	To Customer A/c			1600
	(Being Reversal of Sale For goods Sent on Approval Basis)			
(vii)	Stock With Customer on Approval Basis With			
	Customer A/c….Dr		1280	
	To Profit & Loss Adjustment A/c			1280

Date	Particulars	LF	Debit	Credit
	(Being Goods Sent on Approval basis included In Stock)			
(Viii)	Trade Receivable A/c….Dr		600	
	To Suspense A/c			600
	(600 Due From Q not taken in trial Balance , Now Rectified)			
(ix)	R A/c….Dr		3000	
	To profit & Loss Adjustment A/c			3000
	(Goods Sold To R Not Recorded Earlier , Now Rectified)			

Date	Particulars	LF	Debit	Credit
(x)	Profit & loss Adjustment A/c….Dr		5066	
	To Joshi capital A/c			5066
	(Being profit & loss Adjustment A/c's Balance transferred to Capital A/c			

ILLUSTRATION 8

Mr. Roy was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next Year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

(1) Purchase of a scooter was debited to conveyance account ₹3,000.

(2) Purchase account was over-cast by ₹10,000.

(3) A credit purchase of goods from Mr. P for ₹2,000 entered as a sale.

(4) Receipt of cash from Mr. A was posted to the account of Mr. B ₹1,000.

(5) Receipt of cash from Mr. C was posted to the debit of his account, ₹500.

(6) ₹ 500 due by Mr. Q was omitted to be taken to the trial balance.

(7) Sale of goods to Mr. R for ₹2,000 was omitted to be recorded.

(8) Amount of ₹2,395 ofpurchase was wrongly posted as ₹2,593.

Mr. Roy used 10% depreciation on vehicles. Suggest the necessary rectification entries.

Journal Entries in the books of Mr. Roy

Date	Particulars	LF	Amount	Amount
1	Motor Vehicles A/c……Dr		2700	
	To Profit & Loss Adjustment A/c			2700
	(Being Purchase of Scooter wrongly debited to conveyance account now rectified) 3000 -10% Depreciation = 2700			
2	Suspense A/c……Dr		10000	
	To Profit & Loss Adjustment A/c			10000
	(Being Purchase Account Over casted Earlier now Rectified)			

Date	Particulars	LF	Amount	Amount
3	Profit & Loss Adjustment A/c……Dr		4000	
	To P A/c			4000
	(being Credit Purchase Recorded as Credit Sales Earlier , Now Rectified)			
4	B A/c…..Dr		1000	
	To A A/c			1000
	(Being Cash Received from A Posted to B Earlier , Now Rectified)			
5	Suspense A/c……Dr		1000	
	To C A/c			1000
	(Being Amount Received from C was wrongly debited to his account earlier , Now Rectified)			

Date	Particulars	LF	Amount	Amount
6	Trade Receivables A/c……Dr		500	
	To Suspense A/c			500
	(Being Balance of Due from Q Was omitted to be taken to Trial Balance Earlier , Now Rectified)			
7	R A/c…		2000	
	To Profit & Loss Adjustment A/c			2000
	(Being Sale to R not Recorded Earlier , Now Recorded)			

Date	Particulars	LF	Amount	Amount
8	Suspense A/c…..Dr		198	
	To Profit & Loss Adjustment A/c			198
	(Being Purchase Wrongly Posted as 2593 instead of 2395 Earlier , Now Rectified)			
9	Profit & Loss Adjustment A/c…..Dr		10898	
	To Roy's Capital A/c			10898
	(Being Balance of P/L adjustment Account transferred to Roy's Capital A/c)			
10	Roy's Capital A/c……Dr		10698	
	To Suspense A/c			10698
	(Being balance of Suspense A/c transferred to Roy's Capital A/c as it was written to P/L Account in last Year)			

Profit & Loss Adjustment A/c

Particulars	Amount	Particulars	Amount
To P A/c	4000	By Motor Vehicle A/c	2700
		By Suspense A/c	10000
To Roy's Capital A/c (Bal Fig)	10898	By R A/c	2000
		By Suspense A/c	198
	14898		**14898**

Suspense A/c

Particulars	Amount	Particulars	Amount
To Profit & Loss Adjustment A/c	10000	By Trade Receivables A/c	500
To C A/c	1000		
To Profit & Loss Adjustment A/c	198	By Roy's Capital A/c (Bal Fig)	10698
	11198		**11198**



thank you!

BANK RECONCILIATION STATEMENT

BIRDS EYE VIEW

- Role of Banking & Banking Transactions
- Meaning of Bank Pass Book
- Bank Reconciliation Statement : Meaning & Need
- Causes of Difference Between Balance shown by Cash Book & Pass Book
  1. Timing Differences 2. Errors in Cash Book or Pass Book
- Summary of Timings of Recording Banking Transactions
- Illustrative Examples of Timing Differences
- Types of Error in Cash Book & Pass Book
- Adjusted Cash Book
- Tricks to Crack BRS

CAUSES OF DIFFERENCE BETWEEN BALANCE AS PER CASH BOOK AND BALANCE AS PER PASS BOOK

Basically the differences between the Bank Balance as per Cash Book and Bank Balance as per Pass Book are caused by :

1. Timing difference of recording banking transactions
2. Errors in Cash Book committed by the account holder
3. Errors in pass Book committed by the Bank.

SUMMARY OF TIMING DIFFERENCES IN BANKING TRANSACTIONS

Transactions	Timings of Recordings in Cash Book	Timings of Recordings in Pass Book
Cash deposits	When Cash is deposited	When Cash is deposited
Cash withdrawn	When Cash is withdrawn	When the cash is withdrawn
Cheque issued	When Cheque is issued	When a cheque is presented for payment
Cheque deposited	When Cheque is deposited	When cheque is collected
Bank charges	When Information from Bank is received	When charges are levied by bank
Interest charged by Bank	When information from Bank is received	When interest is charged by bank
Interest allowed by Bank	When Information from Bank is received.	When interest is allowed by bank
Direct payment on behalf	When Information from Bank is received.	When payment is made by bank
Direct collection on behalf of customer	When Information from Bank is received.	When the amount is collected by the bank
Dishonor of cheque/bills Receivable	When Information from Bank is received.	When cheque / B/R is dishonored

ERRORS IN CASH BOOK THAT LEADS TO DIFFERENCE BETWEEN BALANCE AS PER CB AND BALANCE AS PER PB

Due to errors in cash book , there may be difference between the bank balance as shown by the pass book and the bank balance as shown by the cash book .

The examples of the errors in cash book may include the following :

1. Errors of Omission : Cheque/cash deposited but not recorded in the cash book , Cheques issued but not recorded in the cash Book, cash withdrawn from the Bank but not recorded in the cash book .
2. Errors of Recording : Cheque deposited into the bank but recorded in the Cash Column/Discount Column , cheque deposited into the bank but recorded in the bank Column on the payment side of the Cash Book , a cheque of Rs 1,552 deposited into the bank but recorded as Rs 1,525, a discount allowed Rs 100 recorded in Bank Column, cash received Rs 1,000 recorded in the Bank column .
3. Errors of Casting : Under/Over casting of bank Column of the Cash Book
4. Errors of Carrying Forward : The debit balance on the previous day brought forward as a credit balance,. The bank balance carried forward as Rs 15,889 instead of Rs 15,898.
5. Other Errors : Cheque received from a debtor recorded in the Cash Book but not deposited into the Bank for collection .

ERRORS IN PASS BOOK THAT LEADS TO DIFFERENCE BETWEEN BALANCE AS PER CB AND BALANCE AS PER PB

Due to error in Pass Book, there may be difference between the balance as shown by the Bank Pass Book and the balance as shown by the Cash book .

The examples of errors in Pass Book include the following :

a) Errors of omission : Cheque collected by bank but not recorded in pass book due to wrong posting in another customers account.
b) Errors of Recording : Deposit recorded on withdrawal side and vice versa , deposit of Rs 1,589 recorded as Rs 1,598.
c) Errors of Casting : Deposit Column/withdrawal columns under/over casted.
d) Errors of Carrying forward : Debit balance on previous page brought forward as credit balance on the next page, the balance of Rs 15,889 carried forward as Rs 15,898.

ADJUSTED/AMENDED CASH BOOK

In case the bank reconciliation statement is required to be prepared at the end of an accounting period , it is recommended that first, the Cash Book (with amended bank column) should be prepared in order to ascertain the correct bank balance as per Cash book and then the bank reconciliation statement should be prepared to reconcile this correct bank balance as per cash book with the balance as per bank pass book. It may be noted that it is the adjusted Cash book balance which is taken to the balance sheet.

How to calculate the adjusted bank balance as per cash book?

The adjusted bank balance as per cash book is ascertained by passing :

A. Adjusting entries in respect of correct items which appear only in pass book
   Example : Bank charges, interest charged on overdraft, interest allowed by bank, Dividend/interest/bills receivable directly collected by bank, direct payment by bank under standing instructions of customers.

B. Rectifying entries in respect of errors committed in the cash book
   Example : Cheque issued but recorded in cash column/discount column, cheques issued recorded in bank column with wrong amount, over/under cast of bank column, error in balancing the bank column, error in carry forward/brought forward of bank balance.

WHEN TO PREPARE ADJUSTED/AMENDED CASH BOOK?

1. When asked in Question Specifically to Prepare BRS with Adjusted Cash Book.
2. Balance as Per Cash Book is Given (favorable or Overdraft) & BRS is Being Prepared as on 31st Dec/31st March
   In Second Case Give Below Note
   Note – In The Absence of Information It is Assumed that Books of Accounts are Being Closed on 31st Dec/31st March & Accordingly BRS is Being Prepared With Adjusted Cash Book.
3. No ACB To Be Prepared if Both Cash Book & Pass Book balance Given in Question.
4. NO ACB To Be Prepared if Questions only Ask To Ascertain the Balance as per Pass Book & Does Not Speak About Preparing BRS.

Timing Difference

- Which can be eliminated
- Which cannot be eliminated

Errors in Cash Book

↓

under control of Accountholder

Error in Passbook.

↓

Under control of Bank.

TERMS USED

Sr.No	Terms	Meaning
1	Favourable Balance as per Cash Book	It means Debit balance as per cash Book
2	unFavourable Balance as per Cash Book	It means Credit balance as per cash Book
3	Favourable Balance as per Pass Book	It means Credit balance as per Pass Book
4	unFavourable Balance as per Pass Book	It means Debit balance as per Pass Book

TRICKS TO CRACK BRS

- For Every transaction There Shall be 2 Hand Movements , First One For Nature of transaction (Which Shall be Same irrespective of Starting Point) & Second One Shall be For Who Needs to Meet Whom (CB to PB or PB to CB)

- In case of Overdraft , The Question Shall Be Solved in a Normal manner & At last the Sign Needs to be Reversed.

TRICKS TO CRACK BRS

Sr. No	Starting Point	If End Point Positive	If End Point Negative
1	Favorable Balance as per Cash Book	Favorable Balance as per Pass Book	Unfavorable Balance as per Pass Book (overdraft)
2	unfavorable Balance as per Cash Book (Overdraft)	unfavorable Balance as per Pass Book (Overdraft)	Favorable Balance as per Pass Book
3	Favorable Balance as per Pass Book	Favorable Balance as per Cash Book	unfavorable Balance as per Cash Book (Overdraft)
4	unfavorable Balance as per Pass Book (Overdraft)	unfavorable Balance as per Cash Book (Overdraft)	Favorable Balance as per Cash Book

FORMAT OF BRS WHEN STARTING POINT IS CB

Sr.No	Particulars	Amt	Amt
A	Bank Balance as Per Cash Book		XXX
B	ADD : Transactions having the effect of higher balance in pass book		
	a) Cheques deposited into the bank but not recorded in cash book	xxx	
	b) Cheques issued but not yet presented for payment	xxx	
	c) Interest allowed in pass book only	xxx	
	d) Bills recievable directly collected by bank	xxx	
	e) Direct payment by a customer into bank but not recorded in cash book	xxx	
	f) Cheques issued returned on technical grounds	xxx	
	g) A wrong credit given by bank in pass book	xxx	XXX
C	LESS : Transactions having the effect of lower balance in pass book		
	a) Cheques received and recorded in bank cloumn but bot yet sent to bank for collection	xxx	
	b) Cheques deposited but not yet collected by bank	xxx	
	c) Bank charges , Interest on overdraft debited in pass book only	xxx	
	d) Insurance Premium paid directly by bank under standing advise	xxx	
	e) Cheques deposited for collection , returned dishonoured and recorded in pass book only	xxx	
	f) Discounted bills dishonoured but not recorded in cash book	xxx	
	g) A wrong debit given by bank in pass book only	xxx	XXX
D	Balance as per Pass Book (A+B-C)		XXX

FORMAT OF BRS WHEN STARTING POINT IS PB

Sr.No	Particulars	Amt	Amt
A	Bank Balance as Per Pass Book		XXX
B	ADD : Transactions having the effect of higher balance in cash book		
	a) Cheques received and recorded in bank cloumn but not yet sent to bank for collection	xxx	
	b) Cheques deposited but not yet collected by bank	xxx	
	c) Bank charges , Interest on overdraft debited in pass book only	xxx	
	d) Insurance Premium paid directly by bank under standing advise	xxx	
	e) Cheques deposited for collection , returned dishonoured and recorded in pass book only	xxx	
	f) Discounted bills dishonoured but not recorded in cash book	xxx	
	g) A wrong debit given by bank in pass book only	xxx	XXX
C	LESS : Transactions having the effect of lower balance in cash book		
	a) Cheques deposited into the bank but not recorded in cash book	xxx	
	b) Cheques issued but not yet presented for payment	xxx	
	c) Interest allowed in pass book only	xxx	
	d) Bills recievable directly collected by bank	xxx	
	e) Direct payment by a customer into bank but not recorded in cash book	xxx	
	f) Cheques issued returned on technical grounds	xxx	
	g) A wrong credit given by bank in pass book	xxx	XXX
D	Balance as per Cash Book (A+B-C)		XXX

ILLUSTRATION 1

The Cash Book of Mr. Gadbadwala shows ₹ 8,36,400 as the balance at Bank as on 31st December, 2019, but you find that it does not agree with the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies:

(1) On 15th December, 2019 the payment side of the Cash Book was undercast by ₹ 10,000.

(2) A cheque for ₹ 1,31,000 issued on 25th December, 2019 was not taken in the bank column.

(3) One deposit of ₹ 1,50,000 was recorded in the Cash Book as if there is no bank column therein.

(4) On 18th December, 2019 the debit balance of ₹ 15,260 as on the previous day, was brought forward as credit balance.

(5) Of the total cheques amounting to ₹ 11,514 drawn in the last week of December, 2019, cheques aggregating ₹ 7,815 were encashed in December.

(6) Dividends of ₹ 25,000 collected by the Bank and subscription of ₹ 1,000 paid by it were not recorded in the Cash Book.

(7) One out-going Cheque of ₹ 3,50,000 was recorded twice in the Cash Book. Prepare a Reconciliation Statement.

Cash Book (Amended Bank Column)			
Particulars	**Amount**	**Particulars**	**Amount**
To Bal B/d	836400	By Under Casting of Payment Side	10000
To Cash A/c (Wrongly Debited to Cash)	150000	By Party A/c	131000
To Error of Carrying Forward	30520	By Subscription A/c	1000
To Dividend A/c	25000	By Bal C/d (Bal Fig)	1249920
To Party A/c	350000		
	1391920		**1391920**

Mr. Gadbadwala

Bank Reconciliation Statement as at 31-12-2019

Sr.No	Particulars	Amount	Amount
A	Balance as Per Adjusted Cash Book		1249920
B	Add-		
	Cheque Issued But Not Yet Presented		3699
C	Balance as Per Pass Book (A+B)		1253619

Note - In The Absence of Information It is Assumed that Books of Accounts are Being Closed on 31st Dec 2019 & Accordingly BRS is Being Prepared With Adjusted Cash Book.

ILLUSTRATION 2

When Nikki & Co. received a Bank Statement showing a favourable balance of ₹ 10,39,200 for the period ended on 30th June, 2019, this did not agree with the balance in the cash book.

An examination of the Cash Book and Bank Statement disclosed the following :

1. *A deposit of ₹ 3,09,200 paid on 29th June, 2019 had not been credited by the Bank until 1st July, 2019.*

2. *On 30th March, 2019 the company had entered into hire purchase agreement to pay by bank order a sum of ₹ 3,00,000 on the 10th of each month, commencing from April, 2019. No entries had been made in Cash Book.*

3. *A customer of the firm, who received a cash discount of 4% on his account of ₹ 4,00,000 paid the firm a cheque on 12th June. The cashier erroneously entered the gross amount in the bank column of the Cash Book.*

4. *Bank charges amounting to ₹ 3,000 had not been entered in Cash-Book.*

5. *On 28th June, a customer of the company directly deposited the amount in the bank ₹4,00,000, but no entry had been made in the Cash Book.*

6. *₹11,200 paid into the bank had been entered twice in the Cash Book.*

7. *A debit of ₹11,00,000 appeared in the Bank Statement for an unpaid cheque, which had been returned marked 'out of date'. The cheque had been re-dated by the customer and paid into Bank again on 5th July, 2019.*

Prepare Bank Reconciliation Statement on 30 June, 2019.

Nikki & Co.			
Bank Reconcilation Statement as at 30-06-2019			
Sr.No	**Particulars**	**Amount**	**Amount**
A	Balance As Per Pass Book		1039200
B	Add-		
	Deposited not Yet Credited by Bank	309200	
	Amount Paid under Hire Purchase Agreement for April , May & June	900000	
	Discount Allowed Not Entered in Cash Book & Full Amount Recorded in CB	16000	
	Bank Charges Not Recorded in Cash Book	3000	
	Cheque Deposit Entered Twice in Books	11200	
	Cheque returned "out of Date" Not entered in Cash Book (Dishonor)	1100000	2339400
C	Less-		
	Direct Deposit by Customer not Recorded in Cash Book	400000	400000
D	Balance as per Cash Book (A+B-C)		2978600

ILLUSTRATION 3

From the following particulars prepare a bank reconciliation statement as on 31st December 2019:

(i) On 31st December, 2019 the cash-book of a firm showed a bank balance of ₹ 60,000 (debit balance).

(ii) Cheques had been issued for ₹ 15,00,000, out of which cheques worth ₹ 4,00,000 only were presented for payment.

(iii) Cheques worth ₹ 11,40,000 were deposited in the bank on 28th December, 2019 but had not been credited by the bank. In addition to this, one cheque for ₹ 5,00,000 was entered in the cash book on 30th December, 2019 but was banked on 3rd January, 2020.

(iv) A cheque from Susan for ₹ 4,00,000 was deposited in the bank on 26th December 2019 but was dishonoured and the advice was received on 2nd January, 2020.

(v) Pass-book showed bank charges of ₹ 2000 debited by the bank.

(vi) One of the debtors deposited a sum of ₹ 5,00,000 in the bank account of the firm on 20th December, 2019 but the intimation in this respect was received from the bank on 2nd January, 2020.

(vii) Bank pass-book showed a credit balance of ₹ 3,82,000 on 31st December, 2019.

Bank Reconciliation Statement as at 31-12-2019			
Sr.No	**Particulars**	**Amount**	**Amount**
A	Balance As Per Cash Book		60000
B	Add-		
	Cheques Issued but Not Yet Presented	1100000	
	Direct Deposit by Customer not Recorded in Cash book	500000	1600000
C	Less-		
	Cheques Deposited But Not yet Cleared	1140000	
	Cheque Received Recorded In cash Book But omitted to be Banked	500000	
	Cheque Deposited Dishonored	400000	
	Bank Charges Debited by Bank Not Recorded in Cash Book	2000	2042000
D	Overdraft as per Pass Book (A+B-C)		382000

ILLUSTRATION 4

Prepare a bank reconciliation statement as on 30th September, 2019 from the following particulars:

Particulars	₹
Bank balance as per pass-book	10,00,000
Cheque deposited into the bank, but no entry was passed in the cash-book	5,00,000
Cheque received, but not sent to bank	11,20,000
Credit side of the bank column cast short	2,000
Insurance premium paid directly by the bank under the standing advice	60,000
Bank charges entered twice in the cash book	2,000
Cheque issued, but not presented to the bank for payment	5,00,000
Cheque received entered twice in the cash book	10,000
Bills discounted dishonoured not recorded in the cash book.	5,00,000

Bank Reconciliation Statement as at 30-09-2019

Sr.No	Particulars	Amount	Amount
A	Balance As Per Pass Book		1000000
B	Add-		
	Cheque Received Recorded in Cash Book But Ommitted to be Banked	1120000	
	Undercasting of Credit Side of Bank Column	2000	
	Insurance Premium Paid By Bank Not Recorded in Cash Book	60000	
	Cheque Received Entered Twice in Cash Book	10000	
	Discounted Bill Dishonored Not recorded in Cash Book	500000	1692000
C	Less-		
	Cheque Deposited in Bank Not Recorded in Cash Book	500000	
	Cheque Issued But Not yet Presented	500000	
	Bank Charges Entered Twice in Cash Book	2000	1002000
D	Balance as per Cash Book (A+B-C)		1690000

ILLUSTRATION 5

The bank column of cash book of Mukesh was balanced on 31st March, 2019. It showed an overdraft of ₹ 5,000. This did not agree with the balance shown by bank statement of Mukesh. You are required to prepare a bank reconciliation statement taking the following into account :

(1) Cheques issued but not presented for payment till 31.3.2019 ₹ 12,00,000.

(2) Cheques deposited but not collected by bank till 31.3.2019 ₹ 20,00,000.

(3) Interest on term-loan ₹ 10,00,000 debited by bank on 31.3.2019 but not accounted in Mukesh's book.

(4) Bank charges ₹ 2,500 was debited by bank during March, 2019 but accounted in the books of Mukesh on 4.4.2019.

(5) An amount of ₹ 30,68,000 representing collection of Remesh's cheque was wrongly credited to the account of Mukesh by the bank in their bank statement.

Cash Book (Amended Bank Column)			
Particulars	**Amount**	**Particulars**	**Amount**
		By Bal B/d	5000
		By Interest on Term Loan A/c	1000000
To Bal C/d (overdraft)	1007500	By Bank Charges A/c	2500
	1007500		**1007500**

Mukesh

Bank Reconciliation Statement as at 31-03-2019

Sr.No	Particulars	Amount	Amount
A	Balance as Per Adjusted Cash Book (Overdraft)		1007500
B	Add-		
	Cheque Deposited but not yet Collected		2000000
C	Less -		
	Cheque Issued But Not Yet Presented	1200000	
	Amount Wrongly Credited By Bank	3068000	4268000
D	Balance as Per Pass Book (A+B-C)		1260500

Note - In The Absence of Information It is Assumed that Books of Accounts are Being Closed on 31st March 2019 & Accordingly BRS is Being Prepared With Adjusted Cash Book.

ILLUSTRATION 6

On 30th September, 2019, the bank account of X, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹ 4,062. On the same date the bank statement showed a credit balance of ₹ 20,758 in favour of X. An examination of the Cash Book and Bank Statement reveals the following:

1. *A cheque for ₹ 13,14,000 deposited on 29th September, 2019 was credited by the bank only on 3rd October, 2019.*
2. *A payment by cheque for ₹ 16,000 has been entered twice in the Cash Book.*
3. *On 29th September, 2019, the bank credited an amount of ₹ 1,17,400 received from a customer of X, but the advice was not received by X until 1st October, 2019.*
4. *Bank charges amounting to ₹ 580 had not been entered in the Cash Book.*
5. *On 6th September, 2019, the bank credited ₹ 20,000 to X in error.*
6. *A bill of exchange for ₹ 1,40,000 was discounted by X with his bank. This bill was dishonoured on 28th September, 2019 but no entry had been made in the books of X.*
7. *Cheques issued upto 30th September, 2019 but not presented for payment upto that date totalled ₹ 13,26,000.*

You are required :

(a) *to show the appropriate rectifications required in the Cash Book of X, to arrive at the correct balance on 30th September, 2019 and*

(b) *to prepare a bank reconciliation statement as on that date.*

Cash Book (Amended Bank Column)

Particulars	Amount	Particulars	Amount
To Party	16000	By Bal B/d	4062
To Customer (Direct Deposit)	117400	By Bank Charges	580
		By Customer (B/R Dishonored)	140000
To Bal C/d (Bal Fig)	11242		
	144642		**144642**

X

Bank Reconciliation Statement as at 30-09-2019

Sr.No	Particulars	Amount	Amount
A	Overdraft As Per Amended Cash Book		11242
B	Add-		
	Cheque Deposited but Not yet Collected	1314000	1314000
C	Less-		
	Wrong Credit Given by Bank	20000	
	Cheque Issued But Not Yet Presented	1326000	1346000
D	Balance as Per Pass Book (A+B-C)		20758

ILLUSTRATION 7 PYP MAY 2018

The Bank Pass Book of Account No.5678 of Mrs. Rani showed an overdraft of ₹ 33,575 on 31st March 2018. On going through the Pass Book, the accountant found the following:

(i) A Cheque of Rs,1,080 credited in the pass book on 28th March 2018 being dishonoured is debited again in the pass book on 1st April 2018. There was no entry in the cash book about the dishonour of the cheque until 15th April 2018.

(ii) Bankers had credited her account with ₹ 2,800 for interest collected by them on her behalf, but the same has not been entered in her cash book.

(iii) Out of ₹ 20,500 paid in by Mrs. Rani in cash and by cheques on 31st March 2018 cheques amounting to ₹ 7,500 were collected on 7th April, 2018.

(iv) Out of Cheques amounting to ₹ 7,800 drawn by her on 27th March, 2018 a cheque for ₹ 2,500 was encashed on 3rd April, 2018.

(v) *Bankers seems to have given here wrong credit for ₹ 500 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for ₹ 300 against her account No.8765.*

(vi) *A cheque for ₹ 1,000 entered in Cash Book but omitted to be banked on 31st March, 2018.*

(vii) *A Bill Receivable for ₹ 5,200 previously dishonoured (Discount ₹ 200) with the Bank had been dishounoured but advice was received on 1st April, 2018.*

(viii) *A Bill for ₹ 10,000 was retired /paid by the bank under a rebate of ₹ 175 but the full amount of the bill was credited in the bank column of the Cash Book.*

(ix) *A Cheque for ₹ 2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2018.*

Prepare Bank Reconciliation Statement as on 31st March, 2018.

Mrs. Rani			
Bank Reconciliation Statement as on 31st March,2018			
Sr.No	**Particulars**	**Amount**	**Amount**
A	Balance as per Bank Pass Book (Overdraft)		33575
B	Add :		
	No entry in cash book for interest collection by bank	2800	
	Cheque issued but not yet Presented	2500	
	wrong credit given by Bank	500	
	Rebate on bill retired not entered in cash book	175	
	cheques deposited in bank not yet recorded in cash book	2400	8375
C	Less :		
	Cheque Deposited but not yet Collected	7500	
	wrong Debit given by Bank	300	
	Cheque of Rs.1000 entered in cash book but omitted to be Banked	1000	
	Discounted Bill dishonoured but no entry in Cash Book	5200	14000
D	Balance as per Cash book (overdraft) (A+B-C)		27950

A Cheque of 1080 credited in Pass book on March 28th has no effect on BRS on 31-3-2018

ILLUSTRATION 8 PYP MAY 2019

Prepare the Bank Reconciliation Statement of M/s. R.K. Brothers on 30th June 2018 from the particulars given below:

(i) The Bank Pass Book had a debit balance of ₹25,000 on 30th June, 2018.

(ii) A cheque worth ₹400 directly deposited into Bank by customer but no entry was made in the Cash Book.

(iii) Out of cheques issued worth ₹34,000, cheques amounting to ₹20,000 only were presented for payment till 30th June, 2018.

(iv) A cheque for ₹4,000 received and entered in the Cash Book but it was not sent to the Bank.

(v) Cheques worth ₹20,000 had been sent to Bank for collection but the collection was reported by the Bank as under.

(1) Cheques collected before 30th June, 2018, ₹14,000

(2) Cheques collected on 10th July, 2018, ₹4,000

(3) Cheques collected on 12th July, 2018, ₹2,000.

(vi) *The Bank made a direct payment of ₹ 600 which was not recorded in the Cash Book.*

(vii) *Interest on Overdraft charged by the bank ₹ 1,600 was not recorded in the Cash Book.*

(viii) *Bank charges worth ₹ 80 have been entered twice in the cash book whereas Insurance charges for ₹ 70 directly paid by Bank was not at all entered in the Cash Book.*

(ix) *The credit side of bank column of Cash Book was under cast by ₹ 2,000.*

RK Brothers

Bank Reconciliation Statement as on 30th June,2018

Sr.No	Particulars	Amount	Amount
A	Balance as per Bank Pass Book (Overdraft)		25000
B	Add :		
	Cheque Deposited Directly in Bank not Recorded in Cash Book	400	
	Cheques Issued but not Yet Presented	14000	
	Bank Charges Entered Twice in Cash book	80	14480
C	Less :		
	Cheque Received Recorded But omitted to be Banked	4000	
	Cheque Deposited but not yet Collected (4000+2000)	6000	
	Direct Payment made by Bank	600	
	Interest on Overdraft Charged by Bank	1600	
	Insurance Charges paid by Bank Not recorded in Cash Book	70	
	Under casting of Bank Column of Cash Book	2000	14270
D	Balance as per Cash book (overdraft) (A+B-C)		25210

ILLUSTRATION 9 PYP NOV 20

On 31-3-2020, Mahesh's Cash Book Showed a Bank overdraft of ₹ 98,700. On comparison he finds the following :

(1) Out of the total cheques of ₹ 8,900 issued on 27th March, one cheque of ₹ 7,400 was presented for payment on 4th April and the other cheque of ₹ 1,500 handed over to the customer, was returned by him and in lieu of that a new cheque of the same amount was issued to him on 1st April. No entry for the return was made.

(2) Out of total cash and cheques of ₹ 6,800 deposited in the Bank on 24th March, one cheque of ₹ 2,600 was cleared on 3rd April and the other cheque of ₹ 500 was returned dishonoured by the bank on 4th April.

(3) Bank charges ₹ 35 and Bank interest ₹ 2,860 charged by the bank appearing in the passbook are not yet recorded in the cash book.

(4) A cheque deposited in his another account of ₹ 1,550 wrongly credited to this account by the bank.

(5) A cheque of ₹ 800, drawn on this account, was wrongly debited in another account by the bank.

(6) A debit of ₹ 3,500 appearing in the bank statement for an unpaid cheque returned for being 'out of date' had been re-dated and deposited in the bank account again on 5th April 2020.

(7) The bank allowed interest on deposit ₹ 1,000.

(8) A customer who received a cash discount of 4% on his account of ₹ 1,00,000 paid a cheque on 20th March, 2020. The cashier erroneously entered the gross amount in the bank column of the Cash Book.

Prepare Bank Reconciliation Statement as on 31-3-2020.

Cash Book (Amended Bank Column)			
Particulars	**Amount**	**Particulars**	**Amount**
To Interest on Deposit A/c	1000	By Bal B/d	98700
By Party (Cheque Returned)	1500	By Party (Cheque Dishonoured)	500
		By Bank Charges A/c	35
To Bal C/d (Overdraft) (Bal Fig)	107095	By Bank Interest A/c	2860
		By Party A/c (Cheque Dishonor)	3500
		By Party A/c	4000
	109595		**109595**

Mahesh

Bank Reconciliation Statement as at 31-03-2020

Sr.No	Particulars	Amount	Amount
A	Balance as Per Adjusted Cash Book (Overdraft)		107095
B	**Add-**		
	Cheque Deposited but Not yet Collected		2600
C	**Less-**		
	Cheque Issued But Not Yet Presented	7400	
	Wrong Credit Given By Bank	1550	
	Cheque drawn on this Account Wrongly Debited to Another Account	800	9750
D	Balance as Per Pass Book (A+B-C) (Overdraft)		99945

Note - In The Absence of Information It is Assumed that Books of Accounts are Being Closed on 31st March 2020 & Accordingly BRS is Being Prepared With Adjusted Cash Book.

ILLUSTRATION 10 RTP MAY 2018

The Cash-book of M/s ABC shows ₹ 27,570 as the balance at Bank as on 31st March, 2017. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:

(i) Subsidy ₹ 10,250 received from the government directly by the bank, but not advised to the company.

(ii) On 15th March, 2017 the payments side of the Cash-book was under cast by ₹ 350.

(iii) On 20th March, 2017 the debit balance of ₹ 2,156 as on the previous day, was brought forward as credit balance in Cash-book.

(iv) A customer of the M/s ABC, who received a cash discount of 5% on his account of ₹ 2,000, paid to M/s ABC a cheque on 24th March, 2017. The cashier erroneously entered the gross amount in the Cash-Book.

(v) On 10th March, 2017 a bill for ₹ 5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to ₹ 5,500 only.

(vi) A cheque issued amounting to ₹ 1,725 returned marked 'out of date'. No entry made in Cash-book.

(vii) Insurance premium ₹ 756 paid directly by bank under a standing order. No entry made in cash-book.

(viii) A bill receivable for ₹ 1,530 discounted for ₹ 1,500 with the bank had been dishonoured on 30th March, 2017, but advice was received on 1st April, 2017.

(ix) Bank recorded a Cash deposit of ₹ 1,550 as ₹ 1,505.

Prepare Bank Reconciliation Statement on 31st March, 2017.

Cash Book (Amended Bank Column)			
Particulars	**Amount**	**Particulars**	**Amount**
To Bal B/d	27570	By Under Casting of Cash Book	350
To Subsidy A/c	10250	By party A/c	100
To Error of carrying Forward	4312	By Discounting Charges	200
To Party A/c (Cheque Issued Returned)	1725	By Insurance Premium A/c	756
		By Discounted Bill Dishonored	1530
		By Bal C/d (Bal Fig)	40921
	43857		**43857**

M/s. ABC

Bank Reconciliation Statement as at 31-03-2017

Sr.No	Particulars	Amount	Amount
A	Balance as Per Adjusted Cash Book		40921
B	**Less-**		
	Bank Recorded Short Cash Deposit		45
C	Balance as Per Pass Book (A-B)		40876

Note - In The Absence of Information It is Assumed that Books of Accounts are Being Closed on 31st March 2017 & Accordingly BRS is Being Prepared With Adjusted Cash Book.

ILLUSTRATION 11 MTP DEC 2021 SERIES 1

Prepare a Bank Reconciliation statement for Satyam Traders as on 31st March,2021

The cash book of Satyam Traders shows a debit balance of ₹ 4,12,200 at bank as on 31st March,2021, but you find that it does not agree with the balance as per Pass Book. After checking you find the following:

1. On 12th March, 2021 the payment side of the Cash Book was under cast by ₹ 12,000/-
2. A cheque of ₹ 85,000 issued on 20th March, 2021 was not taken in the bank column.
3. On 22nd March, 2021 the debit balance of ₹ 18,500 as on the previous day, was brought forwards as credit balance.
4. Out of the total cheques amounting to ₹ 42,000 issued in, the last week of March, 2021, cheques aggregating ₹ 28,500 were encashed in March, 2021.
5. Dividends of ₹ 35,000 collected by the Bank and Fire insurance premium of ₹ 20,000 paid by it were not recorded in the cash book.

6. One cheque issued to a Creditor of ₹ 1,29,000 was recorded twice in the Cash book.
7. A debtor Mr. A has deposited the Cheque for ₹ 32,000 into the bank directly in the month of March, 2021 without intimating to Satyam Traders and the same cheque was dishonored by the bank due to insufficient funds in the month of March itself.
8. A cheque from customer for ₹ 5,000 was deposited in bank on 28th March,2021 but was dishonored and advice received from bank on 3rd April, 2021.
9. Bank paid credit card bill of ₹ 2,500 which is not recorded in cash book.
10. Bank wrongly credited cheque of ₹ 25,000 of other customer in our account.
11. Bank credited cheque of ₹ 2,000 in savings account of proprietor of Satyam Traders instead of crediting cheque in current account of Satyam Traders.
12. ₹ 500 discount received wrongly entered in bank column in cash book.
13. Bank debited charges ₹ 200 on 25th March for which no intimation received till 31st March.

CASE A – Books are closed on 31st March 2021

CASE B - Books are closed on 31st Dec 2021

CASE A
Cash Book (Amended Bank Column)

Particulars	Amount	Particulars	Amount
To Bal B/d	412200	By Under Casting of Cash Book	12000
To Error of carrying Forward	37000	By party A/c	85000
To Dividend A/c	35000	By Insurance Premium A/c	20000
To Party A/c (Twice Recorded)	129000	By Party A/c (Cheque Dishonor)	5000
To Discount Received	500	By Credit Card A/c	2500
		By Bank charges	200
		By Bal C/d (Bal Fig)	489000
	613700		**613700**

Satyam Traders			
Bank Reconciliation Statement as at 31-03-2021			
Sr.No	**Particulars**	**Amount**	**Amount**
A	Balance as Per Adjusted Cash Book		489000
B	**Add -**		
	Cheques issued But Not Yet Presented	13500	
	Wrong Credit Given By Bank	25000	38500
C	**Less-**		
	Cheque Deposited Credited in Saving Account		2000
D	Balance as Per Pass Book (A+B-C)		525500

No Effect in BRS for Cheque Deposited of Rs, 32000 & Dishonored in the Same Month.

CASE B
Satyam Traders

Bank Reconciliation Statement as on 31-3-2021

Sr.No	Particulars	Amount	Amount
A	Balance As Per cash Book		412200
B	Add -		
	Debit Balance carried Forward as credit Balance	37000	
	Cheques issued but Not presented	13500	
	Dividend Collected By bank Not recorded in Cash Book	35000	
	Cheque issued Recorded Twice in Cash Book	129000	
	Wrong Credit Given By Bank	25000	
	Discount Received Wrongly Credited in cash Book	500	240000

Sr.No	Particulars	Amount	Amount
C	Less –		
	Under casting of Payment Side of cash Book	12000	
	Cheque issued Not taken to bank Column	85000	
	Fire Insurance premium Paid By Bank Not Recorded in Cash Book	20000	
	Cheque Deposited Dishonoured	5000	
	Credit card Bill Paid Not Recorded in Cash Book	2500	
	Cheque Credited in Saving Account Instead of Current A/c	2000	
	Bank Charges Not Recorded in Cash book	200	126700
D	Balance As Per Pass Book (A+B-C)		525500

Note - No Effect in BRS for Cheque Deposited of Rs, 32000 & Dishonored in the Same Month.

ILLUSTRATION 12 - MTP MAY 2019 SERIES 2 (10 MARKS)

On 30th Sept. 2018 my Cash Book (Bank Column of Account No. 1) shows a Bank Overdraft of Rs. 49,350. On going through the Bank Pass book for reconciling the Balance, I found the following:

(a) Out of cheques drawn on 26th Sept, those for Rs. 3,700 were cashed by the bankers on 2nd October.

(b) A crossed cheque for Rs. 750 given to Abdul was returned by him and a bearer cheque was issued to him in lieu on 1st Oct.

(c) Cash and cheques amounting to Rs. 3,400 were deposited in the Bank on 29th Sept., but cheques worth Rs. 1,300 were cleared by the Bank on 1st Oct., and one cheque for Rs. 250 was returned by them as dishonoured on the latter date.

(d) According to my standing instructions, the bankers have on 30th Sept, paid Rs. 320 as interest to my creditors, paid quarterly premium on my policy amounting to Rs. 160 and have paid a second call of Rs. 600 on shares held by me and lodged with the bankers for safe custody. They have also received Rs. 150 as dividend on my shares and recovered an Insurance Claim of Rs. 800, as their charges and commission on the above being Rs. 15. On receipt of information of the above transaction, I have passed necessary entries in my Cash Book on 1st Oct.

(e) My bankers seem to have given me a wrong credit for Rs. 500 paid in by me in No. 2 account and wrong debit in respect of a cheque for Rs. 300 drawn against my No. 2 account.

Prepare a Bank Reconciliation Statement as on 30th September, 2018.

Bank Reconciliation Statement as on 30-9-2018

Sr.No	Particulars	Amount	Amount
A	Overdraft As Per Cash Book		49350
B	Add -		
	Cheque Deposited But Not Cleared	1300	
	Cheque Deposited Dishonored not Recorded in Cash Book	250	
	Interest paid to Creditors not Recorded in cash book	320	
	Policy Premium paid By Bank Not Recorded in Cash Book	160	
	Calls on Shares paid By Bank Not Recorded in Cash Book	600	
	Bank Charges & Commission Charged by Bank not Recorded in Cash Book	15	
	Wrong Debit Given By Bank	300	2945
C	Less -		
	Cheque issued But Not presented	3700	
	Cheque issued By Abdul Returned by Him	750	
	Dividend Received By Bank Not recorded in Cash Book	150	
	Insurance Claim Received By Bank Not Recorded in cash Book	800	
	Wrong credit Given By Bank	500	5900
D	Overdraft As per Pass Book (A+B-C)		46395

Note :- In the Absence of Information it is assumed that cheque is returned by Abdul on 1st October.



thank you!

BILL OF EXCHANGE
&
— PROMISSORY NOTES—

INTRODUCTION

Commercial transactions are entered into on the basis of written promise to pay definite sum of money at definite point of time. These written promises can also be passed from one person to another. Such written promises are known as Negotiable Instruments or Bills of Exchanges. These instruments are means of creating credit. They are transferable by negotiation i.e. by endorsement.

The Following are the chief types negotiable instruments -

1. Promissory Notes
2. Bills of Exchange
3. Cheque

PARTIES TO BILL OF EXCHANGE

1. Drawer : A party who draws a bill or makes the order is known as “Drawer”. Drawer is also known as maker

2. Drawee : A party who accept a bill or order is known as Drawee. Drawee is also known as Acceptor.

3. Payee : A party to whom the amount is payable on due date is known as Payee. Payee is also known as Receiver.

A bill of exchange can be passed on to another person by endorsement. Endorsement is transfer of right to receive the money on due date. Thus for a bill of exchange the holder of the bill is an payee.

FOREIGN BILL OF EXCHANGE

Section 12 of the Negotiable Instruments act provides that all instruments which are not inland instruments are foreign. The following are examples of foreign bills

1. A bill Drawn in India on a person resident outside India and made payable outside India.

2. A bill Drawn outside India on a Person resident outside India.

3. A bill drawn outside India and made payable in India

4. A bill drawn outside India and made payable outside India.

CALCULATION OF MATURITY DATE IN CASE OF BILL OF EXCHANGE

TERM 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. When a 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. When a bill is drawn 'after date', the term of the bill begins to run from the date of drawings the bill.

EXPIRY DATE

The date on which the term of the bill expires is called as Expiry Date/Due Date of the bill.

MATURITY OF BILL/DUE DATE OF BILL

The date which comes after adding three grace days to the expiry date of a bill, is called the date of maturity date of the bill.

CALCULATION OF MATURITY DATE IN CASE OF BILL OF EXCHANGE

BILL AT SIGHT

Bill at Sight (or Instrumental payable on demand) means the instruments in which no time for payment is mentioned. A Cheque is always payable on demand. A promissory note or bill of exchange is payable on demand –

a. When no time for payment is specified, or
b. When it is expressed to be payable on demand, or at sight or on presentment.

IMPORTANT POINTS FOR CALCULATION OF MATURITY DATE

1. Maturity Date of Bill = Date of Drawal/ Acceptance + Term of Bill + 3 Grace Days

2. No grace days are to be added if bill payable at sight.

3. If the due date falls on the public holiday under the Negotiable Instrument Act, due date will be the preceding business working day.

4. If the due date falls on holiday (emergency) declared under the Negotiable Instruments Act, and ratified in the official gazette, due date will be the succeeding business working day.

5. Thirty days are not necessarily a month.

6. Either exclude starting day or ending day in calculation of No. of days for ascertaining due date.

Bill after Date = Term Begins from Date of Drawing

Bill after sight = Term Begins from Date of Acceptance.

Bill at sight = Falls due date & No grace days.

EXAMPLE

Find out the date of maturity of the following Bills receivable :

Bill No.	Date of Drawing	Date of Acceptance	Payable	Due Date
A-1	31.01.1999	02.02.99	1 month after date	**03.03.1999**
A-2	29.01.1999	03.02.99	30 days after date	**03.03.1999**
A-3	29.01.1999	02.02.99	2 months after date	**01.04.1999**
A-4	12.07.1999	14.07.99	1 months after date	**14.08.1999**
A-5	27.06.1999	28.06.99	3 months after date	**30.09.1999**
A-6	28.09.1999	01.10.99	2 months after sight	**04.12.1999**
A-7	23.12.1999	24.12.1999	1 months	**25.01.2000**
A-8	02.01.2000	03.01.2000	On Demand	**24.01.2000**
A-9	05.01.2000	06.01.2000	At sight	**24.01.2000**
A-10	10.01.2000	11.01.2000	On presentment	**24.01.2000**

Drawer demanded the amount of last three bills on 24th Jan , 2000.

UNDERSTANDING THE TERMS RELATED TO BILL OF EXCHANGE

1. **Retention of Bill**

   When drawer holds the bill of exchange with himself till due date, bill is said to be retained by the drawer.

2. **Endorsement of Bill**

   A bill of exchange can be passed on to another person by endorsement. Endorsement of a bill of exchange is made exactly as it is done on case of cheques. Bills are endorsed by drawer or holder of the bill in favour of his creditor in full or part settlement of his dues. There are no restrictions on number of endorsements.

3. **Discounting of Bill**

   When drawer or holder of the bill (i.e endorsee) is in need of funds he normally discounts the bill with bank. Bank deducts discount in advance (similar to interest) and credit the balance proceeds to the customer's account. In case of dishonor of bill by drawee bank debits Customers account along with bank charges.

4. **Bill sent to bank for collection**

Instead of keeping a bill of exchange till the date of maturity a person who received it, may send to bank with instructions that the bill should be retained till maturity & should be collected only on its realisation. Bank charges commission for this service.

5. **Holder of the Bill**

A person who holds the bill is known as' Holder in Due Course". Holder may be drawer or the bank or endorsee of the bill

6. **Honoring the negotiable instrument**

on proper presentation of the bill when the commitment of the payment is fulfilled by acceptor of bill of exchange or issuer of promissory note on the due date it is known as honoring the negotiable instrument.

7. **Dishonor of negotiable instrument**

When the commitment of the payment is not fulfilled by the acceptor of bill of exchange or issuer of promissory note on due date it is known as act of dishonor of negotiable instrument

8. Noting charges

If the negotiable instrument is dishonored the public official known as Notary Public will note the fact of dishonor for this service Notary Public charges a fee. This is known as noting charges. The sum of noting charges is recoverable from party who is responsible for dishonor.

9. Renewal of bill

When an acceptor is unable to honor the bill on due date he himself approaches the drawer and requests him to give time extension. In such a case old bill is cancelled and new bill is drawn. This is also known as Cancellation of bill. No bill can be cancelled by drawee with unilateral act without the consent of an drawer.

10. Retirement of bill

When acceptor has surplus funds and want to honor the bill before the due date, he himself approaches the drawer and expresses his desire to pay earlier. In such a case there is a normal practice of allowing rebates or discount. (To compensate early payment) by the drawer (i.e receiver) to the drawee (i.e Payer)

1] Cancellation of Bill = Compulsory

2] Interest = Compulsory.

3] Part Payment = Not Compulsory

4] New Bill : Compulsory.

11. Insolvency

When a person is unable to pay off his liabilities, he himself or any of his creditor may file a petition in the court to declare the person as insolvent. On accepting the petition by the court, the court appoints an official which will be in charge of proceeding. Insolvent's assets are then disposed off by him and liabilities are paid off to claimants according to their rights. (Secured or unsecured etc)

In case of insolvency bills accepted by insolvent will be dishonored. When it is known that a person is insolvent, entry for dishonor of his acceptance is passed without any reference to due date.

On disposal of insolvent's assets by an official a sum of received by creditor is known as Dividend from insolvent estate. The balance irrecoverable sum is then written off as bad debts.

JOURNAL ENTRIES UNDER BILL OF EXCHANGE

SR.NO	TRANSACTION	BOOKS OF DRAWER	BOOKS OF DRAWEE
1	**Bill drawn duly accepted**	Bills Receivable A/c……Dr To Drawee's A/c	Drawer's A/c…..Dr To Bills Payable A/c
2	**Bill retained**	No entry (Not being a transaction)	No entry (Not being a transaction)
3	**Bill sent to bank for collection**	Bill for collection A/c……..Dr To Bills Receivable A/c	No entry
4	**Bill discounted with Bank**	Bank A/c……Dr Discount A/c…….Dr To Bills Receivable A/c	No entry
5	**Endorsement of bill**	Endorsee's A/c…….Dr To Bills Receivable A/c	No entry

JOURNAL ENTRIES UNDER BILL OF EXCHANGE

6	**Renewal of Bill**		
(i)	**Cancellation of old bill**	Drawee's A/c……..Dr To Bills Receivable A/c	Bills Payable A/c……Dr To Drawer's A/c
(ii)	**Interest Due/Payable**	Drawee's A/c....Dr To Interest A/c	Interest A/c….Dr To Drawer's A/c
(iii)	**Part payment of bill**	Cash/ Bank A/c…….Dr To Drawee's A/c	Drawer's A/c……..Dr To Cash/ Bank A/c
(iv)	**Drawal of new bill**	Bills Receivable A/c……Dr To Drawee's A/c	Drawer's A/c……..Dr To Bills Payable A/c
7	**Retirement of Bill**	Bank A/c……..Dr Rebate/ Dscount A/c……..Dr To Bills Receivable A/c	Bills Payable A/c……Dr To Bank A/c To Rebate/ Discount A/c

JOURNAL ENTRIES UNDER BILL OF EXCHANGE

8	**Honoured on Maturity**		
(i)	**Bill retained**	Bank A/c……Dr To Bills Receivable A/c	Bills Payable A/c……Dr To Bank A/c
(ii)	**Bill sent to bank for collection**	Bank A/c……Dr Bank Commission A/c….Dr To Bill sent for collection A/c	Bills Payable A/c……Dr To Bank A/c
(iii)	**Bill discounted with Bank**	No entry as payment will be received by Bank	Bills Payable A/c……Dr To Bank A/c
(iv)	**Endorsement of bill**	No entry as payment will be received by Endorsee	Bills Payable A/c……Dr To Bank A/c

JOURNAL ENTRIES UNDER BILL OF EXCHANGE

9	**Dishonoured on Maturity**		
(i)	**Noting charges Paid**	Noting/Bank charges A/c……Dr To Cash/Bank A/c	No entry
(ii)	**Bill retained**	Drawee's A/c……..Dr To B/R A/c To Noting Charges A/c	Bills Payable A/c……Dr Noting charges A/c……..Dr To Drawer's A/c
(iii)	**Bill sent to bank for collection**	Drawee's A/c……Dr To Bill for collection A/c	Bills Payable A/c……Dr To Drawer's A/c
(iv)	**Bill discounted with Bank**	Drawee's A/c……Dr To Bank A/c (Bill amt + Bank charges)	Bills Payable A/c……Dr Bank Charges A/c……Dr To Drawer's A/c
(v)	**Endorsement of bill**		
(a)	**Noting charges paid by drawer**	Drawee's A/c…….Dr To Endorsee's A/c To Noting Charges A/c	Bills Payable A/c……Dr Noting charges A/c……..Dr To Drawer's A/c
(b)	**Noting charges paid by endorsee**	Drawee's A/c…….Dr To Endorsee's A/c	Bills Payable A/c……Dr Noting charges A/c……..Dr To Drawer's A/c

JOURNAL ENTRIES UNDER BILL OF EXCHANGE

10 (i)	**Insolvency of Drawee** **Bill retained**	Drawee's A/c…….Dr To Bills Recievable A/c	Bills Payable A/c…….Dr To Drawer's A/c
(ii)	**Bill scnt to bank for collcction**	Drawee's A/c…….Dr To Bill sent to Bank for Collection A/c	Bills Payable A/c…….Dr To Drawer's A/c
(iii)	**Bill discounted with Bank**	Drawee's A/c……..Dr To Bank A/c	Bills Payable A/c…….Dr To Drawer's A/c
(iv)	**Endorsement of bill**	Drawee's A/c…….Dr To Endorsee A/c	Bills Payable A/c…….Dr To Drawer's A/c
(v)	**Dividend received from Insolvent's Estate**	Bank A/c……Dr Bad Debts A/c……Dr To Drawee's A/c	Drawer's A/c……Dr To Bank A/c To Deficiency A/c

ACCOUNTING ENTRIES IN THE BOOKS OF ENDORSEE

SR.NO	TRANSACTION	ACCOUNTING ENTRY
1	**Bill received from endorser**	Bills Receivable A/c.....Dr To Endorser's A/c
2	**Bill retained**	No entry (Not being a transaction)
3	**Bill sent to bank for collection**	Bill for collection A/c.....Dr To Bills Receivable A/c
4	**Bill discounted with Bank**	Bank A/c.....Dr Discount A/c.....Dr To Bills Receivable A/c

ACCOUNTING ENTRIES IN THE BOOKS OF ENDORSEE

5	**Further Endorsement of bill**	Endorsee's A/c.....Dr To Bills Receivable A/c
6	**Honored on Maturity**	
(i)	**Bill retained**	Bank A/c.....Dr To Bills Receivable A/c
(ii)	**Bill sent to bank for collection**	Bank A/c.....Dr Commission A/c....Dr To Bill sent for collection A/c
(iii)	**Bill discounted with Bank**	No entry as payment will be received by the bank (Holder in due course)
(iv)	**Endorsement of bill**	No entry as payment will be received by the bank (Holder in due course)

ACCOUNTING ENTRIES IN THE BOOKS OF ENDORSEE

7 (i)	**Dishonored on Maturity** **Noting charges paid**	Noting charges A/c.....Dr To Cash/Bank A/c
(ii)	**Bill retained**	Endorser's A/c.....Dr To B/R A/c To Noting charges A/c
(iii)	**Bill sent to bank for collection**	Endorser's A/c.....Dr To Bill for collection A/c
(iv)	**Bill discounted with Bank**	Endorser's A/c.....Dr To Bank A/c (Bill amt + Bank Charges)
(v)	**Endorsement of bill**	Endorser's A/c.....Dr To Endorsee's A/c

ACCOMMODATION BILL

Normally Bills of Exchange are meant to finance only commercial transactions. But apart from financing commercial transaction, bills may be drawn for raising funds to accommodate and oblige friends. Accommodation bills are those instruments which are drawn to enable one or all the parties temporarily to raise funds by getting the bill discounted with the bank. After meeting the temporary need of finance, drawer/other accommodated parties sends back money to the acceptor, thus making him possible to meet the bill on the due date. Even tough , the acceptor has not received payment from the accommodated parties towards their share , he can not escape from his liability to the third party.

PROCEDURE UNDER ACCOMMODATION BILL

1. A bill is drawn by one party on another. The another party accept the bill and sends back the same duly accepted to the drawer.

2. Drawer discounts the bill with bank.

3. Proceeds are shared by accommodating parties in an agreed ratio. Drawer remits other party's share of discounting proceeds (net of proportionate discount)

4. Before due date drawer/other accommodated party is supposed to remit his share (Gross) to drawee , to enable him to honor the bill.

5. Drawee is to honor the bill on the due date

Note : According to the present guidelines of Reserve Bank of India, bankers are not permitted to discount accommodation bills in India.

DISTINCTION BETWEEN TRADE BILLS AND ACCOMODATION BILLS

No.	Trade Bills	Accommodation Bills
1	These bills are drawn to settle a business transaction.	These bills are drawn to meet the financial needs of the drawer/ drawee/ both temporarily.
2	These bills are accepted for a consideration.	These bill are accepted without any consideration.
3	The bill may not be necessarily discounted	The bill is necessary discounted with bank
4	On Discounting of such bills, proceeds remain with the holder	On discounting of such bills, proceeds may be shared by drawer and drawee in an agreed ratio.
5	Discount charges are borne by the Drawer.	Discount charges are shared by the parties in the ratio in which discounting proceeds are shared. (i.e. by drawer as well a drawee).

ILLUSTRATION 1 – PYP MAY 2019 (5 MARKS)

On 1st January 2018, Akshay draws two bills of exchange for ₹16,000 and ₹25,000.

The bill of exchange for ₹16,000 is for two months while the bill of exchange for ₹25,000 is for three months. These bills are accepted by Vishal. On 4th March, 2018, Vishal requests Akshay to renew the first bill with interest at 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March, 2018, Vishal retires the acceptance for ₹25,000, the interest rebate i.e. discount being ₹250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Akshay.

In The Books of Akshay
Journal Entries

Date	Particulars	LF	Debit	Credit
Jan. 1	Bills receivable (No. 1) A/c	Dr.	16,000	
	Bills receivable (No. 2) A/c	Dr.	25,000	
	To Vishal A/c			41,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2018 and bills receivable No. 2 due for maturity on 4.4.2018)			
March 4	Vishal's A/c	Dr.	16,000	
	To Bills receivable (No. 1) A/c			16,000
	(Being the reversal entry for bill No. 1 on renewal)			

Date	Particulars	LF	Debit	Credit
March 4	Bills receivable (No. 3) A/c	Dr.	16,400	
	To Interest A/c			400
	To Vishal A/c			16,000
	(Being the drawing of bill of exchange No. 3 dur for maturity on 7.5.2018 together with interest at 15% p.a. in lieu of the original acceptance of Vishal)			
March 25	Bank A/c	Dr.	24,750	
	Discount A/c	Dr.	250	
	To Bills receivable (No. 2) A/c			25,000
	(Being the amount received on retirement of bill No. 2 before the due date)			

Date	Particulars	LF	Debit	Credit
May 7	Vishal's A/c	Dr.	16,400	
	To Bills receivable (No. 3) A/c			16,400
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)			
May 7	Bank A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the amount received from official assignee of Vishal at 50 paisa per rupee against dishonoured bill)			

Date	Particulars	LF	Debit	Credit
May 7	Bad debts A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)			

ILLUSTRATION 2 - MTP DEC 2021 SERIES 1 (10 MARKS)

Mr. Q accepted a bill for ₹ 10,000 drawn on him by Mr. P on 1st August, 2020 for 3 months. This was for the amount which Q owed to P. On the same date Mr. P got the bill discounted at his bank for ₹ 9,800.

On the due date, Q approached P for renewal of the bill. Mr. P agreed on condition that ₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months and that for the remaining balance Q should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2020, Q became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. P

In The Books of P
Journal Entries

Date	Particulars		LF	Debit	Credit
01-08-20	Bills Receivable A/c….Dr			10000	
	To Q A/c				10000
	(Being Drawn on Q)				
01-08-2020	Bank A/c	Dr.		9800	
	Discount A/c	Dr.		200	
	To Bills Receivable A/c				10,000
	(Being discounting of bill)				

Date	Particulars	LF	Debit	Credit
04-11-20	Q A/c……Dr		10000	
	To Bank A/c			10000
	(Being the bill cancelled up due to Q's inability to pay it)			
04-11-20	Q A/c….Dr		240	
	To Interest A/c			240
	(Being Interest on Renewed Bill			

Date	Particulars	LF	Debit	Credit
4-11-20	Cash A/c….Dr		2240	
	To Q A/c			2240
	(Being Part Payment received)			
04-11-20	Bills Receivable A/c….Dr		8000	
	To Q A/c			8000
	(Being Drawn on Q)			

Date	Particulars	LF	Debit	Credit
31-12-20	Q A/c……Dr		8000	
	To Bills Receivable A/c			8000
	(Being Bill Dishonored Due to Insolvency)			
31-12-20	Bank A/c…..Dr		3200	
	Bad Debts A/c….Dr		4800	
	To Q A/c			8000
	(Being Final Dividend received from Q's Estate)			

ILLUSTRATION 3 – PYP DEC 2021 (10 MARKS)

On 12th May, 2020 A sold goods to B for Rs. 36,470 and drew upon the later two bills one for Rs. 16,470 at one month and the other for Rs. 20,000 at three months. B accepted both the bills.

On 5th June, 2020 A sent both the bills to his banker for collection on the due dates. The first bill was duly met. But due to some temporary financial difficulties, B failed to honour the second bill on the due date and the bank had to pay Rs. 20 as noting charges.

However, on 16th August, 2020 it was agreed between A and B that B would immediately pay Rs. 8,020 in cash and accept a new bill at 3 months for Rs. 12,480 which included interest for postponement of the part payment of the dishonored bill. A immediately sent new acceptance to it's bank for collection on the due date.

On 1st October, 2020 B approached A offering Rs. 12,240 for retirement of his acceptance. A accepted the request.

You are required to pass journal entries of all the above transactions in the books of A.

Sale of Goods.
Drawing of 2 Bills.
Sending of Bills for Collection
Honor of first Bill
Dishonor of 2nd Bill & Recording of Noting charges.
Interest on renewed Bill
Part Payment
Drawing of New Bill.
Bill sent to Bank for Collection
Retirement of Bill.

In The Books of A
Journal Entries

Date	Particulars	LF	Debit	Credit
12-5-20	B's A/c…..Dr		36470	
	To Sales A/c			36470
	(Being Goods Sold			
12-5-20	Bills Receivable 1 A/c….Dr		16470	
	Bills Receivable 2 A/c….Dr		20000	
	To B's A/c			36470
	(Being Bills Drawn			

Date	Particulars	LF	Debit	Credit
5-6-20	Bill For Collection A/c….Dr		36470	
	To Bills Receivable 1 A/c			16470
	To Bills Receivable 2 A/c			20000
	(Being Bill Sent To Bank For Collection)			
15-6-20	Bank A/c…..Dr		16470	
	To Bill For Collection A/c			16470
	(being First Bill Honored)			

Date	Particulars	LF	Debit	Credit
14-8-20	B's A/c…..Dr (20000+20)		20020	
	To Bill For Collection A/c			20000
	To Bank A/c			20
	(Being 2nd Bill Disohonor on Due Date)			
16-8-20	B's A/c….Dr		480	
	To Interest A/c			480
	(Being Interest Receivable on Renewal of Bill)			

Date	Particulars	LF	Debit	Credit
16-8-20	Bank A/c…..Dr		8020	
	To B’s A/c			8020
	(Being Part payment Received)			
16-8-20	Bills Receivable 3 A/c….Dr		12480	
	To B’s A/c			12480
	(Being New Bill Drawn)			

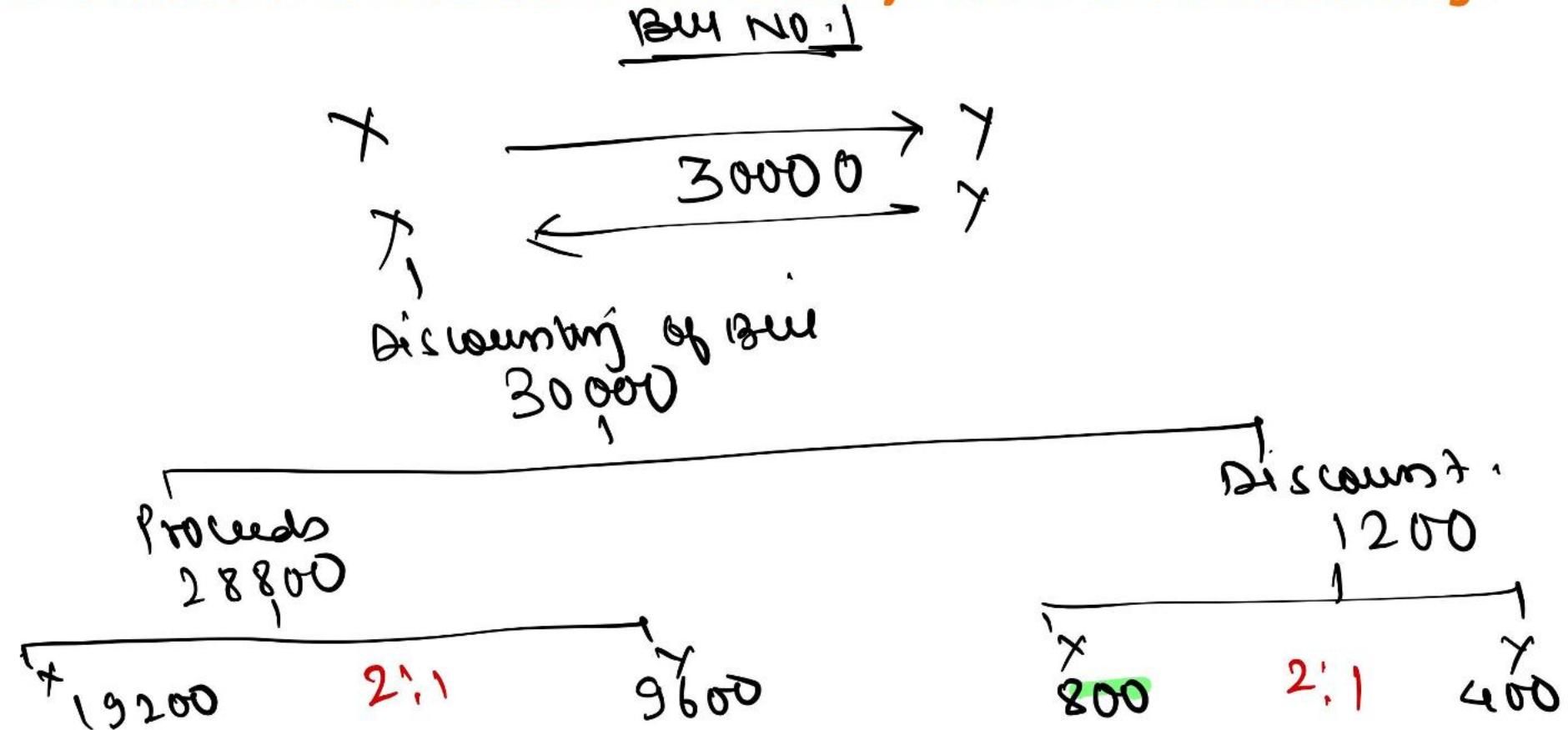
Date	Particulars	LF	Debit	Credit
16-8-20	Bill For Collection A/c…Dr		12480	
	To Bills Receivable 3 A/c			12480
	(Being Bill Sent To Bank For Collection)			
1-10-20	Bank A/c….Dr		12240	
	Rebate A/c…Dr		240	
	To Bill For Collection A/c			12480
	(Being Bill Retired)			

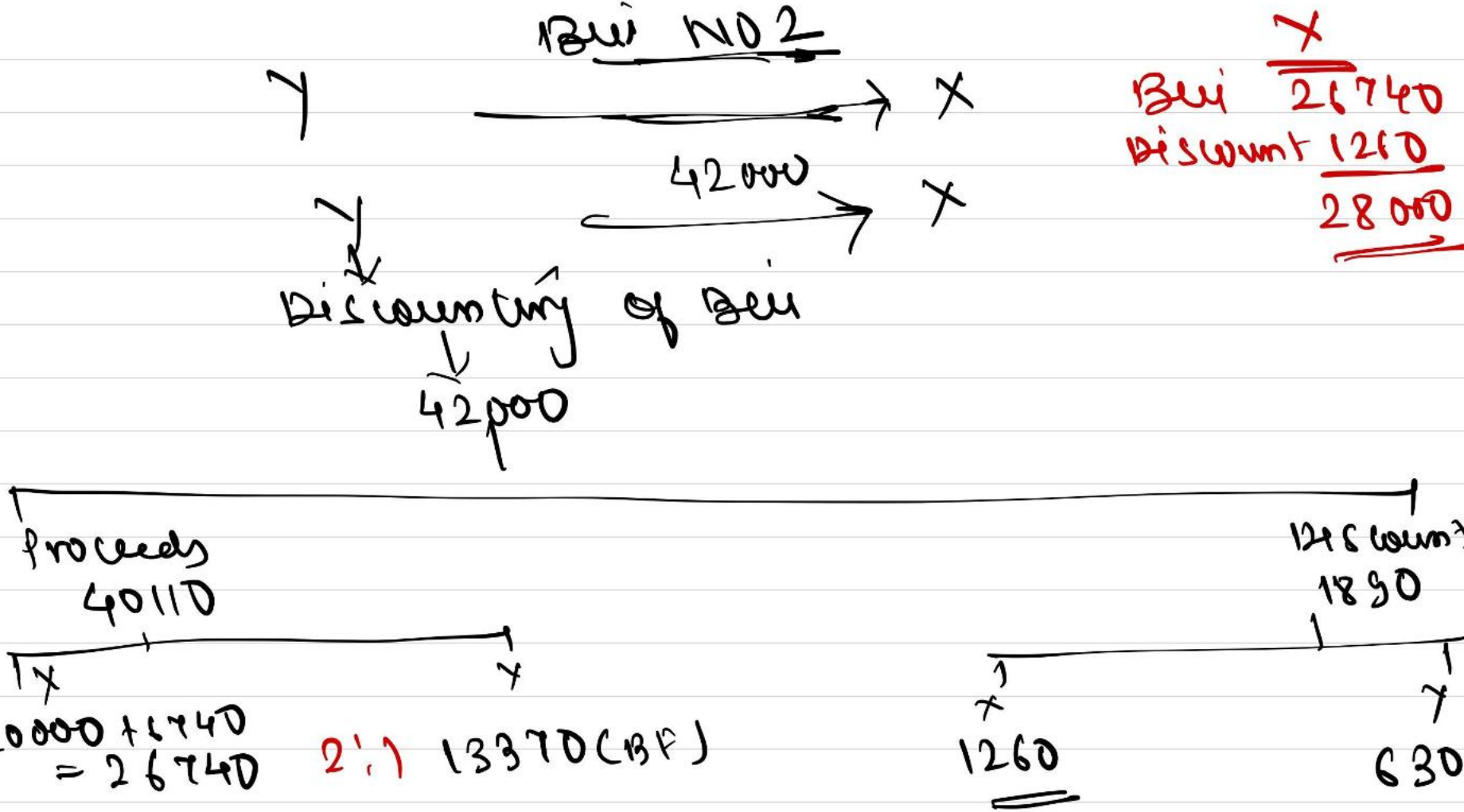
ILLUSTRATION 4 - SM

X draws on Y a bill of exchange for Rs 30,000 on 1st April, 2020 for 3 months. Y accepts the bill and sends it to X who gets it discounted for Rs 28,800. X immediately remits Rs 9,600 to Y. On the due date, X, being unable to remit the amount due, accepts a bill for Rs 42,000 for three months which is discounted by Y for Rs 40,110. Y sends Rs 6,740 to X. Before the maturity of the bill X becomes bankrupt, his estate paying fifty paise in the rupee. Give the journal entries in the books of X and Y.

Working Note

Ascertainment of Discount to Be Borne By Parties to Bill of Exchange




Bill No 2
Y
X
42000
X
Discounting of Bill
42000
X
Bill 21740
Discount 1260
28000
Proceeds
40110
X
X
20000+1740
= 21740
2:1
13370 (BF)
1890
1260
630

X [Drawer]

1. Bill drawn on Y.
2. Discounting of Bill No. 1
3. Sharing of Proceeds & Discount.
4. Accept Bill No. 2
5. Recieve Proceeds from Y & record discount.
6. Dishonor of Bill No. 2
7. Final Settlement.

Y [Drawee]

1. Accept Bill No. 1
2. Recieve Proceeds from X & Record Discount
3. Drawing Bill No. 2 on X
4. Discounting of Bill No. 2
5. Payment of Bill No 1
6. Sharing of Proceeds & Discount of Bill 2
7. Dishonor of Bill 2
8. Final Settlement

In The Books of X
Journal Entries

Date	Particulars		LF	Debit	Credit
01-04-2020	Bills Receivable A/c	Dr.		30,000	
	To Y A/c				30,000
	(Being acceptance received for Mutual accomodation)				
01-04-2020	Bank A/c	Dr.		28,800	
	Discount A/c	Dr.		1,200	
	To Bills Receivable A/c				30,000
	(Being discounting of bill)				

Date	Particulars	LF	Debit	Credit
01-04-2020	Y A/c Dr.		10,000	
	To Cash/Bank A/c			9,600
	To Discount A/c			400
	(Being 1/3 proceeds of the bill transfer to the Y's A/c)			
04-07-2020	Y A/c Dr.		42,000	
	To Bills Payable A/c			42,000
	(Being acceptance of bill given)			

Date	Particulars	LF	Debit	Credit
04-07-2020	Cash/Bank A/c Dr.		6,740	
	Discount A/c Dr.		1,260	
	To Y A/c			8,000
	(Being amount received from Y against 2nd Bill)			
	Bills Payable A/c Dr.		42,000	
	To Y A/c			42,000
	(Being dishonour of bill due insolvency)			

Date	Particulars	LF	Debit	Credit
	Y A/c Dr.		28,000	
	To Bank A/c			14,000
	To Deficiency A/c			14,000
	(Being Final Settlement at 50 Paise in A Rupee due to			
	Insolvency)			

In the Books of X

Y A/C

Date	Particulars	Amt	Date	Particulars	Amt
1-4-20	To Cash	9600	1-4-20	By Bills receivable	30000
1-4-20	To Discount	400			
4-7-20	To Bills Payable	42000	4-7-20	By Cash	6740
			4-7-20	By Discount	1260
7-10-20	To Cash	14000	7-10-20	By Bills Payable	42000
7-10-20	To Deficiency	14000			
		80000			80000

In The Books of Y
Journal Entries

Date	Particulars	LF	Debit	Credit
01-04-2020	X A/c……Dr		30,000	
	To Bills Payable			30,000
	(Being acceptance Given for Mutual accomodation)			
01-04-2020	Cash/Bank A/c…..Dr		9,600	
	Discount A/c…..Dr		400	
	To X A/c			10,000
	(Being Proceeds Received from X and Share of Discount			
	Debited)			

Date	Particulars	LF	Debit	Credit
04-07-2020	Bills Recievable A/c…..Dr		42,000	
	To X A/c			42,000
	(Being Bill Drawn on X)			
04-07-2020	Bank A/c……Dr		40,110	
	Discount A/c…..Dr		1,890	
	To Bills Recievable A/c			42,000
	(Being Bill Discounted with Bank)			

Date	Particulars	LF	Debit	Credit
	X A/c….Dr		8,000	
	To Discount A/c			1,260
	To Cash/Bank A/c			6,740
	(being 6740 Paid to X After Discounting of 2nd Bill)			
	Bills Payable A/c…..Dr		30,000	
	To Cash/Bank A/c			30,000
	(Being First Bill Honored)			

Date	Particulars	LF	Debit	Credit
	X A/c….Dr		42,000	
	To Bank A/c			42,000
	(Being Bill Dishonored Due to Insolvency)			
	Cash/Bank A/c…Dr		14,000	
	Bad Debts A/c….Dr		14,000	
	To X A/c			28,000
	(Being Final Settlement at 50 Paise in A Rupee due to			
	Insolvency)			

In the Books of Y

X A/c

Date	Particulars	Amt	Date	Particulars	Amt
1-4-20	To Bills Payable	30000	1-4-20	By Cash	9600
			1-4-20	By Discount	400
			4-7-20	By Bills receivable	42000
4-7-20	To Cash	6740			
4-7-20	To Discount	1260	7-10-20	By Cash/ Bank	14000
7-10-20	To Bank	14000	7-10-20	By Bad debts	14000
		80000			80000

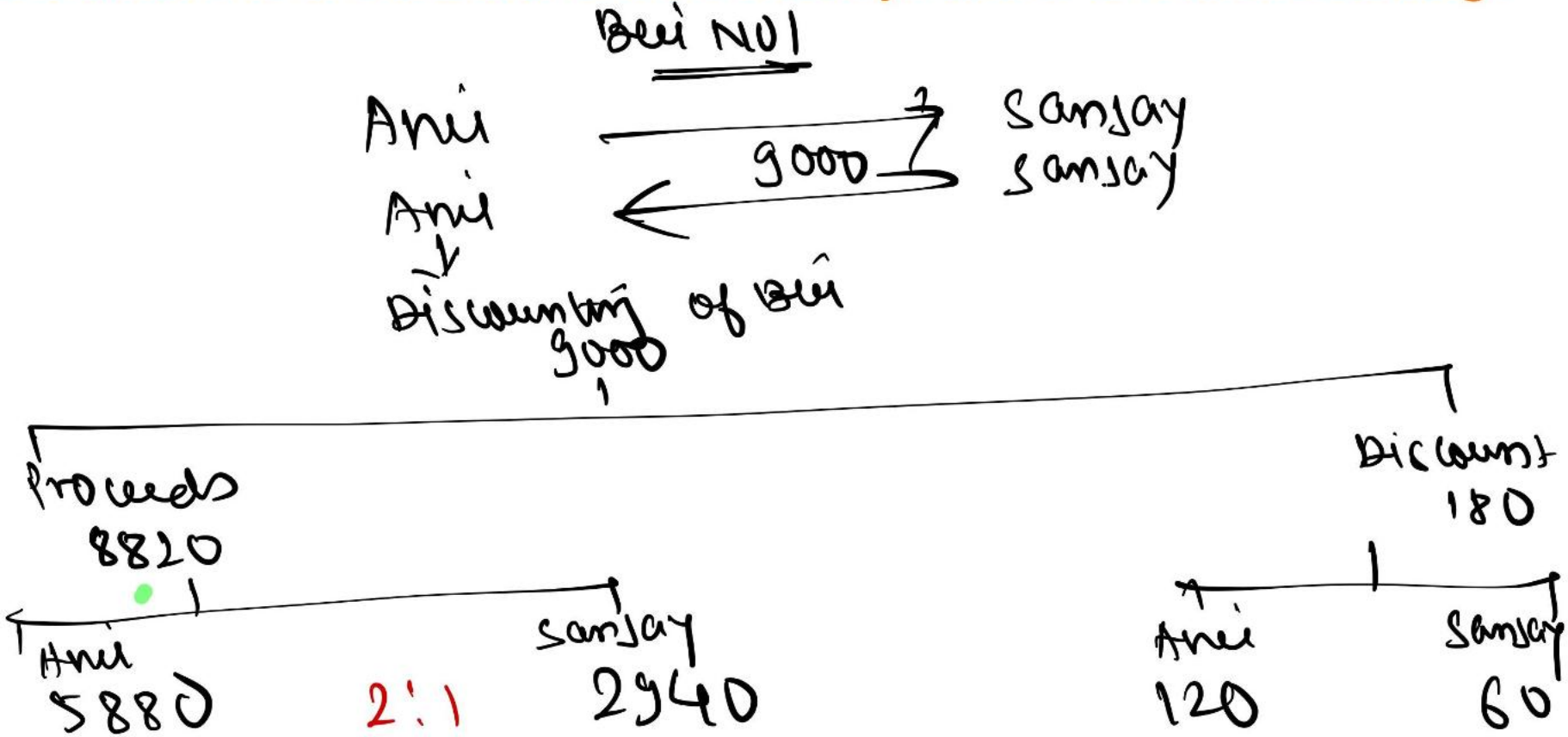
ILLUSTRATION 5 - SM

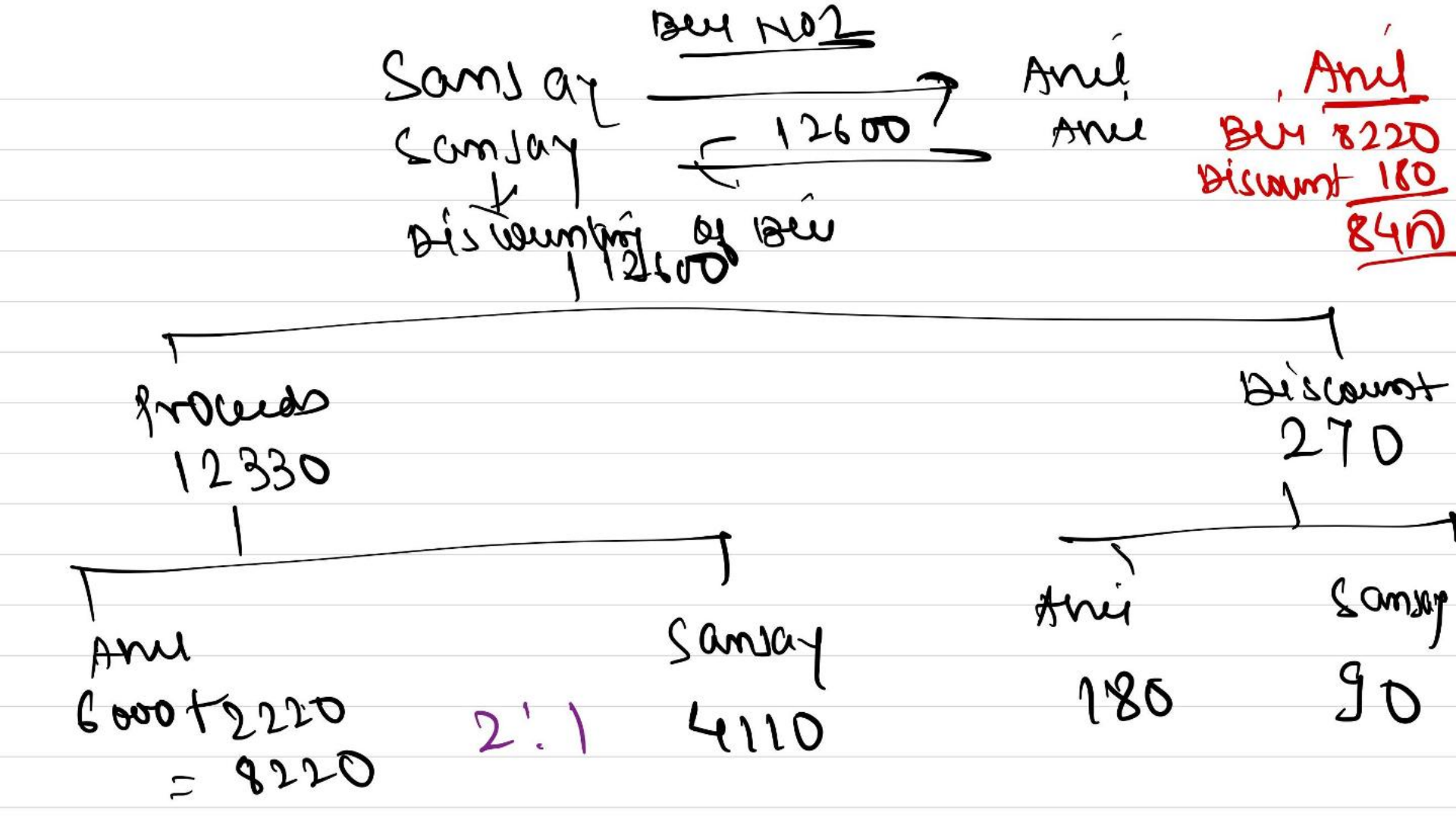
Anil draws a bill for ₹9,000 on Sanjay on 5th April, 2019 for 3 months, which Sanjay returns it to Anil after accepting the same. Anil gets it discounted with the bank for ₹ 8,820 on 8th April, 2019 and remits one-third amount to Sanjay. On the due date Anil fails to remit the amount due to Sanjay, but he accepts a bill for ₹12,600 for three months, which Sanjay discounts it for ₹ 12,330 and remits ₹ 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, 2019.

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

Working Note

Ascertainment of Discount to Be Borne By Parties to Bill of Exchange




Bill No 2
Sanjay
Sanjay
Discounting of Bill
12600
12600
Ani
Ani
Ani
Bill 8220
Discount 180
8040
Proceeds
12330
Discount
270
Ani
6000+2220
= 8220
Sanjay
4110
2:1
Ani
180
Sanjay
90

Working Note

Ascertainment of Discount to Be Borne By Parties to Bill of Exchange

In The Books of Anil
Journal Entries

Date	Particulars		LF	Debit	Credit
05-04-2019	Bills Receivable A/c	Dr.		9,000	
	To Sanjay's A/c				9,000
	(Being acceptance received for material accomodation)				
08-04-2019	Bank A/c	Dr.		8,820	
	Discount A/c	Dr.		180	
	To Bills Receivable A/c				9,000
	(Being discounting of bills)				

Date	Particulars	LF	Debit	Credit
08-04-2019	Sanjay's A/c Dr.		3,000	
	To Bank A/c			2,940
	To Discount A/c			60
	(Being 1/3 proceeds of the bill transfer to the Sanjay's			
	A/c)			
08-07-2019	Sanjay's A/c Dr.		12,600	
	To Bills Payable A/c			12,600
	(Being acceptance of bill given)			

Date	Particulars		LF	Debit	Credit
08-07-2019	Bank A/c	Dr.		2,220	
	Discount A/c	Dr.		180	
	To Sanjay's A/c				2,400
	(Being amount received from sanjay against 2nd Bills)				
11-10-2019	Bills Payable A/c	Dr.		12,600	
	To Sanjay's A/c				12,600
	(Being dishonour of bill due insolvency)				

Date	Particulars	LF	Debit	Credit
15-10-2019	Sanjay's A/c Dr.		8,400	
	To Bank A/c			4,200
	To Deficiency A/c			4,200
	(Being @50% of (Rs.6,000+2,400) paid to Sanjay)			

ILLUSTRATION 6 - PYP NOV 2020 (10 MARKS)

Suresh draws a bill for ₹15,000 on Anup on 15th April, 2020 for 3 months, which is returned by Anup to Suresh after accepting the same. Suresh gets it discounted with the bank for ₹ 14,700 on 18th April, 2020 and remits one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but he accepts bill of ₹ 17,500 for 3 months, which Anup discounts for ₹ 17,100 and remits ₹ 2,825 to Suresh. Before the maturity of the renewed bill Suresh becomes insolvent and only 50% was realized from his estate on 31st October, 2020.

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

Working Note

Ascertainment of Discount to Be Borne By Parties to Bill of Exchange

In The Books of Suresh
Journal Entries

Date	Particulars		LF	Debit	Credit
15-04-2020	Bills Receivable A/c	Dr.		15000	
	To Anup A/c				15000
	(Being acceptance received)				
15-04-2020	Bank A/c	Dr.		14700	
	Discount A/c	Dr.		300	
	To Bills Receivable A/c				15000
	(Being discounting of bills)				

Date	Particulars	LF	Debit	Credit
18-04-2020	Anup's A/c Dr.		5000	
	To Bank A/c			4900
	To Discount A/c			100
	(Being 1/3 proceeds of the bill transfer to the Anup A/c			
18-07-2020	Anup A/c Dr.		17500	
	To Bills Payable A/c			17500
	(Being acceptance of bill given)			

Date	Particulars	LF	Debit	Credit
18-07-2020	Bank A/c Dr.		2825	
	Discount A/c Dr.		300	
	To Anup A/c			3125
	(Being amount received from sanjay against 2nd Bills)			
21-10-2020	Bills Payable A/c Dr.		17500	
	To Anup A/c			17500
	(Being dishonour of bill due insolvency)			

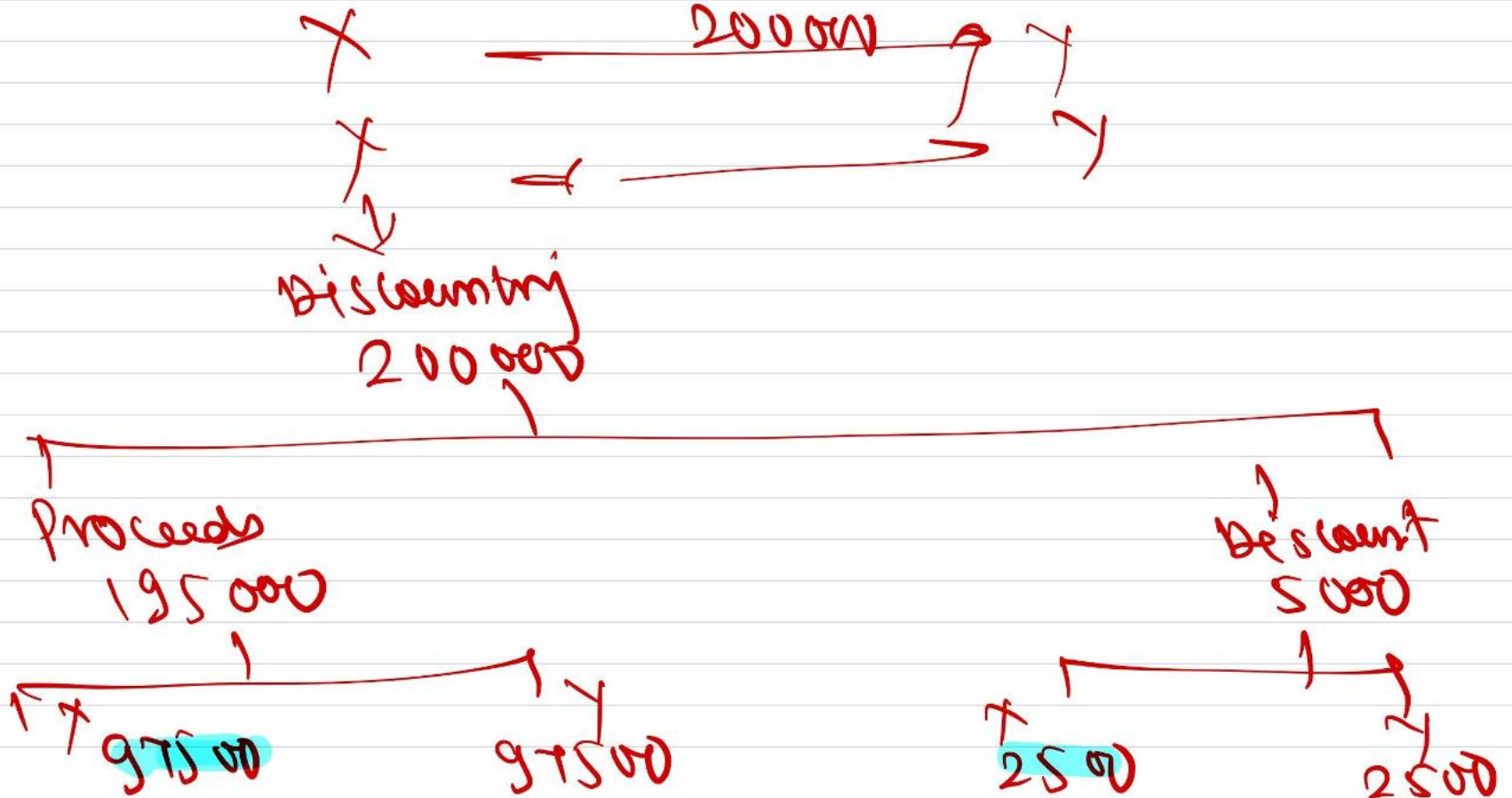
Date	Particulars	LF	Debit	Credit
31-10-2020	Anup's A/c Dr.		13125	
	To Bank A/c			6563
	To Deficiency A/c			6562
	(Being Final Dividend Paid)			

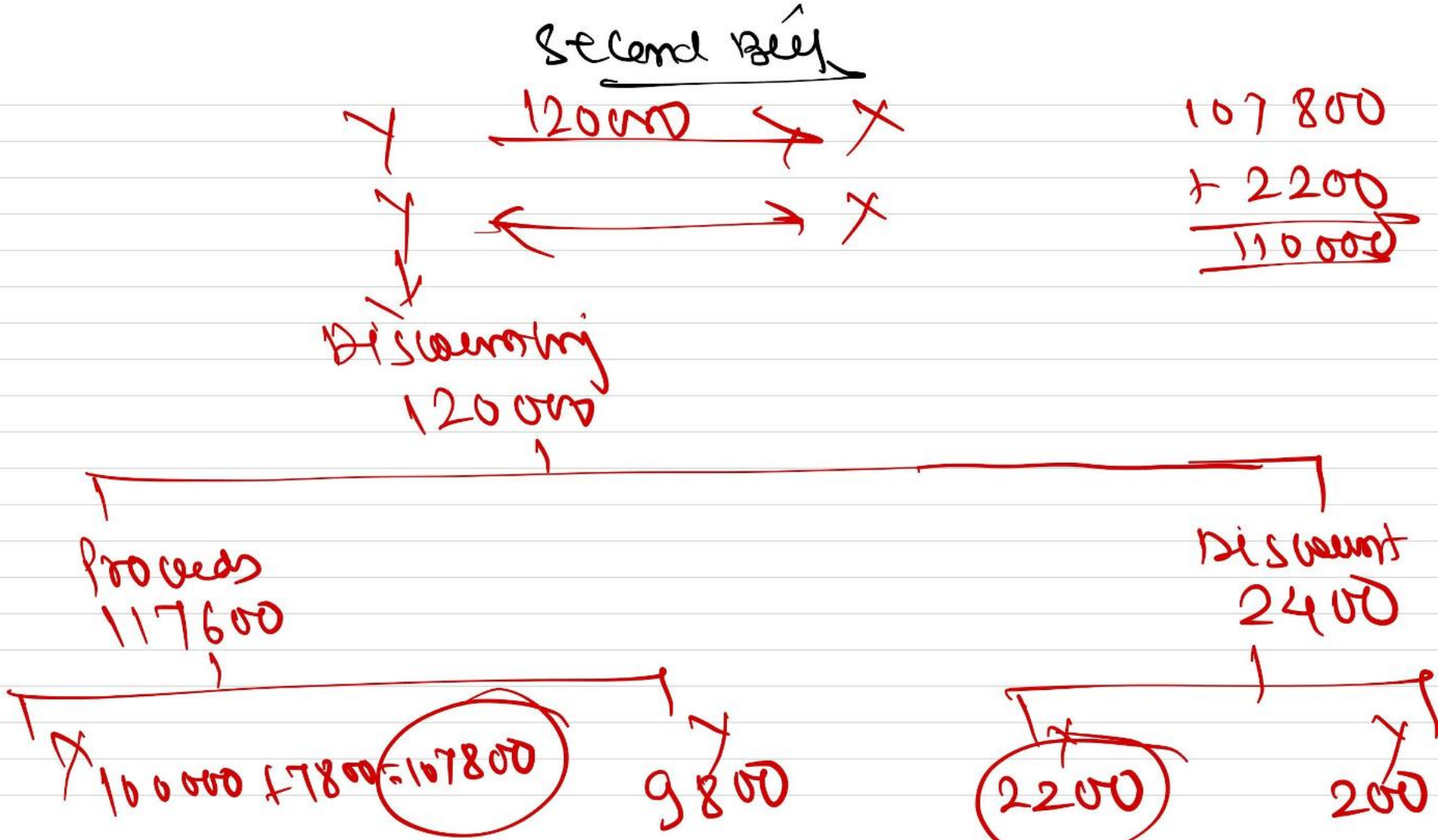
ILLUSTRATION 7

X and Y were friends and in need of funds. On 1st Jan. X drew a bill for Rs 200000 for 3 months on Y. On 4th Jan. X got the bill discounted at 10% p.a. and remitted half of the proceeds to Y. On 1st April, X could not send the required sum, instead, he accepted Y's bill for Rs 120000 for two months. On 4th April, the bill was discounted by Y at 12% p.a. Out of this Rs 7800 were remitted to X. At maturity of second bill, due to financial crisis, X became insolvent and only 50 Paise in a rupee could be recovered from his estate.

Give journal Entries in the Books of Y & Y's ledger in the Books of X

First Bill


200000
Discounting
200000
Proceeds
195000
Discount
5000
97500
97500
2500
2500


Second Bill
120000
Y
X
Discounting
120000
Proceeds
117600
100000 + 7800 = 107800
9800
Discount
2400
2200
200
107800
+ 2200
110000

Y's Journal

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
Jan.1	X	Dr.	2,00,000	
	To Bills Payable A/c			2,00,000
	(Being acceptance of the bill given to X)			
Jan.4	Bank A/c	Dr.	97,500	
	Discount A/c	Dr.	2,500	
	To X			1,00,000
	(Being the half the proceeds received from X)			
April.1	Bills Receivable A/c	Dr.	1,20,000	
	To X			1,20,000
	(Being the acceptance of a bill received from X)			

April.4	Bank A/c Dr.	1,17,600	
	Discount A/c Dr.	2,400	
	To Bill Receivable A/c		1,20,000
	(Being the bill discounted @ 12 p.a.)		
April.4	Bills Payable A/c Dr.	2,00,000	
	To Bank A/c		2,00,000
	(Being the first bill discharged)		
April.4	X Dr.	10,000	
	To Bank A/c		7,800
	To Discount A/c		2,200
	[Being Rs.7,800 remitted to X and proportionate discount Rs.2,200 (i.e. Rs.2,400x Rs.1,07,800/ Rs. 1,17,600 charged)]		

4th June	X Dr.	1,20,000	
	To Bank A/c		1,20,000
	(Being the bill of X dishonoured on X's bankruptcy)		
4th June	Bank A/c Dr.	55,000	
	Bad Debts A/c Dr.	55,000	
	To X		1,10,000
	(Being a dividend of 50 paisa in a rupee received on X's bankruptcy and the balance written off as bad debts)		

Y's A/c			
Particulars	Amount	Particulars	Amount
To Bank A/c	97500	By B/R A/c	200000
To Discount A/c	2500	By Bank A/c	7800
To B/P A/c	120000	By Discount A/c	2200
To Bank A/c	55000	By B/P A/c	120000
To Deficit A/c	55000		
	330000		330000

ILLUSTRATION 8 - RTP MAY 2021

Prepare Journal entries for the following transactions in Samarth's books.

(i) Samarth's acceptance to Aarav for ₹ 1,250 discharged by a cash payment of ₹ 500 and a new bill for the balance plus ₹ 25 for interest.

(ii) G. Gupta's acceptance for ₹ 4,000 which was endorsed by Samarth to Sahni was dishonoured. Sahni paid ₹ 20 noting charges. Bill withdrawn against cheque.

(iii) Harshad retires a bill for ₹ 5,000 drawn on him by Samarth for ₹ 20 discount.

(iv) Samarth's acceptance to Patel for ₹ 19,000 discharged by Sandeep Chadha's acceptance to Samarth for a similar amount.

Books of S. Samarth

Journal Entries

(i)	Bills Payable Account	Dr.	1,250	
	Interest Account	Dr.	25	
	To Cash A/c			500
	To Bills Payable Account			775
	(Bills Payable to Aarav discharged by cash payment of ₹ 500 and a new bill for ₹1,250 including ₹ 25 as interest)			
(ii)	(a) G. Gupta	Dr.	4,020	
	To Sahni			4,020
	(G. Gupta's acceptance for ₹ 4,000 endorsed to Sahni dishonoured, ₹ 20 paid by Sahni as noting charges)			
	(b) Sahni	Dr.	4,020	
	To Bank Account			4,020
	(Payment to Sahni on withdrawal of bill earlier received from Mr. G. Gupta)			

(iii)	Bank Account	Dr.	4,980	
	Discount Account	Dr.	20	
	To Bills Receivable Account			5,000
	(Payment received from Harshad against his acceptance for ₹ 5,000. Allowed him a discount of ₹ 20)			
(iv)	Bills Payable Account	Dr.	19,000	
	To Bills Receivable Account			19,000
	(Bills Receivable from Patel endorsed to Sandeep in settlement of bills payable issued to him earlier)			

ILLUSTRATION 9 - SM

Journalize the following in the books of Don:

(i) Bob informs Don that Ray's acceptance for ₹ 3,000 has been dishonoured and noting charges are ₹ 40. Bob accepts ₹ 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 ₹ 3,200; he sends Don's own acceptance in favour of Ralph for ₹ 3,160; in full settlement.

(iii) Don meets his acceptance in favour of Singh for ₹ 4,500 by endorsing John's acceptance for ₹ 4,450 in full settlement.

In The Books of Don
Journal Entries

Date	Particulars	LF	Debit	Credit
1	Ray's A/c…..Dr		3,040	
	To Bob's A/c			3,040
	(Being Endorsed Bill Dishonored and Noring charges paid)			
	Bob's A/c….Dr		3,040	
	Interest A/c….Dr		51	
	To Cash A/c			1,000
	To Bills payable A/c			2,091
	(being first bill paid in part & new bill accepted)			

Date	Particulars	LF	Debit	Credit
	Bills recievable A/c…Dr		3,101	
	To Interest			61
	To ray's A/c			3040
	(Being bill drawn on ray for 3 months for 3040 plus interest)			
2	Bills payable A/c....Dr		3,160	
	Discount A/c….dr		40	
	To James A/c			3200
	(Being bill received from James in full Settlement)			

Date	Particulars	LF	Debit	Credit
3	Bills payable A/c....Dr		4,500	
	To Bills recievable A/c			4,450
	To Discount A/c			50
	(being Bills payable to singh paid by endorsing john’s acceptance in full settlement)			

ILLUSTRATION 10 - SM

On 1st July, 2019 Gorge drew a bill for ₹ 1,80,000 for 3 months on Harry for mutual accommodation. Harry accepted the bill of exchange. Gorge had purchased goods worth ₹ 1,81,000 from Jack on the same date. Gorge endorsed Harry's acceptance to Jack in full settlement. On 1st September, 2019, Jack purchased goods worth ₹ 1,90,000 from Harry. Jack endorsed the bill of exchange received from Gorge to Harry and paid ₹ 9,000 in full settlement of the amount due to Harry. On 1st October, 2019, Harry purchased goods worth ₹ 2,00,000 from Gorge. Harry paid the amount due to Gorge by cheque. Give the necessary Journal Entries in the books of Harry , Gorge & Jack.

In The Books of Harry
Journal Entries

Date	Particulars	LF	Debit	Credit
01-07-2019	Gorge A/c Dr.		1,80,000	
	To Bills Payable A/c			1,80,000
	(Being Acceptance of bill drawn by Gorge)			
01-09-2019	Jack A/c Dr.		1,90,000	
	To Sales A/c			1,90,000
	(Being Sales made to Jack)			

Date	Particulars	LF	Debit	Credit
01-09-2019	Bills Receivable A/c Dr.		1,80,000	
	Cash/Bank A/c Dr.		9,000	
	Discount A/c Dr.		1,000	
	To Jack's A/c			1,90,000
	(Being Acceptance received from Jack's endorsment of bill received from George for Rs.180000 & 9000 received in full settlement of the amount due)			

Date	Particulars	LF	Debit	Credit
01-09-2019	Bills Payable A/c Dr.		1,80,000	
	To Bills Receivable A/c			1,80,000
	(Being Own Acceptance received from Jack's Endorsement Cancelled)			
01-10-2019	Purchase A/c Dr.		2,00,000	
	To Gorge A/c			2,00,000
	(Being Purchase made from Gorge)			

Date	Particulars	LF	Debit	Credit
01-10-2019	Gorge A/c Dr.		20,000	
	To Bank A/c			20,000
	(Being Amount paid to Gorge after adjustment of Rs.180000 for accommodation extended to him)			

In The Books of Gorge
Journal Entries

Date	Particulars	LF	Debit	Credit
01-07-2019	Bills Receivable A/c……Dr		1,80,000	
	To Harry A/c			1,80,000
	(Being Bill drawn on harry Accepted by Him)			
01-07-2019	Purchase A/c….Dr		1,81,000	
	To Jack A/c			1,81,000
	(Being Good Purchased)			

Date	Particulars	LF	Debit	Credit
01-07-2019	Jack A/c…..Dr		1,81,000	
	To Discount A/c			1000
	To Bills Receivable A/c			1,80,000
	(Being Bill Endorsed in Full Settlement to Jack)			
01-10-2019	Harry A/c....Dr		200000	
	To Sales A/c			200000
	(being goods Sold)			

Date	Particulars	LF	Debit	Credit
01-10-2019	Bank A/c….Dr		20000	
	To Harry A/c			20000
	(being Amount Due received from Harry)			

In The Books of Jack
Journal Entries

Date	Particulars	LF	Debit	Credit
01-07-2019	Gorge A/c…..Dr		1,81,000	
	To Sale A/c			1,81,000
	(Being Goods Sold)			
01-07-2019	Bills Receivable A/c…..Dr		1,80,000	
	Discount A/c…..Dr		1,000	
	To Gorge A/c			1,81,000
	(Being Good Purchased)			

Date	Particulars	LF	Debit	Credit
01-09-19	Purchase A/c……Dr		190000	
	To Harry A/c			190000
	(Being Goods Purchased)			
01-09-2019	Purchase A/c……Dr		190000	
	To Cash/Bank A/c			9000
	To Bills Receivable A/c			1,80,000
	To Discount A/c			1000
	(Being Amount paid Through Bill & Cash in Full Settlement			



thank you!

DEPRECIATION & AMORTISATIONS

BIRDS EYE VIEW

- Depreciation – Meaning
- What Are Depreciable Assets
- Objectives of Charging Depreciation
- Factors to be considered in Computation of Depreciation
- Methods of Providing Depreciation – Straight line Method , Reducing Balance Method , Sum of years of Digits Method , Machine Hour Method , Production Unit Method , Depletion Method.
- Profit/ Loss on sale of Depreciable Assets
- Change in Method of Depreciation
- Revision of Estimated useful life of Depreciable Asset
- Revaluation of property Plant & Equipment
- Treatment When Assets are maintained at Cost & Provision for Depreciation Account is Maintained
- Intangible Assets
- Amortisation

DEPRECIATION - MEANING

Depreciation is a measure of wearing out consumption or other loss of the value of Depreciable Assets .

It may arise due to following reasons -

1. Wear & tear Due to Use of Assets.
2. Effluxion of Time
3. Obsolescence of Assets, through market changes or Technology changes.

DEPRECIATION - MEANING

Deprecation covers Depletion, amortization and obsolescence

Depletion – It means the physical deterioration or exhaustion of natural resources (like, oil wells, mines, quarries etc.)

Amortization – It means the economic deterioration by the expiration of intangible Assets (like patents, Copyrights, Goodwill etc.)

Obsolescence – It refers to economic deterioration by market changes or technology changes.

WHAT ARE DEPRECIABLE ASSETS

‘Depreciable assets’ are assets which –

1. Are expected to be used during more than one accounting period; and

2. Have a limited useful life and

3. Are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purpose and not for the purpose of sale in the ordinary course of business.

OBJECTIVES OF CHARGING DEPRECIATION

1. Correct income measurement.
2. To ascertain true and fair view of financial position.
3. To ascertain true cost of production.
4. To accumulate fund for replacement of assets.
5. To comply with legal requirement (As per Companies Act, depreciation must be charged before declaration of dividend)

FACTORS TO BE CONSIDERED IN COMPUTATION OF DEPRECIATION

1. Historical cost of a depreciable asset implies the cost incurred on its acquisition, installation, commissioning and for additions to or improvements there of which are of capital nature.

2. Useful life is either (i) the period over which a depreciable asset is expected to be used by the enterprise: or (ii) the number of production or similar units expected to be obtained from the use of the asset by the enterprises.
   Useful Life of assets is affected by following factors-
   wear tear ;
   Obsolescence;
   Legal or other limits on the use of the assets.

3. Estimated residual value of a depreciable asset implies the value expected to be realized on its sale or exchange on the expiry of its useful life.

Thus , Total Depreciable amount = Cost – Scrap Value

METHODS OF PROVIDING DEPRECIATION

1. Straight Line Method / Fixed Installment Method
2. Reducing Balance Method / Written Down Value Method
3. Sum of Years of Digit Method
4. Machine Hour Method
5. Production Units Method
6. Depletion Method

STRAIGHT LINE METHOD/FIXED INSTALLMENT METHOD

According to this method , an equal amount is written off every year during the working life of an asset so as to reduce the cost of the asset to Nil or its residual value at the end of its useful life.

$$\text{Amount of Depreciation} = \frac{\text{Cost of Asset} - \text{Scrap Value}}{\text{Useful Life}}$$

$$\text{Rate of Depreciation} = \frac{\text{Straight Line depreciation Amount Per Year}}{\text{Cost of Asset}} \times 100$$

The underlying assumptions of this method is that the particular asset generates equal utility during its lifetime. But this cannot be true under all circumstances. The expenditure incurred on repairs & maintenance will be low in earlier years, whereas the same will be high as the asset becomes old. Apart from this the asset may also have varying capacities over the years , indicating logic for unequal depreciation.

This method is suitable for those assets in relation to which (a) repair charges are less, and (b) the possibility of obsolescence is less. This method is suitable for furniture, patent, copyright, trademark, lease, etc.

ILLUSTRATION 1

Jain Bros. acquired a machine on 1st July, 2018 at a cost of ₹ 14,00,000 and spent ₹ 1,00,000 on its installation. The firm writes off depreciation at 10% p.a. of the original cost every year. The books are closed on 31st December every year.

Required

Show the Machinery Account and Depreciation Account for the year 2018 and 2019.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-7-18	To Bank A/c	1400000	31-12-18	By Depreciation A/c	75000
1-7-18	To Bank A/c	100000		(1500000*10%*6/12)	
			31-12-18	By Bal C/d (BF)	1425000
		1500000			**1500000**
1-1-19	To Bal B/d	1425000	31-12-19	By Depreciation	150000
				(1500000*10%)	
			31-12-19	By Bal C/d (BF)	1275000
		1425000			**1425000**

Depreciation A/c

Date	Particulars	Amount	Date	Particulars	Amount
31-12-18	To Machinery A/c	75000	31-12-18	By P/L A/c	75000
		75000			**75000**
31-12-19	To Machinery A/c	**150000**	31-12-19	By P/L A/c	**150000**
		150000			**150000**

REDUCING BALANCE METHOD/WRITTEN DOWN VALUE METHOD

Under this system , A fixed percentage of the diminishing value of the asset is written off each year so as to reduce the asset to its break up value at the end of its life. Under this method , The annual charge for depreciation , decreases from year to year, so that the earlier years suffer to the benefit of the later years. Also , under this method , the value of the asset can never be Completely extinguished , which happens in SLM method.

$$\text{Amount of Depreciation} = \text{Cost of Asset} \times \frac{\text{WDV Dep. Rate}}{100}$$

This method is suitable for those assets in relation to which (a) the amount of repairs and renewals goes on increasing as the assets grows older (b) possibilities of obsolescence are more. This method is suitable for plant and machineries, building etc.

ILLUSTRATION 2

Jain Bros. acquired a machine on 1st July, 2018 at a cost of ₹ 14,00,000 and spent ₹ 1,00,000 on its installation. The firm writes off depreciation at 10% p.a. every year. The books are closed on 31st December every year.

Required

Show the Machinery Account on diminishing balance method for the year 2018 and 2019.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-7-18	To Bank A/c	1400000	31-12-18	By Depreciation A/c	75000
1-7-18	To Bank A/c	100000		(1500000*10%*6/12)	
			31-12-18	By Bal C/d (BF)	1425000
		1500000			**1500000**
1-1-19	To Bal B/d	1425000	31-12-19	By Depreciation	142500
				(1425000*10%)	
			31-12-19	By Bal C/d (BF)	1282500
		1425000			**1425000**

SUM OF YEARS OF DIGIT METHOD

It is variation of the “Reducing Balance Method” The deprecation under this method is calculated as per the below formula –

$$\text{Depreciation} = \text{Original Cost} - \text{Scrap Value} \times \frac{\text{No. of Years of remaining Life of assets (incl. CY)}}{\text{Sum of all digits of the useful life of assets in years}}$$

This method is not yet in vogue in India , and its advantages are the same as those of the Reducing balance method.

ILLUSTRATION 3

M/s Akash & Co. purchased a machine for ₹ 10,00,000. Estimated useful life and scrap value were 10 years and ₹ 1,20,000 respectively. The machine was put to use on 1.1.2014.

Required

Show Machinery Account and Depreciation Account in their books for 2019 by using sum of years digits method.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-19	To Bal B/d (WN 1)	360000	31-12-19	By Depreciation A/c (WN 1)	80000
			31-12-19	By Bal C/d (BF)	280000
		360000			**360000**
1-1-20	To Bal B/d	280000			

Depreciation A/c

Date	Particulars	Amount	Date	Particulars	Amount
31-12-19	To Machinery A/c	80000	31-12-19	By P/L A/c	80000
		80000			**80000**

WN – Ascertainment Of WDV of 1-1-19 & Depreciation of 2019

Year	Opening Balance	Depreciation for The Year (Cost – Scrap Value) * Remaining Useful life including Current Year/Sum of All Digits of Life of Asset	Closing Balance
2014	1000000	(1000000-120000) X 10/1+2+3+4+5+6+7+8+9+10 = 880000*10/55 = 160000	840000
2015	840000	880000*9/55 = 144000	696000
2016	696000	880000*8/55 = 128000	568000
2017	568000	880000*7/55 = 112000	456000
2018	456000	880000*6/55 = 96000	360000
2019	360000	880000*5/55 = 80000	280000

MACHINE HOUR METHOD

This method is suitable only when it is possible to keep the records of actual running hours of each machinery. This method is a slight variation of the Straight line method under which depreciation is calculated per year , here it is calculated for each hour the machine works.

$$\text{Depreciation} = \frac{\text{Original Cost} - \text{Scrap Value}}{\text{Useful life in terms of hours}} \times (\text{Actual hours run during the year})$$

$$\text{Rate Per Hour} = \frac{\text{Original Cost} - \text{Scrap Value}}{\text{Useful life in terms of hours}}$$

ILLUSTRATION 4

A machine was purchased for ₹ 30,00,000 having an estimated total working of 24,000 hours. The scrap value is expected to be ₹ 2,00,000 and anticipated pattern of distribution of effective hours is as follows :

Year

1 – 3	3,000 hours per year
4 - 6	2,600 hours per year
7 - 10	1,800 hours per year

Required

Determine Annual Depreciation under Machine Hour Rate Method.

Ascertainment Of Depreciation Each Year Under Machine Hour Method

Year	Depreciation Per year Cost – Scrap Value Useful Life in Hours X No. of Hours Machine worked during the year
1-3	(3000000 – 200000) / 24000 Hours * 3000 Hours = 350000
4-6	(3000000 – 200000) / 24000 Hours * 2600 Hours = 303333
7-10	(3000000 – 200000) / 24000 Hours * 1800 Hours = 210000

PRODUCTION UNITS METHOD

This method is suitable where (a) the life of the asset can be estimated in terms of output (b) the utility of the asset is directly related to its productive life (c) Obsolescence is not a primary factor.

$$\text{Depreciation} = \frac{\text{Original Cost} - \text{Scrap Value}}{\text{Useful life in terms of productive output}} \times (\text{Actual output during the year})$$

$$\text{Rate Per Unit} = \frac{\text{Original Cost} - \text{Scrap Value}}{\text{Useful life in terms of Productive unit}}$$

ILLUSTRATION 5

A machine is purchased for ₹ 20,00,000. Its estimated useful life is 10 years with a residual value of ₹ 2,00,000. The machine is expected to produce 1.5 lakh units during its life time. Expected distribution pattern of production is as follows:

Year	*Production*
1-3	*20,000 units per year*
4-7	*15,000 units per year*
8-10	*10,000 units per year*

Required

Determine the value of depreciation for each year using production units method.

Ascertainment Of Depreciation Each Year Under Production Units Method

Year	Depreciation Per year Cost – Scrap Value Useful Life in Units that can Be produced During Life time X No. of Units Produced during the year
1-3	(2000000 – 200000) / 150000 Units * 20000 Units = 240000
4-7	(2000000 – 200000) / 150000 Units * 15000 Units = 180000
8-10	(2000000 – 200000) / 150000 Units * 10000 Units = 120000

DEPLETION METHOD

Depletion is the allocation of the cost of wasting natural resources such as oil, gas, timber, and minerals to the production process. This method is used in case of mines, quarries etc. containing only a certain quantity of product. The depreciation rate is calculated by dividing the cost of the asset by the estimated quantity of product likely to be available to be extracted. Annual depreciation will be the quantity extracted multiplied by the rate per unit.

$$\text{Depreciation} = \frac{\text{Original Cost} - \text{Scrap Value}}{\text{Useful life in Qty That can be Extracted}} \times (\text{Actual output Extracted during the year})$$

ILLUSTRATION 6

M/s Surya & Co. took lease of a quarry on 1-1-2017 for ₹ 1,00,00,000. As per technical estimate the total quantity of mineral deposit is 2,00,000 tonnes. Depreciation was charged on the basis of depletion method. Extraction pattern is given in the following table:

Year	Quantity of Mineral extracted
2017	*2,000 tonnes*
2018	*10,000 tonnes*
2019	*15,000 tonnes*

Required

Show the Quarry Lease Account and Depreciation Account for each year from 2017 to 2019.

Quarry Lease A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-17	To Bank A/c	10000000	31-12-17	By Depreciation A/c (WN 1)	100000
			31-12-17	By Bal C/d (BF)	9900000
		10000000			**10000000**
1-1-18	To Bal B/d	9900000	31-12-18	By Depreciation A/c (WN 1)	500000
			31-12-18	By Bal C/d (BF)	9400000
		9900000			**9900000**
1-1-19	To Bal B/d	9400000	31-12-19	By Depreciation A/c (WN 1)	750000
			31-12-19	By Bal C/d (BF)	8650000
		9400000			**9400000**

Depreciation A/c

Date	Particulars	Amount	Date	Particulars	Amount
31-12-17	To Quarry Lease A/c	100000	31-12-17	By P/L A/c	100000
		100000			**100000**
31-12-18	To Quarry Lease A/c	500000	31-12-18	By P/L A/c	500000
		500000			**500000**
31-12-19	To Quarry Lease A/c	750000	31-12-19	By P/L A/c	750000
		750000			**750000**

WN - Ascertainment Of Depreciation Each Year Under Production Units Method

Year	Depreciation Per year Cost – Scrap Value Useful Life in output that can Be Extracted During Life time X Qty of output Extracted during the year
2017	10000000 / 200000 Tonnes * 2000 Tonnes = 100000
2018	10000000 / 200000 Tonnes * 10000 Tonnes = 500000
2019	10000000 / 200000 Tonnes * 15000 Tonnes = 750000

PROFIT OR LOSS ON THE SALE/DISPOSAL OF DEPRECIABLE ASSETS

Whenever any depreciable asset is sold during the year, depreciation is charged on it for the period it has been used in the sale year. the written down value after charging such depreciation is used for calculating the profit or loss on the sale of that asset. The resulting profit or loss on sale of the asset is ultimately transferred to profit and loss account.

For example - The book value of the asset as on 1st January, 2011 is Rs 50,000. Depreciation is charged on the asset @ 10% p.a. On 1st July 2011, the asset is sold for Rs 32,000. In such a situation profit or loss on the sale will be calculated as follows:

Book value as on 1st Jan, 2011	50,000
Less - depreciation for 6 months @ 10%.p.a (from 1st Jan., 2011 to 30th June., 2011)	2,500
Written down value as on 1st July, 2011	47,500
Less - Sale proceeds as on 1st July, 2011	32,000
Loss on sale of the asset	15,500

ILLUSTRATION 7

A firm purchased on 1st January, 2018 certain machinery for ₹ 5,82,000 and spent ₹ 18,000 on its erection. On July 1, 2018 another machinery for ₹ 2,00,000 was acquired. On 1st July, 2019 the machinery purchased on 1st January, 2018 having become obsolete was auctioned for ₹ 3,86,000 and on the same date fresh machinery was purchased at a cost of ₹ 4,00,000.

Depreciation was provided for annually on 31st December at the rate of 10 per cent p.a. on written down value.

Required

Prepare machinery account.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-18	To Bank A/c	582000	31-12-18	By Depreciation A/c (60000 + 10000)	70000
1-1-18	To Bank A/c	18000	31-12-18	By Bal C/d (BF) (540000+190000)	730000
1-7-18	To Bank A/c	200000			
		800000			**800000**

Date	Particulars	Amount	Date	Particulars	Amount
1-1-19	To Bal B/d (540000+190000)	730000	1-7-19	By Depreciation on machine Auctioned	27000
1-7-19	To Bank A/c	400000	1-7-19	By Bank A/c	386000
			1-7-19	By P/L A/c	127000
			31-12-19	By Depreciation A/c (19000 + 20000)	39000
			31-12-19	By Bal C/d (BF) (171000+380000)	551000
		1130000			**1130000**

CHANGE IN METHOD OF DEPRECIATION

The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern. Whenever any change in depreciation method is made, such change in method is treated as change in accounting estimate as per Accounting Standards. Its effect needs to be quantified and disclosed seperately. A change in an accounting estimate may affect the current period only or both the current period and future periods.

Example :

Cost of Machine	₹ 10,50,000
Residual Value	₹ 50,000
Useful life	10 years.

The company charges depreciation on straight line method for the first two years and thereafter decides to adopt written down value method by charging depreciation @ 25%. (calculated based on useful life). You are required to calculate depreciation for the 3rd year.

Depreciation already charged for the first 2 years as per straight line method is ₹ 2,00,000. Therefore, WDV for 2nd year is ₹ 8,50,000

Therefore in the profit and loss account of the 3rd year, the depreciation of ₹ 2,12,500 (25% of ₹ 850,000) should be debited. In case the entity would have continued with Straight Line Method, depreciation for 3rd year would have been ₹ 1,00,000.

ILLUSTRATION 8

M/s Anshul & Co. commenced business on 1st January 2015, when they purchased plant and equipment for ₹ 7,00,000. They adopted a policy of charging depreciation at 15% per annum on diminishing balance basis and Over the years, their purchases of plant have been:

Date	**Amount**
	₹
1-1-2016	*1,50,000*
1-1-2019	*2,00,000*

On 1-1-2019 it was decided to change the method and rate of depreciation to straight line basis. On this date remaining useful life was assessed as 6 years for all the assets purchased before 1.1.2019 with no scrap value and 10 years for the asset purchased on 1.1.2019.

Required

Calculate the difference in depreciation to be adjusted in the Plant and Equipment Account for the year ending 31st December, 2019.

Plant & Equipment A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-19	To Bal B/d (365404 + 92119)	457523	31-12-19	By Depreciation A/c (60901 + 15353+20000)	96254
1-1-19	To Bank A/c	200000	31-12-19	By Bal C/d (BF) (304503+76766+180000)	561269
		657523			**657523**

WN 1 – Ascertainment of WDV of plant & Equipment Purchased on 1-1-15 & 1-1-16 as on 1-1-19

WDV as on 1-1-19 for Plant & Equipment Purchased on 1-1-15
= Purchase Value of 1-1-15 – Dep of 15 – Dep of 16 – Dep of 17 – Dep of 18
= 700000 – 15% -15% -15% - 15%
= 365404

WDV as on 1-1-19 for Plant & Equipment Purchased on 1-1-16
= Purchase Value of 1-1-16 –Dep of 16 – Dep of 17 – Dep of 18
= 150000 – 15% -15% -15%
= 92119

REVISION OF ESTIMATED USEFUL LIFE OF PROPERTY , PLANT AND EQUIPMENT

- In this case, the unamortized amount should be charged to asset over the revised remaining estimated useful life of asset.

- Such revision should be treated as change in accounting estimates.

ILLUSTRATION 9

A Machine costing ₹ 6,00,000 is depreciated on straight line basis, assuming 10 years working life and Nil residual value, for three years. The estimate of remaining useful life after third year was reassessed at 5 years.

Required

Calculate depreciation for the fourth year.

Solution

Depreciation Per Year = 600000/10 years = 60000

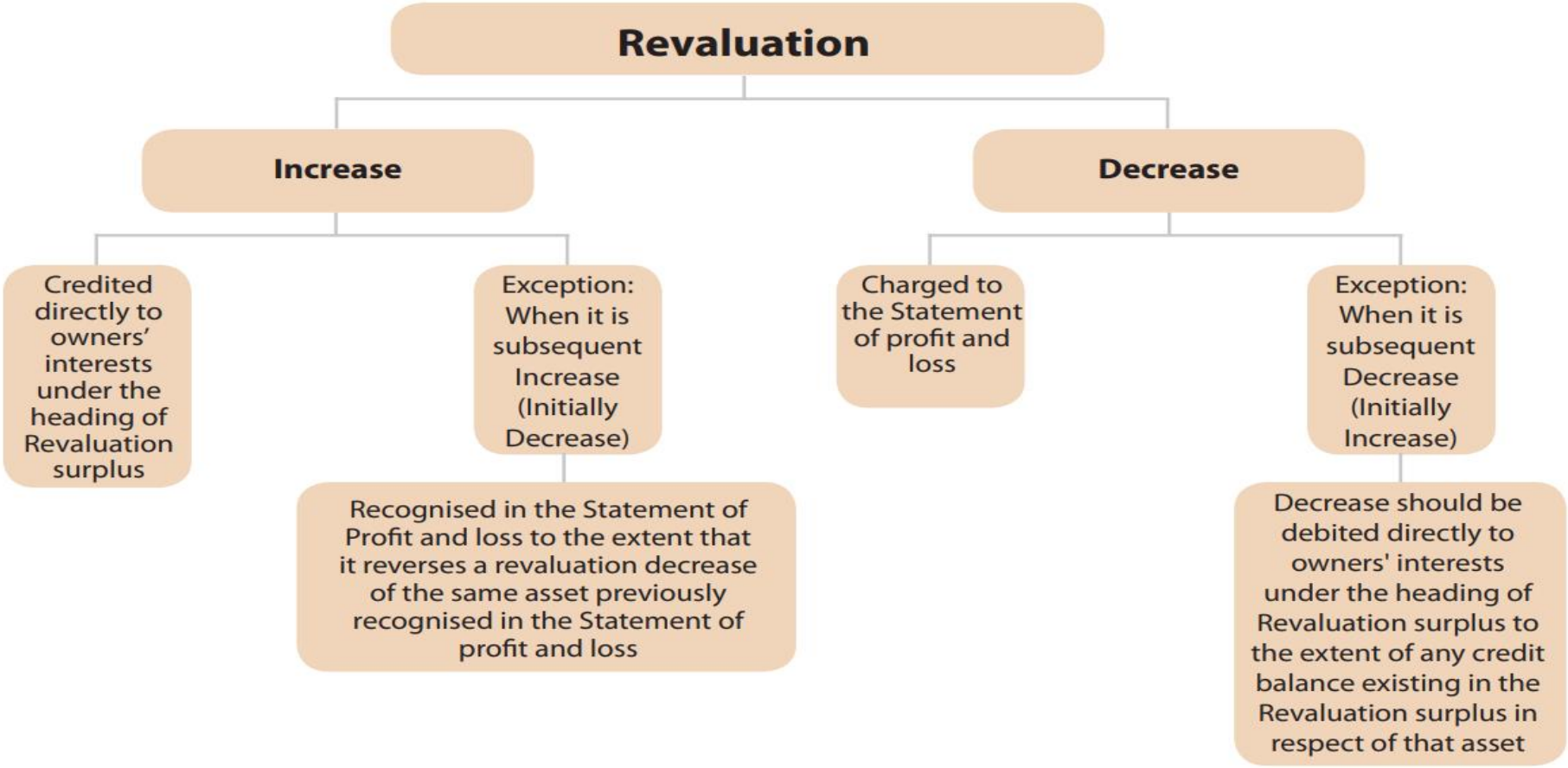
Depreciation Charged on Machine for First 3 years = 60000*3 = 180000

WDV of Machine after 3 years = 600000-180000 = 420000

Revised Remaining useful Life After 3rd Year = 5 years

Depreciation for 4th year & Onwards = 420000/5 years = 84000 Per Annum

REVALUATION OF PROPERTY , PLANT & EQUIPMENT



REVALUATION OF PROPERTY , PLANT & EQUIPMENT

- Revaluations should be made at regular Intervals (Say yearly) for ensuring that carrying amount does not differ substantially from that which would be determined if fair Value at the end of Reporting Period is used.

- In case Item of PPE is Revalued , Whole class of such PPE to which such asset belongs should be revalued.

- In this case, the depreciation should be charged on the revalued amount on the basis of the remaining estimated useful life of the asset.

- If there is an upward revision in the value of asset, then the amount of appreciation is debited to asset Account and credited to Revaluation Account. However , Such Increase should be recognized in P/L Statement to the extent of reversal of a previous decrease of that asset that was recognized in P/L Account.

- If there is downward revision in the value of assets then profit and Loss Account is debited and Asset Account is credited. However , Such decrease should be debited to the revaluation reserve to the extent of reversal of a previous increase that was recognized in Revaluation reserve of that Asset.

ILLUSTRATION 10

A Machinery costing ₹ 20,00,000 is depreciated on straight line assuming 10 years working life and nil salvage value for four years. At the end of the fourth year, the machinery was revalued upwards by ₹ 80,000. The remaining useful life of the machinery was also reassessed as 8 years at the end of the fourth year. Calculate the depreciation for 5th Year.

Solution

Depreciation Per Year = 2000000/10 years = 200000

Depreciation Charged on Machine for First 4 years = 200000*4 = 800000

WDV of Machine after 4 years = 2000000-800000 = 1200000

Depreciable Amount After Revaluation = 1200000 + 80000 = 1280000

Revised Useful Remaining Life after 4 years & Upward revaluation = 8 Years

Depreciation for 5^{th} year & Onwards = 1280000/8 Years = 160000 p.a

ILLUSTRATION 11

Amazing group had Property, Plant & Equipment (PP&E) with a book value of ₹ 35,00,000 on 31st December 2019. The balance in Revaluation Surplus on that date was ₹ 3,00,000. As part of their practice of revaluing the assets on yearly basis, another revaluation was carried out on 31st December 2019. Evaluate the impact of Revaluation if the Fair Value as a result of Revaluation done on 31st December 2019 was (a) ₹ 37,00,000 (b) ₹ 33,00,000 and (c) ₹ 31,00,000. Also, give the journal entries.

Case A

Property Plant & Equipment A/c……Dr 200000
To Revaluation Surplus A/c 200000

Case B

Revaluation Surplus A/c……Dr 200000
To Property Plant & Equipment A/c 200000

Case C

Revaluation Surplus A/c……Dr 300000
Profit & Loss A/c…….Dr 100000
To Property Plant & Equipment A/c 400000

ILLUSTRATION 12

The Machinery Account of a Factory showed a balance of ₹ 19,00,000 on 1st January, 2019. Its accounts were made up on 31st December each year and depreciation is written off at 10% p.a. under the Diminishing Balance Method.

On 1st June 2019, a new machinery was acquired at a cost of ₹ 2,80,000 and installation charges incurred in erecting the machine works out to ₹ 8,920 on the same date. On 1st June, 2019 a machine which had cost ₹ 4,37,400 on 1st January 2017 was sold for ₹ 75,000. Another machine which had cost ₹ 4,37,000 on 1st January, 2018 was scrapped on the same date and it realised nothing.

Write a plant and machinery account for the year 2019, allowing the same rate of depreciation as in the past calculating depreciation to the nearest multiple of a Rupee.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-19	To Bal b/d A/c (354294 + 393300 + 1152406)	1900000	1-6-19	By Depreciation ON Machine Sold A/c	14762
1-6-19	To Bank A/c	280000	1-6-19	By Bank A/c	75000
1-6-19	To Bank A/c	8920	1-6-19	By P/L A/c	264532

Date	Particulars	Amount	Date	Particulars	Amount
			1-6-19	By Depreciation on Machine Scrapped A/c	16388
			1-6-19	By P/L A/c	376912
			31-12-19	By Depreciation A/c (115241 + 16854)	132095
			31-12-19	By Bal C/d (BF)	1309231
		2188920			**2188920**

WN 1 - Calculation of Profit/Loss on Sale of Machinery 1

Sr.No	Particulars	Amount
A	Cost on 1-1-17	437400
B	Depreciation for 2017	43740
C	WDV as on 1-1-18 (A-B)	393660
D	Depreciation for 2018	39366
E	WDV as on 1-1-19 (C-D)	354294
F	Depreciation for For 5 Months of 2019	14762
G	WDV Before Sale as on 1-6-2019	339532
H	Sale Value	75000
I	Loss on Sale (G-H)	264532

WN 2 - Calculation of Profit/Loss on Sale of Machinery 2

Sr.No	Particulars	Amount
A	Cost on 1-1-18	437000
B	Depreciation for 2018	43700
C	WDV as on 1-1-19 (A-B)	393300
D	Depreciation for 2019 for 5 Months	16388
E	WDV Before Sale as on 1-6-2019 (C-D)	376912
F	Sale Value	0
G	Loss on Sale (E-F)	376912

ILLUSTRATION 13

The LG Transport company purchased 10 trucks at ₹ 45,00,000 each on 1st April 2016. On October 1st, 2018, one of the trucks is involved in an accident and is completely destroyed and ₹ 27,00,000 is received from the insurance in full settlement. On the same date another truck is purchased by the company for the sum of ₹ 50,00,000. The company write off 20% on the original cost per annum. The company observe the calendar year as its financial year.

Give the motor truck account for two year ending 31 Dec, 2019.

Motor Truck A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-18	To Bal B/d	29250000	1-10-18	By Depreciation on truck Destroyed A/c	675000
1-10-18	To Bank A/c	5000000	1-10-18	By Bank A/c	2700000
1-10-18	To P/L A/c	450000	31-12-18	By Depreciation A/c (8100000+250000)	8350000
			31-12-18	By Bal C/d (BF)	22975000
		34700000			**34700000**

Date	Particulars	Amount	Date	Particulars	Amount
1-1-19	To Bal B/d	22975000	31-12-19	By Depreciation A/c (8100000+1000000)	9100000
			31-12-19	By Bal C/d (BF)	13875000
		22975000			**22975000**

WN 1 - Calculation of Profit/Loss on truck

Sr.No	Particulars	Amount
A	Cost on 1-4-16	4500000
B	Depreciation for 2016 for 9 Months	675000
C	WDV as on 1-1-17 (A-B)	3825000
D	Depreciation for 2017	900000
E	WDV as on 1-1-18 (C-D)	2925000
F	Depreciation for 2018 For 9 Months	675000
G	WDV of truck as on 1-10-18 Before Sale (E-F)	2250000
H	Sale value	2700000
I	Profit on Settlement of truck (H-G)	450000

ILLUSTRATION 14 RTP NOV 20

M/s. Green Channel purchased a second-hand machine on 1st January, 2017 for ₹ 1,60,000. Overhauling and erection charges amounted to ₹ 40,000.

Another machine was purchased for ₹ 80,000 on 1st July, 2017.

On 1st July, 2019, the machine installed on 1st January, 2017 was sold for ₹ 1,00,000. Another machine amounted to ₹ 30,000 was purchased and was installed on 30th September, 2019.

Under the existing practice the company provides depreciation @ 10% p.a. on original cost. However, from the year 2020 it decided to adopt WDV method and to charge depreciation @ 15% p.a. You are required to prepare Machinery account for the years 2017 to 2020.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-17	To Bank A/c	160000	31-12-17	By Depreciation A/c (20000+4000)	24000
1-1-17	To Bank A/c	40000	31-12-17	By Bal C/d (BF) (180000+76000)	256000
1-7-17	To Bank A/c	80000			
		280000			**280000**

Date	Particulars	Amount	Date	Particulars	Amount
1-1-18	To Bal B/d (180000+76000)	256000	31-12-18	By Depreciation A/c (20000 + 8000)	28000
			31-12-18	By Bal C/d (BF) (160000+68000)	228000
		256000			**256000**

Date	Particulars	Amount	Date	Particulars	Amount
1-1-19	To Bal B/d (160000+68000)	228000	1-7-19	By Depreciation on Machine Sold A/c	10000
30-9-19	To Bank A/c	30000	1-7-19	By Bank A/c	100000
			1-7-19	By P/L A/c	50000
			31-12-19	By Depreciation A/c (8000 + 750)	8750
			31-12-19	By Bal C/d (BF) (60000 + 29250)	89250
		258000			**258000**

Date	Particulars	Amount	Date	Particulars	Amount
1-1-20	To Bal B/d (60000+29250)	89250	31-12-20	By Depreciation A/c (9000 + 4388)	13388
			31-12-20	By Bal C/d (BF) (51000+24862)	75862
		89250			**89250**

ILLUSTRATION 15

From the following transactions of a concern, prepare the Machinery Account for the year ending 31st December, 2022:

01.01.21	Purchased a second – hand Machinery for ₹ 2,00,000
01.01.21	Spent ₹ 50,000 on repairs for making it serviceable
30.06.21	Purchased additional new Machinery for ₹ 3,50,000
30.06.21	Installation charges of new Machine ₹ 15,000
01.04.22	Repairs and maintenance of Machinery ₹ 30,000
30.06.22	Sold second hand Machinery purchased on 01.01.21 for ₹ 1,55,000
31.12.22	Depreciate the Machinery at 10% per annum by WDV method

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-21	To Cash/Bank A/c	200000	31-12-21	By Depreciation A/c (25000 + 18250)	43250
1-1-21	To Cash/Bank A/c	50000	31-12-21	By Bal C/d (225000 + 346750)	571750
30-6-21	To Cash/Bank A/c	350000			
30-6-21	To Cash/Bank A/c	15000			
		615000			**615000**

Date	Particulars	Amount	Date	Particulars	Amount
1-1-21	To Bal B/d (225000+346750)	571750	30-6-22	By Depreciation on Machinery Sold A/c	11250
			30-6-22	By Bank A/c	155000
			30-6-22	By Profit & Loss A/c	58750
			31-12-22	By Depreciation A/c (346750*10%)	34675
			31-12-22	By Bal C/d (BF)	312075
		571750			**571750**

WHEN ASSETS ARE MAINTAINED AT COST-JOURNAL ENTRIES

Purchase of Asset

Asset A/c.....Dr

To Cash/Bank A/c

Depreciation

Depreciation A/c.....Dr

To Provision for Depreciation

WHEN ASSETS ARE MAINTAINED AT COST-JOURNAL ENTRIES

Sale of Asset

Cash/Bank A/c.....Dr
To Asset Disposal A/c

Asset Disposal Account.....Dr
To Asset A/c

Provision for Depreciation A/c....Dr
To Asset Disposal A/c

If Debit Balance in Asset Disposal Account – Loss on Sale of Asset
If Credit Balance in Asset Disposal Account – Profit on Sale of Asset

ILLUSTRATION 16

On April 1, 2018 Shubra Ltd. purchased a machinery for ₹ 12,00,000. On Oct 1, 2020, a part of the machinery purchased on April 1, 2018 for ₹ 80,000 was sold for ₹ 45,000 and a new machinery at a cost of ₹ 1,58,000 was purchased and installed on the same date. The company has adopted the method of providing 10% p.a. depreciation on the written down value of the machinery.

Prepare Necessary Accounts Assuming provision For Depreciation Account is being Maintained

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
01/04/2018	To Bank A/c	12,00,000	31/03/2019	By Balance c/d (BF)	12,00,000
		12,00,000			**12,00,000**
01/04/2019	To Balance b/d	12,00,000	31/03/2020	By Balance c/d	12,00,000
		12,00,000			**12,00,000**

Date	Particulars	Amount	Date	Particulars	Amount
01/04/2020	To Balance b/d	12,00,000	01/10/2020	By Machinery Disposal A/c	80,000
01/10/2020	To Bank A/c	1,58,000	31/03/2021	By Balance c/d (BF)	12,78,000
		13,58,000			**13,58,000**

Provision for Depreciation A/c

Date	Particulars	Amount	Date	Particulars	Amount
31/03/2019	To Balance c/d (BF)	120000	31/03/2019	By Depreciation A/c	120000
		120000			**120000**
31/03/2020	To Balance c/d (BF)	2,28,000	01/04/2019	By Balance b/d	120000
			31/03/2020	By Depreciation A/c	108000
		2,28,000			**2,28,000**

Date	Particulars	Amount	Date	Particulars	Amount
01/10/2020	To Machinery Disposal A/c	18,440	01/04/2020	By Balance b/d	2,28,000
			01/10/2020	By Depreciation A/c (Asset sold)	3,240
31/03/2021	To Balance c/d (BF)	3,11,420	31/03/2021	By Depreciation A/c (90720+7900)	98,620
		3,29,860			**3,29,860**

Machinery Disposal A/c

Date	Particulars	Amount	Date	Particulars	Amount
01/10/2020	To Machinery A/c	80,000	01/10/2020	By Cash /Bank A/c	45,000
			01/10/2020	By Provision for Depreciation A/c	18,440
			31/03/2021	By P&L A/c (loss)	16,560
		80,000			**80,000**

Depreciation A/c

Date	Particulars	Amount	Date	Particulars	Amount
31/03/2019	To Provision for Depreciation A/c	120000	31/03/2019	By P&L A/c	120000
		120000			**120000**
31/03/2020	To Provision for Depreciation A/c	1,08,000	31/03/2020	By P&L A/c	1,08,000
		1,08,000			**1,08,000**
01/10/2020	To Provision for Depreciation A/c	3,240	31/03/2021	By P&L A/c	1,01,860
31/03/2021	To Provision for Depreciation A/c (90720+7900)	98,620			
		1,01,860			**1,01,860**

WDV Ascertainment of Depreciation on Asset till date of sale.

Cost of asset on 1-4-18	80000
Less - Depn for 18-19	8000
	72000
Less - Depn for 19-20	7200
	64800
Less - Depn for 20-21 [6 months]	3240
	61560
Less - WDV Before sale	45000
Sale Value	
Loss	16560

WN 2 Ascertainment of Depreciation for 20-21

- Existing machine

1120000 - 10% - 10% = 907200 × 10% 90720

- New machine

$\frac{158000 \times 10\%}{12} \times 6$ 7900

98620

ILLUSTRATION 17

The following balances appear in the books of Dheeraj Enterprises:

	₹
Machinery account as on 01.04.2021	*12,00,000*
Provision for depreciation account as on 01.04.2021	*4,65,000*

On 1st October, 2021 the Machinery which was purchased on 1st April, 2018 for ₹ 2,00,000 was sold for ₹ 1,10,000 and on the same date another Machinery was purchased for ₹ 4,80,000. The firm has been charging depreciation at 10% p.a. on written down value of the Machinery every year. Prepare the Machinery account, Provision for Depreciation account and Machinery disposal account for the year ending 31st March, 2022.

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-4-21	To Bal B/d	1200000	1-10-21	By Machinery Disposal A/c	200000
1-10-21	To Cash/Bank A/c	480000	31-3-22	By Bal C/d (BF)	1480000
		1680000			**1680000**

Provision for Depreciation A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-10-21	Machinery Disposal A/c	61490	1-4-21	By Bal B/d	465000
31-3-22	To Bal C/d (BF)	493720	1-10-21	By Depreciation A/c	7290
			31-3-22	By Depreciation A/c	82920
		555210			**555210**

Machinery Disposal A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-10-21	To Machinery A/c	200000	1-10-21	By Bank A/c	110000
			1-10-21	By Provision for Depreciation A/c	61490
			1-10-21	By P/L A/c (BF)	28510
		200000			**200000**

WN 1 – Computation of Profit or Loss on Sale of Machine

Sr.No	Particulars	Amount
A	Cost on 1-4-18	200000
B	Less - Depreciation for 18-19	20000
C	WDV as on 1-4-19	180000
D	Less - Depreciation for 19-20	18000
E	WDV as on 1-4-20	162000
F	Less - Depreciation for 20-21	16200
G	WDV as on 1-4-21	145800
H	Less - Depreciation For 6 Months	7290
I	WDV Before Sale	138510
J	Less – Sale value	110000
K	Loss on Sale (I-J)	28510

WN 2 – Ascertainment of WDV of Machine Still Available as on 1-4-21

Sr.No	Particulars	Amount
A	Cost of Machine	1000000
B	Less – Provision For Depreciation on that Machine (Total Depreciation – Depreciation on Machinery Sold) (465000 – 54200)	410800
C	WDV of Machine as on 1-4-21	589200

WN 3 – Depreciation For the year 21-22

Sr.No	Particulars	Amount
A	On Existing Machine (589200*10%)	58920
B	On New Machine (480000*10%/12*6)	24000
C	Total Depreciation (A+B)	82920

AMORTISATION

The concept of amortisation in case of intangible assets is similar to the concept of depreciation in case of tangible assets. In other words, ‘depreciation of an intangible asset’ is called **AMORTISATION**.

Amortisation can be defined as ‘the systematic allocation of the depreciable amount of an intangible asset over its useful life’. Depreciable amount is the cost of an asset less its residual value.

Useful life is either:

a) the period of time over which an asset is expected to be used by the enterprise; or

b) the number of production or similar units expected to be obtained from the asset by the enterprise.

Residual value is the amount which an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. Amortisation should commence when the asset is available for use. It is presumed that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use unless evidence exists to the contrary. For instance, given the rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life will be short. Similarly, intangible assets with contractual rights for a period exceeding ten years, will be amortised over such extended period rather than the presumed period of ten years.

Similar to depreciation, the amortisation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise. If that pattern cannot be determined reliably, the straight-line method should be used. The amortisation charge for each period should be recognised as an expense unless permitted or required to be included in the carrying amount of another asset.

Given the nature of intangible assets, the residual value of an intangible asset should be assumed to be zero unless:

a) there is a commitment by a third party to purchase the asset at the end of its useful life; or

b) there is an active market for the asset and:

(i) residual value can be determined by reference to that market; and

(ii) it is probable that such a market will exist at the end of the asset's useful life.

The amortisation period and the amortisation method should be reviewed at least at each financial year end. If the expected useful life of the asset is significantly different from previous estimates, the amortisation period should be changed accordingly. If there has been a significant change in the expected pattern of economic benefits from the asset, the amortisation method should be changed to reflect the changed pattern.

ILLUSTRATION 18

Kumar R&D Co. registered a patent (the patent meets the criteria of an intangible asset) on 1st July, 2021 developed at a cost of ₹ 28,00,000 and spent ₹ 2,00,000 towards legal fees and registration. The patent is granted for a period of 10 years. The books are closed on 31st December every year.

Required

Show the Patent Account and Amortisation Account for the year 2021 and 2022.

PATENT A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-7-21	To Cash/Bank A/c	2800000	31-12-21	By Amortisation A/c	150000
1-7-21	To Cash/Bank A/c (Legal Fees)	200000	31-12-21	By Bal C/d (BF)	2850000
		3000000			**3000000**
1-1-22	To Bal B/d	2850000	31-12-22	By Amortisation A/c	300000
			31-12-22	By Bal C/d (BF)	2550000
		2850000			**2850000**

Amortisation A/c

Date	Particulars	Amount	Date	Particulars	Amount
31-12-21	To Patent A/c	150000	31-12-21	By Profit & Loss A/c (BF)	150000
		150000			**150000**
31-12-22	To Patent A/c	300000	31-12-22	By Profit & Loss A/c (BF)	300000
		300000			**300000**



thank you!

PARTNERSHIP ACCOUNTS

PARTNERSHIP BASICS

BIRDS EYE VIEW

- ❑ Meaning of Partnership
- ❑ Features of Partnership
- ❑ Partnership Deed – Meaning & Contents
- ❑ Limited Liability Partnership
- ❑ Distinction Between Partnership Firm & LLP
- ❑ Provisions of Partnership Act, 1932 Affecting Accounting Treatment
- ❑ P/L Appropriation A/c – Meaning & Purpose
- ❑ Methods of Maintaining Capital Accounts of Partners
- ❑ Interest on Capital to Partners
- ❑ Interest on Drawings
- ❑ Interest on Partner's Loan to the Firm
- ❑ Salary or Commission to partner
- ❑ Minimum or Guarantee profit
- ❑ Past Adjustments

PROVISION AFFECTING ACCOUNTING TREATMENT

Law does not make it obligatory for the partners to reduce in writing all the terms and conditions. In the absence of any such agreement, the Indian Partnership Act , 1932 provides following provisions –

- Every partner is entitled to share profits equally.
- No partner is entitled to interest on capital.
- No interest on drawings is to be charged by the firm to a partner.
- A partner is not entitled to any salary for taking part in carrying on the firm's business.
- A partner is entitled to interest on advances (over and above the agreed capital contribution) at the rate of six per cent per annum.
- Every partner being joint owner of partnership, is entitled to have equal share in the property.

ILLUSTRATION 1 - SM

Weak, Able and Lazy are in partnership sharing profits and losses in the ratio of 2:1:1. It is agreed that interest on capital will be allowed @ 10% per annum and interest on drawings will be charged @ 8 % per annum. (No interest will be charged/allowed on Current Accounts).

The following are the particulars of the Capital and Drawings Accounts of the partners:

	Weak	Able	Lazy
	₹	₹	₹
Capital (1.1.2019)	75,000	40,000	30,000
Current Account (1.1.2019)	10,000	5,000	(Dr.) 5,000
Drawings	15,000	10,000	10,000

The draft accounts for 2019 showed a net profit of ₹ 60,000 before taking into account interest on capitals and drawings and subject to following rectification of errors:

The draft accounts for 2019 showed a net profit of ₹ 60,000 before taking into account interest on capitals and drawings and subject to following rectification of errors:

(a) Life Insurance premium of Weak amounting to ₹ 750 paid by the firm on 30th June, 2019 has been charged to Miscellaneous Expenditure A/c.

(b) Repairs of Machinery amounting to ₹ 10,000 has been debited to Plant Account and depreciation thereon charged @ 20%.

(c) Travelling expenses of ₹ 3,000 of Able for a pleasure trip to U.K. paid by the firm on 30th June, 2019 has been debited to Travelling Expenses Account.

You are required to prepare the Profit and Loss Appropriation Account, Current Accounts of partners Weak, Able and Lazy for the year ended 31st December, 2019.

Profit & Loss Appropriation A/c

Particulars		Amount	Particulars		Amount
To Interest on Capital			By Profit & Loss A/c		55750
Weak	7500		(60000+750-8000+3000)		
Able	4000		**By Interest on Drawings**		
Lazy	3000	14500	Weak	630	
			Able	520	
To Profit trf to Current A/c			Lazy	400	1550
Weak	21400				
Able	10700				
Lazy	10700	42800			
		57300			**57300**

Partners Current A/c

Particulars	Weak	Able	Lazy	Particulars	Weak	Able	Lazy
To Balance B/d	-	-	5,000	By Balance B/d	10000	5000	-
To Cash (Drawings)	15,000	10,000	10,000	By Interest on Capital	7,500	4000	3,000
To Drawings	750	3000	-	By p/L Appropriation A/c	21,400	10700	10,700
To Interest on Drawings	630	520	400	By Balance C/d (Bal Fig)	-	-	1,700
To Balance C/d (Bal Fig)	22,520	6,180	-				
	38,900	**19,700**	**15,400**		**38,900**	**19,700**	**15,400**

ILLUSTRATION 2 -SM

Ram and Rahim are in partnership sharing profits and losses in the ratio of 3:2. As Ram, on account of his advancing years, feels he cannot work as hard as before, the chief clerk of the firm, Ratan, is admitted as a partner with effect from 1st January, 2019, and becomes entitled to 1/10th of the net profits and nothing else, the mutual ratio between Ram and Rahim remaining unaltered.

Before becoming a partner, Ratan was getting a salary of ₹ 500 p.m. together with a commission of 4% on the net profits after deducting his salary and commission.

It is provided in the partnership deed that the share of Ratan's profits as a partner in excess of the amount to which he would have been entitled if he had continued as the chief clerk, should be taken out of Ram's share of profits.

The net profit for the year ended December 31, 2019 is ₹ 1,10,000. Show the distribution of net profit amongst the partners.

Profit & Loss Appropriation A/c

Particulars		Amount	Particulars	Amount
To Ram	60000		By P/L A/c	110000
Less - to be given to Ratan	1000	59000		
To Rahim		40000		
To Ratan (Salary + Comm)	10000			
Add - Receive from Ram	1000	11000		
		110000		**110000**

Statement Showing Amount Payable to Ratan if he had Continued as Clerk

Particulars	Amount
A. Salary (500*12)	6000
B. Commission (104000/104*4)	4000
C. Total Amount Payable as Clerk (A+B)	10000

ILLUSTRATION 3 - PYP DEC 2021 (5 MARKS)

A, B and C are partners in a firm. On 1st April, 2019, their fixed capital stood at Rs. 50,000 , Rs. 25,000 and Rs. 25,000 respectively.

As per the provision of partnership deed:

1. C was entitled for a salary of Rs. 5,000 p.a.
2. All the partners were entitled to interest on capital at 5%p.a.
3. Profits and losses were to be shared in the ratio of Capitals of the partners.

Net profit for the year ended 31st March, 2020 of Rs. 33,000 and 31st March, 2021 of Rs. 45,000, was divided equally without providing for the above adjustments.

You are required to pass an adjustment journal entry to rectify the above errors.

	A	B	C	Total
profit distributed	26000	26000	26000	78000
Total	26000	26000	26000	78000

Profit that should have been distributed

1. Salary to C			10000	10000
2. Int on capital	5000	2500	2500	10000
3. Distribution of Profit of 50000 in 2:2:1	29000	14500	14500	58000
Total	34000	17000	27000	
	8000 CL	9000 DL	1000 CL	

Net effect

ILLUSTRATION 4 - RTP MAY 2021

Rose, Lilly and Lotus start business with capital of ₹ 2,00,000/-, ₹ 3,00,000/- and ₹4,00,000 on 1st April 2019. Lotus is entitled to a salary of ₹ 50,000 per annum. Interest is allowed on capitals at 12% p.a. and is charged on drawings at 12% per annum. Profits are to be distributed in the ratio 1:2:3 after the above-mentioned adjustments. Rose was given guarantee of minimum profit of ₹ 50,000 by Lotus. Partners drawings during the year were Rose ₹ 40,000/-Lilly ₹ 30,000/- Lotus ₹ 20,000/-. Lotus had paid ₹ 10,000/- as tuition fees of his son on 31st March 2020, which was wrongly debited to salaries account. The profit for the year 2019-20 before allowing interest on capital and charging interest on drawings and salary paid to Lotus was ₹3,34,600/-. Assuming the capitals to be fixed, prepare the Profit and Loss Appropriation Account and the Capital and Current Accounts relating to the partners.

In the Books of Rose, Lilly and Lotus

Profit and Loss Appropriation A/c for the Year ended 31st March, 2020

Particulars	₹	Particulars		₹
To Salary to Lotus	50,000	By Net Profit b/d	3,34,600	
To Interest on capital		Add: Drawings of		
Rose 24,000		Lotus wrongly debited		
Lilly 36,000		as salaries	10,000	3,44,600
Lotus 48,000	1,08,000			
		By Interest on drawings		
To Net Profit transferred to		Rose 2,400		
Rose 50,000		Lilly 1,800		
Lilly 64,000		Lotus 1,200		5,400
Lotus 78,000	1,92,000			
	3,50,000			**3,50,000**

Partners' Capital Accounts

Particulars	Rose	Lilly	Lotus	Particulars	Rose	Lilly	Lotus
To Balance c/d	2,00,000	3,00,000	4,00,000	By Bank	2,00,000	3,00,000	4,00,000
	2,00,000	**3,00,000**	**4,00,000**		**2,00,000**	**3,00,000**	**4,00,000**
				By balance b/d	2,00,000	3,00,000	4,00,000

Partners' Current Accounts

Particulars	Rose	Lilly	Lotus	Particulars	Rose	Lilly	Lotus
To Tuition fees			10,000	By Interest on capital	24,000	36,000	48,000
To Drawings	40,000	30,000	20,000	By Salary			50,000
To Interest on drawings	2,400	1,800	1,200	By Net Profit	50,000	64,000	78,000
To balance c/d	31,600	68,200	1,44,800				
	74,000	**1,00,000**	**1,76,000**		**74,000**	**1,00,000**	**1,76,000**
				By balance b/d	31,600	68,200	1,44,800

ILLUSTRATION 5

X and Y are partners. As per terms of agreement interest is allowed on capital at 8% p.a. and charged on drawings at 10% p.a. X withdrew ₹ 40,000 pm at the end of each month and Y withdrew ₹ 120,000 at the end of each quarter. You are required to fill the missing figures in following accounts:

Profit and Loss Appropriation Account for the year ended March 31, 2020

Particulars		₹	Particulars		₹
To ...?			By Profit and Loss A/c (Net profit)		?
To Interest on Capital A/c			By Interest on Drawings A/c		
X	160,000		X	?	?
Y	?	288,000	Y	?	
To profit transferred to Capital A/c					
X (2/3)	?				
Y (1/3)	280,000	?			
		?			?

Partner's Capital Accounts

Particulars	X	Y	Particulars	X	Y
To ...?	?	?	By ...?	?	?
To ...?	?	?	By Salary A/c	3,60,000	?
To ...?	?	?	By ...?	?	
			By ...?	?	?
	?	?		?	?

Profit & Loss Appropriation A/c

Particulars			Particulars		
To Salary to X		360000	By Profit & Loss A/c		1448000
To Interest on Capital					
X	160000		By Interest on Drawings		
Y	128000	288000	X	22000	
			Y	18000	40000
To Profit trf to Capital A/c					
X	560000				
Y	280000	840000			
		1488000			**1488000**

Partners Capital Accounts

Particulars	X	Y	Particulars	X	Y
To Drawings	4,80,000	4,80,000	By Bal B/d	2000000	16,00,000
To Interest on Drawings	22,000	18,000	By Salary A/c	360000	-
			By Interest on Capital	160000	1,28,000
			By P/L Appropriation A/c	560000	2,80,000
To Bal C/d (Bal Fig)	25,78,000	15,10,000	(Profit)		
	3080000	**2008000**		**3080000**	**2008000**

Working Notes

1. Ascertainment of X's Share of Profit

Total Profit of Firm = 280000*3/1 = 840000

X's Share in Profit = 840000*2/3 = 560000

2. Ascertainment of Y's Interest on Capital

Total Interest on capital = X's Share + Y's Share

288000 = 160000 + Y's Share

Y's Share = 288000-160000

Y's Share = 128000

3. Ascertainment of X's & Y's Opening Capital

X's Opening capital = 160000/8% = 2000000

Y's Opening capital = 128000/8% = 1600000

4. Ascertainment of X's & Y's Interest on Drawings

X's Interest on Drawings = 480000*10%*5.5 Months/12 months = 22000

Y's Interest on Drawings = 480000*10%*4.5 Months/12 months = 18000



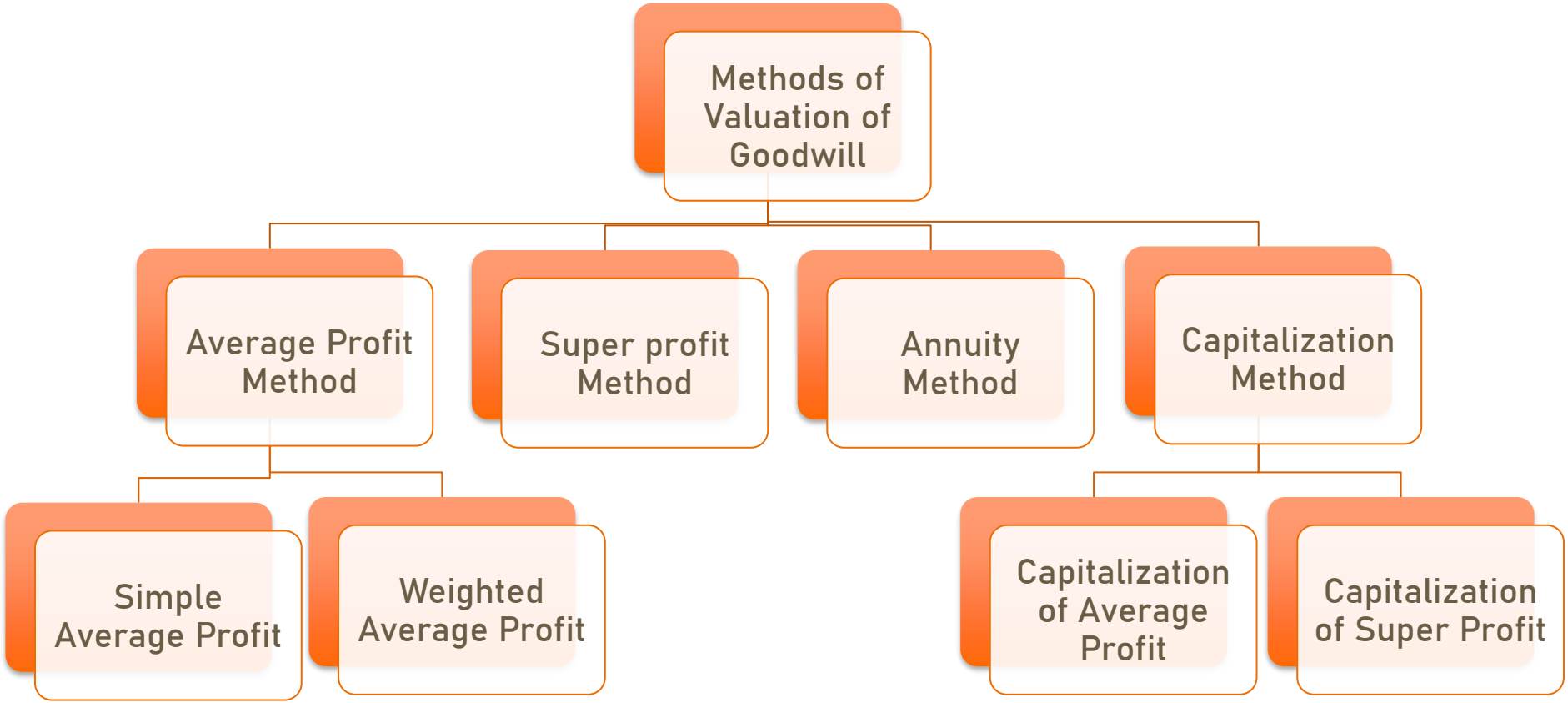
thank you!

PARTNERSHIP
VALUATION OF GOODWILL

BIRDS EYE VIEW

- Goodwill – Meaning
- Nature of Goodwill
- Factors Affecting Goodwill
- Need For Valuation of Goodwill
- Methods of Valuation of Goodwill – Average Profit Method , Super Profit Method , Annuity Method , Capitalization Method.

METHODS OF VALUATION OF GOODWILL



AVERAGE PROFIT METHOD

- Under this method goodwill is valued on the basis of certain number of years' purchase of the average annual profits of the past years. While calculating past profits any abnormal gain is excluded by deducting from past profits and any abnormal loss is excluded by adding to the past profits. Thus

  Goodwill = Average Annual Profit X Number of Years's Purchase.

- For ascertaining Average Annual Profit , either simple average or weighted average may be employed depending upon the circumstances . If there exists clear increasing or decreasing trend of profits , it is better to give more weight to the profits of the recent years than those of earlier years. But if there is no clear trend of profit , it is better to go by simple average.

- This method of goodwill is not usually followed in practice, as the goodwill is really attached with the profit, over and above the normal level of profit. Under this method there will be a value attached to the goodwill, even though an enterprise is not earning normal or expected profits.

ILLUSTRATION 1

The following were the profits of a firm for the last three years.

31st March	Profit (Rs)	
2011	500000	(including an abnormal gain of Rs 150000)
2012	400000	(after charging an abnormal loss of Rs 200000)
2013	600000	(excluding Rs 200000 payable on the insurance of plant and machinery)

Required - Calculate the value of firm's goodwill on the basis of four years purchase of the average profits for the last three years.

Normal Profit

2011 = 500000 – 150000 = 350000
2012 = 400000 + 200000 = 600000
2013 = 600000 – 200000 = 400000

Value of Firm's Goodwill = Average profit of Last 3 years * 4 Years Purchase
= (350000+600000+400000)/ 3 Years * 4
= 450000 * 4
= 1800000

SUPER PROFIT METHOD

- Goodwill under this method is ascertained by multiplying the super profits by certain number of year's purchase. While calculating past profits any abnormal gain is excluded by deducting from past profits and any abnormal loss is excluded by adding to the past profits. Thus

  Goodwill = Annual Super Profit X Number of Years's Purchase.
  Annual Super Profit = Average Annual Profit – Normal/Expected Annual Profit
  Normal/Expected Annual Profit = Average Capital Employed * Normal Rate of Return (%)

- If future maintainable profit is less than the normal expected profit, there is no super profit, hence no goodwill.

ILLUSTRATION 2

The following particulars are available in respect of the business carried on by Rathore

			₹
(1)	Capital Invested		1,50,000
(2)	Trading Results:		
	2016	Profit	40,000
	2017	Profit	36,000
	2018	Loss	6,000
	2019	Profit	50,000
(3)	Market Rate of interest on investment	10%	
(4)	Rate of risk return on capital invested in business	2%	
(5)	Remuneration from alternative employment of the proprietor (if not engaged in business).	₹ 6,000 per annum	

You are required to compute the value of goodwill on the basis of 5years' purchase of super profit of the business calculated on the average profits of the last four years.

Value of Firm's Goodwill = Super Profit of last 4 years * 5 year Purchase

Super Profits = Average Profit of last 4 years – Normal Profit
= [(40000+36000-6000+50000)/4 Years)- 6000] – 150000*12%
= (30000-6000) – 18000
= 24000 – 18000
= 6000

Value of Goodwill = 6000*5
= 30000

ANNUITY METHOD

Under this method, time value of money is considered. Time value of money is the difference between value of money at To (i.e. present date) and value of money at T1 (i.e. future date). Suppose it is expected that the super profits would be available to the firm for 5 years in this case, the value of super profits to be received in different 5 years would be different depending upon the rate of interest. Since there is a time gap between payment for goodwill at present date and the receipts of super profits at some future date, this method suggests to calculate the present value of future super profits.

Goodwill = Present value of goodwill arrived at under the Super Profits Method

ILLUSTRATION 3

The expected profits of a firm for the next 5 years are as follows:

Year	I	II	III	IV	V
Profit (Rs)	100000	200000	300000	400000	500000

The total assets of the firm are Rs 2000000 and outside liabilities are Rs 1100000. The present value factor at 10% follows:

Year	I	II	III	IV	V
PVF	0.9091	0.8264	0.7513	0.6830	0.6209

Required - Calculate the value of goodwill

STATEMENT SHOWING VALUE OF GOODWILL UNDER ANNUITY METHOD

SR.NO	PARTICULARS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
A	AVG. PROFIT (Given)	100000	200000	300000	400000	500000
B	NORMAL PROFIT	90000	90000	90000	90000	90000
	(900000*10%)					
C	SUPER PROFIT (A-B)	10000	110000	210000	310000	410000
D	PVF AT 10% (Given)	0.9091	0.8264	0.7513	0.683	0.6209
E	PV OF SUPER PROFIT (C*D)	9091	90904	157773	211730	254569

VALUE OF GOODWILL = 9091+90904+157773+211730+254569

VALUE OF GOODWILL = 724067

CAPITALISATION METHOD

The goodwill under this method is ascertained by capitalizing either the Super profits or Average profits.

Capitalisation of Average Profits Method

Under this basis, value of whole business is determined applying normal rate of return. If such value (arrived at by applying normal rate of return) is higher than the capital employed in the business, then the difference is goodwill. The steps to be followed under this method are given below :

1. Determine the normal rate of return
2. Find out the average profit of the partnership firm for which goodwill is to be determined.
3. Determine the capital employed by the partnership firm for which goodwill is to be determined.
4. Fins out normal value of the business by dividing average profit by normal rate of return.
5. Deduct average capital employed from the normal value of the business to arrive at goodwill.

CAPITALISATION METHOD

In Short,
Goodwill = Value of Business – Capital Employed /Net Assets

Value of Business = Average Profit/ Normal rate of Return (%)

Net Assets = All Assets other than Goodwill – Outsiders Liability

Capitalization of Super Profits Method

The Goodwill under Capitalization of Super Profits method can be calculated with the help of following formulae

Goodwill = Super Profit/Normal rate of Return (%)

ILLUSTRATION 4 - RTP MAY 2018

J and K are partners in a firm. Their capital are J ₹ 3,00,000 and K ₹ 2,00,000. During the year ended 31st March, 2017 the firm earned a profit of ₹ 1,50,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

(i) By Capitalization Method; and

(ii) By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

(i) Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\,1{,}50{,}000 \times 100}{20} = ₹\,7{,}50{,}000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

= ₹ 7,50,000 – ₹ 5,00,000 [i.e., ₹ 3,00,000 (J) + ₹ 2,00,000 (K)]

Goodwill = ₹ 2,50,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 1,00,000

Average Profit = ₹ 1,50,000

Super Profit = Average profit – Normal Profit

=₹ 1,50,000 – ₹ 1,00,000 = ₹ 50,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 50,000 x 2 = ₹ 1,00,000

ILLUSTRATION 5 - RTP NOV 2018

Vasudevan, Sunderarajan and Agrawal are in partnership sharing profit and losses at the ratio of 2:5:3. The Balance Sheet of the partnership as on 31.12.2017 was as follows:

Balance Sheet of M/s Vasudevan, Sunderarajan & Agrawal

Liabilities	₹	Assets	₹
Capital A/cs		Sundry fixed assets	5,00,000
Vasudevan	85,000	Inventory	1,00,000
Sunderarajan	3,15,000	Trade receivables	50,000
Agrawal	2,25,000	Bank	5,000
Trade payables	30,000		
	6,55,000		6,55,000

The partnership earned profit ₹ 2,00,000 in 2017 and the partners withdrew ₹ 1,50,000 during the year. Normal rate of return 30%.

You are required to calculate the value of goodwill on the basis of 5 years' purchase of super profit. For this purpose calculate super profit using average capital employed.

Value of Goodwill = 5 years X Super Profits

Super Profit = Average profit - Normal Profit

Average Profit (Given) = 200000

Average capital Employed = $\frac{\text{capital as on 31-12-18 + Capital as on 31-12-19}}{2}$

= (625000-50000)+625000/2

= 600000

Normal Profit = Average Capital Employed X NRR

= 600000*30% = 180000

Super Profit = 200000-180000 = 20000

Value of Goodwill = 5 years * 20000 = 100000

Thus Value of Goodwill is 100000



thank you!

PARTNERSHIP
ADMISSION OF PARTNER

BIRDS EYE VIEW

- ❑ Admission of Partner – Meaning
- ❑ Adjustments Required at the Time of Admission of Partner
- ❑ Ascertainment of New Profit Sharing ratio & Sacrificing Ratio
- ❑ Treatment of Goodwill
- ❑ Hidden Goodwill
- ❑ Revaluation of Assets & Liabilities
- ❑ Treatment of Reserves Appearing in Balance Sheet

1] Determination of Sacrificing Ratio.
(Old ratio - New ratio)

2] Treatment of Goodwill
(Admitted Partner lekar dena & SP lekar jaayega)

3] Treatment of Reserves & Surplus
(Old Partners in old PSR)

4] Revaluation of Assets & Liabilities
(Profit = Old Partners in old PSR)

TREATMENT OF GOODWILL

When the existing partners of a firm decide to admit a new partner, new partner will gain in future profits while other's will lose. The new partner who gains by acquiring a right to share future profits must compensate the partner or partners who has or have made the sacrifice. The compensation is made by bringing his share of goodwill of a firm.

Points To Remember in Regards to Treatment of Goodwill

1. As Per Accounting Standards , It is Not Recommended to raise Goodwill Account But to Show the Adjustment of Goodwill Through partner's Capital A/c.

2. The Goodwill Should be recorded in The Books only when some Consideration in Money or Money's worth is paid for It. Thus , Only Purchased goodwill Should be recorded in books of the Firm.

TREATMENT OF GOODWILL

The following are the situations through which the Goodwill to be brought in by the incoming partner is dealt with –

- ❑ Private Settlement of Goodwill
- ❑ Incoming partner brings in his share of firm's Goodwill in cash.
- ❑ Incoming partner brings in his share of firm's Goodwill in Kind
- ❑ Incoming partner does not bring his share of Firm's Goodwill in cash. (Adjusted Through Capital Accounts)
- ❑ Incoming partner brings only part of his share of Firm's Goodwill in cash.

PRIVATE SETTLEMENT OF GOODWILL

When the incoming partner pays his share of Goodwill privately to the sacrificing partner's outside the business , no entry is passed in the books of the firm.

INCOMING PARTNER BRINGS HIS SHARE OF FIRMS G/W IN CASH

Journal Entries

Bringing Share of Goodwill in Cash & Crediting to Sacrificing Partners

Cash/Bank A/c.....Dr

To Sacrificing Partners capital A/c

(In SR)

Goodwill Withdrawn by Sacrificing partners

Sacrificing Partner's capital A/c.....Dr

To Cash/ Bank A/c

INCOMING PARTNER BRINGS HIS SHARE OF FIRMS G/W IN KIND

Journal Entry

Recording of Assets brought in Against Goodwill

Assets A/c.....Dr

To Capital A/c (Bal Fig)

To Sacrificing Partners Capital A/c

(Amount of G/W In SR)

INCOMING PARTNER DOES NOT BRINGS HIS SHARE OF FIRMS G/W IN CASH

Journal Entry

Adjustment of Goodwill Through Partner's capital Accounts

Gaining Partner's Capital A/c.....Dr (In GR)
To Sacrificing Partners Capital A/c (In SR)

INCOMING PARTNER BRINGS ONLY PART OF HIS SHARE OF FIRMS G/W IN CASH

Journal Entries

Bringing Share of Goodwill in Cash & Crediting to Sacrificing Partners with Full Amount of Goodwill

Cash/Bank A/c.....Dr
Gaining Partner's capital A/c....Dr
To Sacrificing Partners Capital A/c
(In SR)

Goodwill Withdrawn by Sacrificing partners

Sacrificing Partner's Capital A/c.....Dr
To Cash/ Bank A/c

ILLUSTRATION 1 -SM

The following is the Balance Sheet of Yellow and Green as at 31st December, 2019:

Liabilities	₹	**Assets**	₹
Trade payables	20,000	Cash at Bank	10,000
Capital:		Sundry Assets	55,000
Yellow	25,000		
Green	20,000		
	65,000		65,000

The partners shared profits and losses in the ratio 3:2. On the above date, Black was admitted 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 four years' profits which were:

	₹		₹
2016	9,000	2018	12,000
2017	14,000	2019	13,000

The new profit sharing ratio is 6:5:5.

Give Journal Entries & Balance Sheet under Below Situations

A. **If Goodwill is Paid Privately**
B. **If Goodwill is Brought In Cash**
C. **If Goodwill is Brought in Cash & Withdrawn By Partners**
D. **If Goodwill is Adjusted Through Partners Capital A/c**

Calculation of Value of Goodwill

Value of Goodwill = 3 Yrs Purchase * 4 Years Average Profit
Average Profit For Last 4 Years = 9000+14000+12000+13000/4
Average Profit For Last 4 Years = 12000

Value of Goodwill = 3 Yrs Purchase * 12000
Value of Goodwill = 36000

Black's Share's in Goodwill = 36000*5/16 = 11250

Calculation of Sacrificing Ratio

Yellow = 3/5-6/16 = 18/80
Green = 2/5-5/16 = 7/80
Sacrificing Ratio = 18:7

Case B

Date	Particulars	LF	Amount	Amount
1	Bank A/c….Dr		11250	
	To Yellow's Capital A/c			8100
	To Greens's Capital A/c			3150
	(Being Goodwill Bought in Cash By Black Distributed to Sacrificing Partners in Sacrificing ratio)			

Balance Sheet

Liabilities		Amount	Assets	Amount
Trade Payables		20000	Cash at Bank	41250
Capital			Sundry Assets	55000
Yellow	33100			
Green	23150			
Black	20000	76250		
		96250		**96250**

Case C

Date	Particulars	LF	Amount	Amount
1	Bank A/c….Dr		11250	
	To Yellow's Capital A/c			8100
	To Greens's Capital A/c			3150
	(Being Goodwill Bought in Cash By Black Distributed to Sacrificing Partners in Sacrificing ratio)			
2	Yellow's Capital A/c……Dr		8100	
	Green's Capital A/c….Dr		3150	
	To Bank A/c			11250
	(Being Goodwill Withdrawn By Partners)			

Balance Sheet

Liabilities		Amount	Assets	Amount
Trade Payables		20000	Cash at Bank	30000
Capital			Sundry Assets	55000
Yellow	25000			
Green	20000			
Black	20000	65000		
		85000		**85000**

Case D

Date	Particulars	LF	Amount	Amount
1	Black's Capital A/c….Dr		11250	
	To Yellow's Capital A/c			8100
	To Greens's Capital A/c			3150
	(Being Goodwill Adjusted)			

Balance Sheet

Liabilities		Amount	Assets	Amount
Trade Payables		20000	Cash at Bank	30000
Capital			Sundry Assets	55000
Yellow	33100			
Green	23150			
Black	8750	65000		
		85000		**85000**

HIDDEN GOODWILL

If on admission, the new partner introduces capital in excess of his proportionate share in the total capital of the firm, the excess capital introduced is treated as his contribution towards goodwill. The hidden Goodwill can be calculated as follows –

Sr.No	Particulars	Amount
A	Incoming Partner's Capital X Reciprocal of Share of Incoming Partner	XXX
B	Total Capital after taking into consideration the capital brought in by Incoming Partner	XXX
c	Value of Hidden Goodwill (A-B)	XXX

<u>Journal Entry</u>

Incoming Partner's Capital A/c……Dr
(His share of Goodwill)
To Sacrificing Partners A/c
(Sacrificing Ratio)

ILLUSTRATRATION 2 - SM

A and B are partners with capitals of ₹7,000 each. They admit C as a partner with 1/4th share in the profits of the firm. C brings ₹8,000 as his share of capital. Give the necessary journal entry to record goodwill.

Statement Showing calculation of Hidden Goodwill

Sr.No	Particulars	Amount
A	Capital Brought in by New Partner * Reciprocal	32000
	of his PSR (8000*4/1)	
B	Capital of All partners including New partner (7000+7000+8000)	22000
C	Value of Hidden Goodwill (A-B)	10000
D	Share of New partner in Goodwill	2500

Adjustment Entry

C's Capital A/c…..DR	2500	
To A's Capital A/c		1250
To B's Capital A/c		1250
(Being Godwill Credited to SP in SR)		

REVALUATION OF ASSETS AND LIABILITIES

At the time of admission of a partner, the assets and liabilities are revalued so that the profit or loss arising on account of such revaluation up to the date of admission of a new partner may be ascertained and adjusted in the old partners' Capital Accounts in their old profits ratio since it belongs to old partners and not to new partner.

Revaluation Account

1. Revaluation Account is a nominal Account.
2. The purpose of Revaluation Account is to ascertain the profit / loss arising on account of revaluation of assets and liabilities.
3. Revaluation Account is credited with increase in the value of assets and decrease in the amount of liabilities(it is a gain) and is debited with any decrease in the value of assets and increase in the amount of liabilities. (it is a loss). Unrecorded assets are recorded through the Revaluation Account as increase in assets. Unrecorded liabilities are recorded through the Revaluation Account as increase in liabilities.
4. The balance of Revaluation Account shows the net effect on account of revaluation which is transferred to the partners Capital Accounts in their old profit sharing ratio.

REVALUATION OF ASSETS AND LIABLITIES

When the changed Valuation of Assets and Liabilities is to be Recorded in the Books

Sr.No	Transaction	Journal Entry
1	Increase in Value of an Asset / Creation of New Asset	Respective Asset A/c .....Dr To Revaluation A/c
2	Decrease in Value of an Asset / Write off of Asset	Revaluation A/c.....Dr To Respective Asset A/c
3	Increase in Value of Liability / Provision of Liability	Revaluation A/c.....Dr To Respective Liability
4	Decrease in Value of Liability / Write Back of Excess Provision	Respective Liability A/c.....Dr To Revaluation A/c
5	Profit on Revaluation	Revaluation A/c.....Dr To Old Partner's Capital A/c's (Old Profit Sharing Ratio)
6	Loss on Revaluation	Old Partner's Capital A/c's.....Dr (Old Profit Sharing Ratio) To Revaluation A/c

WHEN THE CHANGED VALUES OF ASSESTS AND LIABLITIES ARE NOT TO BE ALTERED

In this case Profit or revaluation is found out by preparing a memorandum statement and then the profit or loss on revaluation is adjusted in capital accounts of the partners

Sr.No	Transaction	Journal Entry
1	Profit on Revaluation	Gaining Partners Capital A/c's.....Dr (Gaining Ratio) To Sacrificing Partners Capital A/c (Sacrificing Ratio)
2	Loss on Revaluation	Sacrificing Partners Capital A/c.....Dr To Gaining Partners Capital A/c's (Sacrificing Ratio/Gaining Ratio)

TREATMENT OF RESERVES & ACCUMULATED PROFIT/LOSSES

If, at the time of admission of a partner, any reserves or accumulated profits/ losses exists in the books of the firm, these should be transferred to old partners Capital Accounts in their old profit sharing ratio since the reserves, accumulated profits/ losses up to the date of admission of a new partner belong to the old partners and not to the new partner.

ILLUSTRATION 3 - SM

A and B are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31.3.2020 is given below:

Liabilities	₹	**Assets**	₹
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 1.4.2020 they admit C on the following terms:

(1) C will bring ₹ 50,000 as a capital and ₹ 10,000 for goodwill for 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 ₹2,40,000, plant at ₹ 35,000, furniture ₹ 25,000 and office equipment ₹ 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.

In The Books of Firm
Balance Sheet

Liabilities		Amount	Assets	Amount
Trade Payables		50,000	Freehold Premises	2,00,000
			Plant	40,000
Capital			Furniture	20,000
A	2,10,680		Office Equipments	25,000
B	1,07,120		Inventory	30,000
C	42,200	3,60,000	Trade Receivables	25,000
			Bank (10,000+50,000+10,000)	70,000
		4,10,000		**4,10,000**

Partners Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To A & B Capital A/c			7,800	By Balance b/d	2,00,000	1,00,000	
				By Bank A/c			50,000
				By Bank A/c (Goodwill)	6,000	4,000	
To Balance C/d (BF)	2,10,680	1,07,120	42,200	By C's Capital	4,680	3,120	
	2,10,680	**1,07,120**	**50,000**		**2,10,680**	**1,07,120**	**50,000**

Working Notes
Memorandum Revaluation A/c

Particulars	Amount	Particulars	Amount
To Plant	5,000	By Freehold Premises	40,000
To Inventory	3,000	By Furniture	5,000
To Provision for doubtful debts	500	By Office Equipments	2,500
To Profit on Revaluation	39,000		
	47,500		**47,500**

Distribution of Profit

C's Capital A/c (39,000 X 1/5)	7,800	
To A's Capital		4,680
To B's Capital		3,120

ILLUSTRATION 4 - SM

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 1.1.2020 was as follows:

Liabilities	₹	**Amount** ₹	**Assets**	₹	**Amount** ₹
Trade payables		17,000	Building		26,000
			Furniture		5,800
Bank overdraft		9,000	Inventories		21,400
Capital accounts:			Trade receivables	35,000	
A	44,000		Less: Provision	(200)	34,800
B	36,000	80,000	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:

(i) C is admitted for 1/6 share in the future profits and to introduce a capital of ₹25,000.

(ii) The new profit sharing ratio of A, B and C will be 3:2:1 respectively.

(iii) *'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.*

(iv) *Furniture is to be written down by ₹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 ₹1,560. The value of buildings having appreciated be brought upto ₹29,200. The value of investments is increased by ₹450.*

(v) *It is found that the trade payables included a sum of ₹1,400, which is not to be paid off.*

Prepare the following:

(i) *Revaluation account.*

(ii) *Partners' capital accounts.*

Revaluation A/c

Particulars	Amount	Particulars	Amount
To Furniture	870	By Building	3200
To Inventory	1070	By Investment	450
To RDD	1550	By Trade Payables	1400
To Provision for O/s Wages	1560		
	5050		**5050**

Partners Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To A's Capital			4,500	By Balance B/d	44000	36000	
To B's Capital			3,000	By Cash			25,000
				By C's Capital	4,500	3000	
To Balance C/D (Bal Fig)	48,500	39,000	17,500				
	48,500	**39,000**	**25,000**		**48,500**	**39,000**	**25,000**

Balance Sheet
as on 1-1-20

Liabilities		Amount	Assets		Amount
Trade Payables	17000		Building		29200
Less – W/off	1400	15600	Furniture		4930
Bank Overdraft		9000	Inventory		20330
Provision for O/s Wages		1560	Trade Receivables	35000	
Capital A/c			Less - Provision	1750	33250
A	48500		Iinvestment		2950
B	39000		Cash		40500
C	17500	105000			
		131160			**131160**

Working Notes

1.Calculation of Sacrificing Ratio

A = 3/5-3/6 = 3/30
B = 2/5-2/6 = 2/30
SR is 3:2

2.Calculation of Firm's Goodwill & New partner's Share in it

Sr.No	Particulars	Amount
A	Capital Brought in by New Partner * Reciprocal	150000
	of his PSR (25000*6/1)	
B	Capital of All partners including New partner (44000+36000+25000)	105000
C	Value of Hidden Goodwill (A-B)	45000
D	Share of New partner in Goodwill (45000*1/6)	7500

ILLUSTRATION 5 - SM

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, 2020 is as below:

Liabilities		₹	**Assets**	₹
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, 2020 on the following terms :

(1) Mr. Mistri shall bring ₹5,000 towards his capital.

(2) The value of Inventory should be increased by ₹2,500 and Furniture should be depreciated by 10%.

(3) Reserve for bad and doubtful debts should be provided at 10% of the Trade receivables.

(4) The value of land and buildings should be enhanced by 20%.

(5) The value of the goodwill be fixed at ₹15,000.

(6) General Reserve will be transferred to the Partners' Capital Accounts.

(7) The new profit sharing ratio shall be: Mr. Dalal 5/15, Mr. Banerji 5/15, Mr. Mallick 3/15 andMr. Mistri 2/15.

The outstanding liabilities include ₹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, (ii) The Capital Accounts of the partners, (iii) Balance Sheet of the firm after admission of Mr. Mistri.

Revaluation A/c

Particulars		Amount	Particulars	Amount
To RDD		550	By Inventory	2500
To Furniture & Fittings		650	By Land & Building	5000
To Profit Trf to Capital				
Dalal	2520			
Banerji	2520			
Mallick	1260	6300		
		7500		**7500**

Partners Capital A/c

Particulars	Dalal	B'ji	Mal'k	Mistri	Particulars	Dalal	B'ji	Mal'k	Mistri
To Dalal Capital				1,000	By Balance B/d	12000	12000	5000	-
To Banerji Capital				1,000	By general Reserve	2,600	2600	1300	-
					By Bank A/c				5,000
To Balance C/d	19,120	18,120	7,560	3,000	By Mistri Capital	1,000	1000		
					By O/s Liability	1,000			
					By Revaluation A/c	2,520	2520	1260	
	19120	**18120**	**7560**	**5000**		**19120**	**18120**	**7560**	**5000**

Balance Sheet
as on 1-4-20

Liabilities		Amount	Assets		Amount
Trade Payables		12850	Land & Building		30000
Outstanding Liabilities	1500		Furniture		5850
Less - Paid by Dalal	1000	500	Inventory		14250
			Trade Receivables	5500	
Capital A/c			Less - Provision	550	4950
Dalal	19120		Cash in Hand		140
Banerji	18120		Cash at Bank		5960
Mallick	7560				
Mistri	3000	47800			
		61150			**61150**

Working Notes

1.Calculation of Sacrificing Ratio

Dalal = 2/5 - 5/15 = 5/75 that is 1/15
Banerji = 2/5-5/15 = 5/75 that is 1/15
Mallick = 1/5-3/15 = 0/75
SR Is 1:1:0

ILLUSTRATION 6 - SM

Alpha and Beeta were partners in a firm namely Meta-Chem sharing profits and losses equally.

BALANCE SHEET of Meta-Chem as on 31st March 2020

Liabilities		₹	Assets	₹
Capital :			Factory Building	4,78,000
Alpha	3,00,000		Plant & Machinery	3,41,000
Beeta	2,00,000	5,00,000	Office Furniture	55,850
General Reserve		1,80,000	Inventory	77,740
Workmen compensation fund		60,000	Trade Receivables	1,43,210
Term loan from IDFC bank		2,78,000	Bank	44,200
Trade payables		1,22,000		
		11,40,000		11,40,000

They agreed to admit Gyama as partner from 1st April 2020 on the following terms:

1. He shall have one-sixth share in future profits.
2. New profit sharing ratio would be 3:2:1

3. He shall bring Rs.2,50,000 as his capital.
4. Goodwill of the firm is valued at Rs. 3,00,000
5. Factory Building is to be appreciated by 20% and inventory is revalued at Rs. 70,000.
6. Machinery to be appreciated by 20%.and Office furniture to be revalued at Rs.50,000
7. Of the trade receivables Rs. 3,210 are bad and 5% be provided for bad & doubtful debts.
8. There is no actual liability towards workman.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Bank account.
4. Balance Sheet after admission.

Revaluation A/c

Particulars		Amount	Particulars	Amount
To Office Furniture		5850	By Factory Building A/c	95600
To Inventory		7740	By plant & Machinery A/c	68200
To Bad Debts		3210		
To RDD		7000		
To Profit Trf to Capital A/c				
Alpha	70000			
Beeta	70000	140000		
		163800		**163800**

Partners Capital A/c

Particulars	Alpha	Beeta	Gyama	Particulars	Alpha	Beeta	Gyama
To Beeta's capital A/c			50,000	By Bal B/d	300000	200000	
				By General Reserve A/c	90000	90000	
				By Workmen Comp. Fund A/c	30000	30000	
				By Bank A/c			250000
				By Gyama's capital A/c		50000	
To Bal C/d (Bal Fig)	490000	440000	200000	By Revaluation A/c	70,000	70000	
	490000	**440000**	**250000**		**490000**	**440000**	**250000**

Bank A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	44200	By Bal C/d	294200
To Gyama's Capital A/c	250000		
	294200		**294200**

Balance Sheet
as on 1-4-20

Liabilities		Amount	Assets		Amount
Capital A/c			Factory Building		573600
Alpha	490000		Plant & Machinery		409200
Beeta	440000		Office Furniture		50000
Gyama	200000	1130000	Inventory		70000
			Trade Receivables	140000	
			Less - RDD @5%	7000	133000
Term Loan From IDFC Bank		278000	Bank		294200
Trade Payables		122000			
		1530000			**1530000**

Working Notes

1.Calculation of Sacrificing Ratio

Alpha = 1/2-3/6 = Nil

Beeta = 1/2 – 2/6 = 1/6

ILLUSTRATION 7 - RTP MAY 2021

Ramu and Mamu were partners in a firm sharing profits and losses in the ratio 3:2

Their Balance Sheet as on 31st March, 2020 was as follows:

Liabilities	₹	Assets	₹
Capital :		Land & Building	1,50,000
Ramu	2,10,000	Machinery	1,80,000
Mamu	1,90,000	Furniture	44,000
General Reserve	60,000	Trade Receivables	42,800
Loan from LFC bank	25,000	Inventory	65,200
Trade Payables	21,000	Bank	24,000
	5,06,000		5,06,000

Damu was admitted as partner from 1st April, 2020 on the following terms:

1. He shall bring ₹ 1,50,000 as capital and goodwill.
2. He shall get 1/5th share in future profits, to be acquired equally from Ramu and Mamu.
3. Goodwill of the firm to be valued at ₹ 2,50,000. It was agreed that goodwill shall not appear in the books of accounts.
4. Land & Building is to be appreciated by 50% and inventory is revalued at ₹ 60,000
5. Machinery to be depreciated by 20%. Debtors of ₹ 2,800 are to be written off as bad debts and a Reserve for doubtful debts should be created @ 5% of debtors.
6. Furniture to be reduced to ₹40,000.
7. After admission of Damu, capitals of the partners' to be adjusted in their new profit sharing ratio, taking Damu's capital as base.

You are required to prepare:

1. Revaluation account
2. Partners' capital accounts.
3. Cash and bank account.
4. Balance Sheet after admission

Revaluation A/c

Particulars		Amount	Particulars	Amount
To Machinery		36000	By Land & Building	75000
To Furniture		4000		
To Bad Debts		2800		
To RDD		2000		
To Inventory		5200		
To Profit Transferred to Capital A/c				
Ramu	15000			
Mamu	10000	25000		
		75000		**75000**

Partners Capital A/c

Particulars	Ramu	Mamu	Damu	Particulars	Ramu	Mamu	Damu
To Ramu's & Mamu's Capital A/c			50000	By Bal B/d	210000	190000	
				By General Reserve A/c	36000	24000	
To Bank A/c (BF)	36000	99000		By Bank A/c			150000
				By Damu's Capital A/c	25000	25000	
To Bal C/d	250000	150000	100000	By Revaluation A/c	15000	10000	
	286000	**249000**	**150000**		**286000**	**249000**	**150000**

Bank A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	24000	By Ramu's Capital A/c	36000
To Damu's Capital A/c	150000	By Mamu's Capital A/c	99000
		By Bal C/d (BF)	39000
	174000		**174000**

Balance Sheet
as on 1-4-20

Liabilities		Amount	Assets		Amount
Capital			Land & Building		225000
Ramu	250000		Machinery		144000
Mamu	150000		Furniture		40000
Damu	100000	500000	Trade Receivables	42800	
			Less – Bad Debts	2800	
				40000	
Loan from LFC Bank		25000	Less – RDD at 5%	2000	38000
Trade Payables		21000	Inventory		60000
			Bank		39000
		546000			**546000**

Working Notes

1.Calculation of Sacrificing Ratio & New PSR

Ramu = 3/5 – (1/5*1/2) = 3/5-1/10 = 5/10
Mamu = 2/5 – (1/5*1/2) = 2/5-1/10 = 3/10
Damu = 1/5 That is = 2/10

Therefore New PSR = 5:3:2
SR = 1:1

Working Notes

2.Treatment of Goodwill

Value of Firms Goodwill = 250000

Damu's Share in Goodwill = 250000*1/5 = 50000

Adjustment Entry

Damu's Capital A/c....Dr 50000

To Ramu's Capital A/c 25000

To Mamu's Capital A/c 25000

Working Notes

3. Capital Adjustment After Admission of Damu

Amount Brought in By Damu	150000
Less – Amount of Goodwill	50000
Therefore, Amount of Capital	100000

Total Capital of Firm = 100000*5/1 = 500000

New Capital of All partners in Their New PSR Shall be

Ramu = 250000 , Mamu = 150000 & Damu = 100000

ILLUSTRATION 8

A and B are partners, sharing profit and losses in the proportion of 3/4th and 1/4th . As at 31st March, 2021, following is the balance sheet of A and B:

Liabilities		Rs.	Assets	Rs.
Capital accounts:			Cash in hand	1,15,000
A	2,85,000		Cash at bank	1,10,000
B	1,55,000	4,40,000	Sundry debtors	1,60,000
Creditors		3,75,000	Stock	2,00,000
General reserves		60,000	Bills receivable	30,000
			Land and building	2,50,000
			Office furniture	10,000
		8,75,000		8,75,000

They agreed to take C into partnership on 1st April, 2021 on the following terms:

i. Goodwill is to be valued at Rs. 2,00,000. C is unable to bring cash for his share of goodwill. So, it was decided that due credit for goodwill be given to A and B for their sacrifice in favor of C through C`s current account.
ii. C pays Rs. 1,40,000 as his capital for 1/5th share in the future profits.
iii. Stock and Furniture be reduced by 10%.
iv. A provision @5% for doubtful debts be created on debtors.
v. Land and Building be appreciated by 20%.
vi. Capital Accounts of the partners be readjusted on the basis of their profits-sharing arrangement and any excess or deficiency is to be transferred to their Current Accounts.

Prepare Revaluation Account and Partners Capital Accounts.

Revaluation A/c

Particulars		Amount	Particulars	Amount
To Provision for Doubtful Debt A/c		8,000	By Land & Building A/c	50,000
To Stock A/c		20,000		
To Office Furniture A/c		1,000		
To Profit Transferred to Capital A/c				
A	15,750			
B	5,250	21,000		
		50,000		**50,000**

Partners Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To B's Current A/c (BF)		45,250		By Balance b/d	2,85,000	1,55,000	
				By General Reserve A/c	45,000	15,000	
				By C's Current A/c	30,000	10,000	
				By Bank A/c			1,40,000
To Balance c/d	4,20,000	1,40,000	1,40,000	By Revaluation A/c	15,750	5,250	
				By A's Current A/c (BF)	44,250		
	4,20,000	**1,85,250**	**1,40,000**		**4,20,000**	**1,85,250**	**1,40,000**

Working Notes

1.Calculation of New PSR & Sacrificing Ratio

Let the total share of firm be 1

Share given to C = 1 - 1/5

= 4/5

New PSR of A = 4/5 X 3/4 = 12/20

New PSR of B = 4/5 X 1/4 = 4/20

New PSR of C = 1/5 = 4/20

= 3:1:1

SR = 3:1

2.Treatment of Goodwill

Value of Firm's Goodwill = 2,00,000

C's Share in Goodwill = 2,00,000 X 1/5
= 40,000

C's Current A/c.....Dr.		40,000	
	To A's Capital A/c		30,000
	To B's Capital A/c		10,000



thank you!

PARTNERSHIP
RETIREMENT OF PARTNER

BIRDS EYE VIEW

- Retirement of Partner – Meaning
- How Can A Partner Retire
- Adjustments Required at the Time of Retirement of Partner
- Ascertainment of New Profit Sharing ratio & Gaining Ratio
- Treatment of Goodwill
- Hidden Goodwill
- Revaluation of Assets & Liabilities
- Treatment of Reserves Appearing in Balance Sheet
- Capital adjustment
- Disposal of Amount Due to Retiring Partner
- Sec. 37 of Indian Partnership Act ,1932

ADJUSTMENTS REQUIRED AT THE TIME OF RETIREMENT OF NEW PARTNER

The various matter that need adjustment at time of Retirement of Partner are given below-

- ❑ Adjustment in Profit Sharing Ratio
- ❑ Adjustment of Goodwill,
- ❑ Adjustment of Profit/loss arising from the Revaluation of Assets and Liabilities
- ❑ Adjustment of Accumulated Profits, Reserves and Losses,
- ❑ Adjustment of Capitals (if agreed).

TREATMENT OF GOODWILL

When an existing partner of a firm decides to retire from the firm, the continuing partners(s) will gain in future profits. The continuing partner who gains by acquiring an additional right to share future profits must compensate the outgoing partner who sacrifices by foregoing his right to share future profits. The amount of compensation will be equal to the proportionate amount of firm's goodwill. Thus,

Outgoing Partner's Share of Goodwill = Value of Firm's Goodwill x Share of Profit Sacrificed

Credit for Outgoing Partner 's full share of Goodwill to Outgoing Partner by Debiting Continuing Partners

Gaining Partner's Capital A/c.....Dr (In GR)
To Sacrificing Partner's Capital/Outgoing partner's Capital A/c (In SR)

DISPOSAL OF AMOUNT DUE TO THE RETIRING PARTNER

Amount due to retiring partner is arrived at after considering balances in capital and current account, share of profit up to the date of retirement, goodwill, profit/ loss on revaluation, drawings, interest on capital/ drawings etc.

The dues of the retiring partner may be settled –

- Out of existing funds/ assets available with the firm
- Out of additional capital contribution to be brought in by the contributing partners
- Out of capital contribution of the new partner
- In lumpsum value after sometime (along with interest at an agreed rate)
- In installment (along with interest at agreed rate)

ILLUSTRATION 1 - SM

F, G and K were partners sharing profits and losses at the 2:2: 1. K wants to retire on 31.12.2019. Given below is the Balance Sheet of the partnership as well as other information:

Balance Sheet as on 31.12.2019

Liabilities	₹	**Assets**	₹
Capital A/cs			
F	1,20,000	Sundry Fixed Assets	1,50,000
G	80,000	Inventories	50,000
K	60,000	Trade receivables	70,000
Reserve	10,000	(Including Bills Receivable 20,000)	
Trade payables	50,000	Bank	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 Goodwill is taken to be ₹ 50,000. Sundry Fixed Assets are revalued upward by ₹30,000 and Inventories by ₹10,000. Bills Receivable dishonoured ₹5,000 on 31.12.2019 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 ₹75,000 bank balance for working capital.

Required:

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 Ms/ F & G after K's retirement.

Journal Book

Particulars	Rs.	Rs.
Reserves A/c….Dr	10,000	
To F's Capital		4,000
To G's Capital		4,000
To K's Capital		2,000
(Being Reserves Distributed to partners)		
Sundry Fixed Assets A/c….Dr	30,000	
To Revaluation A/c		30,000
(Being Fixed Assets Revalued on Retirement)		
Inventory A/c….Dr	10,000	
To Revaluation A/c		10,000
(Being Inventory Revalued on Retirement)		

Revaluation A/c.....Dr	5,000	
To Trade Recievables		5,000
(Being Bad Debts)		
F's Capital A/c....Dr (50000*1/5)	10,000	
To k's Capital A/c		10,000
(Being Goodwill Adjusted)		
Revaluation A/c.....Dr	35000	
To F's Capital A/c		14000
To G's Capital A/c		14000
To K's Capital A/c		7000
(Being Revaluation Profit distributed)		
Bank A/c.....Dr	1,04,000	
To F's Capital A/c		70000
To G's Capital A/c		34000
(Being Amount Brought in by F & G)		

K's Capital A/c....Dr	79000	
To Bank A/c		79000
(Being retiring Partner's Share paid)		

Partners Capital A/c

Particulars	F	G	K	Particulars	F	G	K
To K's Capital	10,000			By Balance B/d	120000	80,000	60,000
				By Reserve	4,000	4,000	2,000
To Bank A/c (Bal Fig)			79,000	By F's Capital			10,000
				By Revaluation A/c	14,000	14,000	7,000
To Balance C/d	198000	132000		By Bank A/c (bal Fig)	70,000	34,000	
	208000	**132000**	**79000**		**208000**	**132000**	**79000**

Balance Sheet of M/s. F & G
(After Retirement of K)

Liabilities		Amount	Assets	Amount
Capital A/c (Bal Fig)			Fixed Assets	180000
F	198000		Inventory	60000
G	132000	330000	Trade Receivables	65000
			Bank	75000
Trade Payables		50000		
		380000		**380000**

Working Notes
1. Revaluation A/c

Particulars		Amount	Particulars	Amount
To Trade Receivables		5000	By Fixed Assets	30000
			By Inventory	10000
To Profit Trf to Capital				
F	14000			
G	14000			
K	7000	35000		
		40000		**40000**

2. Bank A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	50000	By K's capital A/c	79000
To F's Capital A/c	70000		
To G's Capital A/c	34000		
		By Bal C/d	75000
	154000		**154000**

3. Calculation of Gaining & Sacrificing Ratio

F = 3/5 - 2/5 = 5/25

G = 2/5 - 2/5 = 0

F is gaining 1/5 and K is Sacrificing 1/5

ILLUSTRATION 2 - SM

Satyam, Shivam & Sundaram are partners of M/s. Great Stationers sharing profits and losses in the ratio of 1:1:2. On 31st March, 2020 their Balance Sheet was as under :

Liabilities		₹	Assets	₹
Capitals :			Building	2,50,000
Satyam	1,95,000		Plant	1,60,000
Shivam	1,48,000		Investments	85,000
Sunderam	1,12,000	4,55,000	Stock	45,280
General Reserve		80,000	Trade Receivable	68,000
Loan from Satyam		94,000	Bank	95,720
Sundry Creditors		75,000		
		7,04,000		7,04,000

On 1st April 2020 Shivam retired on the following terms:

1. *Goodwill is to be valued at ₹ 1,20,000 but the same will not appear as an asset in the books of the reconstituted firm.*
2. *Buildings is to be appreciated by 20% and Plant is to be depreciated by 10 %.*
3. *Investments are to be taken over by the Satyam in full settlement of his loan.*
4. *Provision of 5% is to be made on trade receivables to cover doubtful debts.*
5. *In the reconstituted firm, the total capital will be ₹ 3,00,000/- which will be contributed by Satyam and Sunderam in their new profit sharing ratio, which is 2:3.*
6. *The amount due to retiring partner shall be transferred to his loan account.*

You are required to give journal entries to record above adjustments and also prepare Balance Sheet thereafter.

Journal Book

Particulars	Rs.	Rs.
General Reserve A/c…...Dr	80,000	
To Satyam Capital A/c		20,000
To Shivam Capital A/c		20,000
To Sundaram Capital A/c		40,000
(Being reserve transferred to partners capital A/c)		
Loan From Satyam A/c…..Dr	94,000	
To Investments A/c		85000
To Revaluation A/c		9000
(Being Investments taken over by Satyam in full		
settlement of his Loan)		
Building A/c…..Dr	50,000	
To Revaluation A/c		50000
(Being building revalued)		
Revaluation A/c…..Dr	16,000	
To Plant A/c		16000
(Being Plant Revalued)		

Revaluation A/c….Dr	3,400	
To RDD		3,400
(Being provision made on Debtors)		
Satyam Capital A/c…..Dr (120000*3/20)	18,000	
Sundaram capital A/c….Dr (120000*2/20)	12,000	
To Shivam capital A/c		30000
(being Goodwill Adjusted		
Revaluation A/c……..Dr	39600	
To Satyam Capital A/c		9,900
To Shivam Capital A/c		9,900
To Sundaram Capital A/c		19,800
(Being profit on Revluation Distributed)		
Shivam Capital A/c….Dr	2,07,900	
To Shivam Loan A/c		2,07,900
(Being Amount Payable to Shivam transferred to his		
Loan A/c)		
Satyam Capital A/c…..Dr	86900	
To Bank A/c		86900
(being Amount Paid to Satyam)		
Bank A/c…..Dr	20200	
To Sundaram capital A/c		20200
(Being Amount Received from Sundaram)		

Balance Sheet
As On 01-04-2020

Liabilities		Amount	Assets		Amount
Capital Account:			Building		300000
Satyam	180000		Plant		144000
Sundaram	120000	300000	Stock		45280
			Trade Receivables	68000	
Sundry Creditors		75000	Less - RDD	3400	64600
Shivam's Loan A/c		207900	Bank		29020
		582900			**582900**

WN 1 - Partners Capital A/c

Particulars	Satyam	Shivam	Sundaram	Particulars	Satyam	Shivam	Sundaram
				By Balance B/d	1,95,000	1,48,000	1,12,000
To Shivam's Capital A/c	18000		12000	By General Reserve	20,000	20,000	40,000
				By Satyam & Sundaram A/c		30,000	
To Shivam's Loan A/c (BF)		2,07,900		By Revaluation A/c	9900	9900	19,800
To Bank A/c (Bal Fig)	86,900			By Bank A/c (bal Fig)			20,200
To Balance C/d	120000		180000				
	224900	**207900**	**192000**		**224900**	**207900**	**192000**

WN 2 - Revaluation A/c

Particulars		Amount	Particulars	Amount
To Plant A/c		16000	By Investments	9000
To RDD		3400	By Building	50000
To Profit Trf to Capital				
Satyam	9900			
Shivam	9900			
Sundaram	19800	39600		
		59000		**59000**

WN 3 - Bank A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	95720	By Satyam capital A/c	86900
To Sundaram Capital A/c	20200	By Bal C/d (Bal Fig)	29020
	115920		**115920**

4. Calculation of Gaining & Sacrificing Ratio

Satyam = 2/5 - 1/4 = 3/20 Gaining
Shivam = 0 - 1/4 = 5/20 Sacrificing
Sundaram = 3/5 - 2/4 = 2/20 Gaining

ILLUSTRATION 3 - SM

A,B,C were in partnership sharing profits and losses in the ratio of 3:2:1. The balance sheet of the firm as on 31.2.2020 was as under:

Liabilities		₹	Assets	₹
Capital accounts:				
A	1,50,000		Fixtures	30,000
B	1,00,000		Stock	1,70,000
C	50,000	3,00,000	Sundry debtors	90,000
Sundry creditors		40,000	Cash	50,000
		3,40,000		3,40,000

A, on account of ill-health, gave notice that he wished to retire from the firm. A retirement agreement was, therefore, entered as on 31.3.2020, the terms of which were as follows:

(a) The profit and loss account for the year ended 31.3.2020, which showed a net profit of ₹ 42,000 was to be re-opened. B was to be credited with ₹ 6,000 as bonus, in consideration of the extra work, which had devolved upon him during the year. The profit sharing basis was to be revised and the revised ratio is to be 2:3:1 as and from 1st April 2019.

(b) Goodwill was to be valued at two years' purchase of the simple average profits of five years. Profits for these five years ending on 31st March were as under:

	₹
31.3.2016	15,000
31.3.2017	23,000
31.3.2018	25,000
31.3.2019	35,000
31.3.2020	42,000

(c) Fixtures are to be valued at ₹ 39,800 and a provision of 2% was to be made for doubtful debts and the remaining assets were to be taken at their book value.

(d) That the amount payable to A shall be paid by B.

B and C agreed, as between themselves, to continue the business, sharing profits and losses in the ratio of 3:1 and decided to retain fixtures in the books at the revised value and increase the provision for doubtful debts to 6 %. Total capital of the firm will be ₹ 3 lakhs as before to be maintained in the new ratio as between B and C.

You are required to give the necessary entries to give effect to the above arrangements. Prepare capital accounts of partners, cash account and balance sheet of B and C after giving effect to the above arrangements on the retirement of A.

Journal Book

Date	Particulars	LF	Amount	Amount
	Fixtures A/c Dr.		9,800	
	To Revaluation A/c			9800
	(Being Fixtures revalued)			
	Revaluation A/c Dr.		1,800	
	To RDD A/c			1800
	(Being Provision Made on debtors at 2%)			

Date	Particulars		LF	Amount	Amount
	A's Capital A/c	Dr.		21,000	
	B's Capital A/c	Dr.		14,000	
	C's Capital A/c	Dr.		7,000	
	To Profit and Loss Adjustment A/c				42,000
	(Being Profit written back for Adjustments)				
	Profit and Loss Adjustment A/c	Dr.		6,000	
	To B's Capital A/c				6,000
	(Being Bonus credited to B's Capital A/c)				

Date	Particulars	LF	Amount	Amount
	Profit and Loss Adjustment A/c Dr.		36,000	
	To A's Capital A/c			12,000
	To B's Capital A/c			18,000
	To C's Capital A/c			6,000
	(Being distribution of profits in the new ratio)			
	B Capital A/c.....Dr (6/24*56000)		14000	
	C Capital A/c.....Dr (2/24*56000)		4667	
	To A's Capital A/c (2/6*56000)			18667
	(Being Goodwill Adjusted in partners Capital A/c)			

Date	Particulars	LF	Amount	Amount
	Revaluation A/c Dr.		8000	
	To A's Capital A/c			2,667
	To B's Capital A/c			4,000
	To C's Capital A/c			1,333
	(Being profit on revaluation Distributed)			
	A's Capital A/c Dr.		162,334	
	To B's Capital A/c			162,334
	(Being Amount payable to A paid by B)			

Date	Particulars		LF	Amount	Amount
	B's Capital A/c	Dr.		2,700	
	C's Capital A/c	Dr.		900	
	To RDD A/c				3600
	(Being Provision on Debtors increased to 6%)				
	Cash A/c	Dr.		30234	
	To C's Capital A/c				30234
	(Being Cash received from C)				

Date	Particulars	LF	Amount	Amount
	B's Capital A/c Dr.		34624	
	To Cash A/c			34624
	(Being Cash Paid to B)			

Partners Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To P&L Adj A/c	21,000	14,000	7,000	By Balance b/d	1,50,000	1,00,000	50,000
To A's Capital A/c		14,000	4,667	By P&L Adj. A/c	-	6,000	-
To RDD A/c	-	2,700	900	By P&L Adj. A/c	12,000	18,000	6,000
				By B & C Capital A/c	18,667		
To B's Capital A/c (Bal Fig)	162,334	-	-	By Revaluation A/c	2,667	4,000	1,333
To Cash A/c (Bal Fig)	-	34,634	-	By A's Capital A/c	-	162,334	-
To Balance c/d	-	2,25,000	75,000	By Cash A/c (Bal Fig)	-	-	30,234
	183334	290334	87,567		183334	290334	87,567

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	50000	By B's Capital A/c	34634
To C's Capital A/c	30234	By Balance c/d (bal Fig)	45600
	80234		80234

Balance Sheet of B & C
As on 31-3-20 (After Retirement of A)

Liabilities		Amount	Assets		Amount
Capital			Fixtures		39800
B	225000		Stock		170000
C	75000	300000	Sundry Debtors	90000	
			Less – RDD	5400	84600
Sundry creditors		40000	Cash		45600
		340000			**340000**

Working Notes

1. Valuation of Firm's Goodwill

Average of Last five year's profit = 15000+23000+25000+35000+42000/5 years
= 28000
value of Goodwill = 2yrs Purchase of Average profits of Last 5 years
= 2 x 28000
= 56000

ILLUSTRATION 4

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, 2020 is as under:

Liabilities		₹	Assets	₹
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			Investments	12,000
(un-appropriated profit)		20,000	Inventories	1,30,000
Long Term Debt		3,00,000	Trade receivables	1,39,000
Bank Overdraft		44,000		
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, 2020. For this purpose, the following adjustments are to be made:

(a) Goodwill is to be valued at ₹ 1 lakh 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 depreciated by 5% and 20% respectively. Investments are to be taken over by the retiring partner at ₹ 15,000. Provision of 20% is to be made on Trade receivables to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ₹ 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.

(i) The surplus funds, if any, will be used for repaying bank overdraft.

(ii) 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, 2020.

Revaluation A/c

Particulars	Amount	Particulars		Amount
To Building A/c	10,000	By Investment		3,000
To Plant & Machinery A/c	26,000	By Loss Transferred to Capital A/c		
To Provision for Doubtful Debts A/c	27,800	A	30,400	
		B	18,240	
		C	12,160	60,800
	63,800			**63,800**

Partners Capital A/c

Particulars	A	B	C	D	Particulars	A	B	C	D
To Investment		15,000			By Balance b/d	80,000	20,000	30,000	
To A & B Capital A/c			20,000	20,000	By Reserves A/c	10,000	6,000	4,000	
To Revaluation A/c	30,400	18,240	12,160	-	By C & D Capital A/c	10,000	30,000		
To B's Loan A/c (BF)		22,760			By Bank A/c (BF)	10,400	-	78,160	60,000
To Balance c/d	80,000	-	80,000	40,000					
	1,10,400	**56,000**	**1,12,160**	**60,000**		**1,10,400**	**56,000**	**1,12,160**	**60,000**

Bank A/c

Particulars	Amount	Particulars	Amount
To A's Capital A/c	10,400	By Balance b/d	44,000
To C's Capital A/c	78,160		
To D's Capital A/c	60,000	By Balance c/d (BF)	1,04,560
	1,48,560		**1,48,560**

Balance Sheet of Dowell &Co.
As on 1-4-20

Liabilities		Amount	Assets		Amount
Capital			Land		10,000
A	80,000		Building		1,90,000
C	80,000		Plant & Machinery		1,04,000
D	40,000	2,00,000	Furniture		43,000
B's Loan		22,760	Inventory		1,30,000
Long Term Debt		3,00,000	Trade Receivables Less : Provision	1,39,000 27,800	1,11,200
Trade Payables		1,70,000	Bank		1,04,560
		6,92,760			**6,92,760**

Working Notes

1. Calculation of Gaining & Sacrificing Ratio

A	2/5 - 5/10	= (1/10)	Sacrificing
B	- - 3/10	= (3/10)	Sacrificing
C	2/5 - 2/10	= 2/10	Gaining
D	1/5 - 0	= 2/10	Gaining

C's Capital A/c.....Dr. (1,00,000 X 2/10)	20,000	
D's Capital A/c.....Dr. (1,00,000 X 2/10)	20,000	
To A's Capital (1,00,000 X 1/10)		10,000
To B's Capital (1,00,000 X 3/10)		30,000

ILLUSTRATION 5

Aarav, Nirav and Purav are partners sharing profits and losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2020 was as follows:

Balance Sheet as on 31st March, 2020

Liabilities	₹	Assets	₹
Capital : Aarav	80,000	Building	50,000
Nirav	50,000	Machinery	67,500
Purav	35,000	Debtors	65,000
General Reserve	60,000	Stock	80,000
Trade Creditors	50,000	Bank	12,500
	2,75,000		2,75,000

Purav retired from the business on 1st April 2020 on the following terms:

1. *Goodwill was to be valued at 2 years purchase of average profit of past 3 years.*

   31st March, 2018 ₹ 39,000

31st March, 2019 ₹ 50,000

31st March, 2020 ₹ 55,000

2. Goodwill was not to be raised in the books of accounts.

3. Provision for Doubtful Debts was to be created on debtors at 5%. Machinery is to be depreciated by 10% and stock is revalued at ₹ 71,000.

5. Building to be appreciated by 20%.

6. Aarav and Nirav to bring in additional capital of ₹ 35,000 and ₹ 25,000 respectively.

7. Balance payable to Purav must be paid immediately.

You are required to prepare:

1. Revaluation account

2. Partners capital accounts.

3. Bank account.

4. Balance Sheet after retirement.

Revaluation A/c

Particulars	Amount	Particulars	Amount
To Machinery	6750	By Building	10000
To Stock	9000		
To provision for Debtors	3250	**By Loss Transfer to Capital A/c**	
		Aarav 4500	
		Nirav 3000	
		Purav 1500	9000
	19000		**19000**

Partners Capital A/c

Particulars	Aarav	Nirav	Purav	Particulars	Aarav	Nirav	Purav
To Purav Capital A/c	9600	6400		By Balance B/d	80,000	50,000	35,000
To Revaluation A/c	4500	3000	1,500	By General Reserve	30,000	20,000	10,000
				By Aarav & Nirav Capital A/c			16,000
To Bank A/c (Bal Fig)			59,500	By Bank A/c	35000	25000	
To Bal C/d (Bal Fig)	1,30,900	85,600					
	1,45,000	**95,000**	**61,000**		**1,45,000**	**95,000**	**61,000**

Bank A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	12500	By Purav's Capital A/c	59500
To Aarav's Capital A/c	35000	By Bal C/d (Bal Fig)	13000
To Nirav's Capital A/c	25000		
	72500		**72500**

Balance Sheet
As on 1-4-20

Liabilities		Amount	Assets		Amount
Capital A/c			Building		60000
Aarav	130900		Plant & Machinery		60750
Nirav	85600	216500	Debtors	65000	
			Less - Provision	3250	61750
			Stock		71000
Trade Creditors		50000	Bank Balance		13000
		266500			**266500**

WN 1 Calculation of Goodwill , Purav's Share in it & its Treatment

Average of Last Three year's profit = 39000+50000+55000/3 Years
= 48000

value of Goodwill = 2yrs Purchase of Average profits of Three years
= 2 x 48000
= 96000

Purav's Share in Goodwill = 96000*1/6 = 16000

Journal Entry for Adjustment of Goodwill

Aarav Capital A/c….Dr 9600
Nirav Capital A/c….Dr 6400
To Purav Capital A/c 16000

PARTNERSHIP CHANGE IN PSR

BIRDS EYE VIEW

- Change In PSR – Meaning
- Sacrificing Partner - Meaning
- Gaining Partner - Meaning
- Calculation Of Sacrifice Or Gain Of Partners
- Adjustment For Goodwill
- Adjustment For Reserves & Accumulated Profit & Losses
- Adjustment For Revaluation Of Assets & Reassessment Of Liabilities

ILLUSTRATION 1 - MTP NOV 2019 (20 MARKS)

A, B and C are partners in a firm sharing profits and losses as 8:5:3. Their balance sheet as at 31st December, 2018 was as follows:

	Rs.		Rs.
Sundry creditors	1,50,000	Cash	40,000
General reserve	80,000	Bills receivable	50,000
Partners' loan accounts:		Sundry debtors	60,000
A	40,000	Stock	1,20,000
B	30,000	Fixed assets	2,80,000
Partners' capital accounts:			
A	1,00,000		
B	80,000		
C	70,000		
	5,50,000		5,50,000

From 1st January, 2019 they agreed to alter their profit-sharing ratio as 5:6:5. It is also decided that:

(a) the fixed assets should be valued at Rs. 3,31,000;

(b) a provision of 5% on sundry debtors to be made for doubtful debts;

(c) the goodwill of the firm at this date be valued at three years' purchase of the average net profits of the last five years before charging insurance premium; and

(d) the stock be reduced to Rs. 1,12,000.

There is a joint life insurance policy for Rs. 2,00,000 for which an annual premium of Rs. 10,000 is paid, the premium being charged to profit and loss account. The surrender value of the policy on 31st December, 2018 was Rs. 78,000.

The net profits of the firm for the last five years were Rs. 14,000, Rs. 17,000, Rs. 20,000, Rs. 22,000 and Rs. 27,000.

Goodwill and the surrender value of the joint life policy was not to appear in the books.

Draft journal entries necessary to adjust the capital accounts of the partners and prepare the revised balance sheet.

Journal Entries

Date	Particulars	LF	Amount	Amount
01-01-2019	General Reserve A/c…..Dr		80000	
	To A's Capital A/c			40000
	To B's Capital A/c			25000
	To C's Capital A/c			15000
	(Being General Reserve Distributed to all Partners in Old ratio)			
01-01-2019	Revaluation……Dr		3000	
	To RDD A/c			3000
	(Being Provision Created on Debtors at 5%)			

Date	Particulars	LF	Amount	Amount
01-01-2019	Revaluation……Dr		8000	
	To Stock A/c			8000
	(Being Value of Stock Reduced)			
01-01-2019	Fixed Assets A/c…..Dr		51000	
	To Revaluation A/c			51000
	(Being Fixed assets Revalued)			
01-01-2019	B's capital A/c……Dr		5625	
	C's capital A/c……Dr		11250	
	To A's Capital A/c			16875
	(Being Godwill Adjusted in Partners Capital A/c)			

Date	Particulars	LF	Amount	Amount
01-01-2019	B's capital A/c……Dr		4875	
	C's capital A/c……Dr		9750	
	To A's Capital A/c			14625
	(Being Surrender Value of JLP Adjusted in Partner’s Capital A/c)			
01-01-2019	Revaluation A/c……Dr		40000	
	To A's Capital A/c			20000
	To B's Capital A/c			12500
	To C's Capital A/c			7500
	(Being Revaluation profit Distributed to Partners in Old ratio)			

Balance Sheet

Liabilities		Amount	Assets		Amount
Partners Capital A/c			Cash		40000
A	191500		Bills Recievable		50000
B	107000		Debtors	60000	
C	71500	370000	Less - RDD	3000	57000
Partners Loan A/c			Stock		112000
A	40000		Fixed Assets		331000
B	30000	70000			
Sundry Creditors		150000			
		590000			**590000**

WN 1 - Revaluation A/c

Particulars	Amount	Particulars	Amount
To RDD	3000	By Fixed Assets	51000
To Stock	8000		
To Revaluation profit			
A 20000			
B 12500			
C 7500	40000		
	51000		**51000**

WN 2 - Partners Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To A's Capital A/c	-	5625	11,250	By Bal B/d	1,00,000	80,000	70,000
To A's Capital A/c	-	4,875	9,750	By General Reserve	40,000	25,000	15,000
	-			By B & C's Capital (G/W)	16,875		
				By B & C's Capital (JLP)	14,625		
To bal C/d (Bal Fig)	1,91,500	1,07,000	71,500	By Revaluation A/c	20000	12,500	7,500
	1,91,500	**1,17,500**	**92,500**		**1,91,500**	**1,17,500**	**92,500**

WN 3 - Calculation of Gaining & Sacrificing Ratio

A = 8/16 - 5/16 = 3/16 (Sacrifice)
B = 5/16 - 6/16 = (1/16) (Gain)
C = 3/16 - 5/16 = (2/16) (Gain)

WN 4 - Ascertainment of Value of Firm's Goodwill & Its Treatment

Average profit of Last 5 Years after Charging Insurance Premium
i.e 14000+17000+20000+22000+27000/ 5 Years = 20000
Average profit of last 5 Years Before Charging Insurance Premium = 20000+Insurance Premium per Year
= 20000+10000
= 30000

Value of Goodwill = 3Yrs Purchase * Average profit Before Charging Insurance Premium
= 3 * 30000
= 90000

Accounting Entry For Goodwill Adjustment

B's Capital A/c.....Dr (1/16*90000)	5625	
C's Capital A/c.....Dr (2/16*90000)	11250	
To A's Capital A/c (3/16*90000)		16875

WN 5 - Treatment of Surrender Value of JLP

B's Capital A/c.....Dr (1/16*78000)	4875	
C's Capital A/c.....Dr (2/16*78000)	9750	
To A's Capital A/c (3/16*78000)		14625



thank you!

PARTNERSHIP
DEATH OF PARTNER

BIRDS EYE VIEW

- ❑ Difference Between Retirement of Partner & Death of Partner
- ❑ Joint Life Policy – Meaning & Accounting Treatment
- ❑ Several Life Policy – Meaning & Accounting Treatment
- ❑ Determination of Deceased/Retiring Partner's Share in Profits
- ❑ Treatment of Goodwill
- ❑ Disposal of Amount Due to deceased Partner

DIFFERENCE BETWEEN RETIREMENT OF PARTNER AND DEATH OF PARTNER

The basic differences between two situations are

A. That the retirement of a partner may be planned to be effective from a particular date whereas the death of a partner may occur anytime during the year;

B. That the payment of the amount due is made to the retiring partner in case of retirement of a partner whereas the payment of the amount due is made to the legal representatives of a deceased partner in case of death of a partner.

JOINT LIFE POLICY –MEANING AND ACCOUNTING TREATMENT

Joint Life Policy

1. Joint Life Policy is an assurance policy covering the lives of the partner jointly.
2. The main objective behind taking out a joint life policy is to make provision for payment of the amount due to the executors of a deceased partner so that the working capital of the firm may not be adversely affected to that extent.
3. Joint Life Policy matures on the expiry of the term of the policy or the death of any partner (covered under the policy) whichever is earlier.

Accounting Treatment of Joint Life Policy

The premium paid may be treated either as an expense or as an investment. The various methods of recording a joint life policy are as under :

1. Ordinary Business Expense Method
2. Surrender Value Method
3. Joint Life Policy Reserve Method

JLP – ORDINARY BUSINESS EXPENSE METHOD

1. Under this method, the premium paid is treated as an ordinary business expense.
2. Joint life policy does not appears as an asset in the Balance Sheet of the firm.

The Journal Entries under this method are -

Sr.No	Case	Accounting Entry
1	**On Payment of Premium**	Joint Life Policy Premium A/c……Dr To Bank A/c
2	**On Closing the Joint Life Policy premium A/c at the end of the Year**	Profit & Loss A/c……Dr To Joint Life Policy Premium A/c
3	**On Claim (Including Bonus) Becoming Due**	Insurance Company's A/c……Dr To All Partner's Capital A/c's (in PSR)
4	**On Receipt of amount Due from The insurance Company**	Bank A/c……Dr To Insurance Company's A/c

JLP – SURRENDER VALUE METHOD

1. Under this method, the premium paid is treated as an investment in joint Life Policy.
2. Joint Life Policy appears in the Balance Sheet as an asset at its surrender value.
3. Surrender value is amount payable by the insurance company on the surrender of a policy by the firm before the date of maturity.

The Journal Entries under this method are -

Sr.No	Case	Accounting Entry
1	On Payment of Premium	Joint Life Policy A/c.....Dr To Bank A/c
2	On Transfer of the Balance in Excess of Surrender Value	Profit & Loss A/c.....Dr To Joint Life Policy A/c
3	On Claim (Including Bonus) Becoming Due	Insurance Company's A/c.....Dr To Joint Life Policy A/c
4	On Receipt of amount Due from The insurance Company	Bank A/c.....Dr To Insurance Company's A/c
5	On Transfer of the Balance in Joint Life Policy A/c	Joint Life Policy A/c.....Dr To All Partner's Capital A/c's (in PSR)

JLP – JLP RESERVE METHOD

1. Under this method, Joint Life Policy is treated as an asset.

2. At the same time a Joint Life Policy Reserve created out of the profits is also maintained.

3. The Joint Life Policy A/c will appear on the assets side and the Joint Life Policy Reserve A/c will appear on the liabilities side of the Balance Sheet at the surrender value of the Joint Life Policy.

4. No transfer is made from Profit & Loss Appropriation A/c to Joint Life Policy Reserve A/c if the Joint Life Policy matures before the end of the accounting year.

JLP – JLP RESERVE METHOD

The Journal Entries under this method are -

Sr.No	Case	Accounting Entry
1	On Payment of Premium	Joint Life Policy A/c.....Dr To Bank A/c
2	On Appropriation of Reserve	P & L Appropriation A/c.....Dr To Joint Life Policy reserve A/c
3	On Transfer of the Balance in Excess of Surrender Value	Joint Life Policy reserve A/c.....Dr To Joint Life Policy A/c
4	On Claim (Including Bonus) Becoming Due	Insurance Company's A/c.....Dr To Joint Life Policy A/c
5	On Receipt of amount Due from The insurance Company	Bank A/c.....Dr To Insurance Company's A/c
6	On Transfer of the Balance in Joint Life Policy Reserve A/c	Joint Life Policy Reserve A/c.....Dr To Joint Life Policy A/c
7	On Transfer of Balance in Joint Life Policy A/c	Joint Life Policy A/c.....Dr To All Partner's Capital A/c's (in PSR)

ILLUSTRATION 1

A and B sharing profits and losses in the ratio of 2:3 took out a joint Life Policy on 1st January, 2011 for Rs 10,000 for 10 years. The premium for the whole years is Rs 1,000. B died on 1st March 2014 and claim (including Bonus) Rs 12,100 was received on 1st May 2014. The books of the firm are closed on 31st December, each year. The surrender values of the policy at the end of 2011, 2012, 2013 and 2014 were nil, Rs 200, Rs 600 and Rs 1,200 respectively. Give the necessary journal entries under each of the following alternative methods of recording a joint Life Policy:

a) Ordinary Business Expense Method
b) Surrender Value Method

Ordinary Business Expenses method

Date	Particulars	LF	Amount	Amount
01-01-2011	Joint Life Policy Premium A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			
31-12-2011	Profit and Loss A/c Dr.		1000	
	To Joint Life Policy Premium A/c			1000
	(Being Premium paid transferred to P/L A/c)			
01-01-2012	Joint Life Policy Premium A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			

Date	Particulars	LF	Amount	Amount
31-12-2012	Profit and Loss A/c Dr.		1000	
	To Joint Life Policy Premium A/c			1000
	(Being the transfer of Premium to P/L A/c)			
01-01-2013	Joint Life Policy Premium A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			
31-12-2013	Profit and Loss A/c Dr.		1000	
	To Joint Life Policy Premium A/c			1000
	(Being the transfer of Premium to P/L A/c)			

Date	Particulars		LF	Amount	Amount
01-01-2014	Joint Life Policy Premium A/c	Dr.		1000	
	To Bank A/c				1000
	(Being the payment of premium)				
01-03-2014	Insurance Company's A/c	Dr.		12100	
	To A's Capital A/c				4840
	To B's Capital A/c				7260
	(Being the claim due on B's Death)				
01-05-2014	Bank A/c	Dr.		12,100	
	To Insurance Company's A/c				12,100
	(Being the claim Received)				
31-12-2014	Profit & Loss A/c	Dr.		1000	
	To Joint Life Policy Premium A/c				1000
	(Being the transfer of Premium to P/L A/c)				

Surrender Value Method

Date	Particulars	LF	Amount	Amount
01-01-2011	Joint Life Policy A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			
31-12-2011	Profit and Loss A/c Dr.		1000	
	To Joint Life Policy A/c			1000
	(Being the amount in excess of			
	surrender value written off to P& L A/c)			
01-01-2012	Joint Life Policy A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			

Date	Particulars	LF	Amount	Amount
31-12-2012	Profit and Loss A/c Dr.		800	
	To Joint Life Policy A/c			800
	(Being the amount in excess of			
	surrender value written off to P& L A/c)			
01-01-2013	Joint Life Policy A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			
31-12-2013	Profit and Loss A/c Dr.		600	
	To Joint Life Policy A/c			600
	(Being the amount in excess of			
	surrender value written off to P& L A/c)			

Date	Particulars	LF	Amount	Amount
01-01-2014	Joint Life Policy A/c Dr.		1000	
	To Bank A/c			1000
	(Being the payment of premium)			
01-03-2014	Insurance Company's A/c Dr.		12100	
	To Joint Life Policy A/c			12100
	(Being the claim due on B's Death)			
01-05-2014	Bank A/c Dr.		12,100	
	To Insurance Company's A/c			12,100
	(Being the claim Received)			
01-05-2014	Joint Life Policy A/c Dr.		10500	
	To A's Capital A/c			4200
	To B's Capital A/c			6300
	(Being transfer of balance in Joint life policy A/c)			

Joint Life Policy A/c

Date	Particulars	Amount	Date	Particulars	Amount
01.01.2011	To Bank A/c	1000	31.12.2011	By P&L A/c	1000
		1000			**1000**
01.01.2012	To Bank A/c	1000	31.12.2012	By P&L A/c (BF)	800
			31.12.2012	By Balance C/d	200
		1000			**1000**
01.01.2013	To Bal B/d	200	31-12-2013	By P&L A/c (BF)	600
01.01.2013	To Bank A/c	1000	31-12-2013	By Balance C/d	600
		1200			**1200**
01.01.2014	To Bal B/d	600	01-03-2014	By Ins.Co A/c	12100
01.01.2014	To Bank A/c	1000			
01.05.2014	To A's A/c	4200			
01.05.2014	To B's A/c	6300			
		12100			**12100**

ILLUSTRATION 2 - SM

Red, White and Black shared profits and losses in the ratio of 5:3:2. They took out a joint life Policy in 2016 for ₹50,000, a premium of ₹3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows: 2016 nil; 2017 ₹ 900; 2018 ₹ 2,000; 2019 ₹ 3,600.

Black retires on 15th April, 2020.

Required

Prepare ledger accounts assuming no Joint Life Policy Account is maintained.

Joint Life Policy Premium A/c

Date	Particulars	Amount	Date	Particulars	Amount
10-06-2016	To Bank A/c	3000	31-12-2016	By P/L A/c	3000
		3000			**3000**
10-06-2017	To Bank A/c	3000	31-12-2017	By P/L A/c	3000
		3000			**3000**
10-06-2018	To Bank A/c	3000	31-12-2018	By P/L A/c	3000
		3000			**3000**
10-06-2019	To Bank A/c	3000	31-12-2019	By P/L A/c	3000
		3000			**3000**

Adjustment Entry For JLP on Retirement of Black

IF JLP SURRENDERED AND CASH OBTAINED

Bank A/c...Dr	3600	
To Red A/c		1800
To White A/c		1080
To Black A/c		720

IF JLP NOT SURRENDERED

Red A/c....Dr	450	
White A/c....Dr	270	
To Black A/c		720
(3600*2/10)		

ILLUSTRATION 3 - SM

Red, White and Black shared profits and losses in the ratio of 5: 3: 2. They took out a Joint Life Policy in 2016 for ₹ 50,000, a premium of ₹ 3,000 being paid annually on 10th June. The surrender value of the policy on 31st December of various years was as follows: 2016 nil; 2017 ₹ 900: 2018 ₹ 2,000; 2019 ₹ 3,600.

Black retires on 15th April, 2020.

Required:

Prepare ledger accounts assuming Joint Life Policy Account is maintained on surrender value basis.

Joint Life Policy A/c

Date	Particulars	Amount	Date	Particulars	Amount
10.06.2016	To Bank A/c	3000	31.12.2016	By P&L A/c	3000
		3000			**3000**
10.06.2017	To Bank A/c	3000	31.12.2017	By P&L A/c (BF)	2100
			31.12.2017	By Balance C/d	900
		3000			**3000**
01.01.2018	To Bal B/d	900	31-12-2018	By P&L A/c (BF)	1900
10.06.2018	To Bank A/c	3000	31-12-2018	By Balance C/d	2000
		3900			**3900**
01.01.2019	To Bal B/d	2000	31-12-2019	By P&L A/c (BF)	1400
10.06.2019	To Bank A/c	3000	31-12-2019	By Balance C/d	3600
		5000			**5000**

NO ADJUSTMENT ENTRY REQUIRED AT THE TIME OF RETIREMENT AS SHARE TO ALL PARTNERS ALREADY CREDITED

ILLUSTRATION 4 - SM

A, B and C are in partnership sharing profits and losses at the ratio of 5:3: 2. The balance sheet of the firm on 31.12.2019 was as follows:

Balance Sheet

Liabilities	₹	**Assets**	₹
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 1.1.2020, A wants to retire, B and C agreed to continue at 2:1. Joint Life Policy was taken on 1.1.2014 for ₹ 1,00,000 and its surrender value as on 31.12.2019 was ₹ 25,000. For the purpose of A's retirement goodwill was raised for ₹ 1,00,000. Sundry Fixed Assets was revalued for ₹ 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 ₹25,000 and to make their capital proportionate.

Required:

Prepare necessary journal entries.

Journal Book

Date	Particulars	LF	Amount	Amount
1	B's Capital A/c……Dr		49,500	
	C's Capital A/c……Dr		18,000	
	To A's Capital A/c (135000*5/10)			67,500
	(Being Profit on Revaluation of Assets debited to Gaining Partners & Credited to Sacrificing partner)			
2	A's Capital A/c…..Dr		1,17,500	
	To A's Loan A/c			58,750
	To Bank A/c			58750
	(Being 50% amount paid to A & balance 50% credited to loan A/c)			

Date	Particulars	LF	Amount	Amount
3	Bank A/c……Dr		73750	
	To B's capital A/c			60,333
	To C's Capital A/c			13417
	(Being Additional Capital Introduced)			

Working Notes

1. Partners Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To A's Capital A/c		49,500	18,000	By Bal B/d	50000	40000	30,000
To Bank A/c	58,750			By B & C's Capital A/c	67500		
To A's Loan A/c	58,750			By Bank A/c (Bal Fig)		60,333	13,417
To balance C/d		50833	25,417				
	117500	**100333**	**43417**		**117500**	**100333**	**43417**

2. Bank A/c

Particulars	Amount	Particulars	Amount
To Balance B/d	10000	By A's Capital A/c	58750
To B's Capital A/c	60333		
To C's Capital A/c	13417		
		By Balance C/d	25000
	83750		**83750**

3. Balance Sheet

Liabilities	Amount	Assets	Amount
Capital Accounts (Bal fig)		Sundry Fixed assets	80000
B 50833		Inventories	50000
C 25417	76250	Trade Recievables	30000
Bank Loan	40000	JLP	20000
trade Payables	30000	Bank Balance	25000
A's Loan	58750		
	205000		**205000**

4. Calculation of Gaining & Sacrificing Ratio

B = 2/3 - 3/10 = 11/30

C = 1/3 - 2/10 = 4/30

GR 11:4

ILLUSTRATION 5 - SM

On 31st March, 2020, the balance sheet of M/s Ram, Rahul and Rohit sharing profits and losses in proportion to their capital, stood as follows:

Liabilities	₹	₹	Asset	₹
Capital accounts:			Land & building	2,00,000
Ram	3,00,000		Machinery	2,00,000
Rahul	2,00,000		Closing stock	1,00,000
Rohit	1,00,000	6,00,000	Sundry debtors	2,00,000
Sundry creditors		2,00,000	Cash and bank balances	1,00,000
		8,00,000		8,00,000

On 31st March, 2020, Ram desired to retire from the firm and the remaining partners decided to carry on. It was agreed to revalue the assets and liabilities on that date on the following basis:-

1. Land and buildings be appreciated by 30%.

1. Land and buildings be appreciated by 30%.
2. Machinery be depreciated by 20%.
3. Closing stock to be valued at ₹ 80,000.
4. Provision for bad debts be made at 5%.
5. Old credit balances of sundry creditors ₹ 10,000 be written off.
6. Joint life policy of the partners surrendered and cash obtained ₹ 60,000.
7. Goodwill of the entire firm be valued at ₹ 1,80,000 and Ram's share of the goodwill be adjusted in the accounts of Rahul and Rohit who share the future profits equally. No goodwill account being raised.
8. The total capital of the firm is to be the same as before retirement. Individual capital be in their profit sharing ratio.
9. Amount due to Ram is to be settled on the following basis:-

   50% on retirement and the balance 50% within one year

Prepare revaluation account, capital account of partners: Rahul & Rohit, loan account of Ram, cash account and balance sheet as on 1.4.2020 of M/s Rahul and Rohit.

Revaluation A/c

Particulars	Amount	Particulars	Amount
To Machinery	40000	By Creditors W/off	10000
To Stock	20000	By Land & Building	60000
To RDD	10000		
	70000		**70000**

Partners Capital A/c

Particulars	Ram	Rahul	Rohit	Particulars	Ram	Rahul	Rohit
To Ram's Capital A/c		30000	60,000	By Bal B/d	3,00,000	2,00,000	1,00,000
				By Insurance Co. (JLP)	30,000	20,000	10,000
To Ram's Loan A/c	4,20,000			By Rahul's Capital A/c	30,000		
				By Rohit's Capital A/c	60000		
				By Cash/Bank A/c		1,10,000	2,50,000
To Balance C/d		300000	300000				
	420000	**330000**	**360000**		**420000**	**330000**	**3,60,000**

Ram's Loan A/c

Particulars	Amount	Particulars	Amount
		By Ram's Capital A/c	420000
To Bank A/c	210000		
To Balance C/d	210000		
	420000		**420000**

Cash A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	100000	By Ram's Loan A/c	210000
To Insurance Co.	60000		
To Rahul's Capital A/c	110000		
To Rohit's Capital A/c	250000	By Balance C/d	310000
	520000		**520000**

Balance Sheet of M/s. Rahul & Rohit
As On 1-4-20

Liabilities		Amount	Assets		Amount
Capital			Land & Building		260000
Rahul	300000		Machinery		160000
Rohit	300000	600000	Closing Stock		80000
			Sundry Debtors	200000	
Ram's Loan A/c		210000	Less - RDD	10000	190000
			Bank		310000
Sundry Creditors	200000				
Less - W/off	10000	190000			
		1000000			**1000000**

Working Notes

1. Calculation of Gaining & Sacrificing Ratio

Rahul - 1/2-1/3 =1/6

Rohit - 1/2-1/6 =4/12 that is 1/3

GR SHALL BE IN RATIO OF 1:2

SEVERAL LIFE POLICY – MEANING & ACCOUNTING TREATMENT

Individual Life Policy is an assurance policy covering the life of a partner individually. If the firm had insured the partners' lives severally and charged the premium to Profit & Loss Account, the executors of a deceased partner are entitled to claim a share in

(a) The claim receivable from the insurance company in respect of matured policy and

(b) The surrender values of unmatured individual life policies of other partners.

ILLUSTRATION 6 - SM

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 31.3.2019. Mr. Z died on 31st December, 2019. His account has to be settled under the following terms.

Balance Sheet of Om & Co. as on 31.3.2019

Liabilities	₹	₹	Assets	₹
Trade payables		20,000	Building	1,20,000
Bank loan		50,000	Computers	80,000
General reserve		30,000	Inventories	20,000
Capital accounts:			Trade receivables	20,000
X	40,000		Cash at bank	50,000
Y	80,000		Investments	10,000
Z	80,000	2,00,000		
		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
31.3.2019	30,000
31.3.2018	20,000
31.3.2017	(10,000) Loss

Profit for the period from 1.4.2019 to 31.12.2019 shall be ascertained proportionately on the basis of average profits and losses of the preceding three years.

During the year ending on 31.3.2019 a car costing ₹ 40,000 was purchased on 1.4.2018 and debited to traveling expenses account on which depreciation is to be calculated at 20% p.a. at written down value method. This asset is to be brought into account at the depreciated value.

Other values of assets were agreed as follows:

Inventory at ₹ 16,000, building at ₹ 1,40,000, computers at ₹ 50,000; investments at ₹ 6,000. Trade receivables were considered good.

Required:

(i) *Calculate goodwill and Z's share in the profits of the firm for the period 1.4.2019 to 31.12.2019.*

(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 31.12.2019.*

Revaluation A/c

Particulars	Amount	Particulars	Amount
To Computers	30000	By Building	20000
To Inventory	4000		
To Investments	4000	By Loss on Revaluation	
To Depreciation on Car	4800	x 4560	
		y 9120	
		z 9120	22800
	42800		**42800**

Partners Capital A/c

Particulars	X	Y	Z	Particulars	X	Y	Z
To Revaluation A/c	4,560	9,120	9,120	By Balance b/d	40,000	80,000	80,000
To Z's Capital A/c	6,400	12,800		By General reserve	6,000	12,000	12,000
To Z's Executor A/c (BF)			1,22,080	By X & Y Capital A/c			19,200
To Balance C/d (Bal Fig)	41,440	82,880		By P/L Suspense A/c	-	-	7,200
				By Car A/c	6,400	12,800	12,800
	52400	**104800**	**131200**		**52400**	**104800**	**131200**

Balance Sheet of M/s. OM & Co.
As On 31-12-2019

Liabilities	Amount	Assets	Amount
Capital		Building	140000
X	41440	computers	50000
Y	82880	Inventory	16000
Z's Executor A/c	122080	Trade Receivables	20000
Trade Payables	20000	Cash at Bank	50000
Bank Loan	50000	Investments	6000
		P/L Suspense A/c	7200
		Car 32000	
		Less - Depn 4800	27200
	316400		**316400**

Ascertainment of Value of Firm's Goodwill & Its Treatment

Value of Firm's Goodwill = 2 Years * Average Profit of Last 3 Years
Value of Firm's Goodwill = 2 Years * (-10000+20000+62000)/3 years
Value of Firm's Goodwill = 2 Years * 24000
Value of Firm's Goodwill = 48000

Treatment of Goodwill

X A/c....Dr	6400	
Y A/c.....Dr	12800	
To Z A/c (48000*2/5)		19200

Ascertainment of Deceased partner's Share in Profit Upto The Date of Death & its Treatment

Average profit of Last 3 Years = 24000

Profit of Firm upto the date of Death = 24000/12 months * 9 months
Profit of Firm upto the date of Death = 18000

Z's Share in profit = 18000 *2/5 = 7200

Journal Entry

P/L Suspense A/c…..Dr	7200	
To Z's Capital A/c		7200

Working Notes

1. Computation of Revised profits for 31-03-2019

Particulars	Amount	Amount
Profit as Given		30,000
Add Back: Cost of Car Wrongly Written off to P/L A/c	40,000	
Less:Depreciation for the year 2018-19 (20% on Rs.40,000)	8,000	32,000
Revised Profit for 2018-2019		**62,000**

ILLUSTRATION 7 - SM

Diya, Riya & Kiya are partners of M/s. DRK Fabrics sharing profits and losses in the ratio of 2:1:2. On 31st March 2020 their Balance Sheet was as under:

Liabilities	₹	Assets	₹
Capitals :		Land & Building	1,65,000
Diya	1,50,000	Furniture	75,000
Riya	1,80,000	Joint life Policy	60,000
Kiya	70,000	Inventory	88,740
General Reserve	1,40,000	Trade Receivable	96,750
Trade payables	60,000	Bank	1,14,510
	6,00,000		6,00,000

Kiya died on 30th September, 2020.

The partnership deed provides as follows:

(a) That partners be allowed interest at 12% p.a. on their capitals, but no interest be charged on drawings.

(b) Upon the death of a partner, the goodwill of the firm be valued at one years' purchase of the average net profits (after charging interest on capital) for the four years to 31st March preceding the death of a partner. The profits of the firm before charging interest on capitals were

2016-17	1,62,000
2017-18	1,99,000
2018-19	1,87,000
2019-20	1,96,000

Average capital during preceding four years may be assumed as ₹ 3,00,000

(c) Profits till the date of death to be ascertained on the basis of average profit of previous four years

(d) Upon the death of a partner, she is to be credited with her share of the profits, interest on capitals etc. calculated till the date of death

After the death of Kiya

1. *₹ 2,00,000 was received from insurance company against Joint life Policy.*
2. *Land & Building was appreciated by 20%, Furniture to be depreciated by 10%, inventory to be revalued at ₹ 80,000. Bad debts amounted ₹ 1760.*
3. *Amount payable to Kiya was paid in cash.*

You are required to prepare

1. *Revaluation A/c*
2. *Partners' Capital A/c*
3. *Balance Sheet as on 30th September 2020, assuming other Assets and liabilities remaining the same.*

Revaluation A/c

Particulars		Amount	Particulars	Amount
To furniture		7500	By Land & Building	33000
To Inventory		8740		
To Bad Debts		1760		
To Profit Trf to Capital A/c				
Diya	6000			
Riya	3000			
Kiya	6000	15000		
		33000		**33000**

Partners Capital A/c

Particulars	Diya	Riya	Kiya	Particulars	Diya	Riya	Kiya
				By Bal B/d	1,50,000	180000	70,000
To Kiya Capital A/c	40,000	20,000		By General Reserve	56,000	28,000	56,000
				By JLP	56,000	28,000	56,000
				By Interest on Capital			4,200
To Bank A/c (BF)			2,79,800	By Riya & Diya Capital			60,000
To Bal C/d (Bal Fig)	2,28,000	2,19,000		By P/L Suspense A/c			27,600
				By Revaluation A/c	6,000	3,000	6,000
	268000	**239000**	**279800**		**268000**	**239000**	**279800**

Balance Sheet
As On 30-09-2020

Liabilities		Amount	Assets	Amount
Capital			Land & Building	198000
Diya	228000		Furniture	67500
Riya	219000	447000	Inventory	80000
			Trade Receivables	94990
			P/L Suspense A/c	31800
Trade Payables		60000	(4200 +27600)	
			Bank A/c	34710
		507000		**507000**

Working Notes
1. Bank A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	114510	By Kiya Capital A/c	279800
To JLP	200000		
		By Bal C/d (Bal Fig)	34710
	314510		**314510**

2. Ascertainment of Value of Firm's Goodwill & Its Treatment

value of Goodwill = 1Years Purchase of Average profits of Last 4 Years

Average Profit of Last 4 Years = (162000 - 36000) + (199000-36000) +(187000-36000)
(196000 - 36000) /4 years

= 150000

Value of Goodwill = 1 * 150000 = 150000

Diya A/c.....Dr	40000	
Riya A/c.... Dr	20000	
To Kiya A/c (150000*2/5)		60000

3. Ascertainment of Deceased partner's Share in Profit Upto The Date of Death & its Treatment

Average Profit of Last 4 Years before Int = 162000+199000+187000+196000/4 years = 186000
Net profit After After Interest on capital = 186000 - (400000*12%) = 138000
Profit of the Firm upto Death of Death & Kiya's Share in it = 138000/12M*6M*2/5 = 27600

ILLUSTRATION 8 – PYP NOV 2019 (10 MARKS)

Arup and Swarup were partners. The partnership deed provides inter alia:

(i) That the annual accounts be balanced on 31st December each year;

(ii) That the profits be allocated as follows:

Arup: One-half; Swarup: One-third and Carried to reserve account: One sixth;

(iii) That in the event of death of a partner, his executor will be entitled to the following:

(1) The capital to his credit at the date of death;

(2) His proportionate share. of profit to date of death based on the average profits of the last three completed years; and

(3) His Share of goodwill based on three years' purchase of the average profits for the three preceding completed years.

Trial Balance as on 31st December, 2018

Particulars	Debit (₹)	Credit (₹)
Arup's Capital		90,000
Swarup's Capital		60,000
Reserve		45,000
Bills receivable	50,000	
Investment	55,000	
Cash	1,10,000	
Trade payables		20,000
Total	2,15,000	2,15,000

The profits for the three year were 2016: ₹ 51,000; 2017: ₹ 39,000 and 2018: ₹ 45,000. Swarup died on 1st May 2019.

Show the calculation of Swarup (A) Share of profits; (B) Share of Goodwill; (C) Draw up Swarup's Executor Account as would appear in the firms' ledger transferring the amount to the Loan account.

Swarup's Executors A/c

Particulars	Amount	Particulars	Amount
To Swarup's Executor's Loan A/c (Bal Fig)	1,38,000	By Swarup's Capital A/c	60,000
		By Reserve (45,000x2/5)	18,000
		By Profit & Loss Suspense A/c	6,000
		By Arup's Capital A/c (Goodwill)	54,000
	1,38,000		**1,38,000**

Ascertainment of Swarup's Share in Profit Upto The Date of Death

Average Profit of last 3 years = 51,000+39,000+45,000/3 years

45000

Share of Swarup in Profit = (45000/12)*4 x 2/5

= 6000

Ascertainment of Value of Firm's Goodwill & Swarup's Share in it

Average Profit of last 3 years	=	51,000+39,000+45,000/3 years
		45000
Value of Goodwill =		45000 x 3 Years Purchase
		135000
Swarup' s Share in Goodwill =		135000*2/5
		54000

Working Notes

1. Calculation of PSR of Arup & Swarup

Arup = 1/2 *3 = 3/6

Swarup = 1/3 *2 = 2/6

PSR = 3:2

ILLUSTRATION 9 – PYP JAN 2021 (10 MARKS)

The partnership deed of a firm consisting of 3 partners - P, Q and R (profit sharing ratio being 2:1:1) and whose fixed capitals are ₹ 30,000, ₹ 12,000 and ₹ 8,000 respectively provides as follows:

(i) The partners be allowed interest @ 8% p.a. on their fixed capitals, but no interest to be allowed on undrawn profits or charged on drawings.

(ii) That upon the death of a partner, the goodwill of the firm be valued at 2 years purchase of the average net profit (after charging interest on capital) for the 3 years to 31st December preceding the death of a partner.

(iii) That an insurance policy of ₹ 25,000 each was taken in individual names of each partner. The premium was charged against the profits of the firm. The surrender value of the policy was 20% of the sum assured.

(iv) Upon the death of a partner, he is to be credited with his share of the profits, interest on capitals, etc. calculated upto 31st December following his death.

(v) That the share of the partnership policy and goodwill be credited to a deceased partner as on 31st December following his death.

(vi) That the partnership books to be closed annually on 31st December.

P died on 30th September, 2020. The amount standing to the credit of his current account as on 31st December, 2019 was ₹ 5,000 and from that date to the date of death he had withdrawn ₹ 30,000 from the business.

An unrecorded liability of ₹ 6,000 was discovered on 30th September, 2020 and it was decided to record it and immediately pay it off.

The trading results of the firm (before charging interest on capital) had been as follows:

2017	Profit ₹ 29,340
2018	Profit ₹ 26,470
2019	Loss ₹ 8,320
2020	Profit ₹ 13,470

You are required to prepare an account showing amount due to P's legal heir as on 31st December, 2020.

Note: Impact for unrecorded liability not to be given in earlier years.

P's Capital A/c

Particulars	Amount	Particulars	Amount
To Drawings	30,000	By Bal B/d	30,000
To Revaluation A/c (6000*2/4)	3000	By Interest on Capital A/c	2,400
		By P's Current A/c	5,000
To P's Executor A/c (Bal Fig)	38,465	By Q's & R's Capital A/c (Goodwill)	11,830
		By P/L Suspense A/c (profit)	4,735
		By Share in SLP	17,500
	71,465		**71,465**

Working Notes

1. Ascertainment of Value of Firm's Goodwill & P's Share in it

value of Goodwill = 2Years Purchase of Average profits of Last 3 Years

Average Profit of Last 3 Years = (29340-4000) + (26470-4000) -(8320-4000)/3 years

= 11830

Value of Goodwill = 11830 * 2 Years = 23660

Share of P in Firm's Goodwill = 23660*2/4 = 11830

2. Ascertainment of Share of Profit to be credited to deceased Partner

Profit for 2020 after debiting interest on Capital = 13470 - 4000 = 9470

Share of P in Profit for 2020 = 9470*2/4 = 4735

3. Adjustment on Account of SLP

Amount of SLP to be Adjusted = 25000 of P's Policy + 20% of 25000 of Q's policy

+ 20% of 25000 of R's Policy

= 35000

P's Share in SLP = 35000*2/4 = 17500



thank you!

PARTNERSHIP
DISSOLUTION OF PARTNERSHIP FIRMS & LLP

BIRDS EYE VIEW

- Distinguish Between Dissolution of Partnership & Dissolution of Partnership Firm
- Settlement of Accounts on Dissolution
- Accounting Entries on Dissolution of Firm
- Treatment of Goodwill on Dissolution of Firm
- Consequences of insolvency of Partner
- Treatment of Loss Arising From Insolvency of a Partner
- Insolvency of All partners
- Piecemeal Payments (Maximum loss Method , Highest Relative Capital Method)
- Winding up of LLP

DISTINCTION BETWEEN DISSOLUTION OF PARTNERSHIP AND DISSOLUTION OF FIRM

Dissolution of Partnership	Dissolution of Partnership Firm
Dissolution of a partnership refers to the discontinuance of the relation between the partners of the firm.	Dissolution of the firm implies that the entire firm ceases to exist, including the relation among all the partners.
There can be change in profit sharing ratio or admission/death/retirement of a partner.	Dissolution of partnership firm occurs.
In event of dissolution of the partnership, the business continues as usual, but the partnership is reconstituted.	In event of the dissolution of the firm, the business ceases to end.
There is no intervention by the court.	Court has the inherent power to intervene. By its order, a firm can be dissolved.
Economic relationships among partners may remain same or change.	Economic relationship among partners comes to an end.
Assets and liabilities are revalued. New balance sheet is prepared.	Assets are sold and realized. Liabilities are paid off.
Revaluation account is prepared.	Realization account is prepared.
Assets and liabilities are revalued after winding up of the existing partnership.	Assets and liabilities are settled on winding up of a firm.
Books of accounts are not closed.	Books of accounts are closed.

SETTLEMENT OF ACCOUNTS ON DISSOLUTION

On the dissolution of a partnership, firstly, the assets of the firm, including goodwill, are realized. Then the amount realized, is applied first towards repayment of liabilities to outsiders and loans taken from partners; afterwards, the capital contributed by partners is repaid and,if there is still a surplus, it is distributed among the partners in their profit-sharing ratio.

Conversely, after payment of liabilities of the firm and repayment of loans from partners, if the assets of the firm leftover are insufficient to repay in full the capital contributed by each partner, the deficiency is borne by the partners in their profit-sharing ratio.

According to the provisions contained in section 48 of the Partnership Act, upon dissolution of the partnership, the mutual rights of the partners, unless otherwise agreed upon, are settledin the following manner:

a) Losses including deficiencies of capital are paid, first out of profits, next out of capital, and, lastly, if necessary, by the partners individually in the proportion in which they are entitled to share profits.

b) The assets of the firm, including any sums contributed by the partners to make up deficiencies of capital have to be applied in the following manner and order:

   i. in paying the debts of the firm to third parties;
   ii. in paying to each partner rateably what is due to him from the firm in respectof advances as distinguished from capital;
   iii. in paying to each partner what is due to him on account of capital; and
   iv. the residue, if any, to be divided among the partners in the proportion in whichthey are entitled to share profits.

ACCOUNTING ENTRIES ON DISSOLUTION OF FIRM

1. Transfer of book value of assets:

   Realisation A/c.....Dr.

   To Respective Assets A/c

2. Transfer of third-party liabilities / provisions

   Respective Liability/Provision A/c..... Dr.

   To Realisation A/c

3. Sale/Disposal / Realisation of Assets

   Cash/Bank A/c..... Dr.

   To Realisation A/c

4. Asset taken over by the partner at an agreed value

   Partner's Capital A/c..... Dr.

   To Realisation A/c

5. Expenses of dissolution

Realisation A/c..... Dr.
To cash/bank A/c

6. Discharge of third-party Liabilities

Realisation A/c..... Dr.
To Cash/Bank A/c

7. Partner agreeing to discharge a liability

Realisation A/c..... Dr.
To Respective Partners Capital A/c

8. Profit/loss on realisation

PROFIT: Realisation A/c..... Dr.
To Partners' Capital A/c
(in profit sharing ratio)

LOSS: Partners' capital A/c..... Dr.
To Realisation A/c
(in profit sharing ratio)

9. Discharge of partner's loan / advance

Partner's Loan / Advances A/c ..... Dr.
To Cash/Bank A/c

10. Transfer of accumulated Profits, Reserve etc.

Reserve A/c..... Dr.
Profit and Loss A/c..... Dr.
To Partners' Capital A/c
(in profit sharing ratio)

11. Settlement of Partners' Accounts

DEBIT BALANCE: Cash / Bank A/c.....Dr.
To Respective Partner's Capital A/c

CREDIT BALANCE: Partners' Capital A/c..... Dr.
To Cash/Bank A/c

Specimen of Realization Account

Particulars	₹	Particulars	₹
To Sundry Assets (Excluding Cash/Bank, Debit Balance of P&L A/c, Partners' Current, Capital, and Loan A/cs)		By Sundry Liabilities (Excluding Credit Balance of P&L A/c, Partners' Current, Capital, and Loan A/c)	
To Bank/Cash (expenses for realization)		By Provision on Assets	
To Bank/Cash A/c (Amount paid for liabilities and unrecorded liabilities)		By Bank/Cash A/c (Amount realized from assets and unrecorded assets)	
To Partners' Capital A/cs (Expenses or Liabilities paid by partners)		By Partners' Capital A/cs (Assets taken over by partners)	
To Partners' Capital A/cs (Profit on realization distributed among partners in profit sharing ratio)		By Partners' Capital A/cs (Loss on realization distributed among partners in profit sharing ratio)	

TREATMENT OF GOODWILL ON DISSOLUTION OF FIRM

1. If Goodwill appears in the Balance Sheet, it is considered as purchased Goodwill and is treated like any other asset and is transferred to realization account.

2. If Goodwill does not appear in the balance sheet, no entry is required for this.

3. If something is realized or Goodwill is purchased by any one of the partners, then either Cash Account is debited or Partner's Capital A/c is debited and Realization Account is credited.

ILLUSTRATION 1

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 on 31st March, 2022:

Balance Sheet as on 31st March, 2022

Liabilities	₹	***Assets***	₹
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		
	13,10,000		13,10,000

Partners of the firm decided to dissolve the firm on the above-said date.

Fixed assets realized ₹5,20,000 and book debts ₹4,40,000.

Stocks were valued at ₹2,50,000 and it was taken over by partner Y.

Creditors allowed discount of 5% and the expenses of realization amounted to ₹6,000.

You are required to prepare:

(i) Realization account;

(ii) Partners capital account; and

(iii) Cash account.

Realisation A/c

Particulars	Amount	Particulars	Amount
To Fixed Assets A/c	5,00,000	By Sundry creditors A/c	3,20,000
To Stock in Trade	3,00,000	By Cash A/c (FA + Debtors)	9,60,000
To Debtors	5,00,000	By Y A/c (stock)	2,50,000
To Cash A/c (creditors) (3,20,000 x 95%)	3,04,000	By Loss Transferred	
		By Partner's capital A/c	
To Cash A/c (exp)	6,000	X 35,555	
		Y 26,667	
		Z 17,778	80,000
	16,10,000		**16,10,000**

Partners Capital A/c

Particulars	X	Y	Z	Particulars	X	Y	Z
To Realisation A/c (Stock)		2,50,000		By balance b/d	4,00,000	3,00,000	2,00,000
To realisation A/c (loss)	35,555	26,667	17,778	By General Reserve A/c	40,000	30,000	20,000
To cash A/c (BF)	4,04,445	53,333	2,02,222				
	4,40,000	**3,30,000**	**2,20,000**		**4,40,000**	**3,30,000**	**2,20,000**

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	10,000	By Realisation A/c (creditors)	3,04,000
To Realisation A/c (fixed assets + debtors)	9,60,000	By Realisation A/c	6,000
		By X's Capital A/c	4,04,445
		By Y's Capital A/c	53,333
		By Z's Capital A/c	2,02,222
	9,70,000		**9,70,000**

ILLUSTRATION 2

P, Q, and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2022 is as follows:

Liabilities		₹	**Assets**	₹
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	₹
Plant and Machinery	*1,02,000*
Fixtures	*18,000*
Stock	*84,000*
Sundry debtors	*44,400*

Creditors allowed a discount of 5% and realization expenses amounted to ₹ 1,500. There was an unrecorded asset of ₹ 6,000 which was taken over by Q at ₹ 4,800. An amount of ₹ 4,200 due for GST had come to notice during the course of realization and this was also paid.

You are required to prepare:

(i) Realization account.

(ii) Partners' capital accounts.

(iii) Cash account.

Realisation A/c

Particulars	Amount	Particulars	Amount
To Plant & Machinery A/c	1,08,000	By Creditor's A/c	48,000
To Fixtures A/c	24,000	**By Cash A/c**	
To Stock A/c	60,000	Plant & Machinery 1,02,000	
To Sundry Debtors A/c	48,000	Fixtures 18,000	
To Cash A/c (creditors)	45,600	Stock 84,000	
To Cash A/c (exp.)	1,500	Sundry Debtors 44,400	2,48,400
To Cash A/c (GST)	4,200	By Q A/c	4,800
To Profit Transferred to Partners Capital A/c			
P 3,960			

Partners Capital A/c

Particulars	P	Q	R	Particulars	P	Q	R
To Realisation A/c		4,800		By Balance b/d	1,20,000	48,000	24,000
To Cash A/c (BF)	1,47,960	71,160	37,980	By Reserve fund A/c	24,000	24,000	12,000
				By Realisation A/c	3,960	3,960	1,980
	1,47,960	**75,960**	**37,980**		**1,47,960**	**75,960**	**37,980**

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	60,000	By Realisation A/c (creditors)	45,600
To Realisation A/c	2,48,400	By Realisation A/c (GST)	4,200
		By P's Capital A/c	1,47,960
		By Q's Capital A/c	71,160
		By R's Capital A/c	37,980
		By Realisation A/c (exp)	1,500
	3,08,400		**3,08,400**

ILLUSTRATION 3

Amit, Sumit, and Kumar are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March 2022 when their Balance Sheet was as under:

Liabilities	Amount	Assets		Amount
Capital Accounts:		Land & Building		1,35,000
Amit	55,200	Plant & Machinery		45,000
Sumit	55,200	Furniture		25,500
General Reserve	61,500	Investments		15,000
Kumar's Loan A/c	15,000	Book Debts	60,000	
Loan from D	1,20,000	Less: Prov. for bad debts	(6,000)	54,000
Trade Creditors	30,000	Stock		36,000
Bills Payable	12,000	Bank		13,500
Outstanding Salary	7,500	Capital Withdrawn:		
		Kumar		32,400
	3,56,400			3,56,400

The following information is given to you:

(i) *Realization expenses amounted to ₹ 18,000 out of which ₹ 3,000 was borne by Amit.*

(ii) *A creditor agreed to takeover furniture of book value ₹ 12,000 at ₹ 10,800. The rest of the creditors were paid off at a discount of 6.25%.*

(iii) *The other assets realized as follows:*

Furniture	*- Remaining taken over by Kumar at 90% of book value*
Stock	*- Realized 120% of book value*
Book Debts	*- ₹ 12,000 of debts proved bad, remaining were fully realized*
Land & Building	*- Realized ₹ 1,65,000*
Investments	*-Taken over by Amit at 15% discount*

(iv) *For half of his loan, D accepted Plant & Machinery and ₹ 7,500 cash. The remaining amount was paid at a discount of 10%.*

(v) Bills payable were due on an average basis of one month after 31st March 2022, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realization Account, Bank Account and Partners' Capital Accounts in the books of Partnership firm.

Realisation A/c

Particulars	Amount	Particulars	Amount
To Land & Building A/c	1,35,000	By Loan From D A/c	1,20,000
To Plant & Machinery A/c	45,000	By Trade creditors A/c	30,000
To Furniture A/c	25,500	By Bills payable A/c	12,000
To Investment A/c	15,000	By O/S Salary A/c	7,500
To Book Debts A/c	60,000	By Provision for Doubtful Debts A/c	6,000
To Stock A/c	36,000	By Kumar A/c (furniture) [(25,500-12000) X 90%]	12,150
To Cash A/c (exp)	15,000	By Cash A/c (Stock)	43,200
To Amit A/c (exp)	3,000	By Cash A/c (Debtors)	48,000
To Cash A/c (creditor) [(30,000-10,800)-6.25%]	18,000	By Cash A/c (land & Building)	1,65,000

Particulars		Amount	Particulars	Amount
To Cash A/c (Loan to D) [7500+(60,000 x 90%)		61,500	By Amit Capital A/c (Investment)	12,750
To Cash A/c (BP) [12,000–(12,000x6% x 1)] 12		11,940		
To Cash A/c (salary)		7,500		
To Profit Transferred to Capital A/c				
Amit	9,264			
Sumit	9,264			
Kumar	4,632	23,160		
		4,56,600		**4,56,600**

Partners Capital A/c

Particulars	Amit	Sumit	Kumar	Particulars	Amit	Sumit	Kumar
To Balance B/d			32,400	By Balance b/d	55,200	55,200	
To Realisation A/c			12,150	By General Reserve A/c	24,600	24,600	12,300
To Realisation A/c	12,750			By Kumar loan A/c			15,000
				By Realisation A/c	3,000		
				By Realisation A/c	9,264	9,264	4,632
To Bank (BF)	79,314	89,064		By Bank A/c (BF)			12,618
	92,064	**89,064**	**44,550**		**92,064**	**89,064**	**44,550**

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	13,500	By Realisation A/c (exp)	15,000
To Realisation A/c (stock)	43,200	By Realisation A/c (creditors)	18,000
To Realisation A/c (Debtors)	48,000	By Realisation A/c (D's loan)	61,500
To Realisation A/c (Land & Building)	1,65,000	By Realisation A/c (salary)	7,500
To Kumar's capital A/c	12,618	By Amit's capital A/c	79,314
		By Sumit's capital A/c	89,064
		By Realisation A/c (BP)	11,940
	2,82,318		**2,82,318**

CONSEQUENCES OF INSOLVENCY OF A PARTNER

If the capital account of a partner is in debit, after his share of loss or profit has been adjusted therein, the firm will not have sufficient cash or assets to pay off the amounts due to the other partners, until the amount is repaid by the partner whose account is in debit. If however, the partner is insolvent, the amount will not be realized. In such a case, the deficiency may be borne by the solvent partners in their profit-sharing ratio or according to the principle settled in the well-known case of *Garner* vs. *Murray*. In the latter case, the deficiency would be borne by the solvent partners in proportion to their capitals and not in the proportion in which they share profits and losses.

If a partner goes insolvent then the following are the consequences:			
1. The partner adjudicated as insolvent ceases to be a partner on the date on which the order of adjudication is made.	2. The firm is dissolved on the date of the order of adjudication unless there is a contract to the contrary.	3. The estate of the insolvent partner is not liable for any act of the firm after the date of the order of adjudication, and	4. The firm cannot be held liable for any acts of the insolvent partner after the date of the order of adjudication.

TREATMENT OF LOSS ARISING FROM A INSOLVENCY OF A PARTNER

When a partner is unable to pay his debt due to the firm, he is said to be insolvent and the share of loss is to be borne by other solvent partners following the decision in the English case of Garner vs. Murray.

According to this decision, solvent partners have to bear the loss due to insolvency of a partner and have to categorically put that the normal loss on realization of assets to be borne by all partners (including insolvent partner) in the profit-sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in the capital ratio.

The determination of capital ratio for this has been explained below. The provisions of the Indian Partnership Act are not contrary to Garner vs. Murray rule. However, if the partnership deed provides for a specific method to be followed in case of insolvency of a partner, the provisions as per the deed should be applied.

Capital Ratio on Insolvency

- The partners are free to have either fixed or fluctuating capitals in the firm.

- If they are maintaining capitals at fixed amounts then all adjustments regarding their share of profits, interest on capitals, drawings, interest on drawings, salary, etc. are done through Current Accounts, which may have debit or credit balances, and insolvency loss is distributed in the ratio of fixed capitals.

- But if capitals are not fixed and all transactions relating to drawings, profits, interest, etc., are passed through Capital Accounts then Balance Sheet of the business should not exhibit Current Accounts of the partners and capital ratio will be determined after adjusting all the reserves and accumulated profits to the date of dissolution, all drawings to the date of dissolution, all interest on capitals and drawings to the date of dissolution but before adjusting profit or loss on Realization Account.

- If some partner is having a debit balance in his Capital Account and is not insolvent then he cannot be called upon to bear the loss on account of the insolvency of other partner.

INSOLVENCY OF ALL PARTNERS

- When the liabilities of the firm cannot be paid in full out of the firm's assets as well as personal assets of the partners, then all the partners of the firm are said to be insolvent. Under such circumstances, it is better not to transfer the amount of creditors to Realization Account. The balance of the creditors' accounts is transferred to Deficiency Account.

- Creditors may be paid the amount available including the amount contributed by the partners.

- The unsatisfied portion of the creditor account is transferred to the Capital Accounts of the partners in the profit-sharing ratio. Then Capital Accounts are closed. In doing so first close the Partners' Capital Account which is having the worst position. The last account will be automatically closed.

ILLUSTRATION 4

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, 2022 is as follows:

Liabilities		₹	**Assets**		₹
Fixed Capital			Fixed Assets:		
P	20,000		Trademark		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	(100)	1,900
			Cash at Bank		200
			Miscellaneous losses		
			R's Current Account		400
			Profit and Loss Account		12,000
		79,900			79,900

On 1st July, 2022 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of ₹500 but no cash passed specifically in respect of this transaction. Sale of other assets realized the following amounts:

	₹
Trademark	*Nil*
Freehold Property	*7,000*
Plant and Equipment	*5,000*
Stock	*3,000*
Trade Debtors	*1,600*

Trade Creditors were paid ₹ 11,700 in full settlement of their debts. The costs of dissolution amounted to ₹ 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 of the amount due.

Required

(a) Cash and Bank Account,

(b) Realization Account, and

(c) Partners Fixed Capital Accounts (after transferring Current Accounts' balances).

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	200	By Realisation A/c (creditors)	11,700
To Realisation A/c	16,600	By Realisation A/c (Dissolution exp)	1,500
To R's capital A/c	300	By Loan from P A/c	8,000
To P's capital A/c	11,300	By Q A/c	7,200
	28,400		**28,400**

Realisation A/c

Particulars	Amount	Particulars		Amount
To Trademark A/c	40,000	By Creditors A/c		12,400
To Freehold property A/c	8,000	By Provision for doubtful debts A/c		100
To Plant & Equipment A/c	12,800	By Q A/c (motor vehicle)		500
To Motor Vehicle A/c	700	By Bank A/c		
To Stock	3,900	Freehold property	7,000	
To Trade debtors	2,000	Plant & equipment	5,000	
To Cash A/c (creditors)	11,700	Stock	3,000	
To Cash A/c (exp)	1,500	Trade Debtors	1,600	16,600

Particulars	Amount	Particulars	Amount
		By Loss Transferred to Capital A/c	
		P 25,500	
		Q 17,000	
		R 8,500	51,000
	80,600		**80,600**

Partners Capital A/c

Particulars	P	Q	R	Particulars	P	Q	R
To R Current A/c			10,900	By Balance b/d	20,000	20,000	10,000
To Q Current A/c		12,500		By Cash A/c (900x1/3)			300
To P Current A/c	31,000			By P & Q A/c			600
To R A/c	300	300					
To Cash/ Bank A/c (BF)		7,200		By Cash / Bank A/c (BF)	11,300		
	31,300	**20,000**	**10,900**		**31,300**	**20,000**	**10,900**

WN 1 - Partners Current A/c

Particulars	P	Q	R	Particulars	P	Q	R
To Balance b/d			400	By Balance b/d	500	9000	
To Profit & loss A/c	6,000	4,000	2,000				
To Realisation A/c (motor vehicle)		500		By R's Capital A/c (BF)			10,900
To realisation A/c (loss)	25,500	17,000	8,500	By Q's Capital A/c (BF)		12,500	
				By P's Capital A/c (BF)	31,000		
	31,500	**21,500**	**10,900**		**31,500**	**21,500**	**10,900**

ILLUSTRATION 5

Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2021 when the firm was dissolved:

Liabilities	₹	**Assets**	₹
Creditors A/c	4,800	Plant & Machinery	2,500
Amal's Capital A/c	750	Furniture	500
		Debtors	1,000
		Stock	800
		Cash	200
		Bimal's drawings	550
	5,550		5,550

The assets realized as under:

Particulars	***₹***
Plant & Machinery	*1,250*
Furniture	*150*
Debtors	*400*
Stock	*500*

The expenses of realization amounted to ₹ 175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of ₹ 200 only.

Show necessary ledger accounts to close the books of the firm.

Realisation A/c

Particulars	Amount	Particulars		Amount
To Plant & Machinery A/c	2,500	**By Cash A/c**		
To Furniture A/c	500	Plant & Machinery	1,250	
To Debtors A/c	1,000	Furniture	150	
To Stock A/c	800	Debtors	400	
To Cash A/c (exp)	175	Stock	500	2,300
		By Loss Transferred to Capital A/c		
		Amol 1,338		
		Bemal	1,337	2,675
	4,975			**4,975**

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	200	By Realisation A/c	175
To Realisation A/c	2,300		
To Bimal's capital A/c	200		
		By Creditors A/c (BF)	2,525
	2,700		**2,700**

Sundry Creditors A/c

Particulars	Amount	Particulars	Amount
To Cash A/c	2,525	By Balance b/d	4,800
To Deficiency A/c (BF)	2,275		
	4,800		**4,800**

Partners Capital A/c

Particulars	Amal	Bimal	Particulars	Amal	Bimal
To Balance b/d		550	By Balance b/d	750	
To Realisation A/c	1,338	1,337	By Cash A/c		200
			By Deficiency A/c (BF)	588	1,687
	1,338	**1,887**		**1,338**	**1,887**

Deficiency A/c

Particulars	Amount	Particulars	Amount
To Amol’s Capital A/c	588	By Creditors A/c	2,275
To Bimal’s Capital A/c	1,687		
	2,275		**2,275**

ILLUSTRATION 6

A, B, C, and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 2022 when their balance sheet was as under:

Liabilities		₹	**Assets**	₹
Creditors		15,700	Bank	535
Employees Provident Fund		6,300	Debtors	15,850
Capital Accounts:			Stock	25,200
A	40,000		Prepaid Expenses	800
B	20,000	60,000	Plant & Machinery	20,000
			Patents	8,000
			C's Capital A/c	3,200
			D's Capital A/c	8,415
		82,000		82,000

Following information is given to you: -

1. *One of the creditors took some of the patents whose book value was ₹ 5,000 at a valuation of ₹ 3,200. Balance of the creditors were paid at a discount of ₹ 400.*

2 *There was a joint life policy of ₹ 20,000 (not mentioned in the balance sheet) and this was surrendered for ₹ 4,500.*

3 *The remaining assets were realized at the following values: - Debtors ₹ 10,800; Stock ₹ 15,600; Plant and Machinery ₹ 12,000; and Patents at 60% of their book-values. Expenses of realization amounted to ₹ 1,500.*

D became insolvent and a dividend of 25 paise in a rupee was received in respect of the firm's claim against his estate. Prepare necessary ledger accounts.

Realisation A/c

Particulars	Amount	Particulars		Amount
To Debtor's A/c	15,850	By Sundry Creditors A/c		15,700
To Stock A/c	25,200	By Employee's provident Fund A/c		6,300
To Prepaid Exp A/c	800	By Bank A/c (JLP)		4,500
To Plant & Machinery A/c	20,000	By Bank A/c		
To Patents A/c	8,000	Debtors	10,800	
To Cash A/c (Creditors) (15700-3200-400)	12,100	Stock	15,600	
To Cash A/c (EPF)	6,300	Plant & Machinery	1,200	
		Patent (8000-5000=3000 x 60%)	1,800	40,200

Particulars	Amount	Particulars	Amount
		By Loss Transferred to capital A/c	
		A 9,220	
		B 6,195	
		C 4,610	
		D 2,305	23,050
	89,750		**89,750**

Partners Capital A/c

Particulars	A	B	C	D	Particulars	A	B	C	D
To Balance b/d			3,200	8,415	By Balance b/d	40,000	20,000		
To Realisation A/c	9,220	6,915	4,610	2,305	By Cash A/c (25% of to 720)				2,680
To D's Capital A/c	5,360	2,680			By A & B Capital A/c				8,040
To Bank A/c (BF)	25,420	10,405			By Cash A/c (BF)			7,810	
	40,000	**20,000**	**7,810**	**10,720**		**40,000**	**20,000**	**7,810**	**10,720**

Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	535	By Creditors A/c	12,100
To Realisation A/c (JLP)	4,500	By Realisation A/c (exp)	1,500
To Realisation A/c	40,200	By Realisation A/c (EPF)	6,300
To D Capital A/c	2,680	By A's capital A/c	25,420
To C Capital A/c	7,810	By B's capital A/c	10,405
	55,725		**55,725**

ILLUSTRATION 7

M/s X, Y, and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 respectively, had the following Balance Sheet as on December 31, 2022:

Liabilities		₹	₹	**Assets**	₹	₹
Capital:	X	29,200		Fixed Assets		40,000
	Y	10,800		Stock		25,000
	Z	10,000	50,000	Book Debts	25,000	
Z's Loan			5,000	Less: Provision	(5,000)	20,000
Loan from Mrs. X			10,000	Cash		1,000
Sundry Trade Creditors			25,000	Advance to Y		4,000
			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 ₹ 4,000 have been purchased in November, 2022 and had been received but the purchase was not recorded in books.

Fixed assets realized ₹ 20,000; Stock ₹ 21,000 and Book Debt ₹ 20,500. Similarly, the creditors allowed a discount of 2% on average. The expenses of realization come to ₹ 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.

Realisation A/c

Particulars	Amount	Particulars		Amount
To Fixed Assets A/c	40000	By Sundry Creditors a/c		25,000
To Stock	25000	By Provision for book debts		5,000
To Book Debts	25000	By Sundry Creditors A/c (unrecorded purchase)		4,000
To Cash A/c (creditors) [(25000+4000)x 98%]	28420	By Cash A/c		
To Cash A/c (exp)	1080	Fixed Assets	20,000	
		Stock	21,000	
		Book Debts	20,500	61,500

Particulars	Amount	Particulars	Amount
		By Loss Transferred to Capital A/c	
		X 9,600	
		Y 9,600	
		Z 4,800	24,000
	1,19,500		**1,19,500**

Z's Loan A/c

Particulars	Amount	Particulars	Amount
To Cash A/c	5,000	By Balance B/d	5,000
	5,000		**5,000**

Mrs. X's Loan A/c

Particulars	Amount	Particulars	Amount
To X capital A/c	10,000	By Balance b/d	10,000
	10,000		**10,000**

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	1,000	By Realisation A/c (creditors)	28,420
To Realisation A/c	61,500	By Realisation A/c (exp)	1,080
		By Z's Loan A/c	5,000
		By X's Capital A/c	24,700
		By Z's Capital A/c	3,300
	62,500		**62,500**

Partners Capital A/c

Particulars	X	Y	Z	Particulars	X	Y	Z
To Creditors	1,600	1,600	800	By Balance b/d	29,200	10,800	10,000
To Balance c/d (BF)	27,600	9,200	9,200				
	29,200	**10,800**	**10,000**		**29,200**	**10,800**	**10,000**
				By Balance b/d	27,600	9,200	9,200
To Advance to Y		4,000					
To Realisation A/c (Loss)	9,600	9,600	4,800	By Mrs. X loan A/c	10,000		
To Y Capital A/c (in ratio of 8:1)	3,300		1,100	By X & Z capital A/c (BF)		4,400	
To Cash A/c (BF)	24,700		3,300				
	37,600	**13,600**	**9,200**		**37,600**	**13,600**	**9,200**

ILLUSTRATION 8

'Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1.

On 30th September, 2022 their Balance Sheet was as follows:

Liabilities		₹	**Assets**	₹
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:			Debtors	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, 2022 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, 2022. It then transpires that 'Fat' has no private assets whatsoever.

The premises are sold for ₹ 60,000 and the plant for ₹ 1,07,500. The fixtures realize ₹ 20,000 and the stock is acquired by another firm at a book value less 5%. Debtors realize ₹ 45,900. Realization expenses amount to ₹ 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:

(i) Realization Account;

(ii) Partners' Current Accounts;

(iii) Partners' Capital Accounts showing the closing of the firm's books.

Realisation A/c

Particulars	Amount	Particulars		Amount
To Premises A/c	50,000	By Sundry Creditors A/c		84,650
To Fixtures A/c	1,25,000	**By Cash A/c**		
To Plant A/c	32,500	Premises	60,000	
To Stock A/c	43,200	Plant	1,07,500	
To Debtors A/c	54,780	Fixture	20,000	
To Cash A/c (exp)	4,500	Stock	41,040	
To Cash a/c (crs)	84,650	Debtors	45,900	2,74,440
		By Loss transferred to Current A/c		
		Then	14,216	
		Short	14,216	
		Fat	7,108	35,540
	3,94,630			**3,94,630**

Partners Current A/c

Particulars	Thin	Short	Fat	Particulars	Thin	Short	Fat
To Balance b/d			14,500	By Balance b/d	29,700	11,300	
To Realisation A/c (loss)	14,216	14,216	7,108				
To Thin Capital A/c (BF)	15,484			By Short Capital A/c (BF)		2,916	
				By Fat Capital A/c (BF)			21,608
	29,700	**14,216**	**21,608**		**29,700**	**14,216**	**21,608**

Partners Capital A/c

Particulars	Thin	Short	Fat	Particulars	Thin	Short	Fat
To Short Current A/c		2,916		By Balance b/d	80,000	50,000	20,000
To Fat current A/c			21,608	By Thin Current A/c	15,484		
To Fat capital A/c	990	618		By Thin & Short Capital A/c (deficiency)			1,608
To Bank A/c (BF)	94,494	46,466					
	95,484	**50,000**	**21,608**		**95,484**	**50,000**	**21,608**

WN 1 - Bank A/c

Particulars	Amount	Particulars	Amount
To Realisation A/c	2,74,440	By Bank Overdraft A/c	44,330
		By Realisation A/c (exp)	4,500
		By Realisation A/c (crs)	84,650
		By Thin Capital A/c	94,494
		By Short capital A/c	46,466
	2,74,440		**2,74,440**

PIECEMEAL PAYMENTS

Generally, the assets sold upon dissolution of partnership are realized only in small instalments over a period of time. In such circumstances, the choice is either to distribute whatever is collected or to wait till the whole amount is collected. Usually, the first course is adopted. In order to ensure that the distribution of cash among the partners is in proportion to their interest in the partnership concern either of the two methods described below may be followed for determining the order in which the payment should be made.

1. Maximum Loss Method
2. Highest relative Capital Method

MAXIMUM LOSS METHOD

Each installment realized is considered to be the final payment *i.e.,* outstanding assets and claims are considered worthless and partners' accounts are adjusted on that basis each time when a distribution is made, following either *Garner* vs. *Murray* Rule or the profit-sharing ratio rule.

ILLUSTRATION 9

A, B, and C are partners sharing profits and losses in the ratio of 5:3:2. Their capitals were ₹ 9,600, ₹ 6,000 and ₹ 8,400 respectively.

After paying creditors, the liabilities and assets of the firm were:

Liabilities	₹	**Assets**	₹
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 the maximum possible loss procedure.

STATEMENT OF DISTRIBUTION OF CASH

PARTICULARS	AMOUNT REALISED	INTEREST ON LOANS FROM PARTNERS SPOUSE	INTEREST ON LOANS FROM PARTNERS	PARTNERS CAPITAL			
				A	B	C	TOTAL
BALANCE DUE		2000	1000	9600	6000	8400	24000
SALE OF INVESTMENT	1000	1000	0	0	0	0	0
BALANCE DUE		1000	1000	9600	6000	8400	24000
SALE OF FURNITURE	2000	1000	1000				
BALANCE DUE		0	0	9600	6000	8400	24000
SALE OF MACHINERY	1200						
MPL OF 22800 (24000-1200) TO BE DISTRIBUTED ON 5:3:2				-11400	-6840	-4560	-22800
AMOUNT AT CREDIT				-1800	-840	3840	1200
DEFIENCY OF A & B W/FF AGAINST C				1800	840	-2640	-
AMOUNT PAID				0	0	1200	1200
BALANCE DUE				9600	6000	7200	22800
SALE OF STOCK	4000						
MPL OF 18800 (22800-4000) TO BE DISTRIBUTED ON 5:3:2				-9400	-5640	-3760	-18800
AMOUNT AT CREDIT & PAID				200	360	3440	4000
BALANCE DUE LEFT UNPAID				9400	5640	3760	18800

ILLUSTRATION 10

The following is the Balance Sheet of A, B, C on 31st December, 2022 when they decided to dissolve the partnership:

Liabilities	₹	**Assets**	₹
Creditors	2,000	Sundry Assets	48,500
A's Loan	5,000	Cash	500
Capital Accounts:			
A	15,000		
B	18,000		
C	9,000		
	49,000		49,000

The assets realized the following sums in installments:

I	*1,000*
II	*3,000*
III	*3,900*
IV	*6,000*
V	*20,100*[1]
	34,000

The expenses of realization were expected to be ₹ 500 but ultimately amounted to ₹ 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.

STATEMENT OF DISTRIBUTION OF CASH

PARTICULARS	AMOUNT REALISED	REALISATION EXPENSES	CREDITORS	A'S LOAN	PARTNERS CAPITAL			
					A	B	C	TOTAL
BALANCE DUE		500	2000	5000	15000	18000	9000	42000
CASH AVAILABLE	500	500	0	0	0	0	0	0
BALANCE DUE		0	2000	5000	15000	18000	9000	42000
AMOUNT REALISED IN FIRST INSTALLMENT	1000		1000	0				
BALANCE DUE			1000	5000	15000	18000	9000	42000
AMOUNT REALISED IN SECOND INSTALLMENT	3000		1000	2000				
BALANCE DUE			0	3000	15000	18000	9000	42000
AMOUNT REALISED IN THIRD INSTALLMENT	3900			3000	0	0	0	0
BALANCE DUE BEFORE ALLOCATING 900 SURPLUS					15000	18000	9000	42000
MPL OF 41100 (42000-900) TO BE DISTRIBUTED IN 2:2:1					-16440	-16440	-8220	-41100
AMOUNT AT CREDIT					-1440	1560	780	900
DEFICIENCY OF A TO W/OFF AGAINST B & C IN CAPITAL RATIO OF 18000:9000)					1440	-960	-480	0
AMOUNT PAID					0	600	300	900
BALANCE DUE					15000	17400	8700	41100

PARTICULARS	AMOUNT REALISED	REALISATION EXPENSES	CREDITORS	A'S LOAN	PARTNERS CAPITAL			
					A	B	C	TOTAL
AMOUNT REALISED IN FOURTH INSTALLMENT	6000							
MPL OF 35100 (41100-6000) TO DISTRIBUTED IN 2:2:1					-14040	-14040	-7020	-35100
AMOUNT AT CREDIT & PAID					960	3360	1680	6000
BALANCE DUE					14040	14040	7020	35100
AMOUNT REALISED IN FIFTH INSTALLMENT	20100							
MPL OF 15000 (35100-20100) TO DISTRIBUTED IN 2:2:1					-6000	-6000	-3000	-15000
AMOUNT AT CREDIT & PAID					8040	8040	4020	20100
BALANCE DUE LEFT UNPAID					6000	6000	3000	15000

HIGHEST RELATIVE CAPITAL METHOD

- According to this method, the partner who has the higher relative capital, that is, whose capital is greater in proportion to his profit-sharing ratio, is first paid off. This method is also called as proportionate capital method.

- For determining the amount by which the capital of each partner is in excess of his relative capital, partners' capitals are first divided by figures that are in proportion to their profit- sharing ratio; the smallest quotient will indicate the basic capital. Having ascertained the partner who has the smallest basic capital, the amount of capital of other partners proportionate to the profit-sharing ratio of the basic capital is calculated. These may be called as their hypothetical capitals. The amount of hypothetical capital of each partner is then subtracted from the amount of his actual capital; the resultant figure will be the amount of excess capital held by him.

- By repeating the process once or twice, as may be necessary between the partners having excess capital, the amount by which the capital of each partner is in excess will be ascertained.

- The partner with the largest excess capital will be paid off first, followed by payment to the other or others who rank next to him until the capitals of partners are reduced to their profit-sharing ratio.

ILLUSTRATION 11

A partnership firm was dissolved on 30th June, 2022. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	₹	₹	*Assets*	₹
Capitals:			*Cash*	*10,800*
A	*76,000*		*Sundry Assets*	*1,89,200*
B	*48,000*			
C	*36,000*	*1,60,000*		
Loan A/c – B		*10,000*		
Sundry Creditors		*30,000*		
		2,00,000		*2,00,000*

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 29,000 in full settlement of their account. Expenses of realization were estimated to be ₹ 5,400 but actual amount spent was ₹ 4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	₹
On 5th July, 2022	*25,200*
On 30th August, 2022	*60,000*
On 15th September, 2022	*80,000*

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

STATEMENT OF DISTRIBUTION OF CASH

PARTICULARS	AMOUNT REALISED	REALISATION EXPENSES	CREDITORS	B'S LOAN	PARTNERS CAPITAL			
					A	B	C	TOTAL
BALANCE DUE		5400	29000	10000	76000	48000	36000	160000
CASH AVAILABLE	10800	5400	5400	0	0	0	0	0
BALANCE DUE		0	23600	10000	76000	48000	36000	160000
AMOUNT REALISED IN FIRST INSTALLMENT	25200		23600	1600				
BALANCE DUE			0	8400	76000	48000	36000	160000
AMOUNT REALISED IN SECOND INSTALLMENT	60000			8400				
BALACE OF 51600 TO BE ALLOCATED AS PER WN 1					32640	4640	14320	51600
BALANCE DUE			0	0	43360	43360	21680	108400
AMOUNT REALISED IN THIRD INSTALLMENT + SAVING IN REALISATION EXP (80000+1400) TO DISTRIBUTED IN PSR	81400				32560	32560	16280	81400
AMOUNT REMAINING UN PAID					10800	10800	5400	27000

WN 1 DISTRIBUTION OF 51600 OF 2ND INSTALLMENT AMONG PARTNERS

SR.NO	PARTICULARS	PARTNERS CAPITAL		
		A	B	C
A	CAPITAL BALANCE	76000	48000	36000
B	PSR	2	2	1
C	CAPITAL PER UNIT (A/B)	38000	24000	36000
D	PROPORTIONATE CAPITAL TAKING B'S CAPITAL AS BASE	48000	48000	24000
E	EXCESS CAPITAL (A-D)	28000	0	12000
F	PSR	2	0	1
G	CAPITAL PER UNIT (E/F)	14000		12000
H	PROPORTIONATE CAPITAL TAKING C'S CAPITAL AS BASE	24000		12000
I	EXCESS CAPITAL (E-H)	4000		0
J	PAYMENT TO A	4000		
K	CAPITAL BALANCE (A-J)	72000	48000	36000
L	PSR	2	2	1
M	CAPITAL PER UNIT (K/L)	36000	24000	36000
N	PROPORTIONATE CAPITAL TAKING B'S CAPITAL AS BASE	48000	48000	24000
0	EXCESS CAPITAL (K-N)	24000	0	12000
P	PAYMENT TO A & C	24000		12000
Q	CAPITAL BALANCE (K-P)	48000	48000	24000
R	BALANCE 11600 TO BE PAID IN PSR	4640	4640	2320
S	TOTAL PAID	32640	4640	14320

WINDING UP OF A LLP

The winding up of a LLP may be either voluntary or by the Tribunal and LLP, so wound up may be dissolved.

Winding up of a LLP may be initiated by Tribunal if:

- The LLP wishes to wind up;
- The LLP has less than 2 partners for more than 6 months;
- The LLP is unable to pay its debts;
- The LLP has not acted in the interest of the sovereignty and the integrity of India;
- The LLP has failed to submit with the statements of accounts and solvency or the LLP annual returns for more than five consecutive financial years with the Registrar;
- The Tribunal thinks that it is Just and Equitable that the LLP should be wound up.

The Central Government may make rules for the provisions in relation to winding up and dissolution of LLP.

ILLUSTRATION 12

P and Q were partners sharing profits equally in LLP. Their Balance Sheet as on March 31, 2022 was as follows:

Balance Sheet as on 31st March, 2022

Equity and Liabilities		₹	Assets	₹
Capitals:			Bank	30,000
P	1,00,000		Debtors	25,000
Q	50,000	1,50,000	Stock	35,000
Creditors		20,000	Furniture	40,000
Q's current account		10,000	Machinery	60,000
Reserves		15,000	P's current account	10,000
Bank overdraft		5,000		
		2,00,000		2,00,000

The firm was dissolved on the above date:

P took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for ₹ 30,000 and ₹ 50,000 respectively; There was an unrecorded investment which was sold for ₹ 25,000; Debtors realized 90% only and ₹ 1,245 were recovered for bad debts written off last year. There was an outstanding bill for repairs which had to be paid for ₹ 2,000.

You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.

Realisation A/c

Particulars	Amount	Particulars		Amount
To Debtors A/c	25,000	By Creditors A/c		20,000
To Stock A/c	35,000	By P A/c (stock)		15,750
To Furniture A/c	40,000	**By Bank A/c**		
To Machinery A/c	60,000	Stock (17500x115%)	20,125	
To Cash A/c (repair)	2,000	Furniture	30,000	
To Cash A/c (crs)	20,000	Machinery	50,000	
		Investment	25,000	
		Debtors	22,500	
		Bad Debts recovered	1,245	1,48,870

Particulars	Amount	Particulars	Amount
To Profit Transferred to Current A/c			
P 1310			
Q 1310	2,620		
	1,84,620		**1,84,620**

Partners Capital A/c

Particulars	P	Q	Particulars	P	Q
To P Current A/c	16,940		By Balance b/d	1,00,000	50,000
			By Q's Current A/c		18,810
To Bank A/c (BF)	83,060	68,810			
	1,00,000	**68,810**		**1,00,000**	**68,810**

Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	30,000	By Creditors A/c	20,000
To Realisation A/c	1,48,870	By Bank Overdraft A/c	5,000
		By Realisation A/c (repair)	2,000
		By P's Capital A/c	83,060
		By Q's Capital A/c	68,810
	1,78,870		**1,78,870**

WN 1 - Partners Current A/c

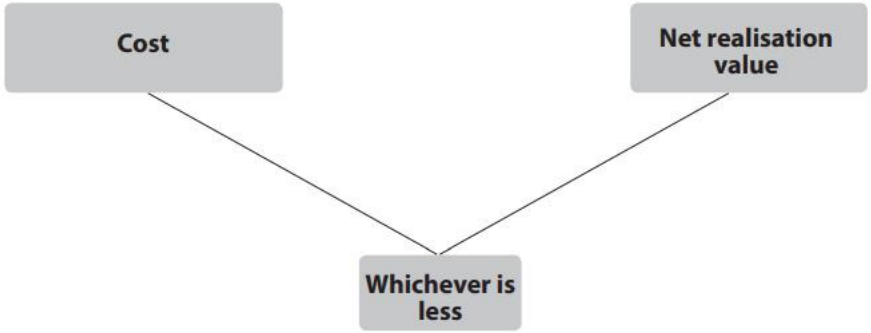
Particulars	P	Q	Particulars	P	Q
To Balance b/d	10,000		By Balance b/d		10,000
To Realisation A/c	15,750		By Reserves A/c	7,500	7,500
			By Realisation A/c	1,310	1,310
To Q's Capital A/c (BF)		18,810			
			By P's Capital A/c (BF)	16,940	
	25,750	**18,810**		**25,750**	**18,810**



thank you!

INVENTORY VALUATION

BASIS OF INVENTORY VALUATION



Cost

Cost means historical cost i.e. the amount of expenditure incurred on acquisition of goods. The computation of Historical cost is shown below.

Net realizable value

This is the estimated selling price in the ordinary course of business less the estimated cost of completion & the estimated costs necessary to make the sale. An assessment is made of net realizable value as at each balance sheet date. Inventories are usually written down to net realizable value on an item-by-items bases. In some circumstances, however, it may be approximate to group similar or related items.

EXCEPTION TO COST OR NRV WHICHEVER IS LOWER PRINCIPLE

Sr.No	Type of Inventory	Valued At
1	Consumable stores and supplies	Ordinarily valued at cost
2	By-Products, where cost cannot be separately determined	NRV
3	By-products, where cost can be separately determined	Cost value/NRV whichever is lower
4	Non-Reusable waste	NRV
5	Reusable waste -	
	(i) Where reprocessing facilities are available and used for reprocessing	Raw Material cost less Reprocessing Cost
	(ii) Where reprocessing facilities are not available	Valued at NRV

Historical cost

Manufacturer = RM cost + labour cost + overheads cost.

Trader = Cost of purchase of finished goods

Service Provider = Cost of purchase of goods using in providing services (other than FA)

TECHNIQUES OF INVENTORY VALUATION (GOODS , ORDINARILY INTERCHNAGEABLE)

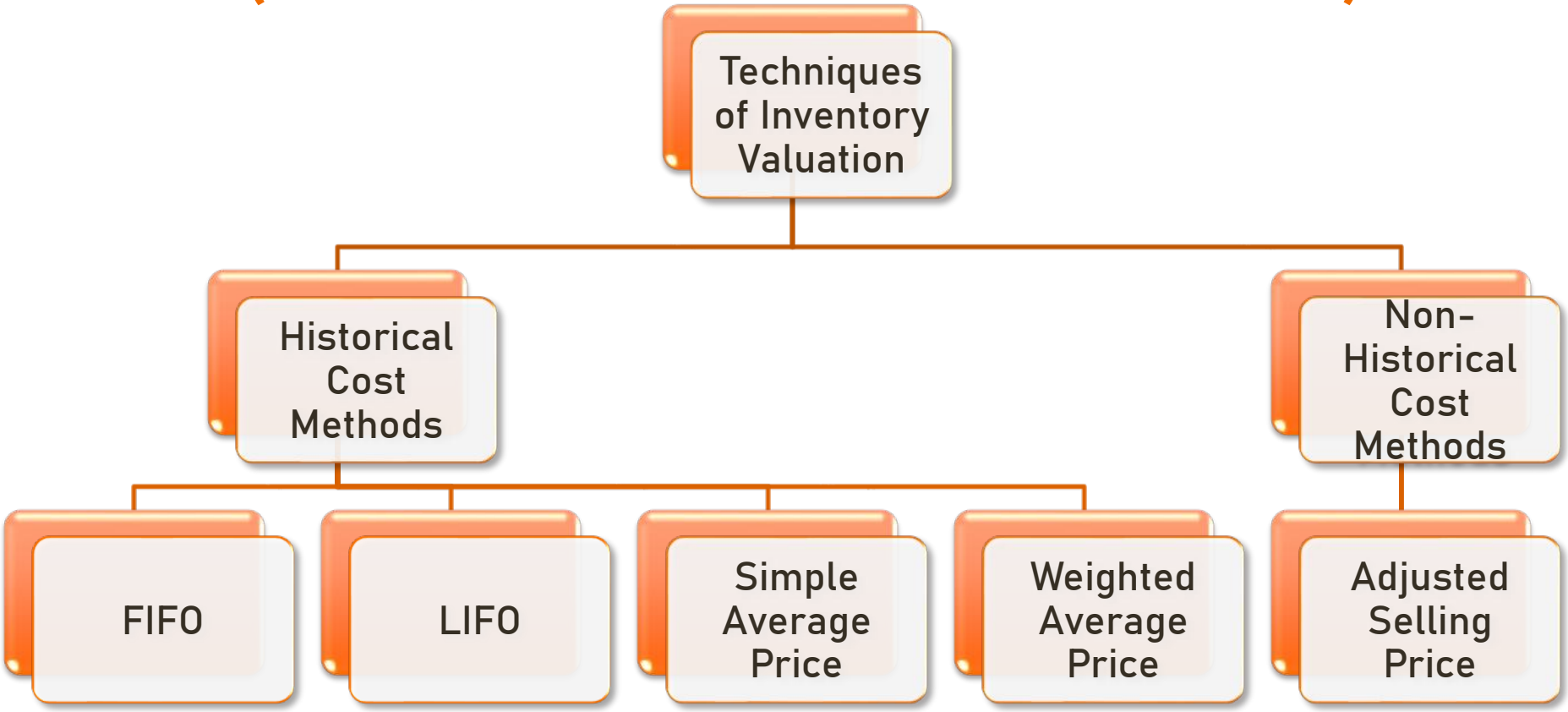


ILLUSTRATION 1

Given Below is the Details of Receipts & issue of Material . Find The Value of Closing Stock using LIFO method

Date	Quantity (units)	Price per unit
Dec. 4	900	50
Dec. 10	400	55
Dec. 11	300	55
Dec. 19	200	60
Dec. 28	800	47
	2,600	

Date	Quantity (units)
Dec. 5	500
Dec. 20	600
Dec. 29	500
Total	1,600

STATEMENT SHOWING VALUE OF CLOSING STOCK AS PER LIFO

	RECEIPTS			ISSUES			BALANCE		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
4th Dec	900	50	45000	-	-	-	900	50	45000
5th Dec	-	-	-	500	50	25000	400	50	20000
10th Dec	400	55	22000	-	-	-	400	50	20000
							400	55	22000
11th Dec	300	55	16500	-	-	-	400	50	20000
							400	55	22000
							300	55	16500

19th Dec	200	60	12000	-	-	-	400	50	20000
							400	55	22000
							300	55	16500
							200	60	12000
20th Dec	-	-	-	200	60	12000			
				300	55	16500	400	50	20000
				100	55	5500	300	55	16500
28th Dec	800	47	37600	-	-	-	400	50	20000
							300	55	16500
							800	47	37600
29th Dec	-	-	-	500	47	23500	400	50	20000
							300	55	16500
							300	47	14100

VALUE OF CLOSING STOCK AS PER LIFO IS 50600

ILLUSTRATION 2

Given Below is the Details of Receipts & issue of Material . Find The Value of Closing Stock using Weighted Average Price Method

Date	Quantity (units)	Price per unit
Dec. 4	900	50
Dec. 10	400	55
Dec. 11	300	55
Dec. 19	200	60
Dec. 28	800	47
	2,600	

Date	Quantity (units)
Dec. 5	500
Dec. 20	600
Dec. 29	500
Total	1,600

STATEMENT SHOWING VALUE OF CLOSING STOCK AS PER WEIGHTED AVERAGE PRICE METHOD

	RECEIPTS			ISSUES			BALANCE		
Date	Units	Rate	Amount	Units	Rate	Amount	Units	Rate	Amount
4th Dec	900	50	45000	-	-	-	900	50	45000
5th Dec	-	-	-	500	50	25000	400	50	20000
10th Dec	400	55	22000	-	-	-	800	52.5	42000
11th Dec	300	55	16500	-	-	-	1100	53.18	58500
19th Dec	200	60	12000	-	-	-	1300	54.23	70500
20th Dec	-	-	-	600	54.23	32538	700	54.23	37962
28th Dec	800	47	37600	-	-	-	1500	50.37	75562
29th Dec	-	-	-	500	50.37	25185	1000	50.37	50377

VALUE OF CLOSING STOCK AS PER WEIGHTED AVERAGE PRICE METHOD IS 50377

NON- HISTORICAL COST METHOD –ADJUSTED SELLING PRICE METHOD

1. According to Accounting Standard 2 ‘this method may be used in retail businesses or in business where the inventory comprises items the individual costs of which are not readily ascertainable’

2. The cost of the inventory is determined by reducing the estimated percentage of gross margin from the sales value of inventory.

3. The calculation of the estimated gross margin of profit may be made for individual items or groups of items or by departments, as may be appropriate to the circumstances. This method is also used by some manufacturing organization for valuing the inventory of finished products held against forward sale contracts.

Steps For Determining Value of Closing Stock Under Adjusted Selling Price Method

1. Prepare Estimated Trading Account Assuming All The Goods Are Sold

2. Find out Gross profit (In Amount)

3. Find Out GP margin (GP /Sales*100)

4. Reduce GP margin From Sale value of Closing Stock To Arrive At Cost of Closing Stock

INVENTORY RECORD SYSTEM

There are two inventory systems, viz. periodic Inventory System and perpetual Inventory System.

Periodic Inventory System : Periodic Inventory System is a method of ascertaining inventory by taking an actual physical count (or measure or weight) of all the inventory items on hand at a particular date on which information about inventory is required. The cost of goods sold is calculated as a residual figure (which includes lost goods also) as under :

Cost of Goods Sold = Opening Inventory (Known) + Purchases (Known) – Closing Inventory (Physically Counted)

Perpetual Inventory System : Perpetual Inventory System is a method of recording inventory balances after each receipt and issue. In order to ensure accuracy of perpetual inventory records, physical stocks should be checked and compared with recorded balances. The discrepancies, if any, should be investigated and adjusted in the accounts properly. The closing inventory is calculated as a residual figure (which include lost goods also) as under :

Closing Inventory = Opening Inventory + Purchases – Cost of Goods Sold

PERIODIC AND PERPETUAL INVENTORY SYSTEM

Sr. No	PERIODIC INVENTORY SYSTEM	PERPETUAL INVENTORY SYSTEM
1	This system is based on physical verification.	It is based on books records.
2	This system provides information about stock and cost of goods sold at a particular date.	It provides continuous information about stock and cost of sales.
3	This system determines inventory and takes cost of goods sold as residual figure.	It directly determines cost of goods sold and computes stock as balancing figure.
4	Cost of goods sold includes loss of goods as goods not in stock are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be Inventory.
5	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6	This system is simple and less expensive.	It is costlier method.
7	Periodic system requires closure of business for counting of stock.	Inventory can be determined without affecting the operations of the business.

Periodic Inventory System

Opening stock 100 units [Closing stock of last year] + Purchases 500 units [Record is maintained] = 600 units.

Physical counting = 125 units.

∴ Closing stock = 125 units.

It is assumed that 475 units are sold

Perpetual Inventory System

Opening Stock 100 units [last year closing stock.] + Purchases 500 units [record is maintained] − Sold 450 units [record is maintained]

Closing Stock (Book) = 150 units

Closing Stock (Physical count) = 140 units.

RECO OF STOCK - IMPORTANT POINTS

1. Check Whether The Starting Point is Value as Per Physical Stock or Book Stock ? If Nothing is Mentioned Always Assume Starting point as Physical Value of Stock.

2. Check What is Being Asked to Find? Value of Physical Stock or Book Stock. If Nothing is Mentioned Assume Book Stock to be Found.

3. Check Whether The Question is For Forward Reconciliation or Backward Reconciliation?

   If Forward Reconciliation – Transactions Because of Which Stock will increase shall be added & Transactions because of which stock will decrease shall be Subtracted.

   If Backward Reconciliation – Transactions Because of Which Stock will increase shall be Subtracted & Transactions because of which stock will decrease shall be Added

   (The Above Addition or Substraction Rule Shall Be For Movement of Goods Only)

4. Inventory to be Valued at Cost or NRV whichever is Lower.

5. Goods Sent on Consignment though Not Available physically with Consignor is Shown in balance sheet of Consignor.

6. Goods Sent on Approval Basis though Not Available physically with Sender is Shown in balance sheet of Sender.

7. Goods Received in The Capacity of Consignee though Available Physically with Consignee but Not to be shown in Balance Sheet of Consignee.

8. Goods Received in The Capacity of Buyer on Sale on Approval Basis though Available Physically with Reciever but Not to be shown in Balance Sheet of Reciever.

9. Profit if Expressed as -
   1/2 of Cost Means 1/3 Of Sales
   1/3 of Cost Means 1/4 Of Sales
   1/4 of Cost Means 1/5 of Sales
   1/5 of Cost Means 1/6 of Sales

10. Gross Profit Margin is Always Calculated as % of Sales.

11. Sales & Sales return Includes Profit Whereas Purchase & Purchase return is Always Specified at Cost. So Whenever Sales or Sales return is Given We need to Find Its Cost.

ILLUSTRATION 3 – SM

M/s X, Y and Z are in retail business, following information are obtained from their records for the year ended 31st March, 2020:

Goods received from suppliers		
(subject to trade discount and taxes)	₹	*15,75,500*
Trade discount 3% and sales tax 11%		
Packaging and transportation charges	₹	*87,500*
Sales during the year	₹	*22,45,500*
Sales price of closing inventories	₹	*2,35,000*

Find out the historical cost of inventories using adjusted selling price method.

Estimated Trading A/c Assuming All Goods Sold

Particulars		Amount	Particulars	Amount
To Purchase	1575500		By Sales A/c	2480500
Less – Trade Discount @3%	47265		(2245500+235000)	
	1528235		By Closing Stock	NIL
Add –Sales Tax @ 11%	168106	1696341		
To Packing & Transportation Charges		87500		
To Gross Profit		**696659**		
		2480500		**2480500**

Computation of GP Margin Of Business

GP Margin = GP/Assumed Sales*100
= 696659/2480500*100
= 28.09%

Value of Closing Stock at Cost

Cost of Closing Stock = Sale Value of Closing Stock – GP margin
= 235000-28.09%
= 168989

ILLUSTRATION 4 – SM

From the following particulars ascertain the value of Inventories as on 31st March, 2020:

	₹
Inventory as on 1.4.2019	*1,42,500*
Purchases	*7,62,500*
Manufacturing Expenses	*1,50,000*
Selling Expenses	*60,500*
Administrative Expenses	*30,000*
Financial Charges	*21,500*
Sales	*12,45,000*

At the time of valuing inventory as on 31st March, 2019, a sum of ₹ 17,500 was written off on a particular item, which was originally purchased for ₹ 50,000 and was sold during the year for ₹ 45,000. Barring the transaction relating to this item, the gross profit earned during the year was 20 percent on sales.

TRADING A/C

PARTICULARS	NORMAL	ABNORMAL	TOTAL	PARTICULARS	NORMAL	ABNORMAL	TOTAL
To Opening Stock	110000	32500	142500	By Sales	1200000	45000	1245000
To Purchases	762500	-	762500				
To manufacturing Expenses	150000	-	150000	By Closing Stock (BF)	62500	-	62500
To Gross Profit	240000 (20% of 1200000)	12500	252500				
	1262500	**45000**	**1307500**		**1262500**	**45000**	**1307500**

Value of Closing Stock = 62500

ILLUSTRATION 5 - RTP MAY 2021

Closing stock is valued by Zebra Stores on generally accepted accounting principles. Stock taking for the year ended 31st March, 2020 was completed by 10th April, 2020, the valuation of which showed a stock figure of ₹ 5,02,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for ₹ 20,625, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to ₹ 27,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of ₹ 900 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing ₹ 3,375 which should be taken at ₹ 1,575 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing ₹ 4,650 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be ₹ 3,750 on 31st March, 2020.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2020

STATEMENT SHOWING COMPUTATION OF STOCK AS ON 31-3-2020

SR.NO	PARTICULARS	AMOUNT	AMOUNT
A	**Stock as on 10-4-2020**		**502500**
B	**Add -**		
	Cost of Goods Sold (20625-25%)		**15469**
C	**Less -**		
	Cost of Goods purchased (27000-10%)	24300	
	Cost of Goods returned by Customer (900-25%)	675	
	Reduction in Value of Slow Moving Item	1800	
	Reduction in Value of Stock due to Refusal by Customer	900	**27675**
D	**Value of Stock as on 31-3-2020**		**490294**

ILLUSTRATION 6 – SM

Physical verification of stock in a business was done on 23rd June, 2020. The value of the stock was ₹ 48,00,000. The following transactions took place between 23rd June to 30th June, 2020:

(i) Out of the goods sent on consignment, goods at cost worth ₹ 2,40,000 were unsold.

(ii) Purchases of ₹ 4,00,000 were made out of which goods worth ₹ 1,60,000 were delivered on 5th July, 2020.

(iii) Sales were ₹ 13,60,000, which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 30th June, 2020.

(iv) Goods are sold at cost plus 25%. However, goods costing ₹ 2,40,000 had been sold for ₹ 1,20,000.

Determine the value of stock on 30th June, 2020.

STATEMENT SHOWING COMPUTATION OF STOCK AS ON 30-6-2020

SR. NO	PARTICULARS	AMOUNT	AMOUNT
A	**Stock as on 23-06-2020**		**4800000**
B	**Add -**		
	Goods lying with Consignee	240000	
	Cost of Goods Purchased & Received	240000	
	Cost of Goods in Transit	160000	
	50% of Goods Returned by Customer to whom Goods Sent on Approval	128000	
	50% of Goods lying with Customer to whom Goods Sent on Approval	128000	896000
C	**Less -**		
	Cost of Normal Goods Sold	736000	
	Cost of Goods on Approval Basis	256000	
	Cost of Abnormal Goods	240000	1232000
D	**Value of Stock as on 30-6-2020**		**4464000**

Working Note – Bifurcation of Sales & Its Cost

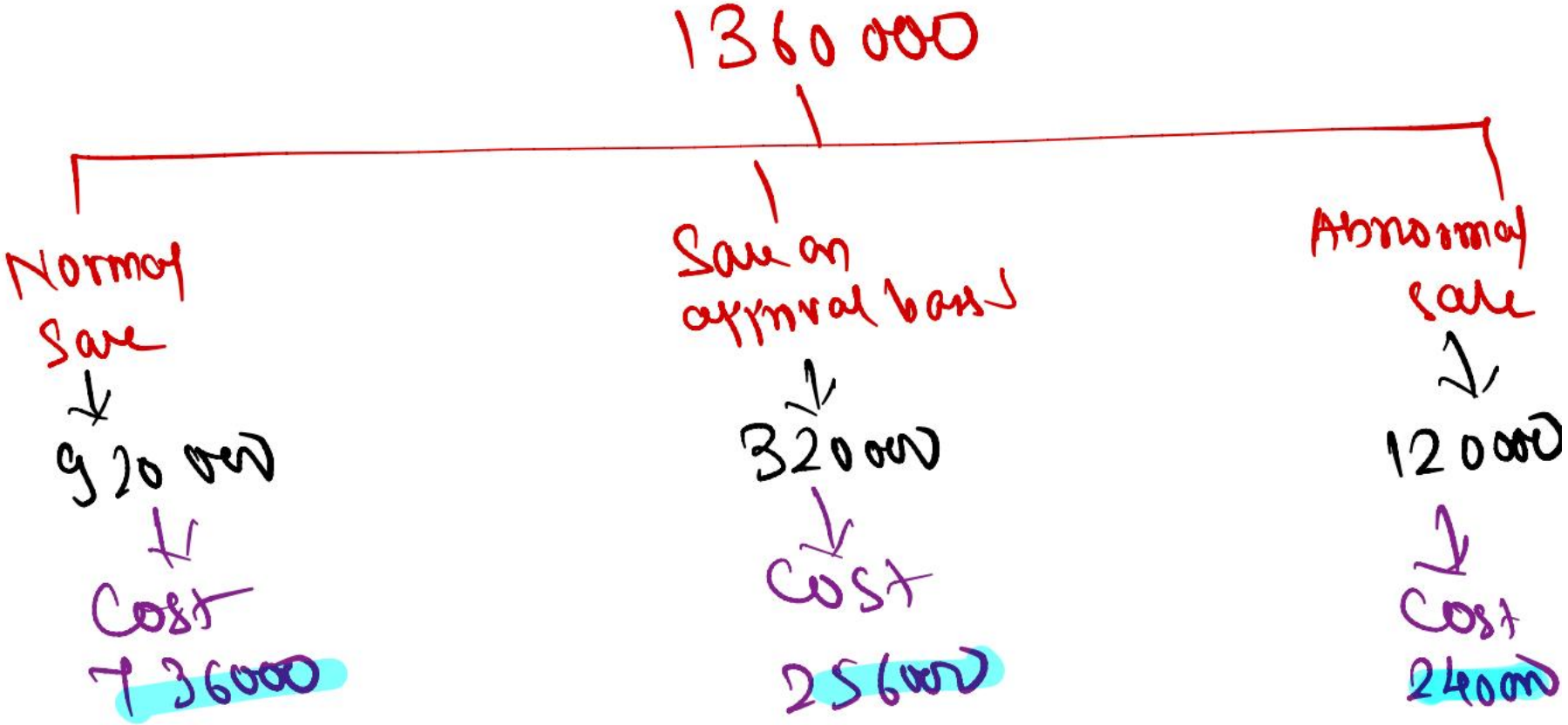


ILLUSTRATION 7 - RTP DEC 2021

Submarine Ltd. keeps no stock records but a physical inventory of stock is made half yearly and the valuation is taken at cost. The company's year ends on 31st March, 2021 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2021 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2021 with the stock figure as on 30th September, 2020 and some other information is available to you:

(i) The cost of stock on 30th September, 2020 as shown by the inventory sheet was ₹ 2,40,000.

(ii) On 30th September, stock sheet showed the following discrepancies:

(a) A page total of ₹ 15,000 had been carried to summary sheet as ₹ 16,000.

(b) The total of a page had been undercast by ₹ 600.

(iii) Invoice of purchases entered in the Purchase Book during the quarter from October,2020 to March,2021 totaled ₹ 2,10,000. Out of this ₹ 9,000 related to goods received prior to 30th September, 2020. Invoices entered in April,2021 relating to goods received in March, 2021 totaled ₹12,000.

(iv) Sales invoiced to customers totaled ₹2,70,000 from September,2020 to March, 2021. Of this ₹ 15,000 related to goods dispatched before 30th September, 2020. Goods dispatched to customers before 31st March, 2021 but invoiced in April, 2021 totaled ₹ 12,000.

(v) During the final quarter, credit notes at invoiced value of ₹ 3,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2021.

STATEMENT SHOWING COMPUTATION OF STOCK AS ON 31-3-2021

SR.NO	PARTICULARS	AMOUNT	AMOUNT
A	**Stock as on 30-09-2020**		**240000**
B	**Add -**		
	Under casting of Stock Sheet	600	
	Purchases (210000-9000+12000)	213000	
	Cost of Goods Returned (3000*80%)	2400	**216000**
C	**Less -**		
	overcasting of Stock Sheet	1000	
	Cost of Goods Sold (270000-15000+12000) * 80%	213600	**214600**
D	**Value of Stock as on 31-3-2021**		**241400**

ILLUSTRATION 8 - RTP MAY 2019

A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2018 on which date the total cost of goods in his godown came to ₹ 50,000. The following facts were established between 31st March and 15th April, 2018.

(i) Sales ₹ 41,000 (including cash sales ₹ 10,000)

(ii) Purchases ₹ 5,034 (including cash purchases ₹ 1,990)

(iii) Sales Return ₹ 1,000.

(iv) On 15th March, goods of the sale value of ₹ 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.

(v) The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of Inventory as on 31st March, 2018.

STATEMENT SHOWING COMPUTATION OF VALUE OF STOCK AS ON 31-3-2018

SR.NO	PARTICULARS	AMOUNT	AMOUNT
A	**Value of Stock as on 15-4-2018**		**50000**
B	**Add -**		
	Cost of Net Sales (40000-20%)	32000	
	Cost of Goods Lying with Customer Not added in Stock(10000*60%*80%)	4800	**36800**
C	**Less -**		
	Cost of Goods Purchased	5034	
	Cost Of Goods Received on Consignment (8000*30%)	2400	**7434**
D	**Value of Stock as on 31-03-2018**		79366

ILLUSTRATION 9 – SM

X who was closing his books on 31.3.2020 failed to take the actual stock which he did only on 9th April, 2020, when it was ascertained by him to be worth ₹ 2,50,000.

It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the purchases day book once the invoices are received.

It was found that sales between 31.3.2020 and 9.4.2020 as per the sales day book are ₹ 17,200. Purchases between 31.3.2020 and 9.4.2020 as per purchases day book are ₹ 1,200, out of these goods amounting to ₹ 500 were not received until after the stock was taken.

Goods invoiced during the month of March, 2020 but goods received only on 4th April, 2020 amounted to ₹ 1,000. Rate of gross profit is 33-1/3% on cost.

Ascertain the value of physical stock as on 31.3.2020.

STATEMENT SHOWING COMPUTATION OF PHYSICAL STOCK AS ON 31-3-2020

SR.NO	PARTICULARS	AMOUNT	AMOUNT
A	**Value of Stock as on 09-04-2020**		**250000**
B	**Add -**		
	Cost of Goods Sold (17200 – 25%)	12900	**12900**
C	**Less -**		
	Cost of Goods Purchased & Received (1200-500)	700	
	Goods Invoiced in March But Received in April	1000	**1700**
D	**Value of Physical Stock as on 31-3-2020**		**261200**

ILLUSTRATION 10 - MTP MAY 2019 SERIES 1 (10 MARKS)

M/s Kedar, Profit and loss account showed a net profit of Rs. 8,00,000, after considering the closing stock of Rs. 7,50,000 on 31st March, 2017. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included Rs. 30,000 paid for new electric fittings for the shop.

(ii) M/s Kedar gave away goods valued at Rs. 80,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods amounting to Rs. 5,00,000 have been entered on 27th March, 2017, but the goods were not included in stock.

(iv) In March, 2017 goods of Rs. 4,00,000 sold and delivered were taken in the sales for April, 2017.

(v) Goods costing Rs. 1,50,000 were sent on sale or return in March, 2017 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2017 these were taken as sales for March. 2017.

You are required to **determine** the adjusted net profit for the year ended on 31.3.2017 and calculate the value of stock on 31st March, 2017.

STATEMENT SHOWING COMPUTATION OF STOCK AS ON 31-3-2017

SR.NO	PARTICULARS	AMOUNT
A	Stock As on 31st March 2017 (Given)	750000
B	Add – Goods Purchased But Not Included in Stock	500000
C	Add – Goods Sent To Customers on Approval Basis At Cost	150000
D	Value of Closing Stock as on 31st march 2017 (A+B+C)	1400000

Adjusted Profit & Loss Account

Particulars	Amount	Particulars	Amount
To Advertisement (Free Sample)	80000	By Net profit	800000
To Sales (Goods Sent on Approval Wrongly treated As Sale) (150000+1/3 of 150000)	200000	By Electric Fittings	30000
		By Goods Distributed as Free Sample	80000
To Adjusted Net Profit (Bal Fig)	1680000	By Sales to Be recorded in March	400000
		By Increase in Closing Stock (1400000-750000)	650000
	1960000		1960000



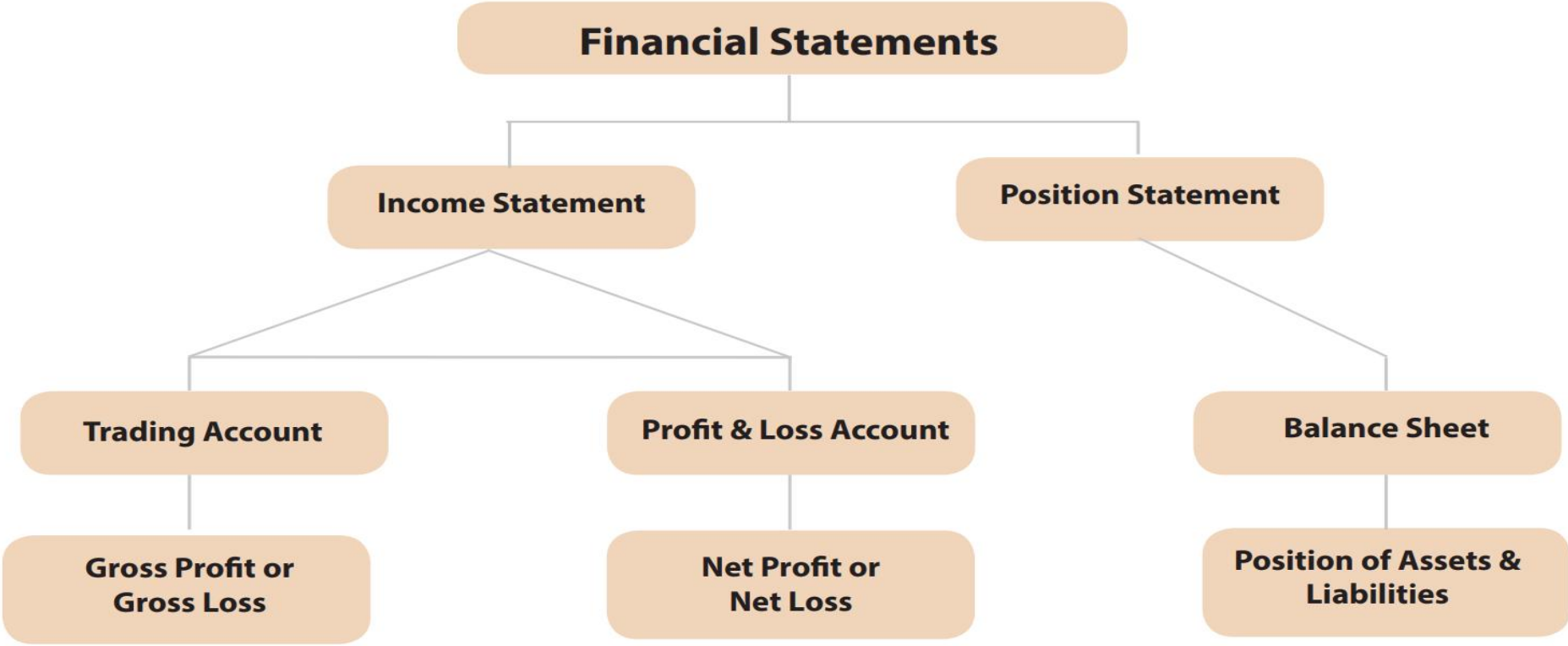
thank you!

FINAL ACCOUNTS OF NON MANUFACTURING ENTITY

BIRDS EYE VIEW

- Components of Final Accounts of Sole proprietors
- Basic Principles While Drawing Final Accounts
- Trading Account
- Profit & Loss Account
- Balance Sheet
- Adjustments

COMPONENTS OF FINAL ACCOUNTS OF SOLE PROPRIETORS



TRADING ACCOUNT

Trading Account of.....for the year ended.....

		₹			₹
To Opening Stock		XXX	By Sales	XXX	XXX
To Purchases	XXX		*Less*: Returns Inwards	XXX	XXX
Less: Returns outwards	XXX	XXX	By Closing Stock		
To Direct expenses:		XXX	By Gross Loss c/d*		
Freight & Carriage		XXX			
Customs & Insurance	XXX				
Wages	XXX				
Gas, Water & Fuel	XXX				
Factory Expenses	XXX				
Royalty on production	XXX	XXX			
		XXX			XXX

TRADING ACCOUNT

Point to Remember:-

- The opening inventory and purchases are written on the debt side.
- Sales and the closing inventory are entered on the credit side.
- If there are any direct expenses then they should also be written on the debit side of the Trading account.
- If the balances of credit side is more, the difference is written on the debit side as gross profit. This amount will also be carried forward to the Profit and Loss Account on the credit side.
- In case of gross loss, i.e., when the debit side of the Trading Account exceeds the credit side, the amount will be written on the credit side of the Trading Account and transferred to the debit side of the Profit and Loss Account.

PROFIT & LOSS ACCOUNT

Dr. **Profit and Loss Account for the year ended** Cr.

Particulars	₹	Particulars	₹
To Gross Loss b/d		**By Gross Profit b/d**	
Management expenses		**Other Income**	
To Salaries (administrative)		By Discount Received	
To Office rent, rates and taxes		By Commission Received	
To Printing and stationery		**Non-trading Income**	
To Telephone charges		By Bank Interest	
To Postage and telegrams		By Rent of property let-out	
To Insurance		By Dividend from shares	
To Audit Fees		**Abnormal Gains**	
To Legal Charges		By Profit on sale of machinery	
To Electricity Charges		By Profit on sale of investment	

Particulars	₹	Particulars	₹
Maintenance expenses			
To Repairs & renewals		**By Net Loss (transferred to capital A/c)**	
To Depreciation on:			
Office Equipment			
Office Furniture			
Office Buildings			
Selling and Distribution expenses			
To Salaries (selling staff)			
To Advertisement			
To Godown rent			
To Carriage Outward			
To Bad Debts			
To Provision for bad debts			
To Selling commission			

Particulars	₹	Particulars	₹
Financial expenses			
To Bank charges			
To Interest on loans			
To Discount on bills			
To discount allowed to customers			
Abnormal Losses			
To Loss on sale of machinery			
To Loss on sale of investment			
To loss by fire			
To Net Profit (transferred to Capital A/c)			

BALANCE SHEET

The balance sheet may be defined as *"a statement which sets out the assets and liabilities of a firm or an institution as at a certain date."* Since even a single transaction will make a difference to some of the assets or liabilities, the balance sheet is true only at a particular point of time. That is the significance of the word "as at."

The assets are shown on the right hand side and liabilities and capital on the left hand side.

ARRANGEMENT OF ASSETS & LIABILITIES

(1) **Assets:** Assets may be grouped in one of the following two ways:

(i) **Liquidity:** Under this approach, the asset, which can be converted into cash first, is presented first. Those assets, which are most difficult in this respect, are presented at the bottom. As per Liquidity the balance sheet can be prepared as follow:-

Balance Sheet as at...

Liabilities	Amount ₹	Assets	Amount ₹
Bills Payable		Cash in Hand	
Trade Creditors		Cash at Bank	
Loans		Government Securities	
Outstanding Expenses		Other Investments	
Reserves & Surplus		Bills Receivable	
Capital		Sundry Debtors	
		Stock	
		Furniture & Fixtures	
		Plant & Machinery	
		Land and Building	

ARRANGEMENT OF ASSETS & LIABILITIES

(ii) **Permanence:** Assets, which are to be used, for long term in the business and are not meant to be sold are presented first. Assets, which are most liquid, such as cash in hand, are presented at the bottom.

Balance Sheet as at...

Liabilities	Amount ₹	Assets	Amount ₹
Capital		Land and Building	
Reserves & Surplus		Plant & Machinery	
Outstanding Expenses		Furniture & Fixtures	
Loans		Stock	
Trade Creditors		Sundry Debtors	
Bills Payable		Bills Receivable	
		Other Investments	
		Government Securities	
		Cash at Bank	
		Cash in Hand	

ADJUSTMENTS

Adjustment	If Given in Trial Balance	If Not Given in Trial Balance
1. Closing stock	Balance Sheet – Asset Side	(a) Trading A/c – Credit Side
		(b) Balance Sheet – Asset Side
2. Outstanding Expenses	Balance Sheet – Liability Side	(a) Trading/Profit & Loss A/c Debit Side. Add to the concerned expenses.
		(b) Balance Sheet – Liability Side
3. Prepaid Expenses	Balance Sheet – Asset Side	(a) Trading/Profit & Loss A/c Debit Side. Deduct from the concerned expense.
		(b) Balance Sheet - Asset

ADJUSTMENTS

4. Income Outstanding	Balance Sheet – Asset Side	(a) Profit & Loss A/c – Credit Side. Add to the concerned income.
		(b) Balance Sheet – Asset Side.
5. Incomes Received in Advance	Balance Sheet – Liability Side	(a) Profit & Loss A/c – Credit Side. Deduct from concerned income.
		(b) Balance Sheet – Liability Side
6. Bad Debs	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side.
		(b) Balance Sheet – Asset Side.
		Deduct from debtors.

ADJUSTMENTS

7.	Provision for Bad or Doubtful debts	Profit & Loss A/c – Credit Side	a. Profit & Loss A/c - Debit Side. b. Balance Sheet - Asset Side. Deduct from Debtors after Additional bad debts, if any.
8.	Provision for Discount on Debtors	Profit & Loss A/c – Credit Side	a. Profit & Loss A/c - Debit Side. b. Balance Sheet - Asset Side. Deduct from debtors after providing for provision for bad debts

ADJUSTMENTS

9. Depreciation	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side. (b) Balance Sheet – Asset Side. Deduct from Respective Asset.
10. Interest on Capital	Profit & Loss A/c – Debit Side	(a) Profit & Loss A/c – Debit Side. (b) Balance Sheet – Liability Side. Add to Capital.
11. Interest on Drawings	Profit & Loss A/c – Credit Side	(a) Profit & Loss A/c – Credit Side. (b) Balance Sheet – Liability Side. Deduct from Capital.

ADJUSTMENTS

12. Loss by Fire	Profit & Loss A/c – Debit Side	(a) Trading A/c – Credit Side (with full amount of loss)
		(b) Profit & Loss A/c – Debit Side (Actual loss, if any)
		(c) Balance Sheet – Asset Side (with insurance claim admitted by Insurance Co.)
13. Goods withdrawn for personal use	Trading A/c - Credit Side	(a) Trading A/c – Credit Side or Deduct from Purchases.
		(b) Balance Sheet – Liability Side (Deduct from Capital as Drawings)
14. Goods Distributed as free Samples	Profit & Loss A/c – Debit Side	(a) Trading A/c – Credit Side or Deduct from Purchases
		(b) Profit & Loss A/c – Debit Side

ADJUSTMENTS

15. Sale of Goods on Approval Basis, approval not yet received	Usually it is not given in Trial Balance	(a) Trading A/c – Credit Side. Deduct from Sales the selling price of goods sold and add to stock at cost price.
		(b) Balance Sheet – Asset Side. Deduct from Debtors the selling price of such sales and show the cost price of such sales along with closing stock.

ILLUSTRATION 1

On 1st April 2020 provision for Doubtful Debts existed at ₹ 40,000. Trade receivables on 31.03.2020 were ₹ 15,00,000; bad debts totalled ₹ 1,00,000. It is required to write off the bad debts and create a provision equal to 5% of the Trade receivables' balances.

Show how you would compute the amount debited to the Profit and Loss Account.

Profit & Loss A/c

Particulars	Amount	Particulars	Amount
		By Provision for Doubtful Debts (Old)	40000
To Bad Debts	1,00,000		
To RDD	70,000		

Balance Sheet

Liabilities	Amount	Assets		Amount
		Debtors	15,00,000	
		Less - Bad Debts	1,00,000	
			14,00,000	
		Less - RDD	70,000	13,30,000

Net Amount Debited to P/L Shall Be 130000

COMMISSION BASED ON PROFITS

Commission based on profit: Sometimes commission is payable to manager based on net profit; in such a case calculation is done as follows:

(i) Commission on net profit before charging such commission =

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

(ii) Commission on net profit **after** charging such commission =

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

Commission is recorded by following journal entry

Commission A/c		Dr.
	To Commission Payable A/c	

ILLUSTRATION 2

The balance sheet of Thapar on 1st April, 2019 was as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Trade payables	15,00,000	Plant & Machinery	30,00,000
Expenses Payable	1,50,000	Furniture & Fixture	3,00,000
Capital	50,00,000	Trade receivables	14,00,000
		Cash at Bank	6,50,000
		Inventories	13,000,00
	66,50,000		66,50,000

During 2019-20, his Profit and Loss Account revealed a net profit of ₹ 18,30,000. This was after allowing for the following :

(a) *Rent received from property let out ₹ 3,00,000.*

(b) *Depreciation on Plant and Machinery @ 10% and on Furniture and Fixtures @ 5%.*

(c) A provision for Doubtful Debts @ 5% of the trade receivables as at 31st March, 2020.

But while preparing the Profit and Loss Account he had forgotten to provide for (1) outstanding expenses totaling ₹ 1,80,000 and (2) prepaid insurance to the extent of ₹ 20,000.

His current assets and liabilities on 31st March, 2020 were: Inventories ₹ 14,50,000; Trade receivables ₹ 20,00,000; Cash at Bank ₹ 10,35,000 and Trade payables ₹ 11,40,000.

During the year he withdrew ₹ 6,00,000 for domestic use.

Required

Draw up his Balance Sheet at the end of the year.

Balance Sheet as on 31st March 2020

Liabilities		Amount	Assets		Amount
Capital	5000000		Plant & Machinery	3000000	
Less - Drawings	600000		Less -Depreciation at 10%	300000	2700000
Add - Net profit	1670000	6070000	Furniture & Fixture	300000	
			Less -Depreciation at 5%	15000	285000
			Trade Recievables	2000000	
			Less - RDD at 5%	100000	1900000
			Cash at Bank		1035000
			Inventories		1450000
			Prepaid Insurance		20000
Trade Payables		1140000			
Outstanding Expenses		180000			
		7390000			**7390000**

Working Notes

Profit & Loss A/c (Revised)

Particulars	Amount	Particulars	Amount
To Expenses	180000	By Bal B/d	1830000
To NP Trf to Capital A/c (Bal Fig)	16,70,000	By Insurance	20000
	18,50,000		**18,50,000**

ILLUSTRATION 3

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

Trial Balances as on 31st March, 2022

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	*2,000*	
Input CGST	*9,000*	
Input SGST	9,000	
Output IGST		*15,000*
	26,07, 000	*26,07,000*

Closing Inventory on 31st March, 2022 was valued at ₹ 1,00,000.

Required

Prepare final accounts of Shri Mittal for the year ended 31st March, 2022.

In the books of Shri Mittal

Trading Account for the year ended 31st March, 2022

Particulars		Amount	Particulars		Amount
		₹			₹
To Opening inventory		72,000	By Sales	12,10,000	
To Purchases	6,05,000		*Less:* Returns	(40,000)	11,70,000
Less: Returns	(30,000)	5,75,000	By Closing inventory		1,00,000
To Gross Profit		6,23,000			
		12,70,000			12,70,000

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

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salaries	2,70,000	By Gross profit	6,23,000
To Advertisement	1,10,000		
To Other expenses	60,000		
To Net profit	1,83,000		
	6,23,000		6,23,000

Balance Sheet as at 31st March, 2022

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital	8,70,000		Building	8,90,000
Add: Net profit	1,83,000	10,53,000	Furniture	4,50,000
14% Bank Loan		2,00,000	Trade receivables	90,000
Trade payables		1,70,000	Closing inventory	1,00,000
Overdrafts		1,12,000	Cash in hand	2,000
			Input SGST (W.N.)	3,000
		15,35,000		15,35,000

WORKING NOTE 1

AJDUSTMENT OF CGST, SGST & IGST

IGST PAYABLE
15000

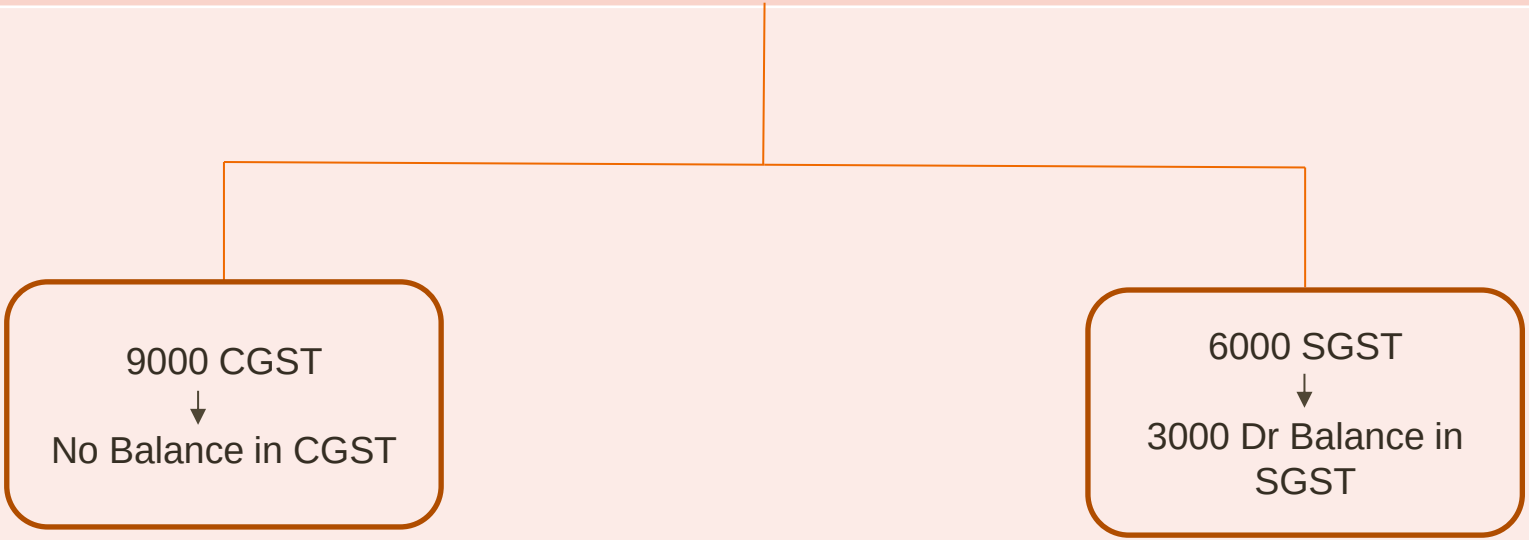


ILLUSTRATION 4

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

Trial Balance as on 31st March, 2022

Particulars	₹	₹
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	*1,89,000*	
Input CGST	*10,000*	
Input SGST	*10,000*	
Output CGST		*8,000*
Output SGST		*8,000*
Output IGST		*6,000*
	18,53,000	*18,53,000*

Other Information:

(i) Closing Inventory was ₹ 1,80,000;

(ii) Depreciate Furniture @ 10% p.a.

Required

Prepare Trading and Profit and Loss Account for the year ended on 31.3.2022 and Balance Sheet of Mr. Mohan as on that date.

In the books of Mr. Mohan

Trading Account for the year ended 31st March, 2022

Particulars		Amount	Particulars		Amount
		₹			₹
To Opening Inventory		1,10,000	By Sales	9,70,000	
To Purchases	4,30,000		*Less:* Returns	(20,000)	9,50,000
Less: Returns	(12,000)	4,18,000	By Closing Inventory		1,80,000
To Freight Inwards		40,000			
To Gross profit		5,62,000			
		11,30,000			11,30,000

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

Particulars	₹	Particulars	₹
To Depreciation	35,000	By Gross profit	5,62,000
To Salaries	2,10,000	By Discount received	9,000
To Administration expenses	1,50,000		
To Discount allowed	19,000		
To Bad debts	5,000		
To Net profit	1,52,000		
	5,71,000		5,71,000

Balance Sheet as at 31st March, 2022

Liabilities		Amount ₹	Assets		Amount ₹
Capital	6,50,000		Furniture	3,50,000	
Add: Net profit	1,52,000	8,02,000	*Less:* Depreciation	(35,000)	3,15,000
Trade payables		1,90,000	Closing Inventory		1,80,000
Output IGST		2,000	Trade receivables		2,10,000
			Investment in Govt Securities		1,00,000
			Cash in Hand and Cash at Bank		1,89,000
		9,94,000			9,94,000

ILLUSTRATION 5

The following is the schedule of balances as on 31.3.20 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 1.4.2019	*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
TOTAL	47,22,000	47,22,000

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2020 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 ₹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 ₹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 ₹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 1.5.2019.*

5. *Provision for bad debts is to be maintained at 5 percent of Sundry Debtors.*

6. *Insurance premium includes ₹40,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 1.4.2019 to 30.6.2020.*

Trading & Profit & Loss Account

For the year Ended 31-03-20

Particulars		Amount	Particulars		Amount
To Opening Stock		620000	By Sales	2300000	
To Purchases	1400000		Less - Returns	42000	
Less - Pur of Typewriter	40000		Less - Sale of Furniture	14000	2244000
Less - Returns	26000	1334000	By Closing Stock		440000
To Freight on Purchase		12000			
To Gross profit Carried to P/l A/c		718000			
		2684000			**2684000**

To Salaries		110000	By Gross Profit B/d	718000
To Rent Godown	55000		By Discount Received from Creditors	16000
Add - O/s Rent	11000	66000	By RDD (Old)	30000
To Interest on Loan	27000			
Add - O/s Interest	6000	33000		
To Rates & Taxes		21000		
To Discount Allowed to Debtors		24000		
To RDD (new)		43000		
To Carriage Outwards		20000		
To Printing & Stationary		18000		
To Electricity Charges		22000		
To Insurance Premium	55000			
Less - Life insurance of Proprietor	40000			
Less - Prepaid Insurance	3000	12000		
To General Office Expenses		30000		
To Bad Debts		20000		
To Bank Charges		16000		
To Motor Car Expenses		36000		
To Depreciation				
Furniture & Fixture	20000			
Office Equipment	30000			
Building	30000			
Motor Car	40000	120000		
To Net Profit Transferred to Capital A/c		173000		
		764000		**764000**

Balance Sheet as on 31-03-20					
Liabilities		**Amount**	**Assets**		**Amount**
Capital	1620000		Furniture & Fixtures	214000	
Less - Drawings	120000		Less - Included on Sales	14000	
Less - Life Insurance Premium	40000		Less - Depreciation at 10%	20000	180000
Add - Net Profit	173000	1633000	Office Equipment	160000	
			Add - Typewriter	40000	
				200000	
			Less - Depreciation @15%	30000	170000
Vishwanath Loan	300000		Building	600000	
Add - Outstanding Interest	6000	306000	Less - Depreciation @5%	30000	570000
Sundry Creditors		430000	Motor Car	200000	
Outstanding Rent		11000	Less - Depreciation @20%	40000	160000
			Sundry Debtors	860000	
			Less - Provision For RDD@5%	43000	817000
			Prepaid Insurance		3000
			Closing Stock		440000
			Cash in Hand		14,000
			Cash at Bank		26,000
		2380000			**2380000**

ILLUSTRATION 6

From the following particulars extracted from the books of Ganguli, prepare trading and profit and loss account and balance sheet as at 31st March, 2020 after making the necessary adjustments:

	₹		₹
Ganguli's capital account (Cr.)	5,40,500	Interest received	7,250
Stock on 1.4.2019	2,34,000	Cash with Traders Bank Ltd.	40,000
Sales	14,48,000	Discounts received	14,950
Sales return	43,000	Investments (at 5%) as on 1.4.2019	25,000
Purchases	12,15,500	Furniture as on 1-4-2019	9,000
Purchases return	29,000	Discounts allowed	37,700
Carriage inwards	93,000	General expenses	19,600
Rent	28,500	Audit fees	3,500
Salaries	46,500	Fire insurance premium	3,000

Sundry debtors	1,20,000	Travelling expenses	11,650
Sundry creditors	74,000	Postage and telegrams	4,350
Loan from Dena Bank Ltd. (at 12%)	1,00,000	Cash in hand	1,900
Interest paid	4,500	Deposits at 10% as on 1-4-2019 (Dr.)	1,50,000
Printing and stationery	17,000	Drawings	50,000
Advertisement	56,000		

Adjustments:

(1) Value of stock as on 31st March, 2020 is ₹ 3,93,000. This includes goods returned by customers on 31st March, 2020 to the value of ₹ 15,000 for which no entry has been passed in the books.

(2) Purchases include furniture purchased on 1st January, 2020 for ₹10,000.

(3) Depreciation should be provided on furniture at 10% per annum.

(4) The loan account from Dena bank in the books of Ganguli appears as follows:

		₹			₹
31.3.2020	To Balance c/d	1,00,000	1.4.2019 31.3.2020	By Balance b/d By Bank	50,000 50,000
		1,00,000			1,00,000

(5) Sundry debtors include ₹ 20,000 due from Robert and sundry creditors include ₹ 10,000 due to him.

(6) Interest paid include ₹ 3,000 paid to Dena bank.

(7) Interest received represents ₹ 1,000 from the sundry debtors (due to delay on their part) and the balance on investments and deposits.

(8) Provide for interest payable to Dena bank and for interest receivable on investments and deposits.

(9) Make provision for doubtful debts at 5% on the balance under sundry debtors. No such provision need to be made for the deposits.

In The Books of Mr. Ganguli
Trading & Profit & Loss Account
For the year Ended 31-03-2020

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening Stock		234000	By Sales	1448000	
To Purchases	1215500		Less - Sales Return (43000+15000)	58000	1390000
Less - Returns	29000		By Closing Stock		393000
	1186500				
Less - Furniture Purchased	10000	1176500			
To Carriage Inward		93000			
To Gross Profit		279500			
		1783000			**1783000**
To Postage & Telegram		4350	By Gross profit B/d		279500
To Travelling Expenses		11650	By Interest Received	7250	
To Depreciation on Furniture		1150	Add - O/s Interest on Deposit & Investment	10000	17250
To Rent		28500	By Discount received		14,950
To Salaries		46500			
To RDD		4,750			
To Interest Paid	4500				
Add - O/s Interest on loan from Dena Bank	3000	7500			
To Printing & Stationary		17000			
To Advertisement		56,000			
To Discount Allowed		37,700			
To General Expenses		19,600			
To Audit Fees		3,500			
To Fire Insurance Premium		3,000			
To Net Profit		70,500			
		3,11,700			**3,11,700**

Balance Sheet as on 31-03-2020

Liabilities	Amount	Amount	Assets	Amount	Amount
Ganguli's Capital	540500		Furniture	9000	
Less - Drawings	50000		Add - Furniture Purchased on 1-1-20	10000	
Add - Net Profit	70,500	5,61,000		19000	
			Less - Depreciation at 10%	1150	17850
Loan from Dena Bank		100000	5% Investments		25000
Interest O/s on Dena Bank Loan		3000	10% Deposit		150000
Sundry Creditors	74000		O/s Interest on Deposit & Investments		10000
Less - Adjusted against Debtors	10000	64000			
			Closing Stock		393000
			Debtors	120000	
			Less - Sales Return	15000	
				105000	
			Less - Creditors adjusted	10000	
				95000	
			Less - 5% RDD	4750	90250
			Cash at Bank		40000
			Cash in Hand		1900
		728000			**728000**

ILLUSTRATION 7

Sengupta & Co. employs a team of eight workers who were paid ₹30,000 per month each in the year ending 31st March, 2019. At the start of financial year 2019-2020, the company raised salaries by 10% to ₹33,000 per month each.

On October 1, 2019 the company hired two trainees at salary of ₹21,000 per month each. The work force are paid salary on the first working day of every month, one month in arrears, so that the employees receive their salary for January on the first working day of February etc.

You are required to calculate:

(i) Amount of salaries which would be charged to the profit and loss for the year ended 31st March, 2020.

(ii) Amount actually paid as salaries during 2019-20

(iii) Outstanding Salaries as on 31st March, 2020.

Salary to Be charged to Profit & Loss Account in 19-20

Sr. No	Particulars	Amount
A	Salary of 8 Workers (8 Workers*33000 Per Month * 12 Months)	3168000
B	Salary of 8 Trainees (2 trainee *21000*6 Months)	252000
C	Total Salary to be Debited to Profit & Loss Account (A+B)	3420000

Amount Paid as Salaries During 19-20

Sr. No	Particulars	Amount
A	Salary of 8 Workers for March 2019 (8 Workers*30000 Per Month)	240000
B	Salary of 8 Workers from April to Feb (8 Workers *33000 Per Month * 11 Months)	2904000
C	Salary of 2 trainees from Oct to Feb (2 Trainees * 21000 Per month * 5 Months)	210000
D	Amount of Salary Paid During 19-20 (A+B+C)	3354000

Outstanding Salary as on 31st March 2020

Sr.No	Particulars	Amount
A	Salary of 8 Workers for March 2020 (8 Workers*33000 Per Month)	264000
B	Salary of 2 trainees for March 2020 (2 Trainees * 21000 per month)	42000
C	Amount of Salary Oustanding as on 31st March 2020 (A+B)	306000

ILLUSTRATION 8

Mr. Kotriwal is engaged in business of selling magazines. Several of his customers pay money in advance for subscribing his magazines. Information related to year ended 31st March 2020 has been given below:

On 1.4.2019 he had a balance of ₹ 2,00,000 advance from customers of which ₹ 1,50,000 is related to year 2019-20 while remaining pertains to year 2020-21. During the year 2019-20 he made cash sales of ₹ 5,00,000. You are required to compute:

(i) Total income for the year 2019-20.

(ii) Total money received during the year if the closing balance in advance from customers account is ₹ 1,70,000.

Case (i)

Customer A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	200000
To Sales	150000		
To Bal C/d	50000		
	200000		200000

Computation of Total Income For the Year 2019-2020

Particulars	Amount
Cash Sales	500000
Sales For Which Advance Received Earlier	150000
Total Income	650000

Case (ii)

Customer A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	200000
To Sales	150000	By Cash (Bal Fig)	120000
To Bal C/d	170000		
	320000		320000

Computation of Total Amount Received in the Year 2019-2020

Particulars	Amount
Cash Sales	500000
Amount Recieved From Customers	120000
Total Amount Received	620000

PROVISION & RESERVES

Basis of Distinction	Provision	Reserve
Meaning	Provision means – (i) Any Amount written off. (ii) Any Amount retained by way of providing for depreciation, renewal or diminution in value of Assets, (iii)Any Provision for known liability, of which amount cannot be determined with substantial Accuracy.	Profit retained in the business not having any of the attributes of a 'provision' is to be treated as a reserve. Also provisions in excess of the amount considered necessary for the purposes these were originally made are to be considered as reserves.
Propose	It is created for a particular purpose and can only be used for that particular purpose	It need not necessarily be created for a particular purpose, e.g., General reserve is not for any particular purpose.
Charge Vs. Appropriation	It is a charge against the profit	It is an appropriation out of profit

PROVISION & RESERVES

Basis of Distinction	Provision	Reserve
Disclosure in Balance Sheet	Usually a provision is shown by way of deduction from the amount of the items for which it is created. E.g., Provision for Doubtful Debts.	Reserve is known as a separate item under the head Reserves and Surplus' on the liabilities side of the Balance Sheet.
Investment outside the business	There is no question of investment of the amount of provisions.	The amount of a reserve can be invested outside the business. If it is invested outside business, it is called 'FUND'.
Utilisation for dividends	It cannot be utilised for distribution by way of dividends.	It can be utilised for distribution by way of dividends.
Examples	Provision for Tax Provision for Doubtful Debts	General Reserve Contingency Reserve Worker's Welfare Reserve

ILLUSTRATION 9

Crimpson Ltd.'s profit and loss account for the year ended 31st March, 2020 includes the following information:

		₹
(i)	*Depreciation*	*57,500*
(ii)	*Bad debts written off*	*21,000*
(iii)	*Increase in provision for doubtful debts*	*18,000*
(iv)	*Proposed dividend*	*15,000*
(v)	*Retained profit for the year*	*20,000*
(vi)	*Liability for tax*	*4,000*

Required

State which one of the items (i) to (vi) above are – (a) transfer to provisions; (b) transfer to reserves; and (c) neither related to provisions nor reserves.

SOLUTION

(a) Transfer to provisions - (i), (iii) (vi)

(b) Transfer to reserves - (v)

(c) Neither related to provisions nor reserves - (ii), (iv).

ILLUSTRATION 10 - RTP DEC 2021

The following are the balances as at 31st March, 2021 extracted from the books of Mr. Satender.

	₹		₹
Plant and Machinery	78,200	Bad debts recovered	1800
Furniture and Fittings	41,000	Salaries	90,200
Bank Overdraft	3,20,000	Salaries payable	9,800
Capital Account	2,60,000	Prepaid rent	1,200
Drawings	32,000	Rent	17,200
Purchases	6,40,000	Carriage inward	4,500
Opening Stock	1,29,000	Carriage outward	5,400
Wages	48,660	Sales	8,61,200

Provision for doubtful debts	12,800	Advertisement Expenses	13,400
Provision for Discount on debtors	5,500	Printing and Stationery	5,000
Sundry Debtors	4,80,000	Cash in hand	5,800
Sundry Creditors	1,90,000	Cash at bank	12,500
Bad debts	4,400	Office Expenses	40,640
		Interest paid on loan	12,000

Additional Information:

1. Purchases include sales return of ₹ 10,300 and sales include purchases return of ₹ 6,900.
2. Goods withdrawn by Mr. Satender for own consumption ₹ 14,000 included in purchases.
3. Wages paid in the month of April for installation of plant and machinery amounting to ₹ 1,800 were included in wages account.

4. Free samples distributed out of purchases for publicity costing ₹ 3,300.

5. Create a provision for doubtful debts @ 5% and provision for discount on debtors @ 2.5%.

6. Depreciation is to be provided on plant and machinery @ 20% p.a. and on furniture and fittings @ 10% p.a.

7. Bank overdraft is secured against hypothecation of stock. Bank overdraft outstanding as on 31.3.2020 has been considered as 80% of real value of stock (deducting 20% as margin) and after adjusting the marginal value 80% of the same has been allowed to draw as an overdraft.

Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2021, and a Balance Sheet as on that date. Also show the rectification entries.

Rectification Entries

Sr. No	Particulars		LF	Amount	Amount
1	Sales Return A/c	Dr		10,300	
	To Purchase A/c				10,300
	(Being sales return included in purchase, now rectified)				
2	Sales A/c	Dr		6,900	
	To Purchase Return A/c				6,900
	(Being purchase return included in sales, now rectified)				

Sr. No	Particulars	LF	Amount	Amount
3	Drawings A/c Dr		14,000	
	To Purchase A/c			14,000
	(Being goods withdrawn included in purchase, now rectified)			
4	Plant & Machinery A/c Dr.		1,800	
	To Wages A/c			1,800
	(Being wages paid for installation of P&M was debited to wages, now rectified)			
5	Advertisement A/c…..Dr		3,300	
	To Purchase A/c			3,300
	(Being entry Recorded)			

In the Books of Satender					
Trading and Profit & loss A/c					
For the year ended 31-03-2021					
Particulars		**Amount**	**Particulars**		**Amount**
To Opening Stock		1,29,000	By Sales Less - Returns	8,54,300 (10,300)	8,44,000
To Purchases Less – Returns	6,12,400 (6,900)	6,05,500	By Closing Stock (3,20,000/80%) = 4,00,000/80%		5,00,000
To Wages		46,860			
To Carriage Inward		4,500			
To Gross profit		5,58,140			
		13,44,000			13,44,000

Particulars		Amount	Particulars	Amount
To Interest on loan		12,000	By Gross Profit	5,58,140
To Advertisement		16,700		
To Bad Debts		4,400		
To Depreciation			By Bad Debts Recovered	1,800
-Plant & Machinery	16,000		By Provisions for Doubtful	
-Furniture & Fixture	4,100	20,100	Debts(Old)	12,800
To Salaries		90,200	By Provisions for Discount on Debtors (Old)	5,500
To Rent		17,200		
To Carriage Outward		5,400		
To Provisions for Doubtful Debts (New)		24,000		
To Provisions for Discount on Debtors (New)		11,400		
To Printing & Stationary		5,000		
To Office Expenses		40,640		
To Net Profit		3,31,200		
		5,78,240		5,78,240

Balance Sheet as on 31st March 2021					
Liabilities		**Amount**	**Assets**		**Amount**
Capital	2,60,000		Plant & Machinery	80,000	
Less – Drawings	(46,000)		Lees – Depreciation @20%	(16,000)	
Add Profit	3,31,200	5,45,200			64,000
			Furniture & Fixatures	41,000	
			Lees – Depreciation @10%	(4,100)	36,900
Salary Payable		9,800	Prepaid Rent		1,200
Bank Overdraft		3,20,00	Closing Stock		5,00,000
Sundry Creditors		1,90,000	Sundry Debtors	4,80,000	
			Less - Provisions for Doubtful Debts @5%	24,000	
				456000	
			Less - Provisions for Discount on Debtors @25%	11400	4,44,600
			Cash in Hand		5,800
			Cash at Bank		12,500
		10,65,000			10,65,000

ILLUSTRATION 11 - PYP JUL 2021 (10 MARKS)

Karuna decided to start business of fashion garments under the name of M/s. Designer Wear on 1st April, 2020. She had a saving of about ₹ 10,00,000. She invested ₹ 3,00,000 out of her savings and borrowed equal amount from bank. She purchased a commercial space for ₹ 5,00,000 and further spent ₹ 1,00,000 on its renovation to make it ready for business.

Loan and interest repaid by her in the first year are as follows:

30th June, 2020	-	*₹ 15,000 principal+ ₹ 9,000 interest*
30th September, 2020	-	*₹ 15,000 principal+ ₹ 8,550 interest*
31st December, 2020	-	*₹ 15,000 principal+ ₹ 8,100 interest*
31st March, 2021	-	*₹ 15,000 principal+ ₹ 7,650 interest.*

In view of further capital requirement, she transferred ₹ 2,00,000 from her saving bank account to the bank account of the business. She paid security deposit of ₹ 7,000 for telephone connection. Furniture of ₹ 10,000 was purchased, All payments were made by cheque and all receipts in cash were deposited in the bank.

At the end of the year, her business showed the following results:

Particulars	Amount	Particulars	Amount
Total Sales	20,00,000	Total Purchases	17,00,000
Electricity Expenses paid	40,000	Telephone Charges	50,000
Cartage Outwards	60,000	Travelling Expenses	45,000
Entertainment Expenses	5,000	Maintenance Expenses	25,000
Misc. Expenses	15,000	Electricity Expenses Payable	20,000

Other Information:

(i) She withdrew ₹ 5,000 by cheque each month for her personal expenses.

(ii) Depreciation on building @ 5% p.a. and oil furniture @ 10% p.a.

(iii) Closing stock in hand as on 31st March, 2021: ₹ 5,50,000

Prepare trading account, profit and loss account for the year ended 31-3-2021 and Balance Sheet as on that date.

In The Books of M/s. Designer Wear			
Trading and Profit & loss A/c			
For the Year Ended 31-03-2021			
Particulars	**Amount**	**Particulars**	Amount
To Purchases	17,00,000	By Sales	20,00,000
		By Closing Stock	5,50,000
To Gross Profit (BF)	8,50,000		
	25,50,000		**25,50,000**

Particulars		Amount	Particulars	Amount
To Travelling Exp		45,000	By Gross profit	8,50,000
To Telephone Charges		50,000		
To Carriage Outward		60,000		
To Depreciation				
-Building	30,000			
-Furniture	1,000	31,000		
To Entertainment Exp		5,000		
To Misc. Exp		15,000		
To Interest On Loan		33,300		
To Electricity Exp	40,000			
Add – O/s	20,000	60,000		
To Maintenance Exp		25,000		
To Net Profit		5,25,700		
		8,50,000		8,50,000

Balance Sheet as on 31st March 2021					
Liabilities		**Amount**	**Assets**		**Amount**
Capital Introduced	3,00,000		Building	6,00,000	
Add- Additional Capital			Less – Depreciation @5%	(30,000)	
	2,00,000				
Less – Drawings	(60,000)				
Add – Profit	5,25,700	9,65,700			5,70,000
			Furniture	10,000	
			Less – Depreciation @10%	(1,000)	9,000
Bank Loan	3,00,000				
Less – Repaid	(60,000)	2,40,000	Closing Stock		5,50,000
O/s Electricity Charges		20,000	Security Deposit for Telephone Connection		7,000
			Cash at Bank		89,700
		12,25,700			**12,25,700**

ILLUSTRATION 12 RTP NOV 2018

The following is the trial balance of Hari as at 31st December, 2017:

	Dr.	Cr.
	₹	₹
Hari's capital account	-	76,690
Stock 1st January, 2017	46,800	-
Sales	-	3,89,600
Returns inward	8,600	-
Purchases	3,21,700	-
Returns outward	-	5,800
Carriage inwards	19,600	-

Rent & taxes	4,700	-
Salaries & wages	9,300	-
Sundry debtors	24,000	-
Sundry creditors	-	14,800
Bank loan @ 14% p.a.	-	20,000
Bank interest	1,100	-
Printing and stationary expenses	14,400	-
Bank balance	8,000	-
Discount earned	-	4,440
Furniture & fittings	5,000	-
Discount allowed	1,800	-
General expenses	11,450	-
Insurance	1,300	-

Postage & telegram expenses	2,330	-
Cash balance	380	-
Travelling expenses	870	-
Drawings	30,000	
	5,11,330	5,11,330

The following adjustments are to be made:

(1) Included amongst the debtors is ₹ 3,000 due from Ram and included among the creditors ₹ 1,000 due to him.

(2) Provision for bad and doubtful debts be created at 5% and for discount @ 2% on sundry debtors.

(3) Depreciation on furniture & fittings @ 10% shall be written off.

(4) Personal purchases of Hari amounting to ₹ 600 had been recorded in the purchases day book.

(5) Interest on bank loan shall be provided for the whole year.

(6) A quarter of the amount of printing and stationary expenses is to be carried forward to the next year.

(7) Credit purchase invoice amounting to ₹ 400 had been omitted from the books.

(8) Stock on 31.12.2017 was ₹ 78,600.

Prepare (i) Trading & profit and loss account for the year ended 31.12.2017 and (ii) Balance sheet as on 31st December, 2017.

Trading & P/L A/c
For The year Ended 31–12-2017

Particulars		Amount	Particulars		Amount
To Opening Stock		46,800	By Sales	3,89,600	
			Less – Return	(8,600)	3,81,000
To Purchases	3,21,700		By Closing Stock		78,600
Less					
-Personal Purchases	(600)				
-Returns	(5,800)				
Add					
-Unrecorded Purchases	400	3,15,700			
To Carriage Inward		19,600			
To Gross Profit		77,500			
		4,59,600			**4,59,600**

Particulars	Amount	Particulars	Amount
To Rent & Taxes	4,700	By Gross Profit	77,500
To Salary & Wages	9,300	By Discount	4,440
To RDD	1,150		
To Provision for Discount on Debtors	437		
To General Exp	11,450		
To Insurance	1,300		
To Postage & Telegram	2,330		
To Depreciation on Furniture	500		
To Bank Interest 1,100 Add O/s Interest 1,700	2,800		

Particulars		Amount	Particulars	Amount
To Printing & Stationery Less – Prepaid	14,400 (3,600)	10,800		
To Discount Allowed		1,800		
To Travelling Exp		8,70		
To Net Profit		34,503		
		81,940		**81940**

Balance Sheet as on 31-12-2017

Liabilities	Amount	Assets	Amount
Capital 76,690 Less - Personal Purchases (600) Less - Drawings (30,000) Add – Profit 34,503	80,593	Furniture & fixture 5,000 Less - Depreciation @10% (500)	4,500
		Closing Stock	78,600
		Cash Balance	380
14% Bank Loan	20,000	Prepaid Printing & Stationary	3,600
O/s Interest On Loan	1,700	Bank Balance	8,000
Sundry Creditors 14,800 Add - Unrecorded Purchase 400 Less – Set off Against Debtors (1,000)	14,200	Sundry Debtors 24,000 Less – Set off Against Creditors (1,000) Less – RDD 5% (1,150) Less – Provision for Discount 437	21,413
	1,16,493		**1,16,493**



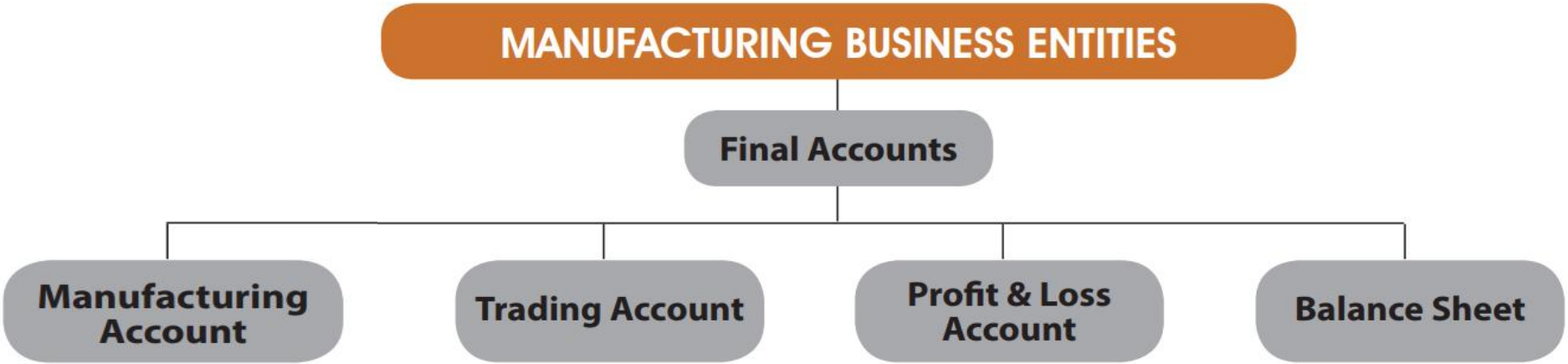
thank you!

FINAL ACCOUNTS OF MANUFACTURING ENTITY

BIRDS EYE VIEW

- Components of Final Accounts of Manufacturing Entity
- Introduction
- Purpose of manufacturing Account
- Manufacturing Cost
- Direct Manufacturing Expenses
- Indirect Manufacturing Expenses (overheads)
- Treatment of By Products
- Format of Manufacturing Account
- Problems

FINAL ACCOUNTS OF MANUFACTURING ENTITIES



INTRODUCTION

The manufacturing entities generally prepare a separate Manufacturing Account as a part of Final accounts in addition to Trading Account, Profit and Loss Account and Balance Sheet.

The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities.

Manufacturing costs of finished goods are then transferred from the Manufacturing Accounts to Trading Account.

Trading account shows Gross Profit while Manufacturing Account shows Cost of goods sold/Cost of Production which includes direct expenses.

Manufacturing account deals with the raw material, and work in progress while the trading account would deal with finished goods only.

PURPOSE OF MANUFACTURING ACCOUNT

A manufacturing account serves the following functions:

1) It shows the total cost of manufacturing the finished products and sets out in detail, with appropriate classifications, the constituent elements of such cost. It is, therefore, debited with the cost of materials, manufacturing wages and expenses incurred directly or indirectly on manufacture.

2) It provides details of factory cost and facilitates reconciliation of financial books with cost records and also serves as a basis of comparison of manufacturing operation from year to year.

3) The Manufacturing Account may also be used for various other purposes. For example, if the output is carried to the Trading Account at market prices, it discloses the profit or loss on manufacture.

MANUFACTURING COST

+ Raw Material Consumed	…….
+ Direct Manufacturing Wages	…….
+ Direct Manufacturing Expenses	…….
+ Indirect Manufacturing expenses (Overheads)	…….

RAW Material Consumed = Opening inventory of Raw Materials + Purchase – Closing inventory of Raw Materials

Opening inventory of Work-in-Process is posted the debit of the Manufacturing Account and closing inventory of Work-in-Process is posted to the credit of the Manufacturing Account.

DIRECT MANUFACTURING EXPENSES

1. Direct manufacturing expenses are costs, other than material or wages, which are incurred for a specific product or saleable service.
2. Examples of direct manufacturing expenses are (i) Royalties for using license or technology if based on units produced, (ii) Hire charge of the plant and machinery used on hire, if based on units produced, etc.

INDIRECT MANUFACTURING EXPENSES (OVERHEADS)

These are also called Manufacturing overhead, Production overhead, Works overhead, etc. Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

Overhead= Indirect Material + Indirect Wages + Indirect Expenses

Indirect material means materials which cannot be linked directly with the units produced, for example, stores consumed for repair and maintenance work, small tools, fuel and lubricating oil, etc.

Indirect wages are those which cannot be directly linked to the units produced, for example, wages for maintenance works, holding pay, etc.

Indirect expenses are those which cannot be directly linked to the units produced, for example, training expenses, depreciation of plant and machinery, depreciation of factory shed, insurance premium for plant and machinery, factory shed, etc.

Accordingly, indirect manufacturing expenses comprise indirect material, indirect wages and indirect expenses of the manufacturing division.

TREATMENT OF BY PRODUCTS

1. In most manufacturing operations, the production of the main product is accompanied by the production of a subsidiary product which has a value on sale.

2. Example - Molasses is the by-product in sugar manufacturing ,Butter milk is the by-product of a dairy which produces butter and cheese, etc.

3. The subsidiary product is termed as a by-product because its production is not consciously undertaken but results out of the production of the main product. It is usually very difficult to ascertain the cost of the product. Moreover, its value usually forms a very small percentage of the main product.

4. By-product is a secondary product. This is produced from the same raw materials, which are used for producing the main product and without incurring any additional expenses form the same production process in which the main product is produced.

5. By-products generally have insignificant value as compared to the value of main product. They are **generally valued at net realizable value,** if their costs cannot be separately identified. It is often treated, as "Miscellaneous income" but the correct treatment would be to credit the sale value of the by-product to Manufacturing Account so as to reduce to that extent, the cost of manufacture of main product.

FORMAT OF MANUFACTURING ACCOUNT

Particulars	Units	Amount ₹	Particulars	Units	Amount ₹
To Opening Work-in-process			By Closing Work-in-Process		
To Raw Material Consumed:			By By-products at net realizable value		
Opening inventory			By Trading A/c (Cost of production)		
Add: Purchases					
Less: Closing inventory					
To Direct Wages					
To Direct manufacturing Expenses					
Royalty					
Hire charges					
To Indirect Manufacturing expenses:					
Indirect Material					
Indirect Wages					
Indirect Expenses					

ILLUSTRATION 1

Mr. Vimal runs a factory which produces soaps. Following details were available in respect of his manufacturing activities for the year ended on 31.3.2020:

	₹
Opening Work-in-Process (10,000 units)	16,000
Closing Work-in-Process (12,000 units)	20,000
Opening inventory of Raw Materials	1,70,000
Closing inventory of Raw Materials	1,90,000
Purchases	8,20,000
Hire charges of machine @ ₹ 0.60 per unit manufactured	
Hire charges of factory	2,20,000
Direct wages-Contracted @ ₹ 0.80 per unit manufactured and @ ₹ 0.40 per unit of Closing W.I.P.	
Repairs and Maintenance	1,80,000
Units produced – 5,00,000 units	

Required

Prepare a Manufacturing Account of Mr. Vimal for the year ended 31.3.2020.

In The Books of Mr. VIMAL

Manufacturing A/c

For the year Ended 31-03-2020

Particulars		Amount	Particulars	Amount
To Opening Work In Progress		16000	By Closing Work in Progress	20000
To Raw Material Consumed (WN 1)		800000	By Cost of Production Trf to Trading Account (Bal Fig)	1900800
To Direct Wages				
Units Manufactured (500000*.80)	400000			
Closing WIP (12000*.40)	4800	404800		
To Direct Manufacturing Expenses				
Hire Charges of Machine (0.60*500000 Units)		300000		
To Indirect Manufacturing Expenses				
Hire Charges of Factory	220000			
Repairs & Maintenance	180000	400000		
		1920800		1920800

WN 1 - Calculation of Raw Material Consumed

Raw Material Consumed = Opening Stock of RM + Purchase of Raw Material - Closing Stock of Raw Material

Raw Material Consumed = 170000+820000-190000

Raw Material Consumed = 800000

ILLUSTRATION 2

Mr. Pankaj runs a factory which produces motor spares of export quality. The following details were obtained about his manufacturing expenses for the year ended on 31.3.2020.

			₹
W.I.P.	- Opening		3,90,000
	- Closing		5,07,000
Raw Materials	- Purchases		12,10,000
	- Opening		3,02,000
	- Closing		3,10,000
	- Returned		18,000
	- Indirect material		16,000
Wages	- direct		2,10,000
	- indirect		48,000

Direct expenses	- Royalty on production		1,30,000
		- Repairs and maintenance	2,30,000
		- Depreciation on factory shed	40,000
		- Depreciation on plant & machinery	60,000
By-product at selling price			20,000

You are required to prepare Manufacturing Account of Mr. Pankaj for the year ended on 31.3.2020.

In The Books of Mr. PANKAJ

Manufacturing A/c

For the year Ended 31-03-2020

Particulars		Amount	Particulars	Amount
To Opening Work In Progress		390000		
To Raw Material Consumed (WN 1)		1184000	By By-Products	20000
			By Closing Work in Progress	507000
To Direct Wages		210000	By Cost of Production Trf to Trading Account (Bal Fig)	1781000
To Direct Manufacturing Expenses				
Royalty On Production		130000		
To Indirect Manufacturing Expenses				
Indirect Material	16000			
Indirect Wages	48000			
Repairs & Maintenance	230000			
Dep on Factory Shed	40000			
Dep on P & M	60000	394000		
		2308000		2308000

Working Note 1 - Calculation of RM Consumed

RAW Material Consumed = Opening Stock of RM + Purchase of RM - Return of RM - Closing Stock of RM

RAW Material Consumed = 302000+1210000-18000-310000

= 1184000

ILLUSTRATION 3

Following are the Manufacturing A/c, Creditors A/c and Trading A/c provided by Ms. Shivi related to 2019-20. There are certain figures missing from these accounts.

Raw Material A/c

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Opening Stock A/c	1,00,000		By Raw Material Consumed	.....
	To Creditors A/c	.....		By Closing Stock A/c	.....

Creditors A/c

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Bank A/c	22,00,000		By Balance b/d	15,00,000
	To Balance c/d	6,00,000			

Manufacturing A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Raw Material Consumed	.....	By Trading A/c	17,94,000
To Wages	3,50,000		
To Depreciation	2,00,000		
To Direct Expenses	2,44,000		

Additional Information:

1) Purchase of machinery worth ₹ 10,00,000 has been omitted. Machinery are chargeable at a depreciation rate of 10%.

2) Wages include the following

Paid to Factory Workers - ₹ 3,00,000

Paid to labour at office - ₹ 50,000

3) Direct Expenses include following:

- Electricity charges of ₹ 80,000 of which 30% pertained to office.
- Fuel Charges of ₹ 20,000
- Freight Inwards of ₹ 35,000
- Delivery charges to customers - ₹ 20,000.

You are required to prepare revised Manufacturing A/c, and Raw Material A/c.

In The Books of M/s. Shivi

Manufacturing A/c

For the year Ended 31-03-2020

Particulars		Amount	Particulars	Amount
To RM Consumed (Bal Fig)		1000000		
To Wages	350000			
Less - Wages for Office	50000	300000		
			By Trading Account (WN 2)	1800000
To Direct Manufacturing Expenses	244000			
Less - Electricity expenses of office	24000			
Less - Delivery Charges to customer	20000	200000		
To Indirect Manufacturing Expenses				
Depreciation (200000+100000)		300000		
		1800000		**1800000**

Raw Material A/c

For the year Ended 31-03-2020

Particulars	Amount	Particulars	Amount
To Opening Stock	100000	By RM Consumed	1000000
To Creditors (WN 1)	1300000	By Closing Stock (Bal Fig)	400000
	1400000		1400000

Working Notes

WN - 1 Creditors A/c

For the year Ended 31-03-2020

Particulars	Amount	Particulars	Amount
To Bank A/c	2200000	By Bal B/d	1500000
		By Purchases (Bal Fig)	1300000
To Bal C/d	600000		
	2800000		**2800000**

WN - 2 CALCULATION OF REVISED COST OF PRODUCTION

PARTICULARS	AMOUNT
Cost of Production as Per Manufacturing Account	1794000
Add - Depreciation on Plant	100000
Less - Electricity Expenses	24000
Less - Delievery Charges to customer	20000
Less - Wages of Office labour	50000
Revised Cost of Production	1800000

ILLUSTRATION 4

On 31st March, 2020 the Trial Balance of Mr. White were as follows:

Trial Balance as on 31st March, 2020

Particulars	Dr. ₹	Particulars	Cr. ₹
Stock on 1st April 2019			
Raw Materials	21,000	Sundry Creditors	15,000
Work in Progress	9,500	Bills Payable	7,500
Finished goods	15,500	Sale of Scrap	2,500
Sundry Debtors	24,000	Commission Received	450
Carriage on Purchases	1,500	Provision for doubtful debts	1,650
Bills Receivable	15,000	Capital Account	1,00,000
Wages	13,000	Sales	1,67,200
Salaries	10,000	Bank Overdraft	8,500

Telephone, Postage etc.	1,000		
Repairs to Office Furniture	350		
Cash at Bank	17,000		
Office Furniture	10,000		
Repairs to Plant	1,100		
Purchases	85,000		
Plant and Machinery	70,000		
Rent	6,000		
Lighting	1,350		
General Expenses	1,500		
	3,02,800		3,02,800

The following additional information is available:

Stocks on 31st March, 2020 were:

Raw Materials ₹16,200

Finished goods ₹18,100

Semi-finished goods ₹7,800

Salaries and wages unpaid for March 2020 were respectively, ₹900 and ₹2,000

Machinery is to be depreciated by 10% and office furniture by 71/2 %

Provision for doubtful debts is to be maintained @ 1% of sales

Office premises occupy 1/4 of total area.

Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account Trading Account, Profit and Loss Account and the Balance Sheet relating to 31st March 2020.

In The Books of Mr. White

Manufacturing A/c

For the year Ended 31-03-2020

Particulars		Amount	Particulars	Amount
To Opening Work in Progress		9500	By Sale of Scrap	2500
To Raw Material Consumed			By Closing Work in Progress	7800
Opening stock	21000		By Cost of Production trf to Trading Account	119000
Add - Purchases	85000		(Bal Fig)	
Less - Closing Stock	16200	89800		
To Carriage on Purchase		1500		
To Repairs to Plant		1100		
To Wages	13000			
Add - O/s Wages	2000	15000		
To Rent (6000*3/4)		4500		
To Lighting (1350*2/3)		900		
To Depreciation on Plant		7000		
		129300		**129300**

Trading & P/L A/c

For the year Ended 31-03-2020

Particulars		Amount	Particulars	Amount
To Opening Stock of Finished Goods		15500	By Sales	167200
To Cost of Production		119000	By Closing Stock of FG	18100
To Gross profit (Bal Fig)		50800		
		185300		**185300**
To Salaries	10000		By Gross Profit B/d	50800
Add - O/s Salaries	900	10900	By Commission Receieved	450
To Telephone , Postage Etc		1000	By Old RDD	1650
To Repairs to Office Furniture		350		
To Rent (1/4*6000)		1500		
To Lighting (1/3 of 1350)		450		
To RDD		1672		
To General Expenses		1500		
To Depreciation on Furniture		750		
To Net Profit Trf to Capital A/c (bal Fig)		34778		
		52900		**52900**

BALANCE SHEET

AS ON 31-03-2020

Particulars		Amount	Particulars		Amount
Capital	100000		Office Furniture	10000	
Add - Net Profit	34778	134778	Less - Depreciation at 7.50%	750	9250
			Plant & Machinery	70000	
Bank Overdraft		8500	Less - Depreciation at 10%	7000	63000
Bills Payable		7500	Sundry Debtors	24000	
Sundry Creditors		15000	Less - RDD @ 1% of Sales	1672	22328
O/s Wages		2000	Bills Receivable		15000
O/s Salaries		900	Cash at Bank		17000
			Closing Stock		
			Raw Material	16200	
			Work in Progress	7800	
			Finished Goods	18100	42100
		168678			**168678**

ILLUSTRATION 5

The following is the trial balance of Mr. Pandit for the year ended 31st March, 2020:

Trial Balance as on 31st March 2020

Particulars	Dr. ₹	Particulars	Cr.₹
Opening Stock:			
Raw Materials	1,50,000	Sundry Creditors	50,000
Finished goods	75,000	Purchase Returns	5,000
Purchase of Raw Materials	5,00,000	Capital	1,00,000
Land & Building	1,00,000	Bills Payable	24,000
Loose tools	30,000	Long-Term Loan	2,00,000
Plant & Machinery	30,000	Provision for Bad and Doubtful Debts	2,000
Investments	25,000	Sales	8,50,000
Cash in Hand	20,000	Bank Overdraft	23,000

Cash at Bank	5,000		
Furniture & Fixtures	15,000		
Bills Receivable	15,000		
Sundry Debtors	40,000		
Drawings	20,000		
Salaries	20,000		
Coal and Fuel	15,000		
Factory rent & rates	20,000		
General Expenses	4,000		
Advertisement	5,000		
Sales Return	10,000		
Bad Debts	4,000		
Direct Wages (Factory)	80,000		
Power	30,000		

Interest Paid	7,000		
Discount Allowed	3,000		
Carriage Inwards	15,000		
Carriage Outwards	7,000		
Commission Paid	5,000		
Dividend Paid	4,000		
	12,54,000		12,54,000

Additional Information

Stock of finished goods at the end of the year ₹1,00,000.

A provision for doubtful debts. at 5% on Sundry Debtors. Depreciation on building ₹ 1,000 and ₹ 3,000 on Machinery to be provided.

Accrued commission ₹ 12,500. Interest has accrued on investment ₹ 15,000.

Salary Outstanding ₹ 2,000 and Prepaid Interest ₹ 1,500.

You are required to prepare Manufacturing, Trading and Profit and Loss Account for the year ended 31st March, 2020.

In The Books of Mr. Pandit

Manufacturing A/c

For the year Ended 31-03-2020

Particulars		Amount	Particulars	Amount
To Opening Stock of RM		150000		
To Purchase	500000		By cost of Production trf to trading A/c (Bal Fig)	808000
Less - Returns	5000	495000		
To Coal & Fuel		15000		
To factory Rent & rates		20000		
To Direct Wages		80000		
To Depreciation on Plant & Machinery		3000		
To Power		30000		
to carriage inward		15000		
		808000		**808000**

Trading & P/L A/c
For the year Ended 31-03-2020

Particulars		Amount	Particulars		Amount
To opening Stock of FG		75000	By Sales	850000	
to Cost of Production		808000	Less - Sales return	10000	840000
			By Closing Stock		100000
To Gross profit (bal Fig)		57000			
		940000			**940000**
To Interest paid	7000		By Gross profit		57000
Less - Prepaid	1500	5500	By Old RDD		2000
To Salary	20000		By Commission		12500
Add - O/s Salary	2000	22000	By interest on Investments		15000
To RDD		2000			
To Depreciation on Land & Building		1000			
to general Expenses		4000			
To Advertisment		5000			
To bad Debts		4000			
to Discount Allowed		3000			
To carriage outward		7000			
To Commision Paid		5000			
To Dividend paid		4000			
To Net profit		**24000**			
		86500			**86500**

BALANCE SHEET

AS ON 31-03-2020

Particulars		Amount	Particulars		Amount
Capital	100000		Land & Building	100000	
Less - drawings	20000		Less - Depreciation	1000	99000
Add - Net profit	24000	104000	Plant & machinery	30000	
			Less - Depreciation	3000	27000
			Prepaid interest		1500
			Loose Tools		30000
			Sundry Debtors	40000	
Sundry Creditors		50000	Less - RDD	2000	38000
Outstanding Salary		2000	Investments		25000
Bills payable		24000	Cash in hand		20000
Long Term loan		200000	Cash at Bank		5000
bank Overdraft		23000	Furniture & Fixtures		15000
			Bills Receivable		15000
			Closing Stock		100000
			Accrued Commision		12500
			Accrued interest		15000
		403000			**403000**



thank you!

FINANCIAL STATEMENTS OF NPO

BIRDS EYE VIEW

- Introduction
- Components of Financial Statements of NPO
- Receipt & Payment Accounts , Income & Expenditure Account , Balance Sheet
- Difference Between Receipt & payment Account and Income & Expenditure Account
- Accounting treatment of Donations , Entrance and Admission Fees , Subscription , Life membership Fees , Legacy etc
- Financial Statements of NPO in the form of Educational Institutions.

INTRODUCTION

A Non profit Organization is a legal and accounting entity that is operated for the benefit of the society as a whole , rather than for the benefit of a sole proprietor or a group of partners or shareholders.

The main Objective of NPO may Be to operate as Social , Educational , Religious or charitable Organization and they may be in the form of Clubs , Societies Etc. The main Objective Being to Serve the Society and not profit making.

COMPONENTS OF FINANCIAL STATEMENTS OF NPO

- Receipts & Payments Account
- Income & Expenditure Account
- Balance Sheet

RECIEPTS AND PAYMENT ACCOUNT

A receipts and payment account is a Summary of the cash book Without Date column. It Consists of Summary of Cash/Bank receipts and payments over a certain period together with the cash balance at the beginning and close of the period. The Receipts are entered on the Left hand Side and Payments on the right hand side.

FEATURES OF RECEIPTS AND PAYMENTS ACCOUNT

- **It is Summary of the cash and Bank Transactions Like Cash Book , all the receipts (Capital or revenue) are Debited , All the expenditures (capital or revenue) are credited.**

- **It Starts with Opening cash and Bank balances and also ends with their closing balances.**

- **It includes All Cash and Bank receipts and payments , Whether they are related to current , past or future periods.**

INCOME AND EXPENDITURE ACCOUNT

The Income & Expenditure Account is Equivalent to The profit & Loss Account of the business Enterprise. It is prepared by Matching revenues against the Expenses for a Specific period , Usually a Year. However Since This is not an profit making Institution , It is Known As Income & Expenditure and the balance is not known as Profit or Loss but is known as Deficit or Surplus.

FEATURES OF INCOME & EXPENDITURE ACCOUNT

- **It is a revenue Account prepared at the end of the Accounting period for finding out the surplus or deficit of that period.**
- **It is prepared by matching Expenses against the revenue of that period concerned.**
- **Both cash and Non cash Items , Such as Depreciation , are taken into consideration.**
- **All Capital Expenditures and Incomes are excluded**
- **Only Current year’s income and expenses are considered.**
- **If Income is more than Expenditure then the Balance shall be called as Surplus , whereas if Expenditure is more than income the balance shall be called as Deficit.**

DIFFERENCE BETWEEN R&P AND I&E

RECEIPT AND PAYMENT ACCOUNT	INCOME AND EXPENDITURE ACCOUNT
It is Real Account	It is Nominal Account
It Includes Both Capital & Revenue items	It Includes only revenue Items
It is Summary of actual cash receipts and payments of a particular period	It is summary of incomes and expenses of a particular period
It includes all receipts and payments irrespective of the period to which it belongs.	It includes only incomes and expenses of a particular period for which the account is prepared
It does not include non cash transactions	It includes both the cash and non cash transactions
It begins with the opening cash/bank balance and ends with the closing cash/bank balance.	It does not have any opening balance. Closing balance represents either Deficit or Surplus.

* Whether receipt & income is same?

* Whether payment & Exp is same?

Income 100000 receipt 800000

Debtors 20000

Rent 240000 480000

↓ ↓

Exp Payment

BALANCE SHEET

- **A Balance Sheet is the statement of assets and liabilities of an accounting unit at a given date.**

- **The Balance Sheet of NPO is prepared on the same principles as the balance sheet of profit Seeking Business.**

- **In NPO , The excess of total assets over total outside liabilities is known as Capital Fund.**

ACCOUNTING TREATMENT OF DONATIONS

- **Donation is a Gift in Cash or in Kind. There are two types of Donation Specific Donation and General Donation.**

- **Specific Donation is received for certain specific purpose like building donation , Library Books donation etc. The Said donations are to be shown on the liability side of Balance Sheet. Any Expenditure made from such specified donation is deducted from the Said Donation Account.**

- **General Donation is not received for any specific purpose and it is shown on the credit side of Income & Expenditure Account.**

ACCOUNTING TREATMENT OF ENTRANCE AND ADMISSION FEES

- **Entrance and Admission Fees are payable by a member on admission to club or society.**
- **The treatment of Entrance and Admission Fees depends on the Requirement of Question.**
- **If the Question is Silent about the treatment to be done of Entrance and Admission Fees , Such Fees is to be Added to Capital Fund**

ACCOUNTING TREATMENT OF LIFE MEMBERSHIP FEES

- **The Life membership Fees is a Fees received from member of club or society towards a membership for Lifetime. The Life membership Fees in Non-recurring in Nature.**

- **The treatment of Life Membership Fees depends on the Requirement of Question.**

- **If the Question is Silent about the treatment to be done of Life Membership Fees , then Such Fees is to be Added to Capital Fund.**

ACCOUNTING TREATMENT OF LEGACY

Legacy is an Amount received by an Organisation as per the Will of The Person after the death of the person.

The Amount received as a Legacy Should be Added to the Capital Fund on the Liabilities Side of Balance Sheet.



ACCOUNTING TREATMENT OF SUBSCRIPTION

- **Subscription is an Annual Fees received by a NPO. It's a major Source of revenue for NPO.**

- **Journal Entry for Subscription received**
  Cash/Bank A/c.....Dr
  To Subscription A/c

- **Journal Entry for Subscription to Be credited to I&E A/c**
  Subscription A/c.....Dr
  To Income & Expenditure A/c

SUBSCRIPTION A/C

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Balance B/d (Subscription Receivable at the beginning of year)	XXX	By Balance B/d (Subscription Received in Advance at the beginning of year)	XXX
To Income & Expenditure A/c (Subscription transferred to Income & Expenditure A/c)	XXX	By Cash/Bank A/c (Subscription Received During the year)	XXX
To Balance C/d (Subscription Received in Advance at the End of Year)	XXX	By Balance C/d (Subscription Receivable at the End of year)	XXX
	XXX		XXX

1] Subscription recievable at the Beginning / O/S Subscription at the Beginning

- Subscryption recievable on first day of year
- Event [No Journal Entry only Posting]
- Asset [Opening]

Subscription A/c

To bal b/d	XXX		

2] Subscription recievable at the end / O/S Subscription at the end

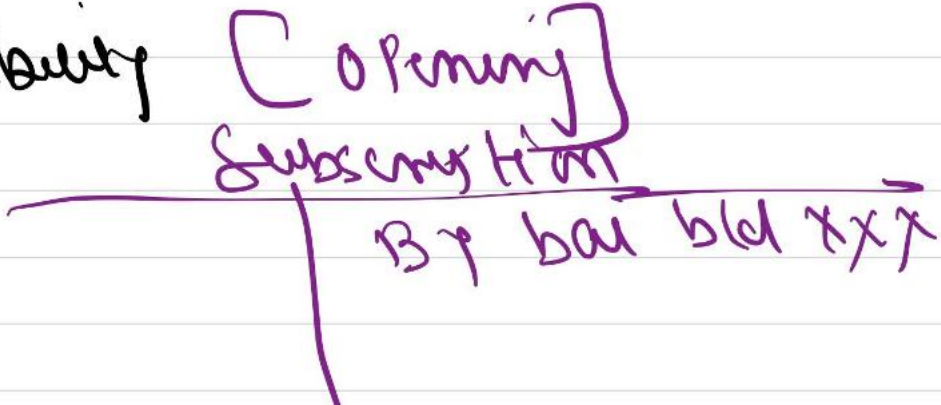
- Subscription recievable at the end of the year.
- Event [No Journal Entry only Posting]
- Asset [closing]

Subscription A/c

By Balc/d XXX

3) Subscription received in advance at the Beginning / Opening subscription received in advance.

- Subscription received in advance in past for current or future year as on first day.
- Effect [No Journal Entry only Posting]
- Validity [Opening Subscription]



4] Subscription received in advance at the end / closing subscription received in advance.

- Subscription received in Past or in Current year relating to future years as on last day.

- Event [NO Journal Entry only Posting]

- Liability [closing subscription ***]

Total Cl ***

5] Subscription recieved during the year

- Amount of subscription recieved during the year which may be relating to current year, Past years or future years

- Transaction [Pass Journal Entry]

Journal Entry

Cash/Bank — Dr
To Subscription A/c

Subscription A/c

By Cash/Bank A/c xxx

6] Subscription Income of the year

- It is Income from subscription for the year calculated on a accrual basis irrespective of received or not.

- Transactions [Pass Journal Entry]

Journal Entry

Subscription A/c — Dr
To Income & Expenditure A/c

Subscription A/c	
To I&E A/c	xxx

FUND BASED ACCOUNTING

- **Whenever a Donation is Received for a Specific Purpose , It is transferred to Special Fund which appears on the Liability Side of balance Sheet until It is Utilised for that Specified Purpose.**

- **If the Amount Lying in Special Fund is Invested , then any income earned on Such Investment Shall be transferred to that special fund & not to the credit of Income Expenditure A/c.**

FUND BASED ACCOUNTING

Example – Suppose A donation is received for Building Rs. 1 Crore and the Said funds are invested temporarily and it earned an interest of Say Rs. 3 lakhs then Journal Entries shall be as Follows

For Receipt of Donation

Bank A/c…….Dr 1 Crore
To Building Fund A/c 1 Crore

For Receipt of Interest

Bank A/c…….Dr 3 Lakhs
To Building Fund A/c 3 Lakhs

The Amount That Can be Expended now for the Purpose of Building Shall be 1 Crore & 3 lakhs.

ACTIVITY BASED ACCOUNTING

Activity Based Accounting refers to the Accounting of Similar Activities on Net Basis.

Example – Suppose A Sports Club has Organised a tournament for which they raised Rs. 10,000 By sale of tickets , Sponsorship Etc and they incurred an Expenses of Rs. 9,000 for Tournament.

Thus while Preparing income & Expenditure the Net effect of the above activity will be Shown on the credit side of I & E A/c as Follows

Tournament Receipts	**10,000**	
Less – Expenses	**9,000**	**1,000**

TYPES OF PROBLEMS

- **Preparation of Subscription A/c , Any Nominal A/c , Any Asset A/c , Presentation of Funds Based Accounting Etc**

- **Preparation of Income & Expenditure Account & Balance Sheet when Receipt and Payment Account is given with Additional Information.**

- **Preparation of Receipts and payment Account & Balance Sheet when Income & Expenditure Account is given With Additional Information.**

- **Preparation of Receipt & Payment Account and also Income & Expenditure Account when Relevant information is given.**

STEPS FOR SOLVING PROBLEM

- **Read Questions Thoroughly**
- **Mark items for which Adjustments are Given**
- **Prepare Opening Balance Sheet , if Opening capital Fund is Required but it is not given in Question**
- **Prepare Ledgers for Which Adjustment is Required**
- **Do Posting for all items as applicable in R & P A/c , I & E A/c , Closing Balance Sheet , Opening Balance Sheet , Working Notes Ledger.**
- **Close Working Notes from backward & Post the Balancing Figure at Appropriate Place**

ILLUSTRATION 1

During the year ended 31st March, 2020, the subscriptions received by the Jaipur Literary Society were ₹ 4,50,000. These subscriptions include ₹ 20,000 received for the year ended 31st March, 2019. On 31st March, 2020, subscriptions due but not received were ₹ 15,000. Advance subscription received for the year ending 31st March 2020 but pertaining to year 2021 amounted to ₹ 26,000. The Subscriptions received for the year 31st March 2020, include the advance received for the year ending 31st March 2019 amounted to ₹ 18,000. What amount should be credited to Income and Expenditure Account for the year ended 31st March, 2020 as income from subscriptions. Show the subscription account in book of the society?

In The Books of Jaipur Literary Society
Subscription A/c
For the Year Ended 31St March 2020

Particulars	Amount	Particulars	Amount
To O/S Subscription (Opening)	20000	By Advance Subscription (Opening)	18,000
To Income & Exp. A/c (Bal Fig)	437,000	By Cash/Bank A/c	450,000
To Advance Subscription (Closing)	26000	By O/S Subscription (Closing)	15,000
	483000		**483000**

ILLUSTRATION 2

From the following information, calculate amount of subscriptions outstanding for the year ended 31st March, 2020

A club has 350 members each paying an annual subscription of ₹ 1,050. The Receipts and Payments Account for the year showed a sum of ₹ 4,10,000 received as subscriptions. The following additional information is provided:

Subscriptions Outstanding on 31st March, 2019 – ₹ 45,000

Subscriptions Received in Advance on 31st March, 2020 – ₹ 62,000

Subscriptions Received in Advance on 31st March, 2019 – ₹ 30,000

Subscription A/c
For the Year Ended 31St March 2020

Particulars	Amount	Particulars	Amount
TO BAL B/D	45000	BY BAL B/D	30000
TO I & E A/C (1050*350)	367,500	BY CASH/BANK A/C	410,000
TO BAL C/D	62000	BY BAL C/D (Bal Fig)	34,500
	474500		**474500**

ILLUSTRATION 3

During the year ended 31st March, 2020, Sachin Cricket Club received subscriptions as follows:

	₹
For year ending 31st March, 2019	12,000
For year ending 31st March, 2020	6,15,000
For year ending 31st March, 2021	18,000
Total	6,45,000

There are 500 members and annual subscription is ₹ 1,500 per member.

On 31st March, 2020, a sum of ₹ 15,000 was still in arrears for subscriptions for the year ended 31st March, 2019.

Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2020. Also show how the items would appear in the Balance Sheet as on 31st March, 2019 and the Balance Sheet as on 31st March, 2020

Subscription A/c
For the Year Ended 31St March 2020

Expenditure	Amount	Income	Amount
TO BAL B/D (12000+15000)	27000		
TO I & E A/C (500*1500)	750,000	BY CASH/BANK A/C	645,000
TO BAL C/D	18000	BY BAL C/D (Bal Fig)	150,000
	795000		**795000**

Balance Sheet
As on 31St March 2019

Liabilities	Amount	Assets	Amount
		Outstanding Subscription (15000+12000)	27000

Balance Sheet
As on 31St March 2020

Liabilities	Amount	Assets	Amount
Subscription Received in Advance	18000	Outstanding Subscription (15000+135000)	150000

ILLUSTRATION 4

From the following information of a club show the amounts of match expenses and match fund in the appropriate Financial Statements of the club for the year ended on 31st March, 2020:

Details	Amount (₹)
Match expenses paid during the year ended 31st March 2020	1,10,000
Match fund as on 01.04.2019	30,000
Donations for Match fund (received during the year)	55,000
Proceeds from the sale of the match tickets (during the year)	20,000

Income & Expenditure Account
For the Year Ended 31St March 2020

Expenditure	Amount	Income	Amount
To Match Expenses	5000		

Balance Sheet
As on 31St March 2020

Liabilities		Amount	Assets	Amount
Match Fund 1-4-19	30000			
Add - Donation	55000			
Add - sale of Tickets	20000			
Total	105000			
Less - Expenses	105000	Nil		

ILLUSTRATION 5 (RTP NOV 20)

The following information of M/s. TT Club are related for the year ended 31st March, 2020:

(1)

Balances	As on 01-04-2019 (₹)	As on 31-3-2020 (₹)
Stock of Sports Material	75,000	1,12,500
Amount due for Sports Material	67,500	97,500
Subscription due	11,250	16,500
Subscription received in advance	9,000	5,250

(2) Subscription received during the year ₹ 3,75,000

(3) Payments for Sports Material during the year ₹ 2,25,000

You are required to:

(A) Calculate the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2020 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2020.

Subscription A/c

Particulars	Amount	Particulars	Amount
TO BAL B/D (Opening Sub Rec.)	11250	BY BAL B/D (Op. Sub rec in advance)	9000
TO INCOME & EXP A/C (BAL FIG)	**384,000**	BY CASH/BANK A/C	375,000
TO BAL C/D (Cl. Sub rec in adv)	5250	BY BAL C/D (Cl. Subs rec.)	16,500
	400500		**400500**

Sports Material A/c

Particulars	Amount	Particulars	Amount
TO BAL B/D	75000		
TO CREDITORS FOR SPORTS MAT.	255,000	**BY Income & Exp A/c (BAL FIG)**	**217,500**
		BY BAL C/D	112,500
	330,000		**330,000**

Creditors for Sports Material A/c

Particulars	Amount	Particulars	Amount
		BY BAL B/D	67500
TO CASH/BANK A/C	225,000	BY SPORTS MATERIAL A/C (PUR) (BAL)	255,000
TO BAL C/D	97500		
	322,500		322,500

Balance Sheet of M/s. TT Club For the year Ended 31st March 20 (Extract)

Liabilities	Amount	Assets	Amount
Subscription Received in Advance	5250	SPORTS MATERIAL	112500
Creditors for Sports material	97,500	OUTSTANDING SUBSCRIPTION	16,500

ILLUSTRATION 6

The Sportwriters Club gives the following Receipts and Payments Account for the year ended March 31, 2020:

Receipts and Payments Account

Receipts	₹	Payments	₹
To Balance b/d	4,820	By Salaries	12,000
To Subscriptions	28,600	By Rent and electricity	7,220
To Miscellaneous income	700	By Library books	1,000
To Interest on Fixed deposit	2,000	By Magazines and newspapers	2,172
		By Sundry expenses	10,278
		By Sports equipments	1,000
		By Balance c/d	2,450
	36,120		36,120

Figures of other assets and liabilities are furnished as follows:

	As at March 31	
	₹	₹
	2019	**2020**
Salaries outstanding	710	170
Outstanding rent & electricity	864	973
Outstanding for magazines and newspapers	226	340
Fixed Deposit (10%) with bank	20,000	20,000
Interest accrued thereon	500	500
Subscription receivable	1,263	1,575
Prepaid expenses	417	620
Furniture	9,600	
Sports equipments	7,200	
Library books	5,000	

The closing values of furniture and sports equipments are to be determined after charging depreciation at 10% and 20% p.a. respectively inclusive of the additions, if any, during the year. The Club's library books are revalued at the end of every year and the value at the end of March 31, 2020 was ₹ 5,250.

Required

From the above information you are required to prepare:

(a) The Club's Balance Sheet as at March 31, 2019;

(b) The Club's Income and Expenditure Account for the year ended March 31, 2020.

(c) The Club's Closing Balance Sheet as at March 31, 2020.

In The Books of Sportswriters Club
Income & Expenditure A/c
For the Year Ended 31St March 2020

Expenditure		Amount	Income	Amount
			By Subscription	28912
To Sundry Expenses		10075	By Misc. Income	700
To Magazine & Newspaper		2286	By Interest on FD	2000
To Rent & Electricity		7329		
To Salaries		11460	By Deficit transferred to Capital Fund	2888
To Depreciation				
Furniture	960			
Sports Equipment	1640			
Library Books	750	3350		
		34500		**34500**

Balance Sheet
As on

liability		31-3-20	31-3-19	Assets		31-3-20	31-3-19
			47,000	Furniture	9600		9600
Capital Fund	47000						
Less - Deficit	2888	44112		Less - Dep at 10%	960	8640	
		170	710	Library Books		5250	5000
Outstanding Salary							
Outstanding Rent & Electricity		973	864	Sports Equipments		6560	7200
Outstanding Magazine & Newspaper		340	226	Fixed Deposit		20000	20000
				Cash in Hand		2450	4820
				Interest Accrued on FD		500	500
				Oustanding Subscription		1575	1263
				Prepaid Expenses		620	417
		45,595	**48,800**			**45,595**	**48,800**

Working Notes

Subscription A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	1263		
To Income & Exp A/c (Bal Fig)	28,912	By Cash/Bank A/c	28,600
		By Bal C/d	1,575
	30,175		**30,175**

Interest on FD A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	500		
To Income & Exp A/c	2,000	By Bank A/c	2,000
		By Bal C/d	500
	2,500		**2,500**

Salary A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	710
To Cash/Bank A/c	12,000	By Income & Exp A/c (Bal Fig)	11,460
To Bal C/d	170		
	12,170		**12,170**

Rent & Electricty A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	864
To Cash/Bank A/c	7,220	By Income & Exp A/c (Bal Fig)	7,329
To Bal C/d	973		
	8,193		**8,193**

Magazine & Newspaper A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	226
To Cash/Bank A/c	2,172	By Income & Exp A/c (Bal Fig)	2,286
To Bal C/d	340		
	2,512		**2,512**

Sundry Expenses A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	417		
To Cash/Bank A/c	10,278	By Income & Exp A/c (Bal Fig)	10,075
		By Bal C/d	620
	10,695		**10,695**

Library Books A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	5000		
To Cash/Bank A/c	1,000	By Depreciation (Bal Fig)	750
		By Bal C/d	5,250
	6,000		**6,000**

Sports Equipment A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	7200		
To Cash/Bank A/c	1,000	By Depreciation (8200*20%)	1,640
		By Bal C/d (Bal Fig)	6,560
	8,200		**8,200**

ILLUSTRATION 7

The Income and Expenditure Account of the Youth Club for the Year 2020 is as follows:

	Expenditure	₹		Income	₹
To	Salaries	4,750	By	Subscription	7,500
To	General Expenses	500	By	Entrance Fees	250
To	Audit Fee	250	By	Contribution for	
To	Secretary's Honorarium	1,000		annual dinner	1,000
To	Stationery & Printing	450	By	Annual Sport meet	
To	Annual Dinner Expenses	1,500		receipts	750
To	Interest & Bank Charges	150			
To	Depreciation	300			
To	Surplus	600			
		9,500			9,500

This account had been prepared after the following adjustments:

	₹
Subscription outstanding at the end of 2019	*600*
Subscription received in Advance on 31st December, 2019	*450*
Subscription received in advance on 31st December, 2020	*270*
Subscription outstanding on 31st December, 2020	*750*

Salaries Outstanding at the beginning and the end of 2020 were respectively ₹ 400 and ₹450. General Expenses include insurance prepaid to the extent of ₹60. Audit fee for 2020 is as yet unpaid. During 2020 audit fee for 2019 was paid amounting to ₹200.

The Club owned a freehold lease of ground valued at ₹10,000. The club had sports equipment on 1st January, 2020 valued at ₹ 2,600. At the end of the year, after depreciation, this equipment amounted to ₹2,700. In 2019, the Club has raised a bank loan of ₹ 2,000. This was outstanding throughout 2020. On 31st December, 2020 cash in hand amounted to ₹1,600.

Required

Prepare the Receipts and Payments Account for 2020 and Balance Sheet as at the end of the year.

In The Books of Youth Club
Receipt & payment A/c
For the Year Ended 31St Dec 2020

Receipts	Amount	Payment	Amount
To Bal B/d (Bal Fig)	1390	By Audit Fees	200
To Subscription	7170	By Honararium to Secretary	1000
To Entrance Fees	250	By Printing & Stationary	450
To Contribution for Annual Dinner	1000	By Annual Dinner Expenses	1500
To Annual Sports Meet Receipts	750	By Interest & Bank charges	150
		By Salary	4700
		By Sports Equipment	400
		By General Expenses	560
		By Bal C/d	1,600
	10560		**10560**

Balance Sheet

liability		31-12-20	31-12-19	Assets	31-12-20	31-12-19
Capital Fund	11540		11540	Freehold Ground	10000	10000
Add - Surplus	600	12140		Sports Equipment	2700	2600
Oustanding Salary		450	400	Cash in Hand	1600	1390
Subscription Received in Advance		270	450	Prepaid Insurance	60	
Bank Loan		2000	2000	Outstanding Subscription	750	600
Oustanding Audit Fees		250	200			
		15,110	14,590		**15,110**	14590

Subscription A/c

Particulars	Amount	Particulars	Amount
To Bal B/d (Opening O/S Sub)	600	By Bal B/d (op. sub recd in adv)	450
To Income & Exp A/c	7500	By Cash/Bank A/c (Bal Fig)	7,170
To Bal C/d (Cl. Sub recd in adv)	270	By Bal C/d (cl.o/s sub)	750
	8,370		**8,370**

General Expenses A/c

Particulars	Amount	Particulars	Amount
To Cash / Bank A/c (Bal Fig)	560	By Income & Exp A/c	500
		By Bal C/d (Prepaid Insurance)	60
	560		**560**

Audit Fees A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d (Bal Fig)	200
To Cash/Bank A/c	200	By Income & Exp A/c	250
To Bal C/d	250		
	450		**450**

Sports Equipment A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	2600		
To Cash/Bank (Bal Fig)	400	By Depreciation	300
		By bal C/d	2,700
	3,000		**3,000**

Salary A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	400
To Cash/Bank A/c (Bal Fig)	4,700	By Income & Expenditure A/c	4,750
To bal C/d	450		
	5,150		**5,150**

ILLUSTRATION 8 - RTP NOV 2019

From the following data, prepare an Income and Expenditure Account for the year ended 31st December 2019, and Balance Sheet as at that date of the Jeevan Hospital:

Receipts and Payments Account for the

year ended 31 December, 2019

	RECEIPTS	₹			PAYMENTS	₹
To	Balance b/d			By	Salaries:	
	Cash	800			(₹ 7,200 for 2018)	31,200
	Bank	5,200	6,000	By	Hospital Equipment	17,000
To	Subscriptions:			By	Furniture purchased	6,000
	For 2018		5,100	By	Additions to Building	50,000
	For 2019		24,500	By	Printing and Stationery	2,400
	For 2020		2,400			

To	Government Grant:			By	Diet expenses		15,600
	For building		80,000	By	Rent and rates		
	For maintenance		20,000		(₹ 300 for 2020)		2,000
	Fees from sundry			By	Electricity and water		
	Patients		4,800		charges		2,400
To	Donations (not to be		8,000	By	office expenses		2,000
	capitalized)			By	Investments		20,000
To	Net collections from			By	Balances:		
	benefit shows		6,000		Cash	1,400	
					Bank	6,800	8,200
			1,56,800				1,56,800

Additional information:	₹
Value of building under construction as on 31.12.2019	1,40,000
Value of hospital equipment on 31.12.2019	51,000
Building Fund as on 1.1. 2019	80,000
Subscriptions in arrears as on 31.12.2018	6,500
Investments in 8% Govt. securities were made on 1st July, 2019.	

In The Books of Jeevan Hospital
Income & Expenditure A/c
For the Year Ended 31St December 2019

Expenditure	Amount	Income	Amount
To Rent	1700	By Fees From Patients	4800
To Printing & Stationary	2400	By Subscription	24500
To Diet Expenses	15600	By Government Grant	20000
To Electricity & Water Charges	2400	By Donation	8000
To Office Expenses	2000	By Net Collection from Benefit Shows	6000
To Salaries	24000	By Interest on Investments	800
To Surplus Trf to Capital Fund	16000		
	64100		**64100**

Balance Sheet
As on

liability		31-12-19	01-01-19	Assets	31-12-19	01-01-19
Capital Fund	49300		49300	Building	140000	90000
Add - Surplus	16000	65300		Furniture	6000	
Building Fund		160000	80000	Hospital Equipment	51000	34000
Subscription Received in Advance		2400		Cash in Hand	1400	800
Outstanding Salary			7200	Bank Balance	6800	5200
				Investments	20000	
				Prepaid Rent	300	
				Interest Accrued on Investment	800	
				Outstanding Subscription	1400	6500
		227700	**136500**		**227700**	**136500**

Subscription A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	6500		
To Income & Exp A/c (Bal Fig)	24,500	By Cash/Bank A/c	32,000
To Bal C/d	2400	By Bal C/d	1,400
	33,400		**33,400**

Salaries A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	7200
To Cash/Bank A/c	31,200	By Income & Exp A/c (Bal Fig)	24,000
	31,200		**31,200**

Hospital Equipment A/c

Particulars	Amount	Particulars	Amount
To Bal B/d (Bal Fig)	34,000		
To Cash/Bank A/c	17,000		
		By Bal C/d	51,000
	51,000		**51,000**

Furniture A/c

Particulars	Amount	Particulars	Amount
To Cash/Bank A/c	6,000		
		By Bal C/d	6,000
	6,000		**6,000**

Building A/c

Particulars	Amount	Particulars	Amount
To Bal B/d (Bal Fig)	90000		
To Cash/Bank A/c	50,000		
		By Bal C/d	1,40,000
	1,40,000		**1,40,000**

Rent A/c

Particulars	Amount	Particulars	Amount
To Cash/ Bank A/c	2,000	By Income & Exp A/c (Bal Fig)	1,700
		By Bal C/d	300
	2,000		**2,000**

Building Fund A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	80000
		By Cash/Bank A/c	80,000
To Bal C/d (Bal Fig)	160000		
	1,60,000		**1,60,000**

ILLUSTRATION 9 - PYP JUL 2021 (10 MARKS)

Summary of Receipts and Payments of AMA Society for the year ended 31st March, 2021 are as follows:

Receipts	Amount	Payments	Amount
Subscription Received	5,00,000	Payment for Medicine Supply	3,00,000
Donation Raised for meeting revenue expenditure	1,50,000	Honorarium to Doctors	1,00,000
Interest on Investments @ 9% p.a.	90,000	Salaries	2,80,000
Charity Show Collection	1,25,000	Sundry Expenses	10,000
		Equipment Purchase	1,50,000
		Charity Show Expenses	15,000

Additional Information:

Particulars	*01.04.2020*	*31.03.2021*
Subscription due	*15,000*	*22,000*
Subscription received in advance	*12,000*	*7,000*
Stock of medicine	*1,00,000*	*1,50,000*
Amount due for medicine supply	*90,000*	*1,30,000*
Value of equipment	*2,10,000*	*3,00,000*
Value of building	*5,00,000*	*4'80 '000*
Cash Balance	*80,000*	*90,000*
Opening Balance of Capital Fund	*18,03,000*	

You are required to prepare:

(i) Income and Expenditure Account for the year ended 31st March, 2021.

(ii) Balance Sheet as on 31st March, 2021

In The Books of AMA Society
Income & Expenditure A/c
For the Year Ended 31st March 2021

Expenditure		Amount	Income		Amount
To Medicine Consumed		290000	By Subscription		512000
To Honararium to Doctor		100000			
To Salaries		280000	By Donation		150000
To Sundry Expenses		10000	By Interest on Investments		90000
To Depreciation			By Charity Show Collection	125000	
Equipment	60000		Less - Charity Show Expenses	15000	110000
Building	20000	80000			
To Surplus Trf to Capital Fund		102000			
		862000			**862000**

Balance Sheet (Closing)
As on 31St March 2021

liability		Amount	Assets	Amount
Capital Fund	1803000		Equipment	300000
Add - Surplus	102000	1905000	Building	480000
Creditors for Medicine Supply		130000	9% Investments	1000000
Subscription Received in Advance		7000	Outstanding Subscription	22000
			Stock of Medicine	150000
			Cash in Hand	90000
		20,42,000		**20,42,000**

Working Notes

Subscription A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	15000	By Bal B/d	12000
To Income & Exp A/c (Bal Fig)	5,12,000	By Cash/Bank A/c	5,00,000
To Bal C/d	7000	By Bal C/d	22,000
	5,34,000		**5,34,000**

Medicine A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	100000		
To Purchase of Medicine	3,40,000	By Income & Exp A/c (Bal Fig)	2,90,000
		By Bal C/d	1,50,000
	4,40,000		**4,40,000**

Creditors for Medicine A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	90000
To Cash/Bank A/c	3,00,000	By Purchase of Medicine (Bal Fig)	3,40,000
To Bal C/d	130000		
	4,30,000		**4,30,000**

Equipment A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	210000		
To Cash/Bank A/c	1,50,000	By Depreciation (Bal Fig)	60,000
		By Bal C/d	3,00,000
	3,60,000		**3,60,000**

Building A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	500000		
		By Depreciation (Bal Fig)	20,000
		By Bal C/d	4,80,000
	5,00,000		**5,00,000**

ILLUSTRATION 10

The following information was obtained from the books of Delhi Club as on 31.03.2012, at the end of the first year of the club. You are required to prepare Receipt and Payment Account, Income and Expenditure Account for the year ended 31.03.2012 and Balance sheet at 31.03.2012 on mercantile basis:

1. **Donations received for building and Library Room Rs.2,00,000.**
2. **Other revenue income and actual receipts:**

	Revenue Income (Rs.)	Actual Receipts (Rs.)
Entrance Fees	17,000	17,000
Subscription	20,000	19,000
Locker Rents	600	600
Sundry Income	1,600	1,060
Refreshment Account	-	16,000

3. Other revenue expenditure and actual payments:

	Revenue Expense (Rs.)	Actual Payment (Rs.)
Land (Cost Rs.10,000)	-	10,000
Furniture (Cost Rs.1,46,000)	-	1,30,000
Salaries	5,000	4,800
Maintenance of Playgrounds	2,000	1,000
Rent	8,000	8,000
Refreshment Account	-	8,000

Donation to the extent of Rs.25,000 were utilized for the purchase of Library Books, balance was still unutilised. In order to keep it safe, 9% Govt. Bonds of Rs.1,60,000 were purchased on 31.03.2012. Remaining amount was put in the bank on 31.03.2012 under the term deposit. Depreciation at 10%p.a. was to be provided for the whole year on furniture and Library books.

In The Books of Delhi Club
Receipts & Payments A/c
For the Year Ended 31St March 2012

Receipts	Amount	Payments	Amount
To Entrance Fees	17000		
To Subscription	19000	By Salary	4800
To Locker Rent	600	By Maintainance of Ground	1000
To Sundry Income	1060	By Rent	8000
To Refreshment Receipts A/c	16000	By Refereshment Payment	8000
To Donation for Building	200000	By Library Books	25000
To Bal C/d (Bank Overdraft) (Bal Fig)	108140	By 9% Government Bonds	160000
		By Term Deposit	15000
		By Furniture	130000
		By Land	10000
	361800		**361800**

Income & Expenditure A/c
For the Year Ended 31st March 2012

Expenditure		Amount	Income		Amount
To Salary		5000	By Entrance Fees		17000
To Maintainance of Ground		2000	By Subscription		20000
To Rent		8000	By Locker Rent		600
To Depreciation			By Sundry Income		1600
Library Books	2500		By Refreshment Receipts	16000	
Furniture	14600	17100	Less - Payments	8000	8000
To Surplus Trf to Capital Fund		15100			
		47200			**47200**

Balance Sheet
As on 31-03-2012

liability		Amount	Assets		Amount
Capital Fund	-				
Add - Surplus	15100		Land		10000
Add - Amount Utilized From Fun	25000	40100			
Bank Overdraft		108140	Library Books	25000	
Building & Library Room Fund	200000		Less - Depreciation	2500	22500
Less - Utilised For Library	25000	175000			
Oustanding Salary		200	Furniture	146000	
Oustanding for maintainance of Ground		1000	Less - Depreciation	14600	131400
Creditors for Furniture		16000	Outstanding Subscription		1000
			Income Acrrued		540
			9% Government Bonds		160000
			Term Deposit		15000
		340,440			**340,440**

ILLUSTRATION 11 - RTP MAY 2020

Doctor Dinesh after retiring from Govt. service, started private practice on 1st April, 2018 with ₹ 1,00,000 of his own and ₹ 1,50,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	*Payments*	₹
Own capital	1,00,000	Medicines purchased	1,22,500
Loan	1,50,000	Surgical equipments	1,25,000
Prescription fees	3,30,000	Motor car	1,60,000
Visiting fees	1,25,000	Motor car expenses	60,000
Fees from lectures	12,000	Wages and salaries	52,500
Pension received	1,50,000	Rent of clinic	30,000

		General charges	24,500
		Household expenses	90,000
		Household Furniture	12,500
		Expenses on daughter's marriage	1,07,500
		Interest on loan	18,000
		Balance at bank	55,000
		Cash in hand	9,500

One-third of the motor car expense may be treated as applicable to the private use of car and ₹ 15,000 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2019 was valued at ₹ 47,500.

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2019 and balance sheet as on that date. Ignore depreciation of fixed assets.

In The Books of Dinesh

Income & Expenditure A/c

for the year ended 31St March 2019

Expenditure		Amount	Income	Amount
			By Prescription Fees	330000
To Motor Car Expenses (60000*2/3)		40000	By Visiting Fees	125000
To Salaries	52500		By Fees from Lectures	12000
Less - Personal Expenses	15000	37500		
To Rent of Clinic		30000		
To General charges		24500		
To Interest on Loan		18000		
To Medicines Consumed (122500-47500)		75000		
To Surplus Trf. To Capital A/c		242000		
		467000		467000

Balance Sheet (Closing)			
As on 31st March 2019			
Liabilities	Amount	Assets	Amount
Capital	247000	Surgical Equipments	125000
Loan	150000	Motor car	160000
		Stock of Medicine	47500
		Cash at Bank	55000
		Cash in Hand	9500
	397,000		397,000

Capital A/c			
Particulars	Amount	Particulars	Amount
		By Cash/Bank A/c	100000
To Motor Car Expenses (60000*1/3)	20000	By Pension Recieved	150000
To Salaries	15000	By Surplus	242000
To Household Expenses	90000		
To Household Furniture	12,500		
To Expenses on Daughter's Marriage	107500		
To Bal C/d (Bal Fig)	247,000		
	492,000		492,000

ILLUSTRATION 12 – ADDITIONAL QUESTIONS FROM ICAI

The following is the income and expenditure Account Gama Club for the year ended 31st March, 2017:

Income and Expenditure Account for the year ended 31st March, 2017.

	Rs.		Rs.
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 Subscription 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:

	31/03/2016	31/03/2017
	Rs.	Rs.
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 Rs.7,000. Entrance fees capitalized Rs.4,000. On 1st April, 2016 there was no cash in hand but overdraft was for Rs.15,000. On 31st March, 2017. Cash in hand amounted to Rs.850 and the rest was Bank Balance.

Prepare the Receipts and Payments Account of the club for the year ended 31st March,2017.

In The Books of Gama Club
Receipts & Payments A/c
For the Year Ended 31St March 2017

Receipts	Amount	Payments	Amount
		By Bal B/d	
To Subscription	67050	Bank O/d	15000
To Donation	5000	By Printing	750
To Sale of Furniture	4500	By Games & Sports	3500
To Entrance Fees	4000	By Misc. Expenses	14500
		By Insurance	650
		By Furniture	8000
		By Sports Equipment	5000
		By Audit Fees	500
		By Salaries	20350
		By Rent	4200
		By Bal C/d	
		Cash in Hand	850
		Cash at Bank	7,250
	80550		**80550**

Working Notes

Subscription A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	2600	By Bal B/d	1000
To Income & Exp A/c	68000	By I & E A/c (Subscription W/off)	350
		By Cash/Bank A/c (Bal Fig)	67,050
To Bal C/d	1500	By Bal C/d	3,700
	72,100		**72,100**

Rent A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	500
To Cash/Bank A/c (Bal Fig)	4,200	By Income & Exp A/c	4,500
To Bal C/d	800		
	5,000		**5,000**

Salaries A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	1200
To Cash/Bank A/c (Bal Fig)	20,350	By Income & Exp A/c	19,500
To Bal C/d	350		
	20,700		**20,700**

Audit Fees A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	500
To Cash/Bank A/c (Bal Fig)	500	By Income & Exp A/c	750
To Bal C/d	750		
	1,250		**1,250**

Sports Equipment A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	25000		
To Cash/Bank A/c (Bal Fig)	5000	By Depreciation	6,000
		By Bal C/d	24,000
	30,000		**30,000**

Furniture A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	30000		
		By Cash/Bank A/c	4500
To Cash/Bank A/c (Bal Fig)	8000	By Loss on Sale of Furniture	2500
		By Depreciation	3,100
		By Bal C/d	27,900
	38,000		**38,000**

Insurance A/c

Particulars	Amount	Particulars	Amount
To Cash/Bank A/c (Bal Fig)	650	By Income & Exp A/c	500
		By Bal C/d	150
	650		**650**

ILLUSTRATION 13 – PYP MAY 2019 (10 MARKS)

From the following information supplied by M.B.S. Club, prepare Receipts and Payments account and Income and Expenditure Account for the year ended 31st March 2019.

	01.04.2018 ₹	31.03.2019 ₹
Outstanding subscription	1,40,000	2,00,000
Advance subscription	25,000	30,000
Outstanding salaries	15,000	18,000
Cash in Hand and at Bank	1,10,000	?
10% Investment	1,40,000	70,000
Furniture	28,000	14,000
Machinery	10,000	20,000
Sports goods	15,000	25,000

Subscription for the year amount to ₹ 3,00,000/-. Salaries paid ₹ 60,000. Face value of the Investment was ₹ 1,75,000, 50% of the Investment was sold at 80% of Face Value. Interest on investments was received ₹ 14,000. Furniture was sold for ₹ 8000 at the beginning of the year. Machinery and Sports Goods purchased and put to use at the last date of the year. Charge depreciation @ 15% p.a. on Machinery and Sports goods and @10% p.a. on Furniture.

Following Expenses were made during the year:

Sports Expenses:	*₹ 50,000*
Rent:	*₹ 24,000 out of which ₹ 2,000 outstanding*
Misc. Expenses:	*₹ 5,000*

In The Books of MBS Club

Receipts & payment A/c

for the year ended 31St March 2019

Receipts	Amount	Payments	Amount
To Bal B/d			
Cash in Hand & at Bank	110000	By Salary	60000
To Sale of 10% Investments	70000	By Sports Expenses	50000
To Interest on 10% Investments	14000	By Misc Expenses	5000
To Sale of Furniture	8000	By Sports Goods	10000
To Subscription	245000	By Machinery	10000
		By Rent	22000
		By Bal C/d	
		Cash in Hand & at Bank	290000
	447000		**447000**

Income & Expenditure A/c

for the year ended 31St March 2019

Expenditure		Amount	Income	Amount
To Depreciation			By Subscription	300000
Machinery	1500		By Interest on Investment	17500
Sports Goods	2250			
Furniture	1400	5150		
To Sports Expenses		50000		
To Rent		24000		
To Misc Expenses		5000		
To Loss on Sale of Furniture		6000		
To Salary		63000		
To Surplus		164350		
		317500		**317500**

Working Notes

Subscription A/c

Particulars	Amount	Particulars	Amount
To bal B/d	140000	By Bal B/d	25000
To Income & Exp A/c	300,000	By Cash /Bank (Bal Fig)	245,000
To Bal C/d	30000	By Bal C/d	200,000
	470,000		**470,000**

Salary A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	15000
To Cash/Bank A/c	60,000	By Income & Exp a/c (Bal Fig)	63,000
To Bal C/d	18000		
	78,000		**78,000**

10% Investment

Particulars	Amount	Particulars	Amount
To Bal B/d	140000		
		By Cash/Bank A/c (175000*50%*80%)	70,000
		By Bal C/d	70,000
	140,000		**140,000**

Furniture A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	28000	By Cash/Bank A/c	8000
		By Loss on Sale of Furniture (Bal Fig)	6,000
		By Depreciation	1,400
		By Bal C/d (14000-1400)	12,600
	28,000		**28,000**

Interest on Investment A/c

Particulars	Amount	Particulars	Amount
To Income & Expenditure A/c	17500	By Bank A/c	14000
(17500*10%)			
		By Bal C/d (Bf)	**3500**
	17500		**17500**

ILLUSTRATION 14 - RTP MAY 2019

The Receipts and Payments account of Trustwell Club prepared on 31st March, 2018 is as follows:

Receipts and Payments Account

	Receipts	₹	Amount ₹		Payments	Amount ₹
To	Balance b/d		450	By	Expenses *(including Payment for sports material ₹ 2,700)*	6,300
To	Annual Income from Subscription	4,590		By	Loss on Sale of Furniture (cost price ₹ 450)	180
	Add: Outstanding of last year received this year	180		By	Balance c/d	90,450
		4,770				
	Less: Prepaid of last year	90	4,680			
To	Other fees		1,800			
To	Donation for Building		90,000			
			96,930			96,930

Additional information:

Trustwell club had balances as on 1.4.2017 : -

Furniture ₹ 1,800; Investment at 5% ₹ 27,000;

Sports material ₹ 6,660;

Balance as on 31.3.2018 : Subscription Receivable ₹ 270;

Subscription received in advance ₹ 90;

Stock of sports material ₹ 1,800.

Do you agree with above Receipts and Payments account? If not, prepare correct Receipts and Payments account and Income and Expenditure account for the year ended 31st March, 2018 and Balance Sheet on that date.

In The Books of Trustwell Club

Receipts & payment A/c

for the year ended 31St March 2018

Receipts	Amount	Payments	Amount
To Bal B/d	450		
To Other Fees	1800	By Expenses	3600
To Donation for Building	90000	By Sports Material A/c	2700
To Sale of Furniture	270		
To Subscription	4500	By Bal C/d (Bal Fig)	90720
	97020		97020

Income & Expenditure A/c

for the year ended 31St March 2018

Expenditure	Amount	Income	Amount
		By Subscription	4590
To Expenses	3600	By Other Fees	1800
To Loss on Sale of Furniture	180	By Interest on Investments	1350
To Sports Material Used	7560		
		By Deficit (Bal Fig)	3600
	11340		11340

Balance Sheet					
As on					
Liabilities	Amount 31-3-18	Amount 1-4-17	Assets	Amount 31-3-18	Amount 1-4-17
Capital Fund 36000		36,000	Furniture	1350	1800
Less - Deficit 3600	32400		Sports Material	1800	6660
			Cash in Hand	90720	450
			Interest Accrued on Investment	1350	
Building Donation	90000		5% Investments	27000	27000
Subscription Received in Advance	90	90	Outstanding Subscription	270	180
	122,490	36,090		122,490	36,090

Subscription A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	180	By Bal b/d	90
To Income & Exp A/c	4,590	By Cash/Bank A/c (Bal Fig)	4,500
To Bal C/d	90	By Bal C/d	270
	4,860		4,860

Sports Material A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	6660		
To Cash/Bank A/c	2,700	By Income & Exp A/c (Bal Fig)	7,560
		By Bal C/d	1,800
	9,360		9,360

Furniture A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	1800		
		By Cash/Bank A/c	270
		By Loss on Sale of Furniture	180
		By Bal C/d (Bal Fig)	1,350
	1,800		1,800

Interest on Investment A/c

Particulars	Amount	Particulars	Amount
To Income & Exp A/c (27000*5%)	1,350	By Bal C/d (Bal Fig) (Interest Accrued)	1,350
	1,350		1,350

ILLUSTRATION 15

The following was the Receipts and Payments Account of Exe Club for the year ended March. 31, 2020

All the figures in thousands

Receipts	₹	**Payments**	₹
Cash in hand	100	Groundsman's Fee	750
Balance at Bank as per Pass Book:		Moving Machine	1,500
Deposit Account	2,230	Rent of Ground	250
Current Account	600	Cost of Teas	250
Bank Interest	30	Fares	400
Donations and Subscriptions	2,600	Printing & Office Expenses	280
Receipts from teas	300	Repairs to Equipment	500
Contribution to fares	100	Honorarium to Secretary and	
Sale of Equipment	80	Treasurer of 2019	400
Net proceeds of Variety		Balance at Bank as per Pass Book:	
Entertainment	780	Deposit Account	3,090
Donation for forth coming		Current Account	150
Tournament	1,000	Cash in hand	250
	7,820		7,820

You are given the following additional information:

	April, 1, 2019 ₹	March, 31, 2020 ₹
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*	*1,750*
Interest not yet entered in the Pass book		*20*
Bonus to Groundsman o/s.		*300*

For the year ended March. 31, 2020, the honorarium to the Secretary and Treasurer are to be increased by a total of ₹200.

Required

Prepare the Income and Expenditure Account for period ending 31-03-2020 and the relevant Balance Sheet.

In The Books of Exe Club
Income & Expenditure A/c
For the Year Ended 31St March 2020 (Rs. In 000)

Expenditure		Amount	Income		Amount
			By Donation & Subscription		2550
To Fares	400		By Receipts From Teas	300	
Less - Contribution	100	300	Less - Cost Of Teas	250	50
To Groundsmen Fees		750	By Net Proceeds of Variety Entertainment		780
To Rent of Ground		250	By Bank Interest		50
To Honararium to Secretary & Treasurer		600			
To Bonus to Groundsmen		300			
To Repairs		460			
To Printing & office Expenses		260			
To Depreciation on Equipment		470			
To Surplus Trf to Capital Fund		40			
		3430			**3430**

Balance Sheet
As on 31St March

liability3		31-3-20	31-3-19	Assets	31-3-20	31-3-19
Capital Fund	3080			Equipment	1750	800
Add - Surplus	40	3120	3080			
Secretaries Honararium Payable		600	400			
Donation for Forthcoming Tournament		1000		Interest accrued	20	
Amount due for Printing		80	100	Outstanding Subscription	100	150
Balance In Current A/c (Overdraft)		110		Cash in Hand	250	100
Bonus Payable To Groundsmen		300		Balance In Deposit A/c	3090	2230
				Balance in Current A/c		300
		5210	3580		**5210**	**3580**

Bank Interest A/c

Particulars	Amount	Particulars	Amount
To Income & Exp A/c (Bal Fig)	50	By Bank A/c	30
		By Bal C/d (Interest accrued)	20
	50		**50**

Donation & Subscription A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	150		
To Income & Exp A/c (Bal Fig)	2,550	By Cash/Bank A/c	2,600
		By Bal C/d	100
	2,700		**2,700**

Equipment A/c

Particulars	Amount	Particulars	Amount
To Bal B/d	800	By Depreciation (Bal Fig)	470
To Cash/Bank A/c	1,500	By Cash/Bank A/c	80
		By Bal C/d	1,750
	2,300		**2,300**

Printing & Office Expenses A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	100
To Cash/Bank A/c	280	By Income & Exp A/c (Bal Fig)	260
To Bal C/d	80		
	360		**360**

Repairs A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	300
To Cash/Bank A/c	500	By Income & Exp A/c (Bal Fig)	460
To Bal C/d	260		
	760		**760**

Honararium to Secretary & Treasurer A/c

Particulars	Amount	Particulars	Amount
		By Bal B/d	400
To Cash/Bank A/c	400	By Income & Exp A/c	600
To Bal C/d (Bal Fig)	600		
	1,000		**1,000**

Bonus to Groundsmen A/c

Particulars	Amount	Particulars	Amount
		By Income & Exp A/c (Bal Fig)	300
To Bal C/d	300		
	300		**300**

BRS as on 31-03-2019	
Particulars	Amount
A. Balance as Per Pass Book	600
B. Less - Cheque Issued but Not Presented	300
C. Balance as Per Cash Book	300

BRS as on 31-03-2020	
Particulars	Amount
A. Balance as Per Pass Book	150
B. Less - Cheque Issued but Not Presented	260
C. Balance as Per Cash Book (Overdraft)	-110



thank you!

ACCOUNTS FROM INCOMPLETE RECORDS (SINGLE ENTRY SYSTEM)

BIRDS EYE VIEW

- Introduction
- Features of Single Entry System
- Types of Single Entry System
- Merits/Advantages of Single Entry System
- Limitations/Disadvantages of Single Entry System
- Difference Between Single Entry System & Double Entry System
- Ascertainment of Profit By Capital Comparison
- Methods of Capital Comparison
- Statement of Affairs
- Difference Between Statement of Affairs & Balance Sheet
- Conversion of Single Entry into Double Entry

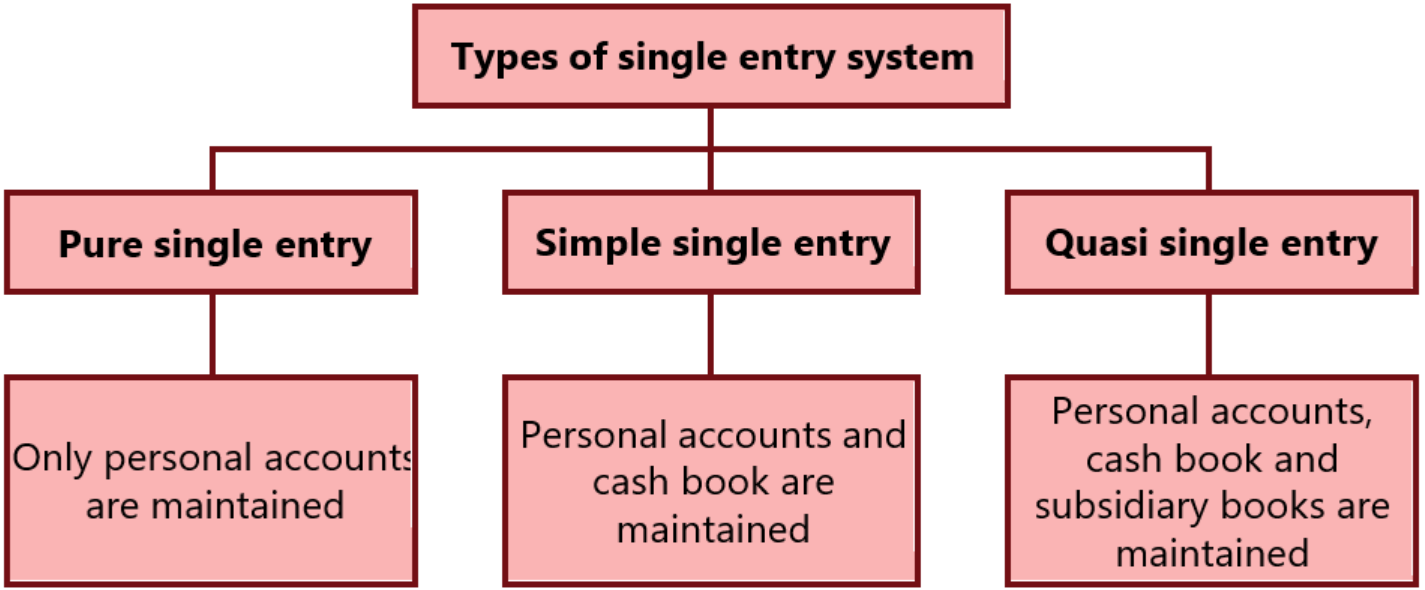
INTRODUCTION

Double entry book keeping system is a proven and well accepted system of accounting. Under it, each and every business transaction is recorded in the books of accounts by giving two-fold accounting effect viz. debit and credit. Due to the dual aspect of double entry, a tallied trial balance can be drawn. However, small businesses may not have awareness or affordability for maintaining the systematic records under double entry book keeping system. Under such circumstances, small traders may maintain records on memorandum basis. Such memorandum records are considered as single-entry records. It is very difficult to describe the single-entry system, because there are no hard and fast rules of recording the business transactions under this system. It is really no system at all, although it is thought to be economical. A tallied trial balance cannot be drawn from single entry records.

FEATURES OF SINGLE ENTRY SYSTEM

- It is an inaccurate, unscientific and unsystematic method of recording business transactions.
- There is generally no record of real and nominal accounts and, in most of the cases; a record is kept for cash transactions and personal accounts.
- Cash book mixes up business and personal transactions of the owners.
- There is no uniformity in maintaining the records and the system may differ from firm to firm depending on the requirements and convenience of each firm.
- Profit under this system is only an estimate based on available information and therefore true and correct profits cannot be determined. The same is the case with the financial position in the absence of a proper balance sheet.

TYPES OF SINGLE ENTRY SYSTEM



1. **Pure single entry**: In this, only personal accounts are maintained with the result that no information is available in respect of cash and bank balances, sales and purchases, etc. In view of its failure to provide even the basic information regarding cash etc., this method exists only on paper and has no practical application.

2. **Simple single entry**: In this, only: (a) personal accounts, and (b) cash book are maintained. Although these accounts are kept on the basis of double entry system, postings from cash book are made only to personal accounts with no other account to be found in the ledger. Cash received from debtors or cash paid to creditors is simply noted on the bills issued or received as the case may be.

   For example, M/s Small shop runs a retail shop. It keeps a register of amount receivable from people for items sold (bread, butter, milk etc). as under:

   Mr. A – ₹ 300 Mr. B – ₹ 450 Mr. C – ₹ 260.

   The business does not maintain a record of what item has been sold. It is only concerned about the amount receivable (personal account balance) from its customers.

3. **Quasi single entry**: In this: (a) personal accounts, (b) cash book, and (c) some subsidiary books are maintained. The main subsidiary books kept under this system are Sales book, Purchases book and Bills book. No separate record is maintained for discounts, which are entered into the personal accounts. In addition, some scattered information is also available in respect of few important items of expenses like wages, rent, rates, etc. In fact, this is the method which is generally adopted as a substitute for double entry system.

Some businesses may also maintain additional records like Bills book or Sales book. This might be required for tax or other purposes. For example, a shop selling t-shirts may want to issue a bill to each customer for the sales made to them. This will help them validate any returns of goods within reasonable time. In addition, they may keep a purchase book to record all purchases.

Also, organisations employing workers keep records of cash wages paid and take acceptance from the workers for the amount paid to them.

MERITS/ADVANTAGES OF SINGLE ENTRY SYSTEM

Time required to maintain the books of accounts under Single Entry System is comparatively less as compared to double entry book keeping system and hence saving in cost of maintenance of books of accounts. Though this can be claimed as advantage, the system is not beneficial over a longer period.

LIMITATIONS/DISADVANTAGES OF SINGLE ENTRY SYSTEM

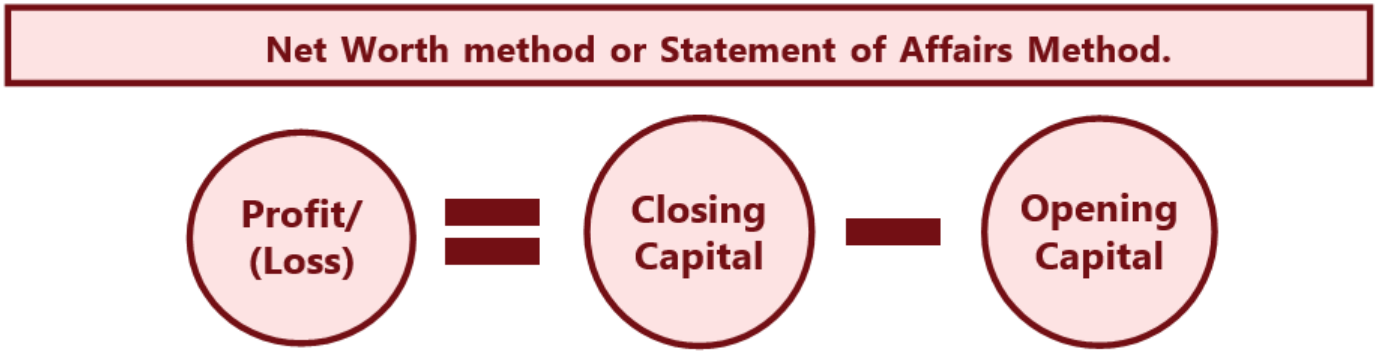
1. It is unscientific.
2. As transactions are recorded on memorandum basis, no trial balance can be prepared and hence, arithmetical accuracy of books cannot be determined.
3. As nominal accounts are not kept, it is very difficult to arrive at true and fair profit or loss of the business during the desired period.
4. As real accounts are not kept, it is not possible to arrive at true and fair financial position of the business.
5. Any information derived from the books will not be free from doubt on account of unreliable data.
6. On account of improper-control, there is a possibility of fraud and misappropriation.
7. If the proprietor wants to sell the business, it will be difficult task to fix proper value of various assets.

DIFFERENCE BETWEEN SINGLE ENTRY SYSTEM & DOUBLE ENTRY SYSTEM

Double Entry System	Single Entry System
1. Under this system, both aspects of each transaction are recorded.	1. Under this system, both aspects of each transaction are not recorded.
2. In this system, Personal, Real & Nominal Accounts are kept fully.	2. In this system, only Personal A/cs. are kept and Real and Nominal A/cs. are ignored. (However, in some cases Cash Account is maintained.)
3. In this system, Cash Book, General Ledger, Debtors' Ledger, and Creditors' Ledger are maintained.	3. In this system, only Debtors' Ledger and Creditors' Ledger are kept. Cash Book is also kept, but personal transactions get mixed up with business transactions.
4. Under this system, arithmetical accuracy can be checked by preparing Trial Balance at any moment of time.	4. Under this system, arithmetical accuracy cannot be checked because no Trial Balance can be prepared.
5. In this system, Trading, Profit and Loss A/c and Balance Sheet can be prepared.	5. In this system, Trading, Profit & Loss Account and Balance Sheet cannot be prepared.
6. For interpretation of financial statement, we can compute different ratios, if the accounts are maintained under this method.	6. Vital ratios cannot be computed (such as gross profit ratio, net profit ratio etc.), if the accounts are maintained under this system.
7. This system is scientific and follows certain rules.	7. This system is unscientific and does not follow any concrete rules.
8. Companies should follow this system only	8. Companies cannot follow this system.

ASCERTAINMENT OF PROFIT BY CAPITAL COMPARISON

This method is also known as **Net Worth method or Statement of Affairs Method**



If detailed information regarding revenue and expenses is not known, it becomes difficult to prepare profit and loss account. Instead by collecting information about assets and liabilities, it is easier to prepare balance sheet at two different points of time. So, while preparing accounts from incomplete records, if sufficient information is not available, it is better to follow the method of capital comparison to arrive at the profit/loss for the current year.

METHODS OF CAPITAL COMPARISON

Closing capital increases if there is profit, while it reduces if there is loss incurred during the year. However, if the proprietor/partners make fresh investments in the business, capital increases; and any withdrawal made by them, decreases the capital.

The following points shall be considered while computing the profit/loss under capital comparison method –

Particulars	₹
Capital at the end (a)	XX
Add: Drawings	XX
Less: Fresh capital introduced	XX
Capital at the beginning (b)	XX
Profit (a-b)	XX

STATEMENT OF AFFAIRS

The preparation of statement of affairs will require listing of assets and liabilities and their amount. The accountant utilizes the following sources for the purpose of finding out the assets and liabilities of a business enterprise:

a) Cash book for cash balance
b) Bank pass book for bank balance
c) Personal ledger for debtors and creditors
d) Inventory by actual counting and valuation.
e) As regards fixed assets, he prepares a list of them. The proprietor would help him by disclosing the original cost and date of purchase. After deducting reasonable amount of depreciation, the written down value would be included in the Statement of Affairs.

After obtaining all necessary information about assets and liabilities, the next task of the accountant is to prepare statement of affairs at two different points in time.

The design of the statement of affairs is just like balance sheet as given below:

Statement of affairs as on.....

Liabilities	₹	*Assets*	₹
Capital (Bal. Fig.)	xx	Building	xx
Loans, Bank overdraft	xx	Machinery	xx
Sundry creditors	xx	Furniture	xx
Bills payable	xx	Inventory	xx
Outstanding expenses		Sundry debtors	xx
		Bills receivable	xx
		Loans and advances	xx
		Cash and bank	xx
		Prepaid expenses	xx
	xx		**xx**

Now from the statement of affairs prepared at two different dates, the opening and closing capital balances can be obtained.

DIFFERENCE BETWEEN STATEMENT OF AFFAIRS & BALANCE SHEET

Basis	Statement of affairs	Balance sheet
Source	It is prepared on the basis of transactions partly recorded under the double entry book keeping and partly under the single entry. Most of the assets are recorded based on the estimates, assumptions, information gathered from memory rather from the records.	It is based on transactions recorded strictly on the basis of double entry book keeping; each item in the balance sheet can be verified from the relevant subsidiary books, ledger and documentary evidences.
Capital	In this statement, capital is merely a balancing figure being excess of assets over liabilities. Hence assets need not be equal to liabilities.	Capital is derived from the capital account in the ledger and therefore the total of assets side will always be equal to the total of liabilities side.
Omission	Since this statement is prepared from incomplete records, it is very difficult, to identify and record those assets and liabilities, if omitted from the books.	There is no possibility of omission of any item of asset and liability since all items are properly recorded. Moreover, it is easy to locate the missing items since the balance sheet will not agree.
Basis of Valuation	The valuation of assets is generally done in an arbitrary manner; therefore, no method of valuation is disclosed.	The valuation of assets is done on scientific basis, fixed assets are shown at the original costs less depreciation till date. Any change in the method of valuation isproperly disclosed.
Objective	The objective of preparing this statement is to identify the capital figures in the beginning and at the end of the accounting periodrespectively.	The objective of preparing the balance sheet is to ascertain the financial positionon a particular date.

ILLUSTRATION 1

Raju does not maintain proper records of his business. However, he provides the following information:

	₹
Opening capital	*10,000*
Closing capital	*12,500*
Drawings during the year	*3,000*
Capital added during the year	*3,750*

You are required to calculate the profit or loss for the year.

STATEMENT SHOWING COMPUTATION OF RPOFIT

SR.NO	PARTICULARS	AMOUNT
A	Closing Capital	12,500
B	Add- Drawings	3,000
C	Less Capital Introduced	3,750
D	Closing Adjusted Capital	11,750
E	Less Opening Capital	10,000
F	Profit for the year	1,750

ILLUSTRATION 2

Rakesh started his business on 1st of April 2021. He invested a capital of Rs 1,00,000. On 31st March 2022, he has the following information available as per the Single-entry system maintained by him.

	₹
Cash balance (counted)	*3,200*
Inventory (physically verified)	*34,800*
Receivable from Ajay against credit sales	*31,000*
Machine	*85,000*
Payable to Vinod towards credit purchase	*12,000*
Loan taken from Bank	*10,000*
Drawings made during the year	*24,000*

You are required to calculate the profit or loss earned by Rakesh for the year ended 31st March 2022.

STATEMENT OF AFFAIRS AS ON 31-3-22

LIABILITIES	AMOUNT	ASSET	AMOUNT
Capital (BF)	1,32,000	Cash	3,200
Loan	10,000	Inventory	34,800
Payable	12,000	Receivable	31,000
		Machinery	85,000
	1,54,000		1,54,000

STATEMENT SHOWING COMPUTATION OF RPOFIT

SR.NO	PARTICULARS	AMOUNT
A	Closing Capital	1,32,000
B	Add Drawings	24,000
C	Closing Adjusted Capital	1,56,000
D	Less Opening Capital	1,00,000
E	Profit for the year	56,000

ILLUSTRATION 3

Assets and Liabilities of Mr. X as on 31-03-2021 and 31-03-2022 are as follows:

	31-03-2021	31-03-2022
	₹	₹
Assets		
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*
Liabilities		
Loans	*1,00,000*	*80,000*
Sundry creditors	*40,000*	*70,000*

Decided to depreciate building by 2.5%p.a. and furniture by 10% p.a. One Life Insurance Policy of the Proprietor was matured during the period and the amount ₹ 40,000 is retained in the business. Proprietor took @ ₹ 2,000 p.m. for meeting family expenses.

Prepare Statement of Affairs as on 31-03-2021 and 31-03-2022. & Find profit of Mr. X for the Year Ended 31-3-22

STATEMENT OF AFFAIRS AS ON

LIABILITIES	31-3-21	31-3-22	ASSET	31-3-21	31-3-22
Capital (BF)	2,41,200	4,40,700	Building	1,00,000	97,500
Creditors	40,000	70,000	Furniture	50,000	45,000
Loans	1,00,000	80,000	Inventory	1,20,000	2,70,000
			Debtors	40,000	90,000
			Cash at Bank	70,000	85,000
			Cash in Hand	1,200	3,200
	3,81,200	5,90,700		3,81,200	5,90,700

STATEMENT SHOWING COMPUTATION OF RPOFIT

SR.NO	PARTICULARS	AMOUNT
A	Closing Capital	4,40,700
B	Add- Drawings (2000 x 12)	24,000
C	Less- Life Insurance Policy Matured	40,000
D	Closing Adjusted Capital	4,24,700
E	Less - Opening Capital	2,41,200
F	Profit	1,83,500

ILLUSTRATION 4

The Income Tax Officer, on assessing the income of Shri Moti for the financial years 2020-2021 and 2021-2022 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, 2020 and 1st April, 2022.

				₹
1-4-2020	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

1-4-2022	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 ₹ 4,000 p.m. The declared incomes of the financial years were ₹ 1,05,000 for 2020-2021 and ₹ 1,23,000 for 2021-2022 respectively.

State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

STATEMENT OF AFFAIRS AS ON

LIABILITIES	01-04-20	01-04-22	ASSET	01-04-20	01-04-22
Capital (BF)	3,13,000	5,65,000	Loan to Moti's brother	-	20,000
Moti's brother	40,000		Cash-in-hand	25,500	16,000
Sundry Creditors	35,000	55,000	Inventory	56,000	91,500
			Debtors	41,500	52,500
			Land & building	1,90,000	1,90,000
			Wife's Jewelry	75,000	1,25,000
			Motor Car	-	1,25,000
	3,88,000	**6,20,000**		**3,88,000**	**6,20,000**

STATEMENT SHOWING COMPUTATION OF RPOFIT

SR.NO	PARTICULARS	AMOUNT
A	Closing Capital	5,65,000
B	Add- Drawings (4,000 x 12 months x 2 years)	96,000
C	Closing adjusted capital	6,61,000
D	Less- Opening capital	3,13,000
E	Profit for 20-21 & 21-22	3,48,000

Actual income = 3,48,000

Income declared = 105000+123000
= 2,28,000

Income suppressed = 348000- 228000
= 1,20,000

Conclusion:- Income tax officers contention is correct, Moti has declared his income less by 1,20,000

CONVERSION OF SINGLE ENTRY INTO DOUBLE ENTRY

Under this method, considering the system followed by the proprietor and on the basis of available data, single entry transactions will be converted into double entry by preparing various accounts viz.

- Total Debtors A/c
- Bills Receivable A/c
- Total Creditors A/c
- Bills Payable A/c
- Consolidated Cash/Bank A/c
- Sales A/c
- Purchase A/c
- Drawings A/c
- Capital A/c
- Expenses A/c
- Income A/c
- Assets A/c
- Liabilities A/c etc.

A trial balance is then prepared to verify the arithmetical accuracy.

Note: From the examination point of view there may be missing figures in various accounts, which need to be ascertained.

ILLUSTRATION 5

Calculate the bad debts from the below information:

Opening balance of Debtors	*₹ 5,00,000*
Closing balance of Debtors	*₹ 7,00,000*
Amount received in Cash	*₹ 6,00,000*
Discount allowed	*₹ 10,000*
Credit Sales	*₹ 11,40,000*
Bills Receivable	*₹ 3,00,000*
Bad Debts	*???*

DEBTORS A/C

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Balance b/d	5,00,000	By B/R A/c	3,00,000
To Sales	11,40,000	By Cash A/c	6,00,000
		By Discount allowed A/c	10,000
		By Bad Debts (BF)	30,000
		By Balance c/d	7,00,000
	16,40,000		**16,40,000**

ILLUSTRATION 6

Calculate the credit purchases from the below information:

Opening balance of creditors	₹ 4,00,000
Closing balance of creditors	₹ 5,00,000
Payments made in Cash	₹ 8,50,000
Discount received	₹ 20,000

CREDITORS A/C

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Cash A/c	8,50,000	By Balance b/d	4,00,000
To Discount A/c	20,000	By Purchase (BF)	9,70,000
To Balance c/d	5,00,000		
	13,70,000		**13,70,000**

ILLUSTRATION 7

A Firm sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on 31.03.2021 is ₹1,25,000. Assume that the sale is uniform throughout the year. Calculate the credit sales and total sales of the company for the year ended 31.03.2022.

Credit Sale = $\frac{1,25,000}{1.5 \text{ Months}} \times 12 \text{ Months}$

= 10,00,000

Total Sale = $\frac{10,00,000}{80} \times 100$

= 12,50,000

ILLUSTRATION 8

A. Adamjee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st March, 2022 is given below:

Receipts	₹	**Payments**	₹
Bank Balance as on 1st April, 2021	2,800	Payments to Sundry creditors	35,000
Received from Sundry Debtors	48,000	Salaries	6,500
Cash Sales	11,000	General expenses	2,500
Capital brought during the year	6,000	Rent and Taxes	1,500
Interest on Investments	200	Drawings	3,600
		Cash purchases	12,000
		Balance at Bank on 31st March, 2022	6,400
		Cash in hand on 31st March, 2022	500
	68,000		68,000

Particulars of other assets and liabilities are as follows:

	1st April, 2021	31st March, 2022
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 March, 2022 after providing depreciation at 10 per cent on machinery and furniture and ₹ 800 against doubtful debts.

In the Books of A. Adamjee

Trading and Profit & loss A/c

For the year ended 31st March 2022

Particulars		Amount	Particulars		Amount
To Opening Stock		3,900	By Sales		
To Purchases			Cash	11,000	
Cash	12,000		Credit	51,100	62,100
Credit	37,100	49,100			
			By Closing stock		5,700
To Gross Profit (BF)		14,800			
		67,800			67,800

Particulars		Amount	Particulars	Amount
To Salaries		6,500	By Gross Profit	14,800
To General expenses		2,500	By Interest on Investment	200
To Rent & taxes		1,500		
To RDD		800		
To Deprecation				
Machinery	750			
Furniture	120	870		
To Net Profit (BF)		2,830		
		15,000		15,000

Balance Sheet as on

Liability	31-3-22	01-04-21	Assets		31-3-22	01-04-21
Capital (BF)	34,330	29,100	Machinery	7,500		7,500
			Less. Depreciation @10%	750	6,750	
			Furniture	1,200		1,200
			Less. Depreciation @10%	120	1,080	
			Debtors	17,600		14,500
Creditors	7,900	5,800	Less. RDD	800	16,800	
			Stock		5,700	3,900
			Investment		5,000	5,000
			Bank balance		6,400	2,800
			Cash in hand		500	
	42,230	34,900			42,230	34,900

Working Notes

Capital A/c

Particulars	Amount	Particulars	Amount
To Drawing's	3,600	By Balance b/d	29,100
To Balance c/d (BF)	34,330	By Cash A/c	6,000
		By Net Profit	2,830
	37,930		**37,930**

Creditors A/c

Particulars	Amount	Particulars	Amount
To Cash A/c	35,000	By Balance b/d	5,800
To Balance c/d	7,900	By Purchase (BF)	37,100
	42,900		**42,900**

Debtor's A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	14,500	By Cash A/c	48,000
To Sales (BF)	51,100	By Balance c/d	17,600
	65,600		65,600

ILLUSTRATION 9

From the following data furnished by Mr. Manoj, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2022 and Balance Sheet as at that date. All workings should form part of your answer.

Assets and Liabilities	**As on 1st April 2021**	**As on 31st March 2022**
	₹	₹
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 31-3-2022		*1,200*
Cheques issued to trade creditors		*60,270*

In the books of Mr. Manoj

Trading and Profit & loss A/c

For the year ended 31st March 2022

Particulars		Amount	Particulars		Amount
To Opening stock		8,040	By Sales		
To Purchases			Cash	4,600	
Cash	1,030		Credit (BF)	67,210	
Credit	58,000				

Particulars	Amount	Particulars	Amount
		By Gross profit	14,810
To Bad debts	420		
To Discount on debtors	1,500	By Discount received	700
To Expenses	9,300		
To Net Profit (BF)	4,290		
	15,510		15,510

Balance Sheet as on

Liability		31-3-22	01-04-21	Assets	31-3-22	01-04-21
Capital	26,770		26,770	Sundry Assets	12,040	11,610
Add- Additional	8,500			Debtors	17,870	16,530
Less- Drawings	3,180			Stock	11,120	8,040
Add- Profit	4,290	36,380		Cash & bank balance	8,080	6,960
O/S expenses		330	600			
Creditors		12,400	15,770			
		49,110	**43,140**		**49,110**	**43,140**

Working Notes

Cash & Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	6,960	By Purchase	1,030
To Capital	8,500	By Expenses	9,570
To Debtors	62,500	By Machinery	430
To Cash	5,000	By Drawing's	3,180
To Bank	9,240	By Bank	5,000
To Sales A/c (BF) (Cash Sale)	4,600	By Cash	9,240
		By Creditors	60,270
		By Balance c/d	8,080
	96,800		**96,800**

Debtor's A/c

Particulars	Amount	Particulars	Amount
To Balance b/d (BF)	16,530	By Sales return	1,450
To sales A/c (71,810 - 4,600)	67,210	By Bank	62,500
		By Bad debts	420
		By Discount (64,000-62,500)	1,500
		By Balance c/d	17,870
	83,740		**83,740**

Creditor's A/c

Particulars	Amount	Particulars	Amount
To Bank	60,270	By Balance b/d	15,770
To Discount	700	By Purchases (BF)	58,000
To Purchase return	400		
To Balance c/d	12,400		
	73,770		**73,770**

Expenses A/c

Particulars	Amount	Particulars	Amount
To Cash A/c	9,570	By Balance b/d	600
To Balance C/d	330	By P/L A/c (BF)	9,300
	9,900		9,900

ILLUSTRATION 10

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

	31st March 2021	31st March 2022
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 2021- 2022:

(i) Deposited to bank after payment of shop expenses @ ₹ 600 p.m., salary @ ₹ 9,200 p.m. and personal expenses @ ₹ 1,400 p.m. ₹ 7,62,750.

(ii) Cash Withdrawn from bank ₹ 1,21,000.

(iii) Cash payment to suppliers ₹ 77,200 for supplies and ₹ 25,000 for furniture.

(iv) Cheques collected from customers but dishonoured ₹ 5,700.

(v) Bills accepted by customers ₹ 40,000.

(vi) Bills endorsed ₹ 10,000.

(vii) Bills discounted ₹ 20,000, discount ₹ 750.

(viii) Bills matured and duly collected ₹ 16,000.

(ix) Bills accepted ₹ 24,000.

(x) Paid suppliers by cheque ₹ 3,20,000.

(xi) Received ₹ 20,000 on maturity of one LIC policy of the proprietor by cheque.

(xii) *Rent received ₹ 14,000 by cheque for the premises owned by proprietor.*

(xiii) *A building was purchased on 30-11-2021 for opening a branch for ₹ 3,50,000 and some expenses were incurred on this building, details of which are not maintained.*

(xiv) *Electricity and telephone bills paid by cash ₹ 18,700, due ₹ 2,200.*

Other transactions:

(i) *Claim against the firm for damage ₹ 1,55,000 is under legal dispute. Legal expenses ₹ 17,000. The firm anticipates defeat in the suit.*

(ii) *Goods returned to suppliers ₹ 4,200.*

(iii) *Goods returned by customers ₹ 1,200.*

(iv) *Discount offered by suppliers ₹ 2,700.*

(v) *Discount offered to the customers ₹ 2,400.*

(vi) The business is carried on at the rented premises for an annual rent of ₹ 20,000 which is outstanding at the year end.

Prepare Trading and Profit & Loss Account of Mr. Anup for the year ended 31st March 2022 and Balance Sheet as on that date.

In the books of Anup

Trading and Profit & loss A/c

For the year ended 31st March 2022

Particulars		Amount	Particulars		Amount
To Opening stock		1,10,000	By Sales		9,59,750
To Purchases	4,54,100		Less- Return	1,200	9,58,550
Less- Return	4,200	4,49,900	By Closing stock		1,90,000
To Gross profit (BF)		5,88,650			
		11,48,550			11,48,550

Particulars		Amount	Particulars	Amount
To Rent		20,000	By Gross profit	5,88,650
To Shop expenses		7,200	By Discount on creditors	2,700
To Salary		1,10,400		
To Bill discounting charges		750		
To Electricity/ telephone exp	18,700			
Add- O/S	2,200	20,900		
To Discount on debtors		2,400		
To Provision for claim against damage		1,55,000		
To Legal expenses		17,000		
To Net profit (BF)		2,57,700		
		5,91,350		5,91,350

Balance Sheet as on

Liability		31-3-22	01-04-21	Assets	31-3-22	01-04-21
Capital	2,38,200		2,38,200	Furniture	25,000	
Less- Drawings	16,800			Building	3,72,000	
Add- LIC matured	20,000			Stock	1,90,000	1,10,000
Add- Rent	14,000			Bills receivable	6,000	15,000
Add- Profit	2,57,700	5,13,100		Debtors	92,000	70,000
Provision for claim		1,55,000		Bank balance	87,000	90,000
Creditors		56,000	40,000	Cash balance	5,300	5,200
Bills payable		14,000	12,000			
O/S Telephone & Electricity		2,200				
Legal Expenses O/S		17,000				
O/S Rent		20,000				
		7,77,300	2,90,200		7,77,300	2,90,200

Debtor's A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	70,000	By Cash A/c	8,97,150
To Bank A/c (dishonor)	5,700	By B/R A/c	40,000
To B/R A/c (dishonor)	3,000	By Return	1,200
To Sale's (BF)	9,59,750	By Discount	2,400
		By Bank	5,700
		By Balance c/d	92,000
	10,38,450		**10,38,450**

Bills Receivables A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	15,000	By Creditors (endorsed)	10,000
To Debtors	40,000	By Bank A/c	19,250
		By Discount	750
		By Bank	16,000
		By Debtors (BF) (dishonor)	3,000
		By Balance c/d	6,000
	55,000		**55,000**

Creditor's A/c

Particulars	Amount	Particulars	Amount
To Returns	4,200	By Balance b/d	40,000
To B/R A/c (endorsed)	10,000	By Purchase (BF)	4,54,100
To Cash A/c	77,200		
To B/P	24,000		
To Bank	3,20,000		
To Discount	2,700		
To Balance c/d	56,000		
	4,94,100		**4,94,100**

Bills Payable A/c

Particulars	Amount	Particulars	Amount
To Bank A/c (BF)	22,000	By Balance b/d	12,000
To Balance c/d	14,000	By Creditors	24,000
	36,000		**36,000**

Cash Book

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	5,200	90,000	By Shop exp	7,200	
To Cash A/c		7,62,750	By Salary	1,10,400	
To Bank A/c	1,21,000		By Drawings	16,800	
To B/R (Discounted)		19,250	By Bank A/c	7,62,750	
To B/R		16,000	By Cash A/c		1,21,000
To LIC matured		20,000	By Creditors	77,200	3,20,000
To Capital A/c (rent)		14,000	By Furniture	25,000	
To Debtors		5,700	By Debtors		5,700
To Debtors (BF)	8,97,150		By Electricity & Telephone	18,700	
			By B/P		22,000
			By Building (BF)		3,72,000
			By Balance c/d	5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

ILLUSTRATION 11

Mr. A runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 2021 was as follows:

Liabilities	₹	**Assets**	₹
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, 2022 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.*

Total sales during the year 2020-21 were ₹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 be cheques only.*

(4) *Deprecation 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 ₹ 2,000 to the clerk, office expenses ₹1,200 and personal expenses ₹500.*

Analysis of bank pass book for the year ending 31st March 2022 disclosed the following:

	₹
Payment to creditors	*3,00,000*
Payment of rent up to 31st March, 2022	*16,000*
Cash deposited into the bank during the year	*80,000*

The following are the balances on 31st March, 2022:

	₹
Stock	*1,60,000*
Debtors	*1,20,000*
Creditors for goods	*1,46,000*

On the evening of 31st March 2022, 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, 2022 and Balance Sheet as on that date. All the workings should form part of the answer.

In the books of A

Trading and Profit & loss A/c

For the year ended 31st March 2022

Particulars	Amount	Particulars		Amount
To Opening stock	2,80,000	By sales		
To Purchase	3,64,000	Cash	1,20,000	
To Gross profit (BF)	1,16,000	Credit	4,80,000	6,00,000
		By closing stock		1,60,000
	7,60,000			7,60,000

Particulars	Amount	Particulars	Amount
To depreciation on furniture	4,000	By gross profit	1,16,000
To salary to check	24,000		
To office expenses	14,400		
To rent	16,000		
To loss of cash	23,600		
To net profit (BF)	34,000		
	1,16,000		1,16,000

Balance Sheet as on 31-3-22

Liability		Amount	Assets		Amount
Capital	4,04,000		Furniture	40,000	
Less- drawings	6,000		Less- dep @10%	4,000	36,000
Add- profit	34,000	4,32,000	Closing stock		1,60,000
Creditors		1,46,000	Debtors		1,20,000
			Bank balance		2,62,000
		5,78,000			5,78,000

Working Notes

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	28,000	By Salary to Clerk	24,000
To Sale A/c	1,20,000	By Office Expenses	14,400
		By Drawings	6,000
		By Bank	80,000
		By Loss of Cash (BF)	23,600
	1,48,000		**1,48,000**

Debtor's A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	1,00,000	By Bank A/c (BF)	4,60,000
To Sales A/c	4,80,000	By Balance c/d	1,20,000
	5,80,000		**5,80,000**

Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	38,000	By Creditors	3,00,000
To Cash	80,000	By Rent	16,000
To Debtors	4,60,000	By Balance c/d (BF)	2,62,000
	5,78,000		**5,78,000**

Creditor's A/c

Particulars	Amount	Particulars	Amount
To Bank A/c	3,00,000	By Balance b/d	82,000
To Balance c/d	1,46,000	By Purchase (BF)	3,64,000
	4,46,000		**4,46,000**

ILLUSTRATION 12

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	**As on 1.4.2021**	**As on 31.3.2022**
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's capital	3,00,000	?

Analysis of his bank pass book reveals the following information:

(a) Payment to creditors ₹ 7,00,000

(b) Payment for business expenses ₹ 1,20,000

(c) Receipts from debtors ₹ 7,50,000

(d) Loan ₹ 1,00,000 taken on 1.10.2021 at 10% per annum

(e) Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had not introduced any additional capital. Surplus cash if any, to be taken as cash sales. All purchases are on credit basis.

You are required to prepare Trading and Profit and Loss Account for the year ended 31.3.2022 and Balance Sheet as at 31st March, 2022.

In the books of Ram

Trading and Profit & loss A/c

For the year ended 31st March 2022

Particulars	Amount	Particulars		Amount
To Opening stock	2,80,000	By Sales		
To Purchases	7,70,000	Cash	2,40,000	
To Gross Profit (25% of 12,40,000)	3,10,000	Credit	10,00,000	12,40,000
		By Closing Stock (BF)		1,20,000
	13,60,000			**13,60,000**
To Business Expenses	1,20,000	By gross profit		3,10,000
To Interest on loan (1,00,000 x 10%/12 x 6)	5,000			
To Salary	40,000			
To Net profit (BF)	1,45,000			
	3,10,000			**3,10,000**

Balance Sheet
As on 31-3-22

Liability		Amount	Assets	Amount
Capital	3,00,000		Closing stock	1,20,000
Less- Drawings	80,000		Debtors	3,50,000
Add- Profit	1,45,000	3,65,000	Bank balance	80,000
Loan		1,00,000	Cash in hand	10,000
O/S interest on loan		5,000		
Creditors		90,000		
		5,60,000		5,60,000

Working Notes

Cash & Bank A/c

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	10,000		By Balance b/d		50,000
To Debtors		7,50,000	By Creditors		7,00,000
To Loan		1,00,000	By Business expenses		1,20,000
To Cash		1,00,000	By Bank	1,00,000	
To Sales (cash) (BF)	2,40,000		By Creditors	20,000	
			By Salary	40,000	
			By Drawings	80,000	
			By Balance c/d	10,000	80,000
	2,50,000	9,50,000		2,50,000	9,50,000

Debtor's A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	1,00,000	By Bank	7,50,000
To Sales (BF)	10,00,000	By Balance c/d	3,50,000
	11,00,000		**11,00,000**

Creditor's A/c

Particulars	Amount	Particulars	Amount
To Bank	7,00,000	By Balance b/d	40,000
To Cash	20,000	By Purchase (BF)	7,70,000
To Balance c/d	90,000		
	8,10,000		**8,10,000**



thank you!

ISSUE , FORFIETURE & REISSUE OF SHARES

BIRDS EYE VIEW

- Company - Meaning
- Characteristics of Company
- Types of Companies
- Maintenance of Books of Accounts & Schedule III
- Share Capital – Meaning
- Categories of Share Capital
- Types of Shares – Equity & Preference
- Types of Preference Shares
- Procedure For Issue of Shares
- Subscription of Shares – Full , Under & Oversubscription

BIRDS EYE VIEW

- Issue of Shares at Premium
- Issue of Shares at Discount
- Accounting Entries for Issue of Shares
- Calls in Arrears & Calls in Advance
- Interest on Calls in Arrears & Calls in Advance
- Forfeiture of Shares – Meaning
- Accounting Entries for Forfeiture of Shares
- Re-issue of Forfeited Shares
- Issue of Shares Other Than Cash

PROCEDURE FOR ISSUE OF SHARE IN CASH

The following chart shows the procedure to issue shares



IMPORTANT POINTS AS REGARDS TO ISSUE OF SHARES

1. As per guidelines of Securities Exchange Board of India, a company must receive a minimum of 90% subscription against the entire issue before making any allotment of shares or debentures to the public.
2. If the Company does not receive the minimum subscription of 90% of the issues, the entire subscription shall be refunded to the applicants within 15 days after the date of closure of issue in case of Non-underwritten issue & 7 days after date of closure of issue in case of underwritten issue.
3. Subsequent installments, if any, to be called by the company are known as 'calls'. The Companies Act, 2013, requires that the period of at least one month must be there between two calls.
4. As per Section 39 of the Companies Act 2013, application money must be at least 5% of the face value of share. However, as per SEBI Guidelines, the minimum application money to be paid by an applicant along with the application money shall not be less than 25% of the issue price. According to Section 24, matters related to issue and transfer of securities will be administered by the SEBI and not by the Company Law Board.

FULL SUBSCRIPTION

Issue is fully subscribed if the number of shares offered for subscription and the number of shares actually subscribed by the public are same.

UNDER SUBSCRIPTION

It means the number of shares offered for subscription is more than the number of shares subscribed by the public. It must be remembered that shares can be allotted, in this case, only when the minimum subscription is received.

OVERSUBSCRIPTION OF SHARES & PRO RATA ALLOTMENT

1. Over subscription is the application money received for more than the number of shares offered to the public by a company.
2. It usually occurs in the case of good issues and depends on many other factors like investors confidence in the company, general economic conditions, pricing of the issue etc. when the shares are oversubscribed, the company cannot satisfy all the applicants.
3. It means that a decision is to be made on how the shares are going to be allotted. Shares can be allotted to the applicants by a company in following manner –
   a) Reject some applications in full
   b) Allotment of some applications in full
   c) Allot shares to the applicants on Pro-rata basis

Example for Pro-rata allotment - a company offers to the public 10,000 shares for subscription. The company receives applications for 12,000 shares. If the shares are to be allotted on pro-rata basis, applicants for 12,000 shares are to be alloted 10,000 shares .i.e., on the 12,000, 10,000 or 6:5 ratio,. Any applicant who has applied for 6 shares will be allotted 5 shares.

ISSUE OF SHARES AT PREMIUM

When shares are issued at price higher than the face value they are said to be issued at premium.

Thus, Premium = Issue Price – Face Value

There are no restrictions on issue of shares at a premium but there are restrictions on its utilization of securities premium. Securities Premium is not a divisible profit, but a capital profit.

The 'Securities Premium' can be utilised by the company (according to Sec. 52.) for

a) Issuing fully paid bonus shares
b) Writing off the preliminary expenses
c) Writing off the expenses of, or the commission paid or discount allowed on issue of shares or debentures.
d) Providing for premium payable on redemption of preference shares or debentures.
e) For purchase of own shares or other securities

ISSUE OF SHARES AT DISCOUNT

Shares are said to be issued at a discount, if issue as at an amount less than the nominal or par value of shares. The excess of the nominal value over the issue price represents discount on the issue of shares. For example when a shares of the nominal value of Rs. 100 is issued at Rs.98, it is said to have been issued at a discount of 2 per cent.

According to section 53 of the companies act, 2013 a company cannot issue shares at a discount expect in the case of issue of sweet equity shares (issued to employees and directors).

Thus any issue of shares at discount shall be void.

ACCOUNTING ENTRIES FOR ISSUE OF SHARES

1	**Application Money Received**	Bank A/c.....Dr To Share Application A/c
2	**Allottment of Shares** **Issue of Shares at Par**	Share Application A/c.....Dr Share Allotment A/c.....Dr To Share Capital A/c
	Issue of Shares at Premium	Share Application A/c.....Dr Share Allotment A/c.....Dr To Share Capital A/c To Securities Premium A/c

ACCOUNTING ENTRIES FOR ISSUE OF SHARES

3	**Refund of Application Money**	Share Application A/c……..Dr To Bank A/c
4	**Appropriation of Excess application money towards allotment money due**	Share Application A/c……..Dr To Share Allotment A/c
5	**Appropriation of Excess application money towards call in advance**	Share Application A/c……..Dr To Calls in Advance
6	**Allotment Money Received**	Bank A/c……Dr To Share Allotment A/c
7	**Call Money Due**	Share Call A/c……Dr To Share Capital A/c

ACCOUNTING ENTRIES FOR ISSUE OF SHARES

8	**Call Money Due if Premium Included In Call Money**	Share Call A/c.....Dr To Share Capital A/c To Securities Premium A/c
9	**Call Money Received**	Bank A/c.....Dr Calls in Advance A/c.....Dr To Share Call A/c

CALLS IN ARREARS

Sometimes shareholders fail to pay the amount or calls. The total unpaid amount on one or more installments is known as Calls-in-Arrears or Unpaid Calls. Such amount represents the uncollected amount of capital from the shareholders; hence, it is shown by way of deduction from 'called-up capital' to arrive at paid-up value of the share capital.

For recording 'Calls-in-Arrears', the following journal entry is recorded

Calls-in-Arrears A/c.....Dr [Amount of unpaid Calls]

To Share Allotment A/c (If Allotment money is still due)

To Share Calls A/c (If any call is due)

CALLS IN ADVANCE

Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as Calls-in-advances. This amount is credited in Calls-in-Advance Account.

The following entries are recorded in case of Calls in Advance

Bank A/c……Dr

To Call-in-Advance A/c

(When the amount of call is received in advance)

Calls-in-Advance A/c……Dr [Call amount due]

To Particular Call A/c

(Adjustment entry when call is made)

INTEREST ON CALLS IN ARREARS AND CALLS IN ADVANCE

Interest on calls in arrear is recoverable and that in respect of calls in advance is payable, according to provisions in the regard in the articles of the company, at the rates mentioned there in or those to be fixed by the directors, within the limits prescribed by the Articles. Table F prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and those in advance. However. The directors have right to waive the payment on Interest on Calls in Arrears.

FORFIETURE OF SHARES

1. The terms ‘forfeit’ actually means taking away of property on breach of a condition.

2. It is very common that one or more shareholders fails to pay their allotment and / or calls on the due dates. Failure to pay call of money results in forfeiture of shares. Forfeiture of share is the action taken by a company to cancel the shares.

3. when shares are forfeited, the title of such shareholder is extinguished but the amount paid to date is not refunded to him. The shareholder then has no further claim on the company.

4. The fully paid shares can also be forfeited for realization of debts of the shareholders if the articles specifically provide it.

ACCOUNTING ENTRIES - FORFIETURE OF SHARES

1	**If Shares were Issued at Par**	Share Capital A/c.....Dr To Forfeited Shares A/c (Amt paid by Shareholder) To Share Allotment A/c (Amt due on Share Allotment) To Share first/Second Call A/c (Amt due on respective Calls)
2	**If Shares Were Issued at premium and Premium amount Received**	Share Capital A/c.....Dr To Forfeited Shares A/c (Amt paid by Shareholder other than premium) To Share Allotment A/c (Amt due on Share Allotment) To Share first/Second Call A/c (Amt due on respective Calls)
3	**If Shares Were Issued at Premium and Premium amount not Received**	Share Capital A/c.....Dr Securities Premium A/c..Dr (By the amount earlier credited) To Forfeited Shares A/c (Amt paid by shareholder) To Share Allotment A/c (Amt due on Share Allotment) To Share first/Second Call A/c (Amt due on respective Calls)

Shares are Issued at Par

Share Capital A/c — Dr

[Jitna Call kiya hai excluding securities Premium]

To Forfeited Shares A/c.

[Jitna Paisa mil gaya excluding securities Premium]

To Equity Share Allotment A/c

[Jitna allotment money mangaya & mila aaya excluding securities Premium]

To Equity Share Call A/c

[Jitna Call money mangaya & mila aaya excluding securities Premium]

Calls in arrears A/c If Calls not received were debited to Calls in arrears.

Shares are Issued at Premium & Premium Amount received

Share Capital A/c — Dr

[Jitna Call kiya hai excluding securities Premium]

To Forfeited shares A/c

[Jitna Paisa mil gaya excluding securities Premium]

To Equity share allotment A/c

[Jitna allotment money mangaya & mila aaya Including securities Premium]

To Equity share Call A/c

[Jitna Call money mangaya & mila aaya Including securities Premium]

Calls in arrears A/c Dr

Calls not received were debited to Calls in arrears.

Shares are Issued at Premium & Premium Amount not recieved

Share Capital A/C — Dr
[Jitna Call kiya hai excluding securities Premium]
Securities Premium A/C — Dr
[Amount of Premium Called but not recieved]
To Forfeited Shares A/C
[Jitna paisa mil gaya excluding securities Premium]
To Equity share allotment A/C
[Jitna allotment money mangaya but nahi aaya including Premium]
To Equity share Call A/C
[Jitna Call money mangaya but nahi aaya including Premium]

Calls in arrears A/C
If Calls not recieved were debited to Calls in arrears

REISSUE OF FORFEITED SHARES

1. A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only.
2. Reissue of forfeited shares is not allotment of shares but only a sale.
3. These shares can be re-issued at any price so long as the total amount received (from the original allottee and the second purchaser) for those shares is not less than the amount in arrears on those shares.

Journal Entry

Bank A/c….Dr (Actual Amount Received)

Forfeited Shares A/c……..Dr (Loss on Reissue)

To Share Capital A/c (FV of Share)

To Capital Reserve (Profit on Re-issue)

Capital reserve

No. of shares reissued × [Profit on forfeiture (extra paid not paid excluding GST) − Loss on reissue (extra Discounting on reissue)]

POINTS FOR CONSIDERATION

1. Loss on re-issue should not exceed the forfeited amount
2. If the loss on re-issue is less than the amount forfeited, the surplus should be transferred to Capital Reserve.
3. The forfeited amount on shares not yet reissued should be shown under the heading ‘share capital.’
4. When only a portion of the forfeited shares are re-issued, then the profit made on reissue of such shares must be transferred to Capital Reserve.
5. When the shares are re-issued at a loss, such loss is to be debited to “Forfeited Shares Account”
6. If the shares are re-issued at a price which is more than the face value of the shares, the excess amount will be credited to Securities Premium Account.
7. If the re-issued amount and forfeited amount (taken together) exceeds the face value of the shares re-issued, it is not necessary to transfer such amount to Securities Premium Account.

ISSUE OF SHARES OTHER THAN IN CASH

When the company purchases some assets (Including Services) , instead of making the payment to the supplier in the form of cash , it issues its fully paid shares, such issue of shares is called as the issue of shares for consideration other than cash.

Sr.No	Case	Accounting Entry
1	**Purchase of Business / Assets**	Respective Assets A/c.....Dr To Respective Liability A/c To Vendor A/c
2	**Allottment of Shares** **Issue of Shares at Par**	Vendor A/c.....Dr To Share Capital A/c
	Issue of Shares at Premium	Vendor A/c.....Dr To Share Capital A/c To Securities Premium A/c
3	**Issue of Shares to Promoter**	Goodwill A/c/Preliminary Expenses A/c.....Dr To Share Capital A/c

BALANCE SHEET OF A COMPANY

Particulars		Notes No.	Figures as at end of the current reporting period	Figures as at end of the previous reporting period
	EQUITY AND LIABILITIES			
1.	**Shareholders' funds**			
	a. Share capital (A)		xxx	xxx
	b. Reserves and Surplus (B)		xxx	xxx
	c. Money received against share warrants		xxx	xxx
2.	**Share application money pending allotment**		xxx	xxx
3.	**Non-current liabilities**			
	a. Long-term borrowings (C)		xxx	xxx
	b. Deferred tax liabilities (Net)		xxx	xxx
	c. Other long term liabilities		xxx	xxx
	d. Long-term provisions (D)		xxx	xxx
4.	**Current liabilities**			
	a. Short-term borrowings (E)		xxx	xxx
	b. Trade Payables		xxx	xxx
	c. Other current liabilities (F)		xxx	xxx
	d. Short-term provisions		xxx	xxx
	Total		xxx	xxx

	ASSETS			
1.	**Non-current assets**			
	a. Property, Plant and Equipment			
	i. Tangible assets (G)		xxx	xxx
	ii. Intangible assets (H)		xxx	xxx
	iii. Capital Work-in-progress		xxx	xxx
	iv. Intangible assets under development		xxx	xxx
	b. Non-current investments (I)		xxx	xxx
	c. Deferred tax assets (Net)		xxx	xxx
	d. Long-term loans and advances (J)		xxx	xxx
	e. Other non-current assets		xxx	xxx
2.	**Current assets**			
	a. Current investments (K)		xxx	xxx
	b. Inventories (L)		xxx	xxx
	c. Trade receivables		xxx	xxx
	d. Cash and cash equivalents (M)		xxx	xxx
	e. Short-term loans and advances		xxx	xxx
	f. Other current assets		xxx	xxx
	Total		xxx	xxx

A. SHARE CAPITAL

For each class of share capital following points is to be kept in mind:

i. The number and amount of shares authorised.

ii. The number of shares which are issued, subscribed and fully paid and which are issued, subscribed but not fully paid.

iii. The par value per share.

iv. Shares outstanding at the beginning and at the end of the reporting period should be reconciled.

v. Calls unpaid.

vi. Forfeited shares.

B. RESERVES AND SURPLUS

Reserves and surplus can be distributed among the following sub-heads:

i. Capital reserves

ii. Capital redemption reserves

iii. Securities Premium

iv. Debenture Redemption reserve

v. Revaluation reserve

vi. Surplus; the balance as per profit and loss statement

vii. Other reserves (specify the nature and purpose)

C. LONG TERM BORROWINGS

Long term borrowings can be classified under the following sub-heads:

i. Bonds/Debentures

ii. Term loans

iii. Deferred payment liabilities

iv. Deposits

v. Long term maturities of finance lease obligations

vi. Loans and advances from related parties

vii. Other loans and advances (specify nature)

G. TANGIBLE ASSETS

Tangible assets can be classified as follows:

i. Land

ii. Buildings

iii. Plant and Equipments

iv. Furniture and Fixtures

v. Vehicles

vi. Office equipments

vii. Others (specify the nature)

A detailed report showing additions, disposals, acquisitions through business combinations and other adjustments and amount related to depreciation, impairment losses, revaluation etc. should be provided for each class of asset.

H. INTANGIBLE ASSETS

Intangible assets can be classified as follows:

i. Goodwill

ii. Brands/trademarks

iii. Computer software

iv. Mining rights

v. Publishing titles

vi. Copyrights, patents and other intellectual property rights, services and operating rights.

vii. Licence and franchise

viii. Recipes, models, designs, formulae and prototypes

ix. Others (specify the nature)

A detailed report showing additions, disposals, acquisitions through business combinations and other adjustments and amount related to depreciation, impairment losses, revaluation etc. should be provided for each class of asset.

M. CASH AND CASH EQUIVALENTS

The following head can be classified as follows:

i. Balances with banks

ii. Cheques, drafts in hand

iii. Cash in hand

iv. Others (specify the nature)

ILLUSTRATION 1 - SM

Rashmi Limited issued at par 1,00,000 Equity shares of ₹10 each payable ₹2.50 on application; ₹3 on allotment; ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Nair who held 10,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 1000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Nair. Give journal entries to record these transactions.

In The Books of Rashmi Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Bank A/c….Dr (100000*2.50)		250000	
	To Share Application A/c			250000
	(being Application Money received on			
	100000 Shares)			
2	Share Application A/c….Dr		250000	
	Share Allotment A/c…Dr (100000*3)		300000	
	To Equity Share Capital A/c (100000*5.50)			550000
	(Being Shares alloted and allotment money			
	due)			

Sr.No	Particulars	LF	Debit	Credit
3	Bank A/c….Dr		300000	
	To Share Allotment A/c			300000
	(Being Amount received on allotment)			
4	Share First Call A/c….Dr (100000*2)		200000	
	To Equity Share Capital A/c			200000
	(Being Amount on First Call Due)			

Sr.No	Particulars	LF	Debit	Credit
5	Bank A/c.....Dr		225000	
	To Share First Call A/c			200000
	To Calls in Advance (10000*2.50)			25000
	(Being Amount received on first call and			
	Calls in advance received from Mr. nair)			
6	Share Final Call A/c….Dr (100000*2.50)		250000	
	To Equity Share Capital A/c			250000
	(Being Amount due on Final Call)			

Sr.No	Particulars	LF	Debit	Credit
7	Bank A/c…..Dr		222500	
	Calls in Arrears A/c….Dr (1000*2.50)		2500	
	Calls in Advance A/c….Dr		25000	
	To Share Final Call A/c			250000
	(Being amount received on Final Call)			
8	Interest on Calls in Advance A/c….Dr		750	
	To Mr. Nair A/c			750
	(Being Interest on Calls in Advance Payable			
	to Mr. Nair Calculated as 25000*12%*3/12)			

Sr.No	Particulars	LF	Debit	Credit
9	Mr. Nair A/c….Dr		750	
	To Bank A/c			750
	(Being interest on Calls			
10	Shareholder A/c….Dr		41.67	
	To Interest on calls in Arrears			41.67
	(Being Interest recoverable from Shareholder Calculated as 2500*10%*2/12)			

Sr.No	Particulars	LF	Debit	Credit
11	Bank A/c….Dr		2541.67	
	To Calls in Arrears A/c			2500
	To Shareholder A/c			41.67
	(Being Amount received on calls in Arrears with Interest)			

ILLUSTRATION 2 - SM

JHP Limited is a company with an authorised share capital of ₹10,00,000 in equity shares of ₹10 each, of which 6,00,000 shares had been issued and fully paid on 30th June, 2020. The company proposed to make a further issue of 1,00,000 of these ₹10 shares at a price of ₹14 each, the arrangements for payment being:

(a) ₹ 2 per share payable on application, to be received by 1st July, 2020;

(b) Allotment to be made on 10th July, 2020 and a further ₹ 5 per share (including the premium) to be payable;

(c) The final call for the balance to be made, and the money received by 30th April, 2021.

Applications were received for 3,55,000 shares and were dealt with as follows:

(i) Applicants for 5,000 shares received allotment in full;

(ii) *Applicants for 30,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;*

(iii) *Applicants for 3,20,000 shares received an allotment of one share for every four applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and*

(iv) *the money due on final call was received on the due date.*

You are required to record these transactions (including cash items) in the Journal of JHP Limited.

Working Note for Adjustment & Refund

Category	No. of Shares Applied	No. of Shares Allotted	Amount received on Application	Amount required on Application	Amount adjusted in Allotment	Refund	Amount Due on Allotment	Amount Received on Allotment
(i)	5000	5000	10000	10000	-	-	25000	25000
(ii)	30000	15000	60000	30000	30000	-	75000	45000
(iii)	320000	80000	640000	160000	400000	80000	400000	-
Total	355000	100000	710000	200000	430000	80000	500000	70000

In The Books of JHP Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Bank A/c…..Dr		710000	
	To Share Application A/c			710000
	(Being Amount Received on Application as			
	per Working Note)			

Sr.No	Particulars	LF	Debit	Credit
2	Share Application A/c….Dr		710000	
	Share Allotment A/c….Dr (100000 * 5)		500000	
	To Equity Share Capital A/c (100000*3)			300000
	To Share Allotment A/c			430000
	To Bank A/c			80000
	To Securities Premium (100000*4)			400000
	(Being Shares alloted , excess amount			
	refunded as per working Note)			

Sr.No	Particulars	LF	Debit	Credit
3	Bank A/c……Dr		70000	
	To Share Alottment A/c			70000
	(Being Amount received on Allotment as			
	per Working Note)			
4	Share Final call A/c….Dr (100000*7)		700000	
	To Equity Share Capital A/c (100000*7)			700000
	(Being Final call Due)			

Sr.No	Particulars	LF	Debit	Credit
5	Bank A/c….Dr		700000	
	To Share Final call A/c			700000
	(Being Amount on Final call Recieved)			

ILLUSTRATION 3 - SM

A Ltd forfeited 30,000 equity shares of ₹10 fully called-up, held by Mr. X for non-payment of final call @ ₹4 each. However, he paid application money @ ₹2 per share and allotment money @ ₹4 per share. These shares were originally issued at par. Give Journal Entry for the forfeiture.

In The Books of A Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Equity Share capital A/c….Dr (30000*10)		300000	
	To Equity Share Final call A/c (30000*4)			120000
	To Forfeited Shares A/c (30000*6)			180000
	(Being the Forfeiture of 30000 Equity Shares Of Rs. 10 Each Fully called up for non payment Of final call money @ 4 Each as Per Board's Resolution No…. Dated…..)			

ILLUSTRATION 4 - SM

X Ltd forfeited 20,000 equity shares of ₹ 10 each, ₹ 8 called-up, for non-payment of first call money @ ₹ 2 each. Application money @ ₹ 2 per share and allotment money @ ₹ 4 per share have already been received by the company. Give Journal Entry for the forfeiture (assume that all money due is transferred to Calls-in-Arrears Account).

In The Books of X Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Equity Share capital A/c….Dr (20000*8)		160000	
	To calls in Arrears A/c (20000*2)			40000
	To Forfeited Shares A/c (20000*6)			120000
	(Being the Forfeiture of 20000 Equity Shares Of Rs. 10 Each Fully called up for non payment Of first call money @ 2 Each as Per Board's Resolution No…. Dated…..)			

ILLUSTRATION 5 - SM

X Ltd. forfeited 5,000 equity shares of ₹100 each fully called-up which were issued at a premium of 20%. Amount payable on shares were: on application ₹20; on allotment ₹50 (including premium); on First and Final call ₹50. Only application money was paid by the shareholders in respect of these shares. Pass Journal Entries for the forfeiture.

In The Books of X Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Equity Share capital A/c….Dr (5000*100)		500000	
	Securities Premium Reserve Ac (5000*20)		100000	
	To Equity Share allotment A/c (5000*50)			250000
	To Equity Share First & Final call A/c (5000*50)			250000
	To Forfeited Shares A/c (5000*20)			100000
	(Being the Forfeiture of 5000 Equity Shares Of Rs. 100 Each Fully called up for non payment Of Allotment & call money as Per Board's Resolution No…. Dated…..)			

ILLUSTRATION 6 - SM

Mr. Long who was the holder of 2,000 preference shares of ₹100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 1500 of such shares to Mr. Short at ₹ 65 per share paid-up as ₹75 per share.

Give Journal Entries to record the above forfeiture and re-issue in the books of the company.

In The Books of Company
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Preference Share Capital….Dr (2000*75)		150000	
	To Forfeited Shares A/c (2000*25)			50000
	To Share Allotment A/c (2000*25)			50000
	To Share First Call A/c (2000*25)			50000
	(being 2000 Preference Shares forfeited on			
	non payment of allotment and call money)			

Sr.No	Particulars	LF	Debit	Credit
2	Bank A/c….Dr (1500*65)		97500	
	Forfeited shares A/c….Dr (1500*10)		15000	
	To preference Share Capital A/c (1500*75)			112500
	(Being 150 Shares reissued)			
3	Forfeited Shares A/c….Dr (1500*15)		22500	
	To Capital Reserve A/c			22500
	(Being profit on reissue credited to capital			
	reserve)			

ILLUSTRATION 7 PYP NOV 19

B Limited issued 50,000 equity shares of ₹ 10 each payable as ₹ 3 per share on application, ₹ 5 per share (including ₹ 2 as premium) on allotment and ₹ 4 per share on call. All these shares were subscribed. Money due on all shares was fully received except from X, holding 1000 shares who failed to pay the allotment and call money and Y, holding 2000 shares, failed to pay the call money. All those 3,000 shares were forfeited. Out of forfeited shares, 2,500 shares (including whole of X's shares) were subsequently re-issued to Z as fully paid up at a discount of ₹ 2 per share.

Pass necessary journal entries in the books of B limited. Also prepare Balance Sheet and notes to accounts of the company.

In The Books of B Ltd
Journal Entries

Sr.No	Particulars	LF	Amount	Amount
1	Bank A/c…..Dr (50000 Shares * 3)		150000	
	To Share Application A/c			150000
	(Being aplication received for 50000 Shares)			
2	Share Application A/c…..Dr		150000	
	Share Allotment A/c....Dr (50000*5)		250000	
	To Equity Share Capital A/c (50000*6)			300000
	To Securities Premium A/c (50000*2)			100000
	(Being 50000 Shares Allotted)			

Sr.No	Particulars	LF	Amount	Amount
3	Bank A/c….Dr (49000*5)		245000	
	To Share Allotment A/c			245000
	(Being Money received on Alottment)			
4	Share Call A/c…Dr (50000*4)		200000	
	To Equity Share Capital A/c			200000
	(Being Share call due)			

Sr.No	Particulars	LF	Amount	Amount
5	Bank A/c….Dr (47000 Shares * 4)		188000	
	To Share Call A/c			188000
	(Being Share call amount received)			
6	Equity Share Capital A/c…Dr (1000*10)		10000	
	Securities Premium A/c…Dr (1000*2)		2000	
	To Forfeited Shares A/c (1000*3)			3000
	To Share Allotment A/c (1000*5)			5000
	To Share Call A/c (1000*4)			4000
	(Being X's 1000 Shares Forfieted)			

Sr.No	Particulars	LF	Amount	Amount
7	Equity Share Capital A/c…Dr (2000*10)		20000	
	To Forfeited Shares A/c (2000*6)			12000
	To Share Call A/c (2000*4)			8000
	(Being Y's 1000 Shares Forfieted)			
8	Bank A/c….Dr (2500*8)		20000	
	Forfeited Shares A/c….Dr (2500*2)		5000	
	To Equity Share Capital A/c (2500*10)			25000
	(Being 2500 Shares Reissued)			

Sr.No	Particulars	LF	Amount	Amount
9	Forfeited Shares A/c….Dr (WN 1)		7000	
	To Capital Reserve A/c			7000
	(Being profit Transferred to Capital Reserve)			

Balance Sheet of B Ltd as on....

Particulars	Notes. No.	Rs.
Equity and Liabilities		
Shareholders' Funds		
Share Capital	**1**	**498000**
Reserve and surplus	**2**	**105000**
Total		**603000**
Assets		
Current Assets		
Cash and Cash equivalents (Bank)		**603000**
Total		**603000**

Notes to Accounts

Sr.No	Particulars	Rs.	Rs.
1	**Share Capital**		
	Equity share capital		
	Issued share capital		
	50,000 Equity shares of Rs.10 each	5,00,000	
	Subscribed, Called up and paid up share capital		
	49,500 equity shares of Rs.10 each	495000	
	Add: Forfeited Shares	3000	498000
2	**Reserves and Surplus**		
	Securities Premium	98000	
	Capital Reserve	7000	105000

WN 1 – Ascertainment of Amount To be transferred to Capital Reserve

X's Shares = (Profit on forfieture - Loss on Reissue) * No. of shares Reissued
X's Shares = (3-2)*1000 = 1000

Y's Shares = (Profit on forfieture - Loss on Reissue) * No. of shares Reissued
Y's Shares = (6-2)*1500 = 6000

ILLUSTRATION 8 - PYP NOV 2020 (10 MARKS)

ABC Limited issued 20,000 equity shares of ₹ 10 each payable as:

₹ 2 per share on application

₹ 3 per share on allotment

₹ 4 per share on first call

₹ 1 per share on final call

All the shares were subscribed. Money due on all shares was fully received except for Mr. Bird, holding 300 shares, who failed to pay first call and final call money. All these 300 shares were forfeited. The forfeited shares of Mr. Bird were subsequently re-issued to Mr. John.as fully paid up at a discount of ₹ 2 per share.

Pass the necessary Journal Entries to record the above transactions in the books of ABC Limited.

In The Books of ABC Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Bank A/c….Dr (20000*2)		40000	
	To Equity Share Application A/c			40000
	(Being Application Received for 20000 Shares)			
2	Equity Share Application A/c……Dr		40000	
	Equity Share Allotment A/c……Dr (20000*3)		60000	
	To Equity Share Capital A/c (20000*5)			100000
	(Being 20000 Shares Allotted & Allotment money called for)			

Sr.No	Particulars	LF	Debit	Credit
3	Bank A/c…..Dr		60000	
	To Equity Share Allotment A/c			60000
	(Being Allotment Money Received)			
4	Equity First call A/c…..Dr (20000*4)		80000	
	To Equity Share Capital A/c			80000
	(Being First Call made)			

Date	Particulars	LF	Debit	Credit
5	Bank A/c…..Dr (19700*4)		78800	
	Calls in Arrears A/c…..Dr (300*4)		1200	
	To Equity Share First call A/c			80000
	(being First Call Amount Received Except on 300 Shares Held by Mr. Bird)			
6	Equity Share Final Call A/c….Dr (20000*1)		20000	
	To Equity Share Capital A/c			20000
	(Being Final Call Made Due)			

Date	Particulars	LF	Debit	Credit
7	Bank A/c….Dr (19700*1)		19700	
	Calls in Arrears A/c (300*1)		300	
	To Equity Final Call A/c			20000
	(Being Final Call amount Received Except on 300 Shares held by Mr. Bird)			
8	Equity Share Capital A/c (300*10)		3000	
	To Forfeited Shares A/c (300*5)			1500
	To Calls in Arrears A/c			1500
	(Being 300 Shares Forfeited for non Payment of First & final call)			

Date	Particulars	LF	Debit	Credit
9	Bank A/c….Dr (300*8)		2400	
	Forfeited Shares A/c…..Dr (300*2)		600	
	To Equity Share Capital A/c (300*10)			3000
	(Being 300 Forfeited Shares Reissued)			
10	Forfeited Shares A/c…..Dr (300*3)		900	
	To Capital Reserve A/c			900
	(Being Profit on Reissue of Forfeited Shares Credited to Capital Reserve)			

Note – Amount Not Received on First Call & Final Call transferred to calls in Arrears

ILLUSTRATION 9 - PYP JUL 2021 (15 MARKS)

X Limited invited applications for issuing 75,000 equity shares of ₹10 each at a premium of ₹5 per share. The total amount was payable as follows:

- *₹9 per share (including premium) on application and allotment*
- *Balance on the First and Final Call*

Applications for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr. Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹4/- per share.

Pass necessary journal entries· for the above transactions in the books of X Limited.

In The Books of X Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Bank A/c…..Dr (300000 Shares * 9)		2700000	
	To Equity Share Application & Allotment A/c			2700000
	(Being application Money received for 300000 Shares)			
2	Equity Share Application & Allotment A/c…..Dr		2700000	
	To Equity Share Capital A/c (75000*4)			300000
	To Securities Premium Reserve A/c (75000*5)			375000
	To Bank A/c (200000*9)			1800000
	To Equity Share First & Final Call A/c (25000*9)			225000
	(Being 75000 Shares Allotted Excess money Received on 25000 Shares adjusted in First & Final call & Application money on 200000 Shares			

Sr.No	Particulars	LF	Debit	Credit
3	Equity Share First & Final Call A/c…..Dr (75000*6)		450000	
	To Equity Share Capital A/c (75000*6)			450000
	(Being First & Final call Made)			
4	Bank A/c……Dr (450000-225000-3375)		221625	
	Calls in Arrears A/c……Dr (WN 1)		3375	
	To Equity Share First & Final call A/c			225000
	(Being Final call amount Received except from raj who held 1125 Shares)			

Sr.No	Particulars	LF	Debit	Credit
5	Equity Share Capital A/c….Dr (1125*10)		11250	
	To Forfeited Shares A/c (13500-5625)			7875
	To Calls in Arrears A/c			3375
	(Being 1125 Shares Forfeited)			
6	Bank A/c….Dr (1125*6)		6750	
	Forfeited Shares A/c....Dr (1125*4)		4500	
	To Equity Share capital A/c (1125*10)			11250
	(Being 1125 Forfeited Shares Reissued)			

Sr.No	Particulars	LF	Debit	Credit
7	Forfeited Shares A/c…Dr (7875-4500)		3375	
	To Capital Reserve A/c			3375
	(Being profit on Reissue credited to capital Reserve)			

Note – Amount Not Received on First & Final Call transferred to calls in Arrears)

WN 1 – Ascertainment of Calls in Arrears of Mr. Raj

Sr.No	Particulars	No./Amount
A	Shares Applied by Raj	1500
B	Application Money Received from Raj (1500*9)	13500
C	Shares Allotted to Raj (1500/10*7.50)	1125
D	Application Money that Should have been received on the Basis of Shares Allotted (1125*9)	10125
E	Excess Money to be Adjusted in First & Final call (B-D)	3375
F	First & Final Call Amount Receivable from Raj (1125*6)	6750
G	Calls in arrears of Raj (F-E)	3375

ILLUSTRATION 10 - MTP DEC 2021 SERIES 2 (10 MARKS)

Hament applies for 2,000 shares of Rs. 10 each at a premium of Rs. 2.50 per share. He was allotted 1,000 shares. After having paid Rs. 3 per share on application , he did not pay the allotment money of Rs. 4.50 per share (including premium) and on his subsequent failure to pay the first call of Rs. 2 per share, his share were forfeited. These share were reissued at Rs. 8 per share,

At the time of re-issue of forfeited shares of Mr. Hament, final call money amount all other shareholders were duly called up.

You are required to pass journal entries to record forfeiture and reissue of shares.

Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Share Capital A/c	Dr.	7,000	
	Securities Premium Reserve A/c	Dr.	1,500	
	To Forfeited Share A/c			5,000
	To Share Allotment A/c			1,500
	To Share First Call A/c			2,000
	(Being 100 shares forfeited for non-payment of allotment money and first call)			
2	Bank A/c	Dr.	8,000	
	Forfeited Shares A/c	Dr.	2,000	

Sr.No	Particulars	LF	Debit	Credit
	To Share Capital A/c			10,000
	(Being 1000 forfeited shares reissued as fully paid up for Rs. 8 per share)			
3	Forfeited Shares A/c	Dr.	3,000	
	To Capital Reserve A/c			3,000
	(Being the transfer of gain on reissue)			

1.N.N Ascertainment of Amount due on allotment & its receipt

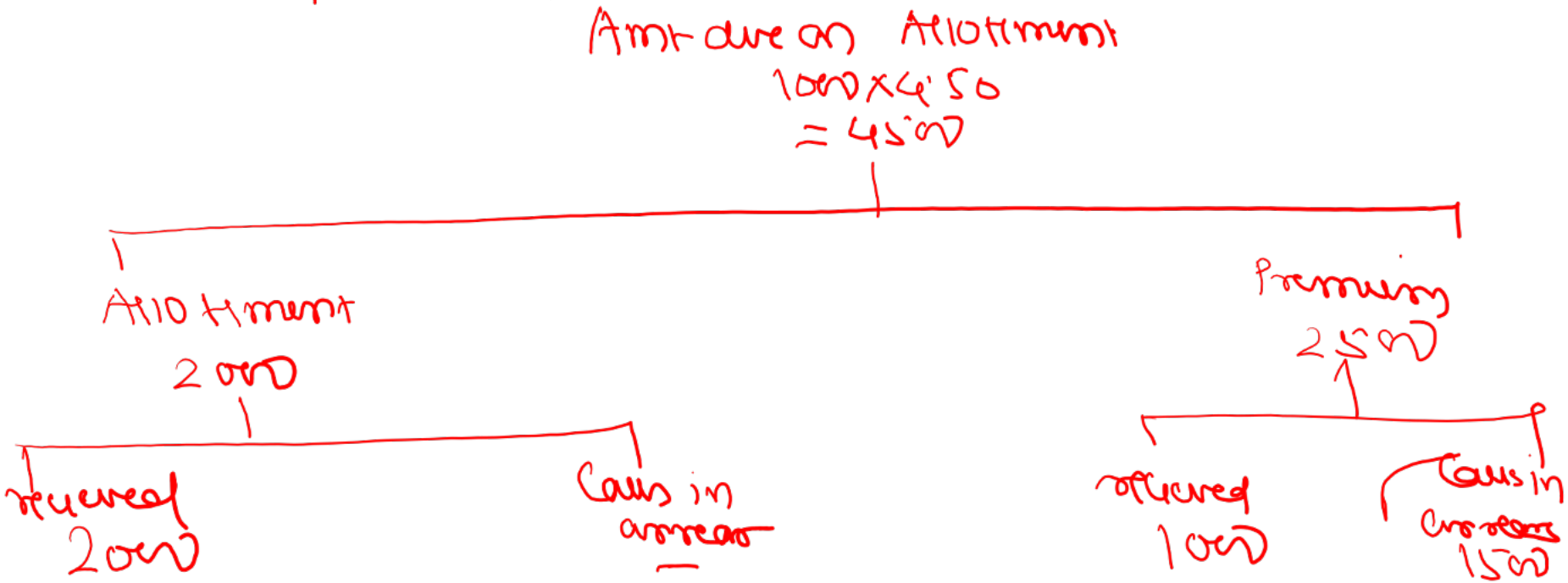


ILLUSTRATION 11

X Co. Ltd. was incorporated with an authorized share capital of 90,000 equity shares of ₹ 10 each. The company purchased land and buildings from Y Co. Ltd for ₹ 4,00,000 payable in fully paid-up shares of the company. The balance of the shares were issued to the public, which were fully subscribed and paid for.

You are required to pass Journal Entries and to prepare the Balance Sheet.

In The Books of X Ltd
Journal Entries

Sr.No	Particulars	LF	Amount	Amount
1	Land & Building A/c….Dr		400000	
	To Y Ltd A/c			400000
	(Being land & building Purchased from y Ltd)			
2	Y Ltd A/c		400000	
	To Equity Share capital A/c			400000
	(Being 40000 Shares issued of 10 Each as a Consideration			

Date	Particulars	LF	Amount	Amount
3	Bank A/c……Dr (50000*10)		500000	
	To Equity Share Application & Allotment A/c			500000
	(Being Application Received for 50000 Shares)			
4	Equity Share application & Allotment A/c…Dr		500000	
	To Equity Share Capital A/c			500000
	(Being 50000 Shares allotted to Public)			

Balance Sheet of X Company Limited as at....

	Particulars	Notes No.	₹
	EQUITY AND LIABILITIES		
	Shareholders' funds		
	Share capital	1	9,00,000
	Total		9,00,000
	ASSETS		
1.	**Non-current assets**		
	a Fixed assets		
	i. Tangible assets	2	4,00,000
2.	**Current assets**		
	Cash and cash equivalents	3	5,00,000
	Total		9,00,000

Notes to accounts

		₹
1.	**Share Capital**	
	Equity share capital	
	Authorised share capital	
	90,000 Equity shares of ₹ 10 each	9,00,000
	Issued share capital	
	90,000 Equity shares of ₹ 10 each	9,00,000
	Subscribed Share Capital	
	90,000 Equity Shares of ₹ 10 each	9,00,000
	Called up and Paid up Capital	
	90,000 Equity Shares of ₹ 10 each	9,00,000
	(Out of the above 40,000 shares have been allotted as fully paid up pursuant to contract(s) without payment being received in cash)	
2.	**Tangible Assets**	
	Land and Building	4,00,000
3.	**Cash and cash equivalents**	
	Balances with banks	5,00,000

ILLUSTRATION 12

B Ltd. issued 20,000 equity shares of ₹100 each at a premium of ₹20 per share payable as follows: on application ₹50; on allotment ₹50 (including premium); on final call ₹20. Applications were received for 24,000 shares. Letters of regret were issued to applicants for 4,000 shares and shares were allotted to all the other applicants. Mr. A, the holder of 150 shares, failed to pay the allotment and call money, the shares were forfeited. Show the Journal Entries and Cash Book in the books of B Ltd.

In the Books of B Ltd.

JOURNAL ENTRIES

Date	Particulars	LF	Debit	Credit
1	Equity Share Application A/c (20000*50)		1000000	
	Equity Share Allotment A/c (20000*50)		1000000	
	To Equity Share Capital A/c (20000*80)			1600000
	To Securities Premium Reserve A/c			400000
	(Being Shares allotted & Allotment Money Due)			
2	Calls In Arrears A/c…..Dr		7500	
	To Equity Share Allotment A/c			7500
	(Being Allotment Money Not Received on 150 Shares at Rs. 50 Each Transferred to Calls in Arrears)			

Date	Particulars	LF	Debit	Credit
3	Equity Share First & Final call A/c…..Dr		400000	
	To Equity Share Capital A/c			400000
	(Being Share First & Final call Due)			
4	Calls In Arrears A/c…..Dr		3000	
	To Equity Share First & Final call A/c			3000
	(Being First & Final call Not Received on 150 Shares at Rs. 20 Each Transferred to Calls in Arrears			
5	Equity Share Capital A/c…….Dr (150*100)		15000	
	Securities Premium A/c….Dr (150*20)		3000	
	To Forfeited Shares A/c (150*50)			7500
	To Call in Arrear's A/c			10500
	(Being 150 Shares Forfeited for non payment of allotment & Final call Money)			

In The Books of B Ltd

Cash Book

Particulars	Amount	Particulars	Amount
To Equity Share Application A/c	1200000	By Equity Share Application A/c	200000
To Equity Share Allotment A/c	992500		
		By Balance C/d (Bal Fig)	2389500
To Equity Share First & Final call A/c	397000		
	2589500		2589500

ILLUSTRATION 13 PYP DEC 2021

Fashion Garments Ltd invited applications for issuing 10,000 Equity Shares of Rs. 10 each. The amount was payable as follows :

1. On Application - Rs. 1 per share
2. On Allotment - Rs. 2 per share
3. On First call - Rs. 3 per share
4. On Second and Final call - Rs. 4 per share

The issue was fully subscribed. Ram to whom 100 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Shyam to whom 150 shares were allotted, failed to pay the First call. His shares were also forfeited after first call. Afterwards the second and final call was made. Mohan to whom 50 shares were allotted failed to pay the second and final call. His shares were also forfeited. All the forfeited shares were re-issued at Rs. 9 per share fully paid up.

Pass necessary Journal entries in the books of Fashion Garments Ltd.

In The Books of Fashion Garments Ltd
Journal Entries

Sr.No	Particulars	LF	Debit	Credit
1	Bank A/c…….Dr. (10000 x 1)		10000	
	To Equity Share Application A/c			10000
	(Being Application Received for 10000 Shares)			
2	Equity Share Application A/c……Dr.		10000	
	Equity Share Allotment A/c……Dr. (10000 x 2)		20000	
	To Equity Share Capital A/c			30000
	(Being 10000 Share Alloted)			

Sr.No	Particulars	LF	Debit	Credit
3	Bank A/c…….Dr. (9900 x 2)		19800	
	Calls In Arrears A/c Dr. (100 x 2)		200	
	To Equity Share Allotment A/c			20000
	(Being Allotment Money Received & Calls in Arrears Recorded)			

Sr.No	Particulars	LF	Debit	Credit
4	Equity Share Capital A/c……Dr. (100 x 3)		300	
	To Forfeited Shares A/c (100 x 1)			100
	To Calls In Arrears			200
	(Being 100 Shares of Ram Forfeited due to Non Payment of Allotment Money as per Board's Resolution No _____ dated _____)			
5	Equity Share First Call A/c….Dr. (9900 x 3)		29700	
	To Equity Share Capital A/c			29700
	(Being First Call Due)			

Sr.No	Particulars	LF	Debit	Credit
6	Bank A/c…..Dr (9750 x 3)		29250	
	Calls In Arrears A/c…..Dr (150 x 3)		450	
	To Equity Share First Call A/c			29700
	(Being First Call Money Received & Calls In Arrears Recorded)			
7	Equity Share Capital A/c…..Dr (150 x 6)		900	
	To Forfeited Shares A/c (150 x 3)			450
	To Calls In Arrears A/c			450
	(Being 150 Shares of Shyam Forfeited due to Non Payment of First Call as Per Board's Resolution No _____ Dated _____)			

Sr.No	Particulars	LF	Debit	Credit
8	Equity Share Second & Final Call A/c….. Dr (9750 x 4)		39000	
	To Equity Share Capital A/c			39000
	(Being Second & Final Call Due)			
9	Bank A/c….Dr (9700 x 4)		38800	
	Calls In Arrears A/c……Dr (50 x 4)		200	
	To Equity Share Second & Final Call A/c			39000
	(Being Second & Final Call Amount Received & Calls in Arrears Recorded)			

Sr.No	Particulars	LF	Debit	Credit
10	Equity Share Capital A/c…..Dr (50 x 10)		500	
	To Forfeited Shares A/c (50 x 6)			300
	To Calls In Arrears A/c			200
	(Being 50 Shares of Mohan Forfeited Due to Non Payment of Second & Final Call as per Board's Resolution No _____ Dated _____)			
11	Bank A/c…..Dr (300 x 9)		2700	
	Forfeited Shares A/c….Dr (300 x 1)		300	
	To Equity Share Capital A/c			3000
	(Being 300 Shares Reissued)			

Sr.No	Particulars	LF	Debit	Credit
12	Forfeited Shares A/c…. Dr		550	
	To Capital Reserve A/c			550
	(Being Amount Transferred to Capital Reserve)			



thank you!

ACCOUNTING FOR BONUS ISSUE & RIGHT ISSUE

BIRDS EYE VIEW

- Provisions in Regards To Bonus Issue
- Journal Entries For Bonus Issue
- Introduction To Right Issue
- Book Value Per Share
- Right of Renunciation
- Journal Entries For Right Issue

PROVISIONS IN REGARDS TO BONUS ISSUE

1. a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of—
   i. its free reserves;
   ii. the securities premium account; or
   iii. the capital redemption reserve account:

2. No issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

3. Conditions for issue of Bonus Shares
   a) It is authorised by its articles;
   b) It has, on the recommendation of the Board, been authorised in the general meeting of the company;
   c) It has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
   d) It has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
   e) The partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up.
   f) It complies with such conditions as may be prescribed

4. The company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.

5. Bonus shares shall not be issued in lieu of dividend.

6. Free Reserves can be used to Make partly paid up shares as Fully paid up (Free Reserves means Reserves that can be used for Distribution of Dividend **Example –** P/L , general Reserve Etc)

7. SPR & CRR may be applied in paying up unissued shares to be issued to members as bonus

8. Listed Co. – SPR Collected only in cash can be used for issue of Bonus Shares

9. Unlisted Co – Entire balance of SPR may be used for issue of Bonus Shares whether or not collected in Cash

JOURNAL ENTRIES FOR BONUS ISSUE

Upon the sanction of an issue of bonus shares of Fully Paid Shares

1. Capital Redemption Reserve Account Dr.
   Securities Premium Account Dr.
   General Reserve Account Dr.
   Profit & Loss Account Dr.
   To Bonus to Shareholders Account.

2. Bonus to Shareholders Account Dr.
   To Share Capital Account.

Upon the sanction of bonus by converting partly paid shares into fully paid shares

1. **Conversion of partly paid Shares into Fully Paid Shares**

   General Reserve Account Dr.

   Profit & Loss Account Dr.

   To Bonus to Shareholders Account

2. **On making the final call due**

   Share Final Call Account Dr.

   To Share Capital Account.

3. **On adjustment of final call**

   Bonus to Shareholders Account Dr.

   To Share Final Call Account

ILLUSTRATION 1

Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 2022:

	₹
40,000 Equity shares of ₹ 10 each	*4,00,000*
Capital Redemption Reserve	*55,000*
Securities Premium (collected in cash)	*30,000*
General Reserve	*1,05,000*
Surplus i.e. credit balance of Profit and Loss Account	*50,000*

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. Pass necessary journal entries.

In the Books of Bharat Ltd
Journal Entries

Date	Particulars		LF	Debit	Credit
1	Capital Redemption Reserve A/c	Dr.		55,000	
	Securities Premium A/c	Dr.		30,000	
	General Reserve A/c	Dr.		15,000	
	To Bonus to Shareholder's A/c				1,00,000
	(Being bonus declared in ratio of 1:4)				
2	Bonus to Shareholder's A/c	Dr.		1,00,000	
	To Equity Share Capital A/c				1,00,000
	(Being bonus shares issued)				

ILLUSTRATION 2

Pass Journal Entries in the following circumstances:

(i) *A Limited company with subscribed capital of ₹ 5,00,000 consisting of 50,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of ₹ 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.*

(ii) *A Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 9,00,000. It was resolved to capitalize ₹ 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company.*

Case (i)

Date	Particulars	LF	Debit	Credit
1	General Reserve A/c Dr. (50,000 X 2.50)		1,25,000	
	To Bonus to Shareholder's A/c			1,25,000
	(Being Provision for bonus)			
2	Equity Share Final Call A/c Dr. (50,000 X 2.50)		1,25,000	
	To Equity Share Capital A/c			1,25,000
	(Being final call due)			
3	Bonus to Shareholder's A/c Dr.		1,25,000	
	To Equity Share Final Call A/c			1,25,000
	(Being bonus issue applied to final call)			

Case (ii)

Date	Particulars	LF	Debit	Credit
1	General Reserve A/c Dr.		5,00,000	
	To Bonus to Shareholder's A/c			5,00,000
	(Being bonus declared in a ratio 1:10)			
2	Bonus to Shareholder's A/c Dr.		5,00,000	
	To Equity Share Capital A/c			5,00,000
	(Being bonus shares issued)			

ILLUSTRATION 3

Following notes pertain to the Balance Sheet of Solid Ltd. as at 31st March, 2022:

	₹
Authorised capital :	
10,000 12% Preference shares of ₹ 10 each	*1,00,000*
1,00,000 Equity shares of ₹ 10 each	*10,00,000*
	11,00,000
Issued and Subscribed capital:	
8,000 12% Preference shares of ₹ 10 each fully paid	*80,000*
90,000 Equity shares of ₹ 10 each, ₹ 8 paid up	*7,20,000*
Reserves and Surplus :	
General reserve	*1,60,000*

Revaluation reserve	*35,000*
Securities premium (collected in cash)	*20,000*
Profit and Loss Account	*2,05,000*
Secured Loan:	
12% Debentures @ ₹ 100 each	*5,00,000*

On 1st April, 2022 the Company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 20th April, 2022. Thereafter the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the company has passed necessary resolution at its general body meeting for increasing the authorised capital.

In the Books of Solid Ltd
Journal Entries

Date	Particulars	LF	Debit	Credit
1-4-22	Equity Share Final Call A/c Dr. (90,000 X 2)		1,80,000	
	To Equity Share Capital A/c			1,80,000
	(Being final call due)			
20-4-22	Bank A/c Dr.		1,80,000	
	To Equity Share Final Call A/c			1,80,000
	(Being final call received)			

Date	Particulars		LF	Debit	Credit
20-4-22	Securities Premium A/c	Dr.		20,000	
	General Reserve A/c	Dr.		1,60,000	
	Profit & Loss A/c	Dr.		45,000	
	To Bonus to Shareholder's A/c				2,25,000
	(Being bonus declared in the ratio 1:4)				
20-4-22	Bonus to Shareholder's A/c	Dr.		2,25,000	
	To Equity Share Capital A/c				2,25,000
	(Being 22,500 equity shares issued as bonus)				

Balance Sheet as 30-4-22 (Extract) (After Bonus)

PARTICULARS	NOTE NO	AMOUNT
EQUITY AND LIABILITIES		
Shareholders Fund		
Share Capital	1	12,05,000
Reserves & Surplus	2	1,95,000
Non Current Liabilities		
Long Term Borrowings	3	5,00,000
Total		**19,00,000**

Note 1 – Share Capital

PARTICULARS	AMOUNT	AMOUNT
Authorised Share Capital		
10,000, 12% Preference Shares of 10 each	1,00,000	
1,12,500 Equity Shares of 10 each	11,25,000	
Issued, Subscribed, Called up & Paid up Capital		
8,000, 12% Preference Shares of 10 each Fully Paid	80,000	
1,12,500 Equity Shares of 10 each Fully Paid	11,25,000	12,05,000
(Out of the above 22,500 equity shares of 10 each issued by way of bonus)		
Total		**12,05,000**

Note 2 – Reserves and Surplus

PARTICULARS	AMOUNT	AMOUNT
General Reserve	1,60,000	
Less : Utilised for Bonus Issue	1,60,000	-
Revaluation Reserve		35,000
Securities Premium	20,000	
Less : Utilised for Bonus Issue	20,000	-
Profit & Loss A/c	2,05,000	
Less : Utilised for Bonus Issue	45,000	1,60,000
Total		**1,95,000**

Note 3 – Long Term Borrowing

PARTICULARS	AMOUNT	AMOUNT
12% Debentures of 100 each		5,00,000
Total		**5,00,000**

ILLUSTRATION 4

The following notes pertain to Brite Ltd.'s Balance Sheet as at 31st March, 2022:

Notes	**₹ in Lakhs**
(1) Share Capital	
Authorised :	
20 crore shares of ₹ 10 each	20,000
Issued and Subscribed :	
10 crore Equity Shares of ₹ 10 each	10,000
2 crore 11% Cumulative Preference Shares of ₹ 10 each	2,000
Total	12,000
Called and paid up:	
10 crore Equity Shares of ₹ 10 each, ₹ 8 per share called and paid up	8,000
2 crore 11% Cumulative Preference Shares of ₹ 10 each, fully called and paid up	2,000
Total	10,000

(2)	*Reserves and Surplus :*	
	Capital Redemption Reserve	*1,485*
	Securities Premium (collected in cash)	*2,000*
	General Reserve	*1,040*
	Surplus i.e. credit balance of Profit & Loss Account	*273*
	Total	*4,798*

On 2nd April 2022, the company made the final call on equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2022.

On 1st June 2022, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held . Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

In the Books of Brite Ltd
Journal Entries

(Rs. In lakhs)

Date	Particulars	LF	Debit	Credit
2-4-22	Equity Share Final Call A/c Dr. (10 Cr Shares * 2)		2000	
	To Equity Share Capital A/c			2000
	(Being final call due)			
2-4-22	Bank A/c Dr.		2000	
	To Equity Share Final Call A/c			2000
	(Being final call received)			

Date	Particulars		LF	Debit	Credit
1-6-22	Capital Redemption Reserve A/c	Dr.		1485	
	Securities Premium A/c	Dr.		2000	
	General Reserve A/c	Dr.		515	
	To Bonus to Shareholder's A/c				4000
	(Being bonus declared in the ratio 2:5)				
1-6-22	Bonus to Shareholder's A/c	Dr.		4000	
	To Equity Share Capital A/c				4000
	(Being 4 Crores equity shares issued as bonus)				

Note 1 – Share Capital

PARTICULARS	AMOUNT	AMOUNT
Authorised Share Capital		
20 Crore Shares of 10 Each	20000	
Issued, Subscribed, Called up & Paid up Capital		
14 Crore Equity Shares of 10 Each , Fully paid Up	14000	
(Out of the above 4 Crores equity shares of 10 each issued by way of bonus)		
2 Crore , 11% Cumulative preference Share Capital of Rs. 10 Each , Fully paid	2000	16000
Total		16000

Note 2 – Reserves and Surplus

PARTICULARS	AMOUNT	AMOUNT
Capital Redemption Reserve	1485	
Less : Utilized for Bonus Issue	(1485)	-
Securities Premium	2000	
Less : Utilized for Bonus Issue	(2000)	-
General Reserve	1040	
Less : Utilised for Bonus Issue	(515)	525
Profit & Loss A/c		273
Total		**798**

ILLUSTRATION 5

Following notes pertain to the Balance Sheet of Preet Ltd. as at 31st March, 2022

	₹
Share capital:	
Authorised capital:	
15,000 12% Preference shares of ₹ 10 each	*1,50,000*
1,50,000 Equity shares of ₹ 10 each	*15,00,000*
	16,50,000
Issued and Subscribed capital:	
12,000 12% Preference shares of ₹ 10 each fully paid	*1,20,000*
1,35,000 Equity shares of ₹ 10 each, ₹ 8 paid up	*10,80,000*

Reserves and surplus:	
General Reserve	*1,80,000*
Capital Redemption Reserve	*60,000*
Securities premium (collected in cash)	*37,500*
Profit and Loss Account	*3,00,000*

On 1st April, 2022, the Company has made final call @ ₹2 each on 1,35,000 equity shares. The call money was received by 20th April, 2022. Thereafter, the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2022 after bonus issue.

In the Books of preet Ltd
Journal Entries

Date	Particulars	LF	Debit	Credit
1-4-22	Equity Share Final Call A/c Dr. (135000 X 2)		2,70,000	
	To Equity Share Capital A/c			2,70,000
	(Being final call due)			
20-4-22	Bank A/c Dr.		2,70,000	
	To Equity Share Final Call A/c			2,70,000
	(Being final call received)			

Date	Particulars		LF	Debit	Credit
20-4-22	Securities Premium A/c	Dr.		37,500	
	Capital Redemption Reserve A/c	Dr		60,000	
	General Reserve A/c	Dr.		1,80,000	
	Profit & Loss A/c	Dr.		60,000	
	To Bonus to Shareholder's A/c				3,37,500
	(Being bonus declared in the ratio 1:4)				
20-4-22	Bonus to Shareholder's A/c	Dr.		3,37,500	
	To Equity Share Capital A/c				3,37,500
	(Being 22,500 equity shares issued as bonus)				

Balance Sheet as 30-4-22 (Extract) (After Bonus)

	NOTE NO	AMOUNT
EQUITY AND LIABILITIES		
Shareholders Fund		
Share Capital	1	18,07,500
Reserves & Surplus	2	2,40,000

Note 1 – Share Capital

PARTICULARS	AMOUNT	AMOUNT
Authorised Share Capital		
15,000, 12% Preference Shares of 10 each	1,50,000	
1,68,750 Equity Shares of 10 each	16,87,500	
Issued, Subscribed, Called up & Paid up Capital		
12,000, 12% Preference Shares of 10 each Fully Paid	1,20,000	
1,68,750 Equity Shares of 10 each Fully Paid	16,87,500	18,07,500
(Out of the above 33,750 equity shares of 10 each issued by way of bonus)		
Total		**18,07,500**

Note 2 – Reserves and Surplus

PARTICULARS	AMOUNT	AMOUNT
Securities Premium	37,500	
Less : Utilized for Bonus Issue	(37,500)	-
Capital Redemption Reserve	60,000	
Less : Utilized for Bonus Issue	(60,000)	-
General Reserve	1,80,000	
Less : Utilised for Bonus Issue	(1,80,000)	-
Profit & Loss A/c	3,00,000	
Less : Utilised for Bonus Issue	(60,000)	2,40,000
Total		**2,40,000**

INTRODUCTION TO RIGHT ISSUE

Provisions of section 62(1)(a) of the Companies Act, 2013 govern any company, public or private, which is desirous of raising its subscribed share capital by issue of further shares. Whenever a company intends to issue new shares, the voting and governance rights of the existing shareholders may be diluted, if they are not allowed to preserve them. It may happen because new shareholders may subscribe to the issued share capital. Companies Act, 2013 allows existing shareholders to preserve their position by offering those newly issued shares at the first instance to them. The existing shareholders are given a right to subscribe these shares, if they like. However, if they do not desire to subscribe these shares, they are even given the right to renounce it in favour of someone else (unless the articles of the company prohibits such a right to renounce)

In nutshell, the existing shareholders have a right to subscribe to any fresh issue of shares by the company in proportion to their existing holding for shares. They have an implicit right to renounce this right in favour of anyone else, or even reject it completely. In other words, the existing shareholders have right of first refusal, i.e., the existing shareholders enjoy a right to either subscribe for these shares or sell their rights or reject the offer

BOOK VALUE OF SHARE

Book value of a share = Net worth (as per books)/ Number of shares

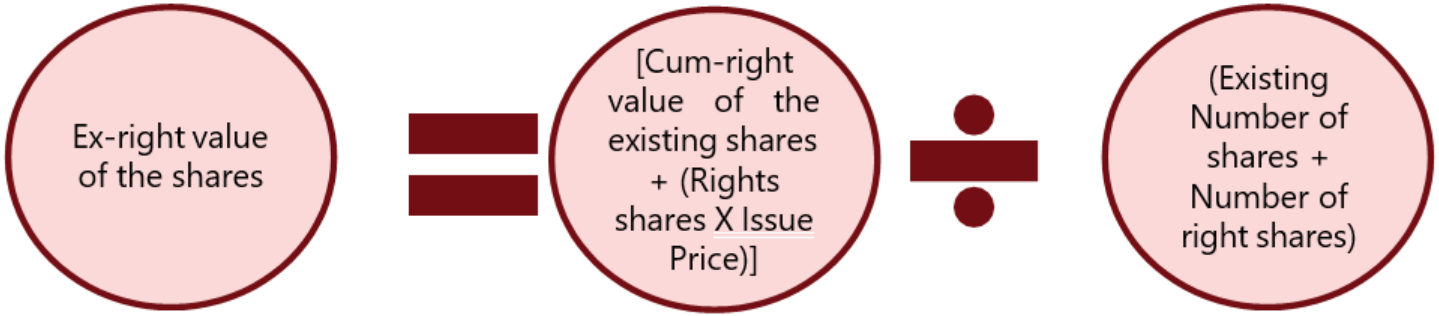
if there are 10,000 shares with net worth of 1,25,000. The book value of one share is (₹ 125,000/ 10,000 shares) ₹ 12.50 per share. However, the market value may differ from the book value of shares. The market value of a company's shares represents the present value of future cash flows expected to be earned from the share in the form of dividends and capital gains from expected future share price appreciation.

The market price, which exists before the rights issue, is termed as Cum-right Market Price of the share. If the company decides to issue further shares, it may affect the market value of the share. 'Theoretically', the value of a company's shares after a rights issue must equal the sum of market capitalisation immediately prior to rights issue and the cash inflows generated from the rights issue.

Normally, the further public issue to the existing shareholders are offered at a discounted price from the market value, to evoke positive response as well as to reward the existing shareholders.

Assume a company having a net worth of ₹ 250,000. 1,000 shares are issued (making it a right issue of 1:10; or 1 new share for 10 existing shares held) at a price of ₹ 14 per share. The existing worth of tangible assets held by the business shall become 264,000 (Existing net worth ₹ 250,000 + Fresh Issue ₹ 14,000). Equity shares shall correspondingly command a valuation of ₹ 264,000.

The market price of the shares after further issue of shares (right issue) is termed as Ex-right Market Price of the shares. Theoretical Ex-Rights Price is a deemed value, which is attributed to a company's share immediately after a rights issue transaction occurs. This price is going to prevail after the further issue of shares is executed.


Ex-right value of the shares
=
[Cum-right value of the existing shares + (Rights shares X Issue Price)]
÷
(Existing Number of shares + Number of right shares)

RIGHT OF RENUNCIATION

1. Right of renunciation refers to the right of the shareholder to surrender his right to buy the securities and transfer such right to any other person.

2. Shareholders that have received right shares have three choices of what to do with the rights. They can act on the rights and buy more shares as per the particulars of the rights issue; they can sell them in the market; or they can pass on taking advantage of their rights (i.e., reject the right offer).

3. The renunciation of the right is valuable and can be monetised by the existing shareholders in well-functioning capital market. The monetised value available to the existing shareholders due to right issue is known as 'value of right'.

4. If a shareholder decides to renounce all or any of the right shares in favour of his nominee, the value of right is restricted to the sale price of the renouncement of a right in favour of the nominee. In case the right issue offer is availed by an existing shareholder, the value of right is determined as given below:

   Value of right = Cum-right value of share – Ex-right value of share

   Ex-right value of the shares = [Cum-right value of the existing shares + (Rights shares X Issue Price)] / (Existing Number of shares + Number of right shares)

   In our previous example, Ex-right value of share = [₹ 250,000 + (₹ 14 X 1,000 shares)] / 10,000+ 1,000 shares = ₹ 24

   Value of right = ₹ 25 – ₹ 24 = ₹ 1 per share

JOURNAL ENTRIES FOR RIGHT ISSUE

The accounting treatment of rights share is the same as that of issue of ordinary shares and the following journal entry will be made:

Bank A/c	Dr.	
To Equity shares capital A/c		

In case rights shares are being offered at a premium, the premium amount is credited to the securities premium account. The accounting entry in Such case Shall be

Bank A/c	Dr.	
To Equity Share Capital A/c		
To Securities Premium A/c		

ILLUSTRATION 6

A company offers new shares of ₹100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is ₹150. Calculate the value of a right. What should be the ex-right market price of a share?

$$Ex\ Right\ Market\ Price\ Share$$

$$= \frac{[Cum\ Right\ Market\ Price\ of\ Share + (Number\ of\ Shares\ Under\ Right\ Issue\ X\ Issue\ Price)]}{Existing\ Number\ of\ Shares + Number\ of\ Right\ Shares}$$

$$= \frac{[150\ x\ 4 + (125\ x\ 1)]}{4 + 1}$$

$$= 145\ per\ share$$

Value of Right = Cum Right Price – Ex Right Price
= 150 – 145
= 5

ILLUSTRATION 7

A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is ₹ 240 and the company is offering one share of ₹ 120 each. Calculate the value of a right. What should be the ex-right market price of a share?

$$Ex\ Right = \frac{[240\ x\ 2 + (120\ x\ 1)]}{2 + 1}$$

$$= \frac{600}{3}$$

$$= 200$$

Value of Right = 240 – 200

= 40

ILLUSTRATION 8

Following notes pertain to the Balance Sheet of Mars Company Limited as at 31st March 2022:

	₹
Authorised capital:	
50,000 12% Preference shares of ₹ 10 each	*5,00,000*
5,00,000 Equity shares of ₹ 10 each	*50,00,000*
	55,00,000
Issued and Subscribed capital:	
50,000 12% Preference shares of ₹ 10 each fully paid	*5,00,000*

4,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up	*32,00,000*
Reserves and surplus:	
General Reserve	*1,60,000*
Capital Redemption Reserve	*2,40,000*
Securities premium (collected in cash)	*2,75,000*
Revaluation Reserve	*1,00,000*
Profit and Loss Account	*16,00,000*

On 1st April, 2022, the Company has made final call @ ₹ 2 each on 4,00,000 equity shares. The call money was received by 25th April, 2022. Thereafter, on 1st May 2022 the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held, it decided that there should be minimum reduction in free reserves.

On 1st June 2022, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June 2022.

Show necessary journal entries in the books of the company for bonus issue and rights issue.

In the Books of Mars Company Limited
Journal Entries

Date	Particulars	LF	Debit	Credit
1-4-22	Equity Share Final Call A/c Dr.		8,00,000	
	To Equity Share Capital A/c			8,00,000
	(Being final call due on 4,00,000 shares at Rs. 2 per share)			
25-4-22	Bank A/c Dr.		8,00,000	
	To Equity Share Final Call A/c			8,00,000
	(Being final call received)			

Date	Particulars		LF	Debit	Credit
1-5-22	Capital Redemption Reserve A/c	Dr.		2,40,000	
	Securities Premium A/c	Dr.		2,75,000	
	General Reserve A/c	Dr.		1,60,000	
	Profit & Loss A/c	Dr.		3,25,000	
	To Bonus to Shareholder's A/c				10,00,000
	(Being bonus declared @ 1 Share for every four shares held)				
1-5-22	Bonus to Shareholder's A/c	Dr.		10,00,000	
	To Equity Share Capital A/c				10,00,000
	(Being bonus shares issued)				

Date	Particulars	LF	Debit	Credit
1-6-22	Bank A/c Dr. (2,00,000 X 12)		24,00,000	
	To Equity Share Capital A/c (2,00,000 X 10)			20,00,000
	To Securities Premium A/c (2,00,000 X 2)			4,00,000
	(Being right shares issued)			



thank you!

ISSUE OF DEBENTURES

BIRDS EYE VIEW

- Debentures – Meaning
- Features of Debentures
- Distinction Between Shares & Debentures
- Types of Debentures
- Debentures Issued at Par & Redeemable at Par
- Debentures Issued at Premium But Redeemable at Par
- Debentures Issued at Discount But Redeemable at Par
- Debentures Issued at Par But Redeemable at Premium
- Debentures Issued at Discount But Redeemable at Premium
- Debentures Issued at premium & Redeemable at Premium
- Debentures as Collateral Security
- Debentures in Consideration Other than in Cash
- Treatment of Discount/Loss on Issue of Debentures
- Interest on Debentures

DEBENTURES - MEANING

The word debenture represent amount lent to the company on which the company will have to pay a fixed amount of return. The word debenture is not defined precisely in the companies Act, 2013. **However 'debenture' includes debenture stock, bonds & any other securities of the company, whether constituting a charge on the assets of the company or not.**

A debenture can be defined as a bond issued by the company under its common seal, accepting the debt & containing the provision as the regards repayment of principle & interests.

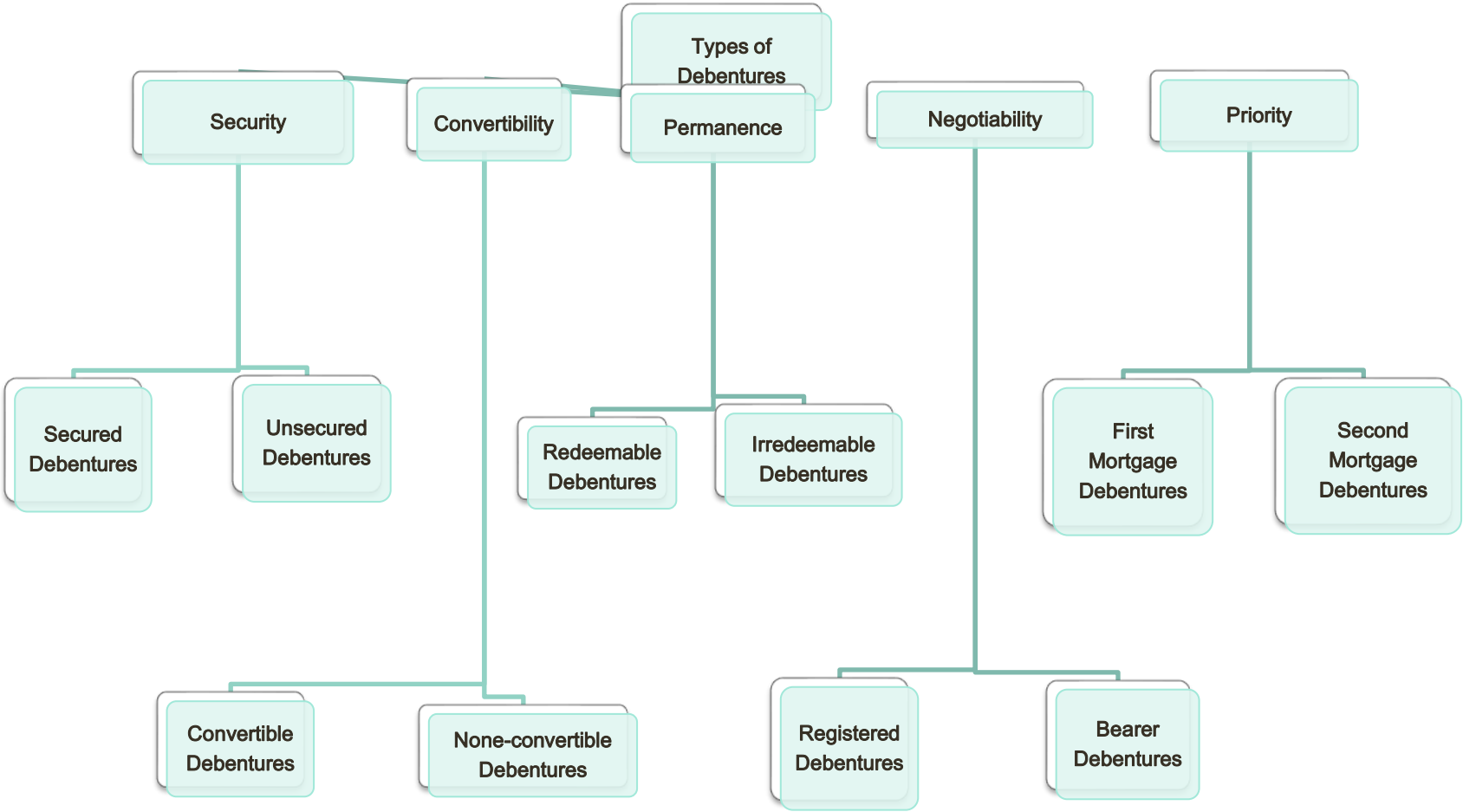
DEBENTURES - FEATURES

1. It is a document which evidences a loan made to a company.
2. It is a fixed interest-bearing security which falls due on specific dates.
3. Interest is payable at a predetermined fixed rate, regardless of the level of profit.
4. The original sum is repaid at a specified future date or it is converted into shares or other debentures.
5. It may or may not create a charge on the assets of a company as security.
6. It can generally be bought or sold through the stock exchange at a price above or below its face value.

DISTINCTION BETWEEN SHARES & DEBENTURES

Sr.No	SHARES	DEBENTURES
1	Shareholders are the owners of the company	Debentureholders are the creditors of the company
2	Shareholders have voting rights	Debenture holders do not have voting rights
3	Reward is the payment of dividend	Reward is the payment of Interest
4	Dividend on Shares is appropriation of Profits	Interest on Debentures is Charge against profits
5	Dividend on Shares is paid at a variable rate	Interest on Debentures is paid at a pre-determined fixed rate
6	Shares cannot be converted into debentures	Debentures can be converted into shares
7	Shares can be forfieted for non payment of allotment and call money	debentures cannot be forfieted for non payment of call money
8	Payment of share capital is made after the repayment of Debentures	payment of debentures is made before the payment of share capital

TYPES OF DEBENTURES



TYPE OF DEBENTURES

Secured Debentures

1. These debentures are secured by a charge upon some or all assets of the company.
2. There are two types of charges : (i) Fixed charge ; and (ii) Floating charge.
3. A fixed charge is a mortgage on specific assets. These assets cannot be sold without the consent of the debenture holders. The sale proceeds of these assets are utilized first for repaying debenture holders. A floating charge generally covers all the assets of the company including future one.

Unsecured or “Naked” Debentures

These debentures are not secured by any charge upon any assets. A company merely promises to pay interest on due dates and to repay the amount due on maturity date. These types of debentures are very risky from the view point of investors.

TYPE OF DEBENTURES

Convertible Debentures

1. These are debentures which will be converted into equity share (either at par or premium) after a certain period of time from the date of its issue.
2. These debentures may be fully or partly convertible. In future, these debenture holders get a chance to become the shareholders of the company.

Non-Convertible Debentures

These are debentures which cannot be converted into shares in future. As per the terms of issue, these debentures are repaid.

TYPE OF DEBENTURES

Redeemable Debentures

These debentures are repayable as per the terms of issue, for example, after 8 years from the date of issue.

Irredeemable Debentures

These debentures are not repayable during the life time of the company. These are also called Perpetual debentures. These are repaid only at the time of liquidation.

TYPE OF DEBENTURES

Registered Debentures

1. These debentures are payable to registered holder whose name, address and particulars of holdings is recorded in the Register of Debenture holders.
2. They are not easily transferable. The provisions of the Companies Act, 2013 are to be complied with for effecting transfer of these debentures.
3. Debentures interest is paid to the order of registered holders as expressed in the warrant issued by the company.

Bearer Debentures

1. These debentures are transferable by delivery. These are negotiable instruments payable to the bearer.
2. No kind of record is kept by the company in respect of the holders of such debentures. Therefore, the interest on it is paid to the holder irrespective of any identity.

TYPE OF DEBENTURES

First Mortgage Debentures

These debentures are payable first out of the property charged.

Second Mortgage Debentures

These debentures are payable after satisfying the first mortgage debentures.

ISSUE OF DEBENTURES

The issue of Debentures can be categorized into the Following –

1. Debentures Issued at Par & Redeemable at Par.
2. Debentures Issued at Premium & Redeemable at Par.
3. Debentures Issued at Discount & Redeemed at Par
4. Debenture Issued at Par & Redeemable at Premium
5. Debenture Issued at Discount & Redeemable at premium
6. Debenture Issued at Premium & Redeemable at premium.

DEBENTURES ARE ISSUED AT PAR AND REDEEMABLE AT PAR

1. Debentures are said to have been issued at par when the issue price is equal to the face value.
2. Debentures are said to be redeemable at par when the redeemable value is equal to face value.
3. Example – An issue of debenture of Rs. 100 at Rs. 100 redeemable at 100.

Accounting Entries

Sr.No	Case	Accounting Entry
1	Application Money Received	Bank A/c.....Dr To Debenture Application A/c
2	Allotment of Debentures	Debenture Application A/c.....Dr Debenture Allotment A/c.....Dr To ....% Debentures
3	Allotment Money Received	Bank A/c.....Dr To Debenture Allotment A/c
4	Call Money Due	Debenture Call A/c.....Dr To ....% Debentures A/c
5	Call Money Received	Bank A/c.....Dr To Debenture Call A/c

ILLUSTRATION 1

Amol Ltd. issued 40,00,000, 9% debentures of ₹50 each, payable on application as per term mentioned in the prospectus and redeemable at par any time after 3 years from the date of issue. Record necessary entries for issue of debentures in the books of Amol Ltd.

In the Books of Amol Ltd
Journal Entries

Date	Particulars	LF	Debit (in Lakhs)	Credit (in Lakhs)
1	Bank A/c Dr.		2,000	
	To Debenture Application & Allotment A/c			2,000
	(Being application received for 40,00,000 debentures)			
2	Debenture Application & Allotment A/c Dr.		2,000	
	To 9% Debenture A/c			2,000
	(Being 40,00,000 debentures issued)			

DEBENTURES ARE ISSUED AT PREMIUM AND REDEEMABLE AT PAR

1. Debentures are said to have been issued at premium but redeemable at par when the issue price is more than the face value but redeemable value is equal to face value.
2. Example – An issue of debenture of Rs. 100 at Rs. 110 and redeemable at 100.

Accounting Entries

Sr.No	Case	Accounting Entry
1	Application Money Received	Bank A/c.....Dr To Debenture Application A/c
2	Allotment of Debentures	Debenture Application A/c.....Dr Debenture Allotment A/c.....Dr To ....% Debentures A/c To Securities Premium A/c
3	Allotment Money Received	Bank A/c.....Dr To Debenture Allotment A/c
4	Call Money Due	Debenture Call A/c.....Dr To ....% Debentures
5	Call Money Received	Bank A/c.....Dr To Debenture Call A/c

ILLUSTRATION 2

Koinal Chemicals Ltd. issued 15,00,000, 10% debenture of ₹50 each at premium of 10%, payable as ₹20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in application money

In the Books of Koinal Chemicals Ltd
Journal Entries

Date	Particulars		LF	Debit (in Lakhs)	Credit (in Lakhs)
1	Bank A/c (15,00,000 x 20)	Dr.		300	
	To Debenture Application A/c				300
	(Being 15,00,000 application received for debentures)				
2	Debenture Application A/c	Dr.		300	
	Debenture Allotment A/c (15,00,000 x 35)	Dr.		525	
	To 10% Debentures A/c (15,00,000 x 50)				750

Date	Particulars	LF	Debit (in Lakhs)	Credit (in Lakhs)
	To Securities Premium Reserve A/c (15,00,000 x 5)			75
	(Being 15,00,000 debentures issued)			
3	Bank A/c Dr.		525	
	To Debenture Allotment A/c			525
	(Being allotment money received)			

DEBENTURES ARE ISSUED AT DISCOUNT AND REDEEMABLE AT PAR

1. Debentures are said to have been issued at discount but redeemable at par when the issue price is less than the face value but redeemable value is equal to face value.
2. Example – An issue of debenture of Rs. 100 at Rs. 90 and redeemable at 100

Accounting Entries

Sr.No	Case	Accounting Entry
1	**Application Money Received**	Bank A/c.....Dr To Debenture Application A/c
2	**Allotment of Debentures**	Debenture Application A/c.....Dr Debenture Allotment A/c.....Dr Discount on Issue of Debentures A/c....Dr To ....% Debentures A/c
3	**Allotment Money Received**	Bank A/c.....Dr To Debenture Allotment A/c
4	**Call Money Due**	Debenture Call A/c.....Dr To ....% Debentures
5	**Call Money Received**	Bank A/c.....Dr To Debenture Call A/c

ILLUSTRATION 3

Atul Ltd. issued 1,00,00,000, 8% debenture of ₹ 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows :

₹ 30 on application

₹ 60 on allotment

Record necessary journal entries regarding issue of debenture.

In the Books of Atul Ltd
Journal Entries

Date	Particulars		LF	Debit (in Lakhs)	Credit (in Lakhs)
1	Bank A/c (1,00,00,000 x 30)	Dr.		3,000	
	To Debenture Application A/c				3,000
	(Being application received for 1,00,00,000 debentures)				
2	Debenture Application A/c	Dr.		3,000	
	Debenture Allotment A/c (1,00,00,000 x 60)	Dr.		6,000	
	Discount on Issue of Debenture A/c (1,00,00,000 x 10)	Dr.		1,000	

Date	Particulars	LF	Debit (in Lakhs)	Credit (in Lakhs)
	To 8% Debentures A/c			10,000
3	Bank A/c Dr.			
	To Debenture Allotment A/c		6,000	
	(Being allotment money received)			6,000

DEBENTURES ARE ISSUED AT PAR AND REDEEMABLE AT PREMIUM

1. Debentures are said to have been issued at par but redeemable at premium when the issue price is equal to face value but redeemable value is more than the face value.

2. Example – An issue of debenture of Rs. 100 at Rs. 100 and redeemable at 110.

3. The difference between the redeemable value and issue value is treated as loss on issue of debentures at the time of allotment of debentures.
   Loss on Issue of debentures in above example shall be Rs. 10.

4. The amount of premium payable on redemption of debentures is credited to a separate account called “Debenture Redemption Premium A/c”. The said account shall appear on the liability side of the balance sheet till the debentures are redeemed.

Accounting Entries

Sr.No	Case	Accounting Entry
1	**Application Money Received**	Bank A/c.....Dr To Debenture Application A/c
2	**Allotment of Debentures**	Debenture Application A/c.....Dr Debenture Allotment A/c.....Dr Loss on Issue of Debentures A/c.....Dr (Premium Payable on redemption) To ....% Debentures A/c To Debenture Redemption Premium A/c (Premium Payable on Redemption)
3	**Allotment Money Received**	Bank A/c.....Dr To Debenture Allotment A/c
4	**Call Money Due**	Debenture Call A/c.....Dr To ....% Debentures
5	**Call Money Received**	Bank A/c.....Dr To Debenture Call A/c

ILLUSTRATION 4

Modern Equipments Ltd. issued 4,00,000, 12% debentures of ₹ 100 payable as follows :

On application	*₹ 30*
On allotment	*₹ 70*

The debenture were fully subscribed and all the money was duly received. As per the terms of issue, debentures are redeemable at ₹110 per debenture. Record necessary entries regarding issue of debentures.

In the Books of Modern Equipments Ltd
Journal Entries

Date	Particulars		LF	Debit (in Lakhs)	Credit (in Lakhs)
1	Bank A/c (4,00,000 x 30)	Dr.		120	
	To Debenture Application A/c				120
	(Being application received for 4,00,000 debentures)				
2	Debenture Application A/c	Dr.		120	
	Debenture Allotment A/c (4,00,000 x 70)	Dr.		280	
	Loss on Issue of Debenture A/c (4,00,000 x 10)	Dr.		40	

Date	Particulars	LF	Debit (in Lakhs)	Credit (in Lakhs)
	To 12% Debenture A/c (4,00,000 x 100)			400
	To Debenture Redemption Premium A/c (4,00,000 x 10)			40
	(Being 4,00,000 debentures issued)			
3	Bank A/c Dr.			
	To Debenture Allotment A/c		280	
	(Being allotment money received)			280

DEBENTURES ARE ISSUED AT DISCOUNT AND REDEEMABLE AT PREMIUM

1. Debentures are said to have been issued at discount but redeemable at premium when the issue price is less than the face value but redeemable value is more than the face value.

2. Example – An issue of debenture of Rs. 100 at Rs.90 and redeemable at 110.

3. The difference between the redeemable value and issue value is treated as loss on issue of debentures at the time of allotment of debentures.
   Loss on Issue of debentures in above example shall be Rs. 20.

4. The amount of premium payable on redemption of debentures is credited to a separate account called “Debenture Redemption Premium A/c”. The said account shall appear on the liability side of the balance sheet till the debentures are redeemed.

Accounting Entries

Sr.No	Case	Accounting Entry
1	**Application Money Received**	Bank A/c.....Dr To Debenture Application A/c
2	**Allotment of Debentures**	Debenture Application A/c.....Dr Debenture Allotment A/c.....Dr Loss on Issue of Debentures A/c.....Dr (Disc. Allowed + Premium Payable on redemption) To ....% Debentures A/c To Debenture Redemption Premium A/c (Premium Payable on Redemption)
3	**Allotment Money Received**	Bank A/c.....Dr To Debenture Allotment A/c
4	**Call Money Due**	Debenture Call A/c.....Dr To ....% Debentures
5	**Call Money Received**	Bank A/c.....Dr To Debenture Call A/c

ILLUSTRATION 5

Agrotech Ltd. issued 150 lakh 9% debentures of ₹100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as : ₹50 on application and ₹ 44 on allotment. Record necessary journal entries for issue of debentures.

In the Books of Agrotech Ltd
Journal Entries

Date	Particulars		LF	Debit (in Lakhs)	Credit (in Lakhs)
1	Bank A/c (150 Lakhs x 50)	Dr.		7,500	
	To Debenture Application A/c				7,500
	(Being application received for 150 Lakh debentures)				
2	Debenture Application A/c	Dr.		7,500	
	Debenture Allotment A/c (150 Lakhs x 44)	Dr.		6,600	
	Loss on Issue of Debenture A/c (150 Lakhs x 11)	Dr.		1,650	

Date	Particulars	LF	Debit (in Lakhs)	Credit (in Lakhs)
	To 9% Debenture A/c (150 Lakhs x 100)			15,000
	To Debenture Redemption Premium A/c (150 Lakhs x 5)			750
	(Being 150 Lakhs debentures issued)			
3	Bank A/c……Dr		6600	
	To Debenture Allotment A/c			6600
	(Being Debenture Allotment money received)			

DEBENTURES ARE ISSUED AT PREMIUM AND REDEEMABLE AT PREMIUM

1. Debentures are said to have been issued at premium and redeemable at premium when both the issue price and redeemable value is more than the face value.

2. Example – An issue of debenture of Rs. 100 at Rs.105 and redeemable at 110.

3. The difference between the redeemable value and face value is treated as loss on issue of debentures at the time of allotment of debentures.
   Loss on Issue of debentures in above example shall be Rs. 10.

4. The amount of premium payable on redemption of debentures is credited to a separate account called “Debenture Redemption Premium A/c”. The said account shall appear on the liability side of the balance sheet till the debentures are redeemed.

Sr.No	Case	Accounting Entry
1	**Application Money Received**	Bank A/c.....Dr To Debenture Application A/c
2	**Allotment of Debentures**	Debenture Application A/c.....Dr Debenture Allotment A/c.....Dr Loss on Issue of Debentures A/c.....Dr (Premium Payable on redemption) To ....% Debentures A/c To Securities Premium A/c (Premium on Issue) To Debenture Redemption Premium A/c (Premium Payable on Redemption)
3	**Allotment Money Received**	Bank A/c.....Dr To Debenture Allotment A/c
4	**Call Money Due**	Debenture Call A/c.....Dr To ....% Debentures
5	**Call Money Received**	Bank A/c.....Dr To Debenture Call A/c

ILLUSTRATION 6

Country Crafts Ltd. issued 1,00,000, 8% debentures of ₹ 100 each at premium of 5% payable fully on application and redeemable at premium of ₹ 10 Pass necessary journal entries at the time of issue.

In the Books of Country Crafts Ltd
Journal Entries

Date	Particulars	LF	Debit	Credit
1	Bank A/c…..Dr (100000*105)		10500000	
	To Debenture Application & Allotment A/c			10500000
	(Being Application money Received)			

Date	Particulars	LF	Debit	Credit
2	Debenture Application & Alottment A/c…..Dr		10500000	
	Loss on issue of Debentures A/c (100000*10)		1000000	
	To 8% Debentures A/c (100000*100)			10000000
	To Securities Premium A/c (100000*5)			500000
	To Debenture Redemption premum A/c (100000*10)			1000000
	(Being Debenture issued at premium at to be			
	redeemed at premium)			
			22000000	**22000000**

ISSUE OF DEBENTURES AS A COLLATERAL SECURITY

1. Collateral security means secondary or supporting security for a loan, which can be realized by the lender in the event of the original loan not being repaid on the due date.
2. Under this arrangement, the borrower agrees that a particular asset or a group of assets will be realized and the proceeds there from will be applied to repay the loan in the event that the amount due, cannot be paid.
3. Sometimes companies issue their own debentures as collateral security for a loan or a fluctuating overdraft. In case, the company cannot repay its loan and the interest thereon on the due date, the lender becomes the debenture holder who can exercise all the rights of a debenture holder.
4. The holder of such debentures (given as a collateral security) is entitled to interest only on the amount of loan, but not on the debentures.
5. There are two methods of showings these type of debentures in the accounts of a company.

   Method 1

   Under this method, no entry is made in the books of account of the company at the time of making issue of such debentures. In the 'Notes to Account' of Balance Sheet, the fact of the debentures being issued and outstanding is shown by a note under the liability secured.

   Method 2

   Under this method, the following entry is made to record the issue of such debentures :

   Debentures Suspense Account……..Dr.

   To Debentures Account

   The Debentures Suspense Account will appear on the assets side of the Balance sheet and Debentures on the liabilities side of the Balance Sheet. When the loan is repaid, the entry is reversed in order to cancel it.

ILLUSTRATION 7

X Ltd. Obtains a Loan from IDBI of Rs.1,00,00,000, giving as collateral security of Rs.1,50,00,000 (of Rs.10 each), 14%, First Mortgage Debentures. Give Journal Entry and relevant disclosures in Balance Sheet.

In the Books of X Ltd
Journal Entries

Date	Particulars	LF	Debit	Credit
1	Bank A/c Dr. (10,000 x 60)		1,00,00,000	
	To IDBI Loan A/c			1,00,00,000
	(Being loan taken)			
2	Debenture Suspense A/c Dr.		1,50,00,000	
	To 14% First Mortgage Debentures			1,50,00,000
	(Being debentures allotted as a Collateral Securities)			

Balance Sheet of X Limited as at…. (Extracts)

	Particulars		Notes No.	Rs.	
	EQUITY AND LIABILITIES				
(i)	**Non-Current Liabilities**				
	Long Term Borrowings		1	2,50,00,000	
		Total		**2,50,00,000**	
	ASSETS				
(ii)	Non-current Assets				
	Other Non-current Assets		2	1,50,00,000	
(iii)	Current Assets				
	Cash and Cash Equivalent			1,00,00,000	
		Total		**2,50,00,000**	
	Notes to accounts				
				Rs.	**Rs.**
(i)	**Long Term Borrowings**				
	Secured Loan				
	IDBI Loan			1,00,00,000	
	14% First Mortgage Debentures			1,50,00,000	**2,50,00,000**
(ii)	**Other Non-current Assets**				
	Debenture Suspense Account				
	(Issue of Rs.15,00,000 14% first debentures as collateral security as per contra)				**1,50,00,000**

ISSUE OF DEBENTURES IN CONSIDERATION OTHER THAN CASH

Just like Shares, debentures can also be issued for consideration other than for cash, such as for purchase of land, machinery, etc.

Sr.No	Case	Accounting Entry
1	**Purchase of Business / Acquisition of Assets**	Sundry Assets A/c.....Dr To Sundry Liabilities A/c To Vendor's A/c
2	**Issue of Debentures in Consideration**	Vendor's A/c.....dr To ....% Debentures A/c

ILLUSTRATION 8

X Ltd. Took over the assets of Rs 660000 and liabilities of Rs 80000 of Y Ltd. For an agreed purchase consideration of Rs 600000 payable 10% in cash and the balance by the issue of 15% Debentures of Rs 100 each, Shown the necessary journal entries in the books of X Ltd., assuming that—

Case (a) Such Debenture are issued at par;

Case (b) Such Debenture are issued at 20% premium; and

Case (c) Such Debentures are issued at 10% discount;

In the Books of X Ltd
Journal Entries

Date	Particulars		LF	Debit	Credit
1	Sundry Assets A/c	Dr.		6,60,000	
	Goodwill A/c (BF)	Dr.		20,000	
	To Liabilities A/c				80,000
	To Y Ltd				6,00,000
	(Being business acquired)				
2	Y Ltd A/c	Dr.		60,000	
	To Cash / Bank A/c				60,000
	(Being 10% cash consideration paid in cash)				

Date	Particulars	LF	Debit	Credit
	Case (a)			
3	Y Ltd A/c Dr.		5,40,000	
	To 15% Debenture A/c			5,40,000
	(Being 5,400 debentures issued at par)			
	Case (b)			
3	Y Ltd A/c Dr.		5,40,000	
	To 15% Debenture A/c (4,500 x 100)			4,50,000
	To Securities Premium Reserve A/c			90,000
	(Being 4,500 debentures issued at Premium)			

Date	Particulars	LF	Debit	Credit
	Case (c)			
3	Y Ltd A/c Dr.		5,40,000	
	Discount on Issue of Debentures A/c Dr. (6,000 x 10)		60,000	
	To 15% Debentures A/c			6,00,000
	(Being 6,000 debentures issued at 10% discount)			

Working Note

Statement Showing No of Debentures to be issued

SR.NO	PARTICULARS	CASE A	CASE B	CASE C
A	Consideration Payable in Debentures	5,40,000	5,40,000	5,40,000
B	Issue Price	100	120	90
C	No. of Debentures to be Issued (A/B)	5,400	4,500	6,000

ILLUSTRATION 9

X company Limited issued 10,000 14% Debentures of the nominal value of 50,00,000 as follows –

a) To sundry persons for cash at 90% of nominal value of Rs. 25,00,000
b) To a vendor For purchase of fixed assets worth Rs. 10,00,000 - 12,50,000 nominal value
c) To the banker as Collateral security for a loan of Rs. 10,00,000 - 12,50,000 nominal value.

Pass necessary journal entries

In the Books of X Ltd
Journal Entries

Date	Particulars	LF	Debit	Credit
(a)				
(i)	Bank A/c Dr.		22,50,000	
	To Debenture Application & Allotment A/c			22,50,000
	(Being application received for 5,000 debentures)			
(ii)	Debenture Application & Allotment A/c Dr.		22,50,000	
	Discount on Issue of Debentures A/c Dr.		2,50,000	
	To 14% Debentures A/c			25,00,000
	(Being 5,000 debentures allotted at 10% discount)			

Date	Particulars		LF	Debit	Credit
b					
(i)	Fixed Assets A/c	Dr.		10,00,000	
	To Vendor's A/c				10,00,000
	(Being fixed assets purchased)				
(ii)	Vendor's A/c	Dr.		10,00,000	
	Discount on Issue of Debentures A/c	Dr.		2,50,000	
	To 14% Debentures A/c				12,50,000
	(Being 2,500 debentures issued at 10% discount)				

Date	Particulars	LF	Debit	Credit
c				
(i)	Bank A/c Dr.		10,00,000	
	To Bank Loan A/c			10,00,000
	(Being loan availed)			
(ii)	Debenture Suspense A/c Dr.		12,50,000	
	To 14% Debenture A/c			12,50,000
	(Being 2,500 debenture issued as a collateral security)			

Note – In Case C we have followed 2nd method, alternatively 1st method can be followed wherein Journal Entries will be passed for loan taken & Issue of Debentures as a Collateral Securities shall be Disclosed in notes to Accounts of Balance Sheet.

TREATMENT OF DISCOUNT/ LOSS ON ISSUE OF DEBENTURES

1. The discount on issue of debentures is amortized over a period between the issuance date and redemption date.
2. It should be written-off in the following manner depending upon the terms of redemption :

a) If the debentures are redeemable after a certain period of time, say at the end of 5 or 10 year, the total amount of discount should be written-off **equally** throughout the life of the debentures (applying the straight line method). The main advantage of this method is that it spreads the burden of discount equally over the year.

b) If the debentures are redeemable at different dates, the total amount of discount should be written-off in the ratio of benefit derived from debentures loan in any particular year (applying the sum of the year's digit method). This is suitable when debentures are redeemed by unequal installments.

c) If the debentures are irredeemable, the discount should be written-off gradually over a long period.

3. Loss on issue of debentures is also a capital loss and should be written-off in a similar manner as discount on debentures issued.
4. In the balances sheet both the items are shown as Non-current/ current assets depending upon the period for which it has to be written off.

ILLUSTRATION 10

HDC Ltd issues 1,00,000, 12% Debentures of ₹100 each at ₹94 on 1st January, 2020. Under the terms of issue, the debentures are redeemable at the end of 5 years from the date of the issue. Calculate the amount of discount to be written-off in each of the 5 years.

Total Discount = 1,00,000 Debentures x Rs. 6

= 6,00,000

Amount of Discount to be W/off each Year = 6,00,000 / 5 Years

= **1,20,000**

ILLUSTRATION 11

HDC Ltd. issues 2,00,000, 12% Debentures of ₹10 each at ₹9.40 on 1st January, 2020. Under the terms of issue, 1/5th of the debentures are annually redeemable by drawings, the first redemption occurring on 31st December, 2020. Calculate the amount of discount to be written-off from 2020 to 2024.

Amount of Discount to be W/off = 2,00,000 Debentures x 0.60

= 1,20,000

STATEMENT SHOWING DISCOUNT TO BE WRITTEN EACH YEAR						
YEAR	OPENING BALANCE OF DEBENTURES	AMOUNT OF DEBENTURES USED	AMOUNT OF DEBENTURES REDEEMED	CLOSING BALANCE OF DEBENTURES	RATIO OF USAGE	AMOUNT OF DISCOUNT TO BE W/OFF
A	B	C	D	E = B-D	F	G = F/60*120000
31-3-20	2,00,000	2,00,000	40,000	1,60,000	20	40,000
31-3-21	1,60,000	1,60,000	40,000	1,20,000	16	32,000
31-3-22	1,20,000	1,20,000	40,000	80,000	12	24,000
31-3-23	80,000	80,000	40,000	40,000	8	16,000
31-3-24	40,000	40,000	40,000	-	4	8,000
					60	1,20,000

ILLUSTRATION 12

On 01.01.2011 A Ltd. Issued 500, 15% Debentures of Rs 100 each, at a discount of 10% redeemable at a premium of 10%. Show the ‘Loss on Issue of Debentures A/c’ ; if (i) such debentures are redeemable after 4 years, and (ii) such debentures are redeemable by equal annual drawings in 4 years A Ltd. Follows calendar year as it accounting year.

Amount of Loss on Debenture = 500 Debentures x 20

= 10,000

Loss on Issue of Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-11	To 15% Debentures	10,000	31-12-11	By P&L A/c	2,500
			31-12-11	By Balance c/d (BF)	7,500
		10,000			10,000
1-1-12	To Balance b/d	7,500	31-12-12	By P&L A/c	2,500
			31-12-12	By Balance c/d (BF)	5,000
		7,500			7,500
1-1-13	To Balance b/d	5,000	31-12-13	By P&L A/c	2,500
			31-12-13	By Balance c/d (BF)	2,500
		5,000			5,000
1-1-14	To Balance b/d	2,500	31-12-14	By P&L A/c	2,500
		2,500			2,500

Amount of Loss on Issue of Debenture = 500 Debentures x 20

= 10,000

To be Allocated in Ratio of 4:3:2:1

Loss on Issue of Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-11	To 15% Debentures	10,000	31-12-11	By P&L A/c	4,000
			31-12-11	By Balance c/d (BF)	6,000
		10,000			10,000
1-1-12	To Balance b/d	6,000	31-12-12	By P&L A/c	3,000
			31-12-12	By Balance c/d (BF)	3,000
		6,000			6,000
1-1-13	To Balance b/d	3,000	31-12-13	By P&L A/c	2,000
			31-12-13	By Balance c/d (BF)	1,000
		3,000			3,000
1-1-14	To Balance b/d	1,000	31-12-14	By P&L A/c	1,000
		1,000			1,000

INTEREST ON DEBENTURES

1. Interest Payable on Debenture is treated as a charge against the profits of the company.
2. Interest on debenture is paid periodically and is calculated at coupon rate on the nominal value of debentures.
3. The company will pay interest net of tax to the debenture holders because the company is under obligation to deduct tax at source at the rates applicable under tax rules from time to time. The companies will deposit the tax so deducted with income tax authorities.

Sr.No	Case	Accounting Entry
1	**Making Interest Due**	Interest a/c.....Dr To Debenture holders A/c
2	**Making Payment of Interest and Deduction of Tax at Source**	Debenture holders A/c.....Dr To TDS Payable A/c To Bank A/c
3	**Making Payment of Tax Deducted At Source**	TDS Payable A/c.....Dr To Bank A/c
4	**Transfer of Interest to Profit & Loss A/c**	Profit & Loss A/c.....Dr To Interest A/c

ILLUSTRATION 13

A company issued 12% debentures of the face value of ₹10,00,000 at 10% discount on 1-1-2017. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st of December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass journal entries for the accounting year 2020.

In the Books of Company
Journal Entries

Date	Particulars		LF	Debit	Credit
30-6-20	Interest A/c	Dr.		60,000	
	To Debenture Holders A/c				60,000
	(Being interest due)				
30-6-20	Debenture Holders A/c	Dr.		60,000	
	To TDS Payable A/c				6,000
	To Bank A/c				54,000
	(Being interest paid net off TDS)				

Date	Particulars	LF	Debit	Credit
30-6-20	TDS Payable A/c Dr.		6,000	
	To Bank A/c			6,000
	(Being TDS paid to Govt.)			

Date	Particulars		LF	Debit	Credit
31-12-20	Interest A/c	Dr.		60,000	
	To Debenture Holders A/c				60,000
	(Being interest due)				
31-12-20	Debenture Holders A/c	Dr.		60,000	
	To TDS Payable A/c				6,000
	To Bank A/c				54,000
	(Being interest paid net off TDS)				

Date	Particulars	LF	Debit	Credit
31-12-20	TDS Payable A/c Dr.		6,000	
	To Bank A/c			6,000
	(Being TDS paid to Govt.)			
31-12-20	Profit & Loss A/c Dr.		1,50,000	
	To Interest A/c			1,20,000
	To Loss on Issue of Debentures A/c (1,50,000 / 5)			30,000
	(Being interest on loss on issue of debentures debited to profit & loss A/c)			

ILLUSTRATION 14

On 1st April 2020 Sheru Ltd. issued 1,00,000 12% debentures of ₹100 each at a discount of 5%, redeemable on 31 March 2025. Issue was oversubscribed by 20,000 debentures, who were refunded their money. Interest is paid annually on 31 March. You are required to prepare:

(i) Journal Entries at the time of issue of debentures.

(ii) Discount on issue of Debenture Account

(iii) Interest account and Debenture holder Account assuming TDS is deducted @ 10%.

JOURNAL BOOK

Date	Particulars	LF	Debit	Credit
01-04-2020	Bank A/c Dr. (1,20,000 x 95)		1,14,00,000	
	To Debenture Application A/c			1,14,00,000
	(Being debenture application money received on 1,20,000 Debentures)			
01-04-2020	Debenture Application A/c Dr.		1,14,00,000	
	Discount on Issue of Debentures A/c Dr. (1,00,000 x 5)		5,00,000	
	To 12% Debentures A/c (1,00,000 x 100)			1,00,00,000
	To Bank A/c (20,000 x 95)			19,00,000
	(Being Debentures allotted and excess money refunded)			

Discount on Issue of Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
01-04-2020	To 12% Debentures A/c	5,00,000	31-03-2021	By P/L A/c	1,00,000
			31-03-2021	By Balance C/d	4,00,000
		5,00,000			5,00,000
01-04-2021	To Balance B/d	4,00,000	31-03-2022	By P/L A/c	1,00,000
			31-03-2022	By Balance C/d	3,00,000
		4,00,000			4,00,000
01-04-2022	To Balance B/d	3,00,000	31-03-2023	By P/L A/c	1,00,000
			31-03-2023	By Balance C/d	2,00,000
		3,00,000			3,00,000
01-04-2023	To Balance B/d	2,00,000	31-03-2024	By P/L A/c	1,00,000
			31-03-2024	By Balance C/d	1,00,000
		2,00,000			2,00,000
01-04-2024	To Balance B/d	1,00,000	31-03-2025	By P/L A/c	1,00,000
		1,00,000			1,00,000

Interest on Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
31-03-2021	To Debentureholders A/c	12,00,000	31-03-2021	By P/L A/c	12,00,000
		12,00,000			12,00,000
31-03-2022	To Debentureholders A/c	12,00,000	31-03-2022	By P/L A/c	12,00,000
		12,00,000			12,00,000
31-03-2023	To Debentureholders A/c	12,00,000	31-03-2023	By P/L A/c	12,00,000
		12,00,000			12,00,000
31-03-2024	To Debentureholders A/c	12,00,000	31-03-2024	By P/L A/c	12,00,000
		12,00,000			12,00,000
31-03-2025	To Debentureholders A/c	12,00,000	31-03-2025	By P/L A/c	12,00,000
		12,00,000			12,00,000

Debentureholder's A/c

Date	Particulars	Amount	Date	Particulars	Amount
31-03-2021	To Bank A/c	10,80,000	31-03-2021	By Interest A/c	12,00,000
31-03-2021	To TDS A/c	1,20,000			
		12,00,000			12,00,000
31-03-2022	To Bank A/c	10,80,000	31-03-2022	By Interest A/c	12,00,000
31-03-2022	To TDS A/c	1,20,000			
		12,00,000			12,00,000
31-03-2023	To Bank A/c	10,80,000	31-03-2023	By Interest A/c	12,00,000
31-03-2023	To TDS A/c	1,20,000			
		12,00,000			12,00,000
31-03-2024	To Bank A/c	10,80,000	31-03-2024	By Interest A/c	12,00,000
31-03-2024	To TDS A/c	1,20,000			
		12,00,000			12,00,000
31-03-2025	To Bank A/c	10,80,000	31-03-2025	By Interest A/c	12,00,000
31-03-2025	To TDS A/c	1,20,000			
		12,00,000			12,00,000

ILLUSTRATION 15 MTP DEC 2021 SERIES 1

On 1st April, 2020, Sky ltd. took over assets of ₹ 4,50,000 and liabilities of ₹ 60,000 of Universe Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debentures of ₹ 100 each at 10% premium. On the same date it issued another 3,000,8% debentures of ₹ 100 at discount of 10% redeemable at the premium of 5% after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment of debenture.

You are required to pass journal entries in the books of Sky ltd. for financial year 2020-21.

In the Books of Sky Ltd
Journal Entries

Date	Particulars		LF	Debit	Credit
1-4-20	Sundry Assets A/c	Dr.		4,50,000	
	Goodwill A/c	Dr.		50,000	
	To Sundry Liabilities A/c				60,000
	To Universe Ltd A/c				4,40,000
	(Being business purchased)				
1-4-20	Universe Ltd A/c	Dr.		4,40,000	
	To 8% Debenture Ac				4,00,000
	To Securities Premium Reserve A/c (4,000 x 10)				40,000
	(Being				

Date	Particulars		LF	Debit	Credit
1-4-20	Bank A/c (3,000 x 30)	Dr.		90,000	
	To Debenture Application A/c				90,000
	(Being application received for 3,000 debentures)				
1-4-20	Debenture Application A/c	Dr.		90,000	
	Debenture Allotment A/c (3,000 x 60)	Dr.		1,80,000	
	Loss on Issue of Debenture A/c (3,000 x 15)	Dr.		45,000	
	To 8% Debentures A/c (3,000 x 100)				3,00,000
	To Debenture Redemption Premium A/c (3,000 x 5)				15,000
	(Being 3,000 debentures allotted)				

Date	Particulars		LF	Debit	Credit
1-4-20	Bank A/c (3,000 x 30)	Dr.		1,80,000	
	To Debenture Allotment A/c				1,80,000
	(Being debentures allotment money received)				
1-4-20	Securities Premium Reserve A/c	Dr.		40,000	
	Profit & Loss A/c	Dr.		5,000	
	To Loss on Issue of Debentures A/c				45,000
	(Being loss on issue of debentures written off)				

Note:

1) No entry for Interest on Debentures passed as necessary information not provided.
2) Securities Premium Reserve used to set off Loss on Issue of Debentures as per section 52 of The Companies Act, 2013.



thank you!

REDEMPTION OF DEBENTURES

BIRDS EYE VIEW

- Requirement to Create Debenture Redemption Reserve
- Investment of Debenture Redemption Reserve (DRR) Amount
- Journal Entries

Debenture Redemption Reserve (DRR)

* Who – Unlisted Companies.
* Quantum = 10% of Value of Debentures.
* If Party Convertible Debentures – DRR to be created only for redemption value in Cash.
* When – Any time Before Redemption
* Entry = PL A/c – Dr
  To DRR A/c

Debenture Redemption Reserve Investment (DRR Investment)

Who - Listed & unlisted NBFC, Listed & unlisted HFC, Other Listed & unlisted Companies

Quantum - 15% of value of Debentures to be Redeemed in current financial year

When - Before 30th April of current financial year

Entry - DRR Investment A/c Dr
To Bank A/c

JOURNAL ENTRIES

1. After allotment of debentures

a) For setting aside the fixed amount of profit for redemption

Profit and Loss A/c Dr

To Debenture Redemption Reserve A/c

b) For investing the amount set aside for redemption

Debenture Redemption Reserve Investment A/c Dr

To Bank A/c

c) For receipt of interest on Debenture Redemption Reserve Investments

Bank A/c Dr.

To Interest on Debenture Redemption Reserve Investment A/c

d) For transfer of interest on Debenture Redemption Reserve Investments (DRRI)

Interest on Debenture Redemption Reserve Investment A/c Dr.

To Profit and loss A/c*

Considering the fact that interest is received each year through cash/bank account and it is not re-invested. In the illustrations given in the chapter, the same has been considered and hence interest on DRR investment is not credited to DRR A/c but taken to P&L A/c

2. At the time of redemption of debentures

a) For encashment of Debenture Redemption Reserve Investments

Bank A/c Dr

To Debenture Redemption Reserve Investment A/c

b) For amount due to debentureholders on redemption

Debentures A/c Dr.

To Debenture holders A/c

c) For payment to debentureholders

Debenture holders A/c Dr.

To Bank A/c

d) After redemption of debentures, DRR should be transferred to general reserve

DRR A/c Dr.

To General Reserve

ILLUSTRATION 1

The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 2021: 6% Mortgage 10,000 debentures of ₹ 100 each; Debenture Redemption Reserve (for redemption of debentures) ₹ 50,000; Investments in deposits with a scheduled bank, free from any charge or lien ₹ 1,50,000 at interest 4% p.a. receivable on 31st December every year. Bank balance with the company is ₹ 9,00,000.

The Interest on debentures had been paid up to December 31, 2021.

On February 28, 2022, the investments were realised at par and the debentures were paid off at 101, together with accrued interest.

Write up the concerned ledger accounts (excluding bank transactions). Ignore taxation.

6% Mortgage Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
28-2-22	To Debenture Holder's A/c	10,00,000	1-1-22	By Balance b/d	10,00,000
		10,00,000			10,00,000

Premium on Redemption of Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
28-2-22	To Debenture Holder's A/c	10,000	28-2-22	By P&L A/c (BF)	10,000
		10,000			10,000

Debenture Redemption Reserve Investment Account

Date	Particulars	Amount	Date	Particulars	Amount
1-1-22	To Balance b/d	1,50,000	28-2-22	By Bank A/c (Sale)	1,50,000
		1,50,000			1,50,000

Interest on Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
28-2-22	To Bank A/c $\frac{10,00,000 \times 6\% \times 2}{12}$	10,000	28-2-22	By P&L A/c (BF)	10,000
		10,000			10,000

Bank A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-1-22	To Balance b/d	9,00,000			
28-2-22	To Interest on Debenture Redemption Reserve Investment A/c $\frac{1,50,000 \times 4\%}{12} \times 2$	1,000	28-2-22	By Interest on Debenture A/c	10,000
28-2-22	To Debenture Redemption Reserve Investment A/c	1,50,000	28-2-22	By Debenture holder's A/c	10,10,000
			28-2-22	By Balance c/d (BF)	31,000
		10,51,000			10,51,000

Debenture Redemption Reserve A/c

Date	Particulars	Amount	Date	Particulars	Amount
28-2-22	To General Reserve A/c (BF)	1,00,000	1-1-22	By Balance b/d	50,000
			1-1-22	By Profit & Loss A/c	50,000
		1,00,000			1,00,000

Tutorial Note

1] DRR was additionally created only for shortage.

2] NO DRR Investments were made as Company already Invested 15% of amount due as required.

ILLUSTRATION 2

The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-2021:

(i) 12 % Debentures ₹ 7,50,000

(ii) Balance of DRR ₹ 25,000

(iii) DRR Investment 1,12,500 represented by 10% ₹ 1,125 Secured Bonds of the Government of India of ₹ 100 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-2022, balance at bank was ₹ 7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2022:

(1) Debentures Account

(2) DRR Account

(3) DRR Investment Account

(4) Bank Account

(5) Debenture Holders Account.

12% Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
31-3-22	To Debenture Holder's A/c	7,50,000	1-4-21	By Balance b/d	7,50,000
		7,50,000			7,50,000

DRR A/c

Date	Particulars	Amount	Date	Particulars	Amount
			1-4-21	By Balance b/d	25,000
31-3-22	To General Reserve A/c (BF)	75,000	1-4-21	By Profit & Loss A/c	50,000
		75,000			75,000

10% Secured Bonds of Govt. (DRR Investment) A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-4-21	To Balance b/d	1,12,500	31-3-22	By Bank A/c	1,12,500
		1,12,500			1,12,500

Bank A/c

Date	Particulars	Amount	Date	Particulars	Amount
31-3-22	To Balance b/d	7,50,000			
31-3-22	To Interest on DRR Investment A/c $\frac{1,12,500 \times 10\%}{12} \times 12$	11,250	31-3-22	By Debenture Holder's A/c	8,25,000
31-3-22	To DRR Investment A/c	1,12,500	31-3-22	By Balance c/d (BF)	48,750
		8,73,750			**8,73,750**

Debenture holder's A/c

Date	Particulars	Amount	Date	Particulars	Amount
31-3-22	To Bank A/c	8,25,000	31-3-22	By 12% Debenture A/c	7,50,000
			31-3-22	By Premium on Redemption of Debenture A/c	75,000
		8,25,000			8,25,000

Note

In the Absence of Information, Interest on Debentures has not been provided.

ILLUSTRATION 3

XYZ Ltd. has issued 1,000, 12% convertible debentures ₹100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 20,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of ₹ 20,000 debenture holders.

Statement Showing Shares & Cash to be Paid on Redemption

Sr. No.	Particulars	Amount
A	Total Face Value of Debenture to be Redeemed	20,000
B	Premium Payable on Redemption (20,000 X 5%)	1,000
C	Total Amount Payable on Redemption (A+B)	21,000
D	Amount Payable in Cash (C X 80%)	16,800
E	Amount Payable in Shares (C X 20%)	4,200
F	Issue Price per Share	20
G	No. of Shares to be Issued (E/F)	**210 Shares**

ILLUSTRATION 4

A company had issued 20,000, 13% debentures of ₹ 100 each on 1st April, 2021. The debentures are due for redemption on 1st July, 2022. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

Statement Showing Shares to be Issued on Redemption

Sr. No.	Particulars	Amount
A	Total Face Value of Debenture to be Redeemed (17,500 X 100)	17,50,000
B	Premium Payable on Redemption (17,500 X 5)	87,500
C	Total Amount Payable on Redemption (A+B)	18,37,500
D	Amount Payable in Shares (C X 20%)	3,67,500
E	Issue Price per Share	15
F	No. of Shares to be Issued (D/E)	24,500 Shares

ILLUSTRATION 5

The Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as at 31st March, 2021 is as under:

Particulars	Note No	₹
I. Equity and liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	2,00,000
(b) Reserves and Surplus	2	1,20,000
(2) Non-current liabilities		
(a) Long term borrowings	3	1,20,000
(3) Current Liabilities		
(a) Trade payables		1,15,000
Total		5,55,000

II.	**Assets**			
	(1)	**Non-current assets**		
		(a) Property, Plant and Equipment	4	1,15,000
	(2)	**Current assets**		
		(a) Inventories		1,35,000
		(b) Trade receivables		75,000
		(c) Cash and bank balances	5	2,30,000
		Total		5,55,000

Notes to Accounts

			₹
1.	**Share Capital**		
	Authorised share capital		
	30,000 shares of ₹ 10 each fully paid		3,00,000
	Issued and subscribed share capital		
	20,000 shares of ₹ 10 each fully paid		2,00,000

2.	**Reserve and Surplus**		
	Profit & Loss Account		1,20,000
3.	**Long term borrowings**		
	12% Debentures		1,20,000
4.	**Property, Plant and Equipment**		
	Freehold property		1,15,000
5.	**Cash and bank balances**		
	Cash at bank	2,00,000	
	Cash in hand	30,000	2,30,000

At the Annual General Meeting, it was resolved:

(a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%.

Give the necessary journal entries for these transactions.

In the Books of BEE Ltd
Journal Entry

Date	Particulars	LF	Debit	Credit
1	Bank A/c……. Dr. (5,000 X 15)		75,000	
	To Equity Share Application and Allotment A/c			75,000
	(Being application money received for 5,000 right shares in ratio of 1:4 @ Rs. 15)			
2	Equity Share Application and Allotment A/c ……..Dr.		75,000	
	To Equity Share Capital A/c			50,000
	To Securities Premium A/c			25,000
	(Being 5,000 right shares issued)			

Date	Particulars	LF	Debit	Credit
3	Securities Premium A/c…….Dr.		25,000	
	Profit & Loss A/c……..Dr.		25,000	
	To Bonus to Shareholders A/c			50,000
	(Being Bonus Declared in the ratio of 1:5)			
4	Bonus to Shareholders A/c……Dr.		12,000	
	To Equity Share Capital A/c			12,000
	(Being bonus share issued)			

Date	Particulars	LF	Debit	Credit
5	Profit & Loss A/c……..Dr.		12,000	
	To Debenture Redemption Reserve A/c			12,000
	(Being DRR created at 10% of 1,20,000)			
6	Debenture Redemption Reserve Investment A/c…..Dr.		18,000	
	To Bank A/c			18,000
	(Being investment made at 15% of 1,20,000)			

Date	Particulars	LF	Debit	Credit
7	12% Debenture's A/c……Dr.		1,20,000	
	Premium on Redemption of Debentures A/c……..Dr.		3,600	
	To Debenture Holder's A/c			1,23,600
	(Being amount due on redemption)			
8	Bank A/c Dr.		18,000	
	To Debenture Redemption Reserve Investment A/c			18,000
	(Being investment realised)			

Date	Particulars		LF	Debit	Credit
9	Debenture Holder's A/c	Dr.		1,23,600	
	To Bank A/c				1,23,600
	(Being amount paid to debenture holders)				
10	Debenture Redemption Reserve A/c	Dr.		12,000	
	To General Reserve A/c				12,000
	(Being DRR transferred to general reserve)				
11	Profit & Loss A/c	Dr.		3,600	
	To Premium on Redemption of Debenture A/c				3,600
	(Being premium on redemption of debenture transferred to P&L A/c)				

ILLUSTRATION 6

Libra Limited (a listed company) recently made a public issue in respect of which the following information is available:

(a) *No. of partly convertible debentures issued- 2,00,000; face value and issue price- ₹ 100 per debenture.*

(b) *Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.*

(c) *Date of closure of subscription lists- 1.5.2021, date of allotment- 1.6.2021, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).*

(d) *No. of debentures applied for- 2,00,000.*

(e) *Interest payable on debentures half-yearly on 30th September and 31st March.*

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2022 (including cash and bank entries).

In the Books of Libra Ltd
Journal Entry

Date	Particulars	LF	Debit	Credit
1-5-21	Bank A/c……Dr. (2,00,000 X 100)		2,00,00,000	
	To Debenture Application & Allotment A/c			2,00,00,000
	(Being application money received on 2,00,000 debentures)			
1-6-21	Debenture Application & Allotment A/c Dr.		2,00,00,000	
	To 15% Debenture A/c			2,00,00,000
	(Being 2,00,000 debenture issued)			

Date	Particulars	LF	Debit	Credit
1-6-21	Debenture Redemption Reserve Investment A/c Dr.		12,00,000	
	To Bank A/c			12,00,000
	(Being investment made) (2,00,00,000 X 40% X 15%)			
30-9-21	Interest on Debenture A/c Dr.		10,00,000	
	To Bank A/c			10,00,000
	(Being interest paid on debenture for 4 months) (2,00,00,000 X 15% / 12x4)			

Date	Particulars	LF	Debit	Credit
31-10-21	15% Debenture A/c Dr.		1,20,00,000	
	To Equity Share Capital A/c			20,00,000
	To Securities Premium A/c			1,00,00,000
	(Being 60% of debentures converted into 2,00,000 shares of Rs. 10 each at Rs. 60)			
31-3-22	Interest on Debenture A/c Dr.		7,50,000	
	To Bank A/c			7,50,000
	(2,00,00,000 X 15% /12x1) + (80,00,000 X 15% /12x5) (Being interest paid on debentures)			

Tutorial Note

1] Since the Company in Question is a Listed Co. Thus NO DRR is to be Created.

ILLUSTRATION 7

Case Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31st March, 2022:

Particulars	₹
Shareholder's Funds	
(a) Share Capital	
Authorized share capital:	
45,000 equity shares of ₹ 10 each fully paid	4,50,000
Issued and subscribed share capital:	
30,000 equity shares of ₹ 10 each fully paid	3,00,000
(b) Reserves and Surplus	
Profit & Loss Account	1,62,000

	Debenture Redemption Reserve	*18,000*
Non-current liabilities		
(a)	*Long term borrowings*	
	12% Debentures	*1,80,000*
Current Liabilities		
(a)	*Trade payables*	*1,72,500*
Non-current assets		
(a)	*Property, Plant and Equipment (Freehold property)*	*1,72,500*
(b)	*Non-current Investment: DRR Investment*	*27,000*
Current assets		
(a)	*Inventories*	*2,02,500*
(b)	*Trade receivables*	*1,12,500*
(c)	*Cash and bank balances:*	
	Cash at bank	*2,73,000*
	Cash in hand	*45,000*

At the Annual General Meeting on 1.4.2022, it was resolved:

(a) *To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.*

(b) *To issue one bonus share for every five shares held.*

(c) *To repay the debentures at a premium of 3%.*

Give the necessary journal entries for these transactions.

In the Books of Case Ltd
Journal Entry

Date	Particulars	LF	Debit	Credit
1	Bank A/c……..Dr. (7,500 X 15)		1,12,500	
	To Equity Share Application & Allotment A/c			1,12,500
	(Being application money received for 7,500 right shares in ratio of 1:4 @ Rs. 15)			
2	Equity Share Application & Allotment A/c Dr.		1,12,500	
	To Equity Share Capital A/c			75,000
	To Securities Premium A/c			37,500
	(Being 7,500 right shares issued)			

Date	Particulars		LF	Debit	Credit
3	Securities Premium A/c	Dr.		37,500	
	Profit & Loss A/c	Dr.		37,500	
	To Bonus to Shareholders A/c				75,000
	(Being bonus declared in the ratio of 1:5)				
4	Bonus to Shareholders A/c	Dr.		75,000	
	To Equity Share Capital A/c				75,000
	(Being bonus shares issued)				

Date	Particulars		LF	Debit	Credit
5	12% Debentures A/c	Dr.		1,80,000	
	Premium on Redemption of Debentures A/c	Dr.		5,400	
	To Debenture Holders A/c				1,85,400
	(Being amount due on debentures)				
6	Bank A/c	Dr.		27,000	
	To Debenture Redemption Reserve Investment A/c				27,000
	(Being investment realised)				

Date	Particulars		LF	Debit	Credit
7	Debenture Holders A/c	Dr.		1,85,400	
	To Bank A/c				1,85,400
	(Being amount paid to Debenture holders)				
8	Debenture Redemption Reserve A/c	Dr.		18,000	
	To General Reserve				18,000
	(Being DRR transferred to general reserve)				
9	Profit & Loss A/c	Dr.		5,400	
	To Premium on Redemption of Debenture A/c				5,400
	(Being premium on redemption of debenture transferred to P&L A/c)				

Tutorial Note

1] No Entry for creation of DRR as DRR is already available in Books at 10% Of FV of Debentures Rs. 180000

2] No Entry for Creation Of DRR Investment as it is already available in Books at 15% Of FV of Debentury Rs. 180000.



thank you!

REDEMPTION OF PREFERENCE SHARES

BIRDS EYE VIEW

- Provisions of Section 55 of Companies Act
- Methods of Redemption of Fully Paid Shares
- Redemption of Preference Shares by Fresh Issue of Equity Shares
- Accounting Entries On Redemption of Preference Shares By Fresh Issue of Shares
- Calculation of Minimum Fresh Issue of Shares
- Fresh Issue at Premium & Minimum Fresh Issue
- Minimum Fresh Issue To provide Funds For Redemption
- Redemption of Preference Shares By Capitalization of Undistributed Divisible Profits
- Accounting Entries For Redemption Of Preference Shares By Capitalization of Undistributed Divisible Profits
- Redemption of Preference Shares by Combination of Fresh Issue & capitalization of undistributed Profits
- Redemption of Partly called up Preference Shares

PROVISIONS OF SECTION 55 OF COMPANIES ACT

1] max Period of Pref shares shall be 20 Yrs.

2] Redemption Can only be out of
   a] Past Divisible Profits
   b] fresh Issue
   c] Combination of both

3] only fully Paid up Pref Shares Can be redeemed

4] Premium Payable on redemption shall be provided out of Past Profit or SPR.

5] If Pref shares are redeemed out of Past Profit, The amount equal to face value of shares redeemed shall be transferred from Past Profit to CRR.

6] CRR can be used only for Issue of Bonus shares.

METHODS OF REDEMPTION OF FULLY PAID UP SHARES

a) The proceeds of a fresh issue of shares; or

b) The capitalisation of undistributed profits (by creating Capital Redemption Reserve); or

c) Combination of (a) and (b) above.

REDEMPTION OF PREFERENCE SHARES BY FRESH ISSUE OF EQUITY SHARES

1] Fresh Issue of Equity Shares & Preference shares is only Allowed. Issue of Debentures cannot be made for Redemption of Pref Shares.

2] Securities Premium Cannot be used for FV redemption of Pref Shares.

Fresh Issue to be made = $\frac{\text{face value of redemption}}{\text{Issue price excluding SPR.}}$

ACCOUNTING ENTRIES ON REDEMPTION OF PREFERENCE SHARES THROUGH FRESH ISSUE

1. When new shares are issued at par

Bank Account	Dr.	
To Share Capital A/c		

2. When new shares are issued at a premium

Bank Account	Dr.	
To Share Capital A/c		
To Securities Premium A/c		

3. When preference shares are redeemed at par

Redeemable Preference Share A/c	Dr.	
To Preference Shareholders A/c		

4. When preference shares are redeemed at a premium

Redeemable Preference Share Capital A/c	Dr.	
Premium on Redemption of Preference Shares A/c	Dr.	
To Preference Shareholders A/c		

5. When payment is made to preference shareholders

Preference Shareholders A/c	Dr.	
To Bank A/c		

6. For adjustment of premium on redemption

Profit and Loss A/c	Dr.	
To Premium on Redemption of Preference Shares A/c		

ILLUSTRATION 1

Hinduja Company Ltd. had 5,000, 8% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹ 10 each fully paid up at par. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

In the Books of Hinduja Co. Ltd
Journal Entries

Date	Particulars	LF	Debit	Credit
1	Bank A/c – Dr (50,000 x 10)		5,00,000	
	To Equity share Capital A/c			5,00,000
	(Being 50,000 Equity shares Issued to redeem 5,000 8% redeemable shares at par)			
2	8% Redeemable Preference Share Capital A/c Dr		5,00,000	
	To Preference Shareholders A/c			5,00,000
	(Being Redemption Due)			

Date	Particulars	LF	Debit	Credit
3	Preference Shareholders A/c – Dr		5,00,000	
	To Bank A/c			5,00,000
	(Being Amount Paid To Preference shareholders on redemption)			

ILLUSTRATION 2

C Ltd. had 10,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par, by issue of sufficient number of equity shares of ₹ 10 each at a premium of ₹ 2 per share as fully paid up. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

In the Books of C Ltd.
Journal Entries

Date	Particulars	LF	Debit	Credit
1	Bank A/c – Dr (1,00,000 x 12)		12,00,000	
	To Equity Share Capital A/c			10,00,000
	To Securities Premium A/c			2,00,000
	(Being 1,00,000 Shares Issued at a premium of Rs. 2, For redemption of 10,000 Shares)			
2	10% Redeemable Preference share Capital A/c – Dr		10,00,000	
	To Preference Shareholders A/c			10,00,000

Date	Particulars	LF	Debit	Credit
3	Preference Shareholder A/c – Dr		10,00,000	
	To Bank A/c			10,00,000
	(Being amount paid to preference Shareholders on redemption)			

ILLUSTRATION 3

G India Ltd. had 9,000 10% redeemable Preference Shares of ₹ 10 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹ 9 each fully paid up.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

In the Books of G India Ltd.
Journal Entries

Date	Particulars	LF	Debit	Credit
1	Bank A/c – Dr (9000 X 10)		90,000	
	To Equity Share Capital A/c			90,000
	(Being 9,000 Equity Shares Issued to redeem 9,000 10% Redeemable Shares at Par)			
2	10% Redeemable Preference Share Capital A/c – Dr		90,000	
	To Preference Shareholder A/c			90,000
	(Being Redemption Due)			

Date	Particulars	LF	Debit	Credit
3	Preference Shareholders A/c – Dr		90,000	
	To Bank A/c			90,000
	(Being Amount paid to Preference Shareholder on redemption)			

CALCULATION OF MINIMUM FRESH ISSUE OF SHARES

To satisfy law

Min No. of shares to be issued = Fv redemption / Issue price excluding SPR

To get money

Fv redemption / Issue price including SPR.

ILLUSTRATION 4

The Board of Directors of a Company decided to issue minimum number of equity shares of ₹9 to redeem ₹5,00,000 preference shares. The maximum amount of divisible profits available for redemption is ₹3,00,000. Calculate the number of shares to be issued by the company to ensure that the provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of ₹50 only.

Statement Showing No of Shares to be Issued

Sr No	Particulars	Amount
A	Nominal Value of Shares to be Redeemed	5,00,000
B	Maximum Possible Redemption out of Profits	3,00,000
C	Minimum Amount of Fresh Issue (A-B)	2,00,000
D	Issue Price Per Share	9
E	No. of Shares to be Issued	22,222.22 Say 22,223 Shares

If Shares are to be Issued in Multiple of 50, then 22250 Shares are to be Issued.

FRESH ISSUE AT A PREMIUM AND MINIMUM FRESH ISSUE

FV Redemption

Issue Price Ex. SPR

MINIMUM FRESH ISSUE TO PROVIDE FUNDS FOR REDEMPTION

Amount Required

Issue Price Incl. SPR

REDEMPTION OF PREFERENCE SHARES BY CAPITALISATION OF UNDISTRIBUTED DIVISIBLE PROFITS

- Another method for redemption of preference shares, as per the Companies Act, is to use the distributable profits in place of issuing new shares. When shares are redeemed by utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Redemption Reserve Account by debiting the distributable profit.
- In this connection, the provisions of the Companies Act state that 'When any such shares are redeemed otherwise than out of the proceeds of a fresh issue, there shall out of profits which would otherwise have been available for dividend (i.e. out of divisible profits), be transferred to a reserve to be called the Capital Redemption Reserve Account sum equal to the nominal amount of the shares redeemed'.
- It is To be noted that Only Divisible Profits can be used to create Capital Redemption Reserve, Non-Divisible Profits cannot be used for this purpose.

Sr. No.	Divisible Profits	Sr. No.	Non-Divisible Profits
1	General reserve	1	Securities Premium
2	Profit and Loss A/c	2	Capital reserve
3	Dividend equalization reserve	3	Profit prior to Incorporation
4	Reserve fund	4	Forfeited shares A/c
5	Excess provision	5	Profit on revaluation of fixed assets
6	Any other revenue reserve	6	Profit on sale of fixed assets (in excess of cost)

ACCOUNTING ENTRIES ON REDEMPTION OF PREFERNCE SHARES THROUGH CAPITALISATION OF UNDISTRIBUTED PROFITS

1. For transferring nominal amount of shares redeemed to Capital Redemption Reserve Account

General Reserve Account Dr.

Profit and Loss Account Dr.

any other Divisible Profits Dr.

To Capital Redemption Reserve Account

(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act).

2. When shares are redeemed at par

Redeemable Preference Share Capital Account Dr.

To Preference Shareholders Account

(Being the amount payable on redemption of preference shares transferred to Preference Shareholders Account)

3. When shares are redeemed at a premium

Redeemable Preference Share Capital Account Dr.

Premium on Redemption of Preference Shares Account Dr.

To Preference Shareholders Account

(Being the amount payable on redemption transferred to Preference Shareholders Account)

4. When payment is made to preference shareholders

Preference Shareholders Account Dr.

To Bank Account

(Being the payment to preference shareholders as per terms)

5. For adjustment of premium of redemption

Divisible Profit Account Dr.

To Premium on Redemption of Preference Shares Account

(Being the premium on redemption adjusted against Profit and Loss Account)

ILLUSTRATION 5

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2022.

Share capital: 40,000 Equity shares of ₹ 10 each fully paid – ₹ 4,00,000; 1,000 10% Redeemable preference shares of ₹ 100 each fully paid – ₹ 1,00,000.

Reserve & Surplus: Capital reserve – ₹ 50,000; Securities premium – ₹ 50,000; General reserve – ₹ 75,000; Profit and Loss Account – ₹ 35,000

On 1st January 2023, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

In the Books of ABC Ltd
Journal Entries

Date	Particulars	LF	Debit	Credit
1	General Reserve A/c – Dr		75,000	
	Profit & Loss A/c – Dr		25,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being Amount of Divisible Profit transferred to CRR as per section 55 of Companies act)			
2	10% Redeemable Preference Shares A/c – Dr		1,00,000	
	To Preference shareholders A/c			1,00,000
	(Being Redemption Due)			

Date	Particulars	LF	Debit	Credit
3	Preference Shareholders A/c – Dr		1,00,000	
	To Bank A/c			1,00,000
	(Being amount paid on redemption)			

REDEMPTION OF PREFERENCE SHARES BY COMBINATION OF FRESH ISSUE AND CAPITALISATION OF UNDISTRIBUTED PROFITS

A company can redeem the preference shares partly from the proceeds from new issue and partly out of profits. In order to fill in the 'gap' between the face value of shares redeemed and the proceeds of new issue, a transfer should be made from distributable profits (Profit & Loss Account, General Reserve and other Free Reserves) to Capital Redemption Reserve Account.

Amount to be Transferred to CRR = FV of Shares to be Redeemed – Proceeds from new Issue (Excluding premium)

Proceeds To be Collected From New Issue = FV of Shares to be Redeemed – Distributable Profits

ILLUSTRATION 6

C Limited had 3,000, 12% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

(i) 25,000 Equity Shares of ₹ 10 each at par,

(ii) 1,000 14% Debentures of ₹ 100 each.

The issue was fully subscribed and all amounts were received in full. The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

In the Books of C Ltd.
Journal Entries

Date	Particulars	LF	Debit	Credit
1	Bank A/c – Dr (25000 x 10)		2,50,000	
	To Equity Share capital A/c			2,50,000
	(Being 25,000 Equity Shares of Rs. 10 Each Issued)			
2	Bank A/c – Dr		1,00,000	
	To 14% Debentures A/c			1,00,000
	(Being 1000 14% Debentures Issued)			

Date	Particulars	LF	Debit	Credit
3	Profit & Loss A/c – Dr		50,000	
	To Capital Redemption Reserve A/c			50,000
	(Being amount transferred to CRR)			
4	12% Redeemable Preference Shares A/c – Dr		3,00,000	
	Premium on Redemption of Preference share A/c – Dr		30,000	
	To Preference Shareholders A/c			3,30,000
	(Being Redemption Due)			

Date	Particulars	LF	Debit	Credit
5	Preference Shareholders A/c - Dr		3,30,000	
	To Bank A/c			3,30,000
	(Being amount Paid on redemption)			
6	Profit & Loss A/c – Dr		30,000	
	To Premium on redemption of preference shares A/c			30,000
	(Being Adjustment of Premium Payable on redemption against Profit & Loss A/c)			

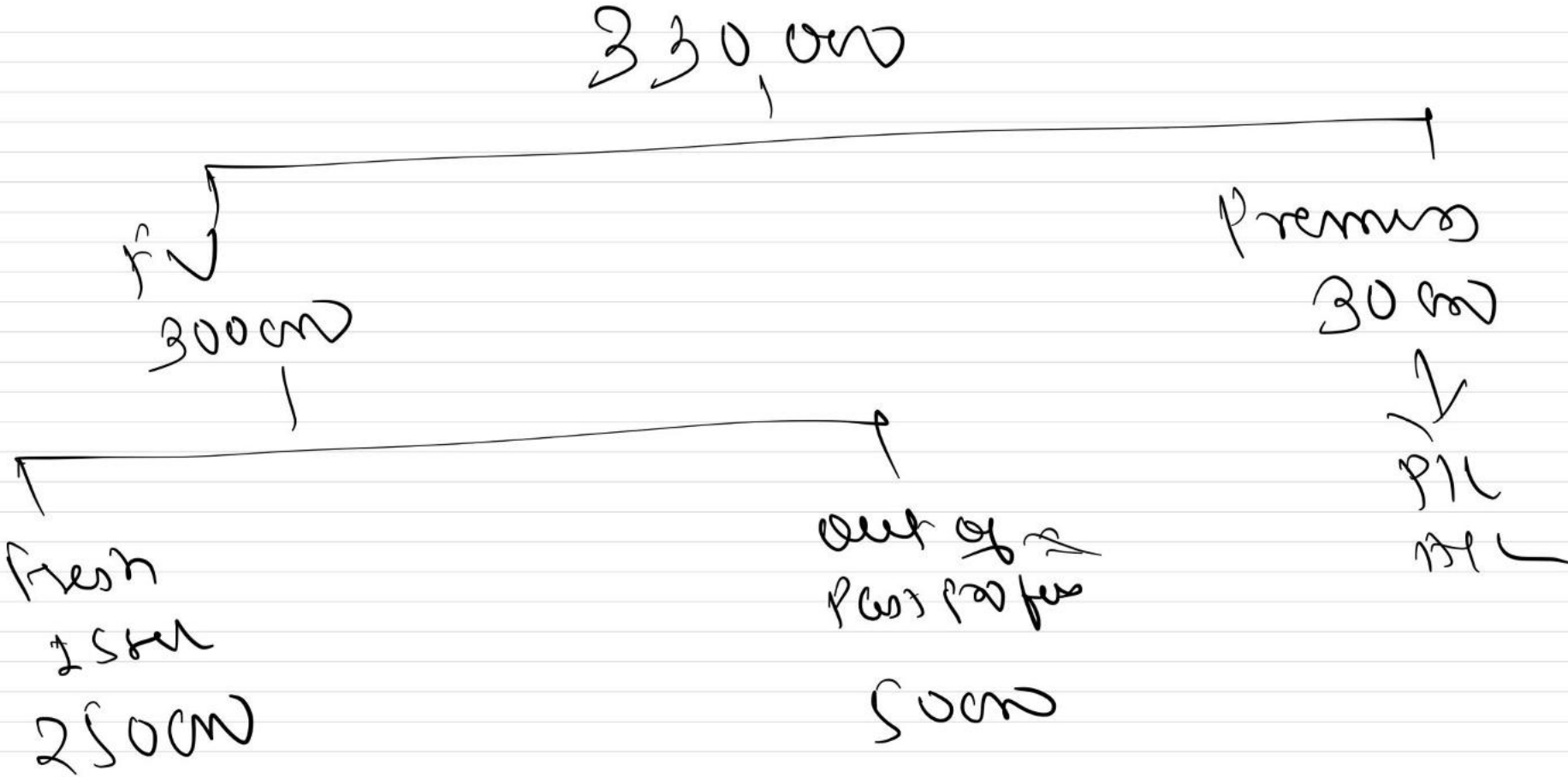

330,000
300 cm
250 cm
50 cm

ILLUSTRATION 7

The capital structure of a company consists of 20,000 Equity Shares of ₹ 10 each fully paid up and 1,000 8% Redeemable Preference Shares of ₹ 100 each fully paid up (issued on 1.4.2021).

Undistributed reserve and surplus stood as: General Reserve ₹ 80,000; Profit and Loss Account ₹ 20,000; Investment Allowance Reserve out of which ₹ 5,000, (not free for distribution as dividend) ₹ 10,000; Securities Premium ₹ 2,000, Cash at bank amounted to ₹ 98,000. Preference shares are to be redeemed at a Premium of 10% and for the purpose of redemption, the directors are empowered to make fresh issue of Equity Shares at par after utilising the undistributed reserve and surplus, subject to the conditions that a sum of ₹ 20,000 shall be retained in general reserve and which should not be utilised.

Pass Journal Entries to give effect to the above arrangements.

In the Books of Company
Journal Entries

Date	Particulars	LF	Debit	Credit
1	Bank A/c – Dr (2500 x 10)		25,000	
	To Equity share capital A/c			25,000
	(Being 2,500 Equity Share Issued for the purpose of redemption)			
2	General Reserve A/c – Dr		60,000	
	Profit & Loss A/c – Dr		10,000	
	Investment Allowance Rreserve A/c – Dr		5,000	
	To Capital Redemption Rreserve A/c			75,000
	(Being amount Transferred to CRR)			

Date	Particulars	LF	Debit	Credit
3	8% Redeemable preference share capital A/c – Dr		1,00,000	
	Premium on redemption of preference shares A/c – Dr		10,000	
	To Preference Shareholders A/c			1,10,000
	(Being Redemption Due)			
4	Preference Shareholders A/c – Dr		1,10,000	
	To Bank A/c			1,10,000
	(Being amount paid on redemption)			

Date	Particulars	LF	Debit	Credit
5	Profit & Loss A/c – Dr		10,000	
	To Premium on redemption of Preference Shares A/c			10,000
	(Being Premium Payable on redemption adjusted against profit & loss A/c)			

Ans.

Amount due on Redemption

100000 + 1000

= 110000

face value

10000

Premium

1000

P/L

Past Profits

75000

Fresh Issue

25000

GR

5000

P/L

10000

Investment Allowance reserve

5000

WN 1 – Ascertainment of Amount to be Transferred to CRR & Fresh Issue to be made.

Amount to be Transferred To CRR = General Reserve + Profit & Loss A/c + Investment Allowance Reserve

= 60000 + 10000 + 5000

= 75000

Fresh Issue Profit Available for Redemption = Nominal Value of Shares to be Redeemed – Divisible

= 100000 – 75000

= 25000

ILLUSTRATION 8

X Ltd. gives you the following information as at 31st March, 2023:

	Particulars	₹
	EQUITY AND LIABILITIES	
1.	***Shareholders' funds***	
	a Share capital	*2,90,000*
	b Reserves and Surplus	*48,000*
2.	***Current liabilities***	
	Trade Payables	*56,500*
	ASSETS	
1.	***Property, Plant and Equipment***	*3,45,000*
2.	***Non-current investments***	*18,500*
3.	***Current Assets***	
	Cash and cash equivalents (bank)	*31,000*

The share capital of the company consists of ₹ 50 each equity shares of ₹ 2,25,000 and ₹ 100 each Preference shares of ₹ 65,000(issued on 1.4.2021). Reserves and Surplus comprises Profit and Loss Account only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

(a) to sell all the investments for ₹ 15,000.

(b) to finance part of redemption from company funds, subject to, leaving a bank balance of ₹ 12,000.

(c) to issue minimum equity share of ₹ 50 each share to raise the balance of funds required.

You are required to pass the necessary Journal Entries to record the above transactions.

In the Books of X Ltd.
Journal Entries

Date	Particulars	LF	Debit	Credit
1	Bank A/c – Dr (750 x 50)		37,500	
	To Equity Share Capital A/c			37,500
	(Being 750 shares issued at Rs. 50 for redemption of preference shares)			
2	Profit & Loss A/c – Dr		27,500	
	To Capital Redemption Reserve A/c			27,500
	(Being amount Transferred to CRR)			

Date	Particulars	LF	Debit	Credit
3	Preference share Capital A/c – Dr		65,000	
	Premium on redemption of preference share A/c – Dr		6,500	
	To Preference shareholders A/c			71,500
	(Being Redemption Due)			
4	Bank A/c – Dr		15,000	
	Profit & Loss A/c – Dr		3,500	
	To Investment A/c			18,500
	(Being investment sold)			

Date	Particulars	LF	Debit	Credit
5	Preference shareholders A/c – Dr		71,500	
	To Bank A/c			71,500
	(Being Amount due on redemption paid)			
6	Profit & loss A/c – Dr		6,500	
	To Premium on redemption of preference shares			6,500
	(Being Premium on redemption Adjusted)			

MIN 1

Amount due on Redemption
65000 + 6500
= 71500

Face Value
65000

Premium
6500
↓
P/L

Fresh Issue (MIN 2)
37500

Past profits (BR)
27500

WN 1 Computation of No of Shares to be Issued

Sr.no	Particulars	Debit
A	Amount Due on redemption (Nominal value)	65,000
B	Premium payable on redemption	6,500
C	Total Amount payable on redemption (A+B)	71,500
D	Less- Amount Received on sale of Investment	15,000
E	Bank Balance to be used for Redemption (31,000 – 12,000)	19,000
F	Amount to be raised from fresh issue (C-D-E)	37,500
G	Issue price per share	50
H	No. of Shares to be issued (F/G)	750 Shares

WN. 2. Computation of amount to be transferred to CRR

Amount to be Redemption out of fresh Issue = Nominal value of preference shares Transferred to CRR

to be redeemed

= 65,000 – 37,500

= 27,500

REDEMPTION OF PARTLY CALLED UP PREFERENCE SHARES

One of the conditions of redemption is that only fully paid up preference shares can be redeemed by a company. Hence :

1. If the problem states that it is decided to redeem preference shares which are partly called up, then it is assumed that the final call on these shares is demanded and received before proceeding with redemption of these shares.

2. If information about both fully paid and partly paid preference shares is provided, then, it is presumed that only fully paid shares are to be redeemed and partly paid shares are left intact.

3. The company can forfeit the shares, if the call money is not received by the company in spite of giving opportunity to pay the same via reminders.

ILLUSTRATION 9

The Balance Sheet of XYZ Ltd. as at 31st December, 2021 inter alia includes the following information:

	₹
50,000, 8% Preference Shares of ₹100 each, ₹70 paid up	*35,00,000*
1,00,000 Equity Shares of ₹100 each fully paid up	*1,00,00,000*
Securities Premium	*5,00,000*
Capital Redemption Reserve	*20,00,000*
General Reserve	*50,00,000*
Bank	*15,00,000*

Under the terms of their issue, the preference shares are redeemable on 31st March, 2022 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity

shares of ₹ 100 each at ₹ 110 per share, ₹ 20 being payable on application, ₹ 35 (including premium) on allotment and the balance on 1st January, 2023. The issue was fully subscribed and allotment made on 1st March, 2022. The money due on allotment were duly received by 31st March, 2022. The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are asked to pass the necessary Journal Entries. (Ignore date column)

In the Books of XYZ Ltd.
Journal Entries

Date	Particulars	LF	Debit	Credit
1	8% Preference share Final call A/c – Dr (50,000 x 30)		15,00,000	
	To 8% Preference share capital A/c			15,00,000
	(Being final call made)			
2	Bank A/c – Dr		15,00,000	
	To 8% Preference shares final call A/c			15,00,000
	(Being amount received on final call)			

Date	Particulars	LF	Debit	Credit
3	Bank A/c – Dr (50,000 X 20)		10,00,000	
	To Equity share Application A/c			10,00,000
	(Being application received for 50,000 equity shares)			
4	Equity Share application A/c – Dr		10,00,000	
	Equity Share Allotment A/c – Dr (50,000 x 35)		17,50,000	
	To Equity share capital A/c (50,000 x 45)			22,50,000
	To Securities Premium A/c (50,000 x 10)			5,00,000
	(Being 50,000 shares allotted)			

Date	Particulars	LF	Debit	Credit
5	Bank A/c – Dr		17,50,000	
	To Equity Share allotment A/c			17,50,000
	(Being allotment money received)			
6	General Reserve A/c – Dr		27,50,000	
	To Capital redemption reserve A/c			27,50,000
	(Being amount transferred to CRR)			

Date	Particulars	LF	Debit	Credit
7	8% Preference share capital A/c Dr		50,00,000	
	Premium on Redemption of Preference Shares A/c – Dr		2,50,000	
	To Preference shareholders A/c			52,50,000
	(Being Redemption Due)			
8	Preference Shareholders A/c Dr		52,50,000	
	To Bank A/c			52,50,000
	(Being amount due on redemption paid)			

Date	Particulars	LF	Debit	Credit
9	General reserve A/c – Dr		2,50,000	
	To Premium on redemption of Preference shares A/c			2,50,000
	(Being Premium Payable on Redemption Adjusted Against General Reserve)			

In/N/ Arrangement for Redemption of Preference Shares.

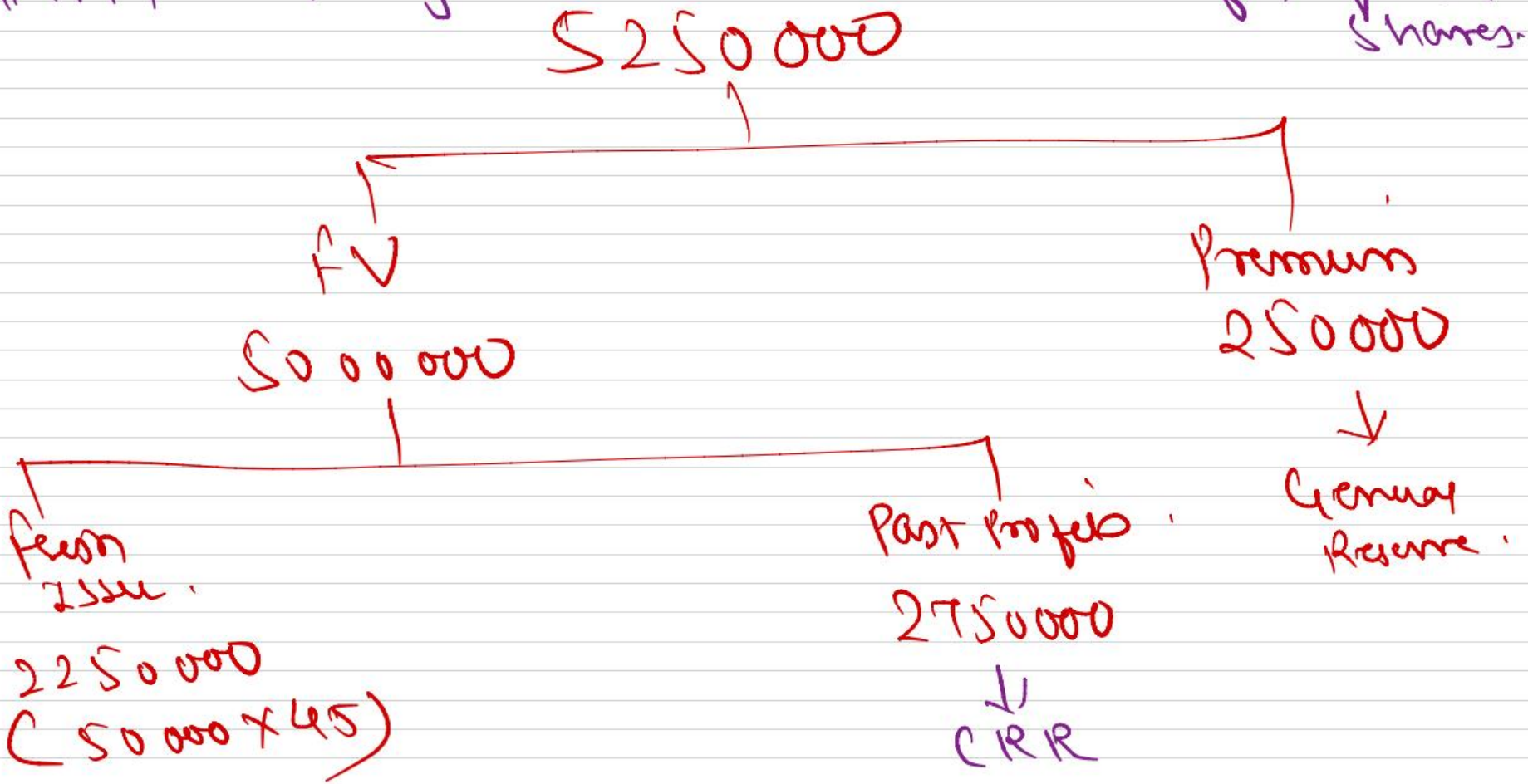


ILLUSTRATION 10

With the help of the details in Illustration 9 above and further assuming that the Preference Shareholders holding 2,000 shares fail to make the payment for the Final Call made under Section 55, you are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 2022 with the corresponding figures as on 31st December, 2021 assuming that the shares in default are forfeited after giving proper notices. (Ignore date column)

In the Books of XYZ Ltd.
Journal Entries

Date	Particulars	L F	Debit	Credit
1	8% Preference Share First Call A/c – Dr		15,00,000	
	To 8% Preference share capital A/c			15,00,000
	(Being final call made)			
2	Bank A/c – Dr (48,000 x 30)		14,40,000	
	Calls in Arrears A/c – Dr (2,000 x 30)		60,000	
	To 8% Preference Share final call A/c			15,00,000
	(Being amount received on final call & calls in			

Date	Particulars	LF	Debit	Credit
3	8% Preference share capital A/c – Dr (2,000 x 100)		2,00,000	
	To Calls in Arrears			60,000
	To share forfeited A/c (2,000 x 70)			1,40,000
	(Being 2,000 Preference Shares forfeited)			
4	Bank A/c – Dr (50,000 x 20)		10,00,000	
	To Equity share application A/c			10,00,000
	(Being application received for 50,000 shares)			

Date	Particulars	LF	Debit	Credit
5	Equity share application A/c – Dr		10,00,000	
	Equity share allotment A/c – Dr (50,000 x 35)		17,50,000	
	To Equity share capital A/c (50,000 x 45)			22,50,000
	To Security Premium A/c (50,000 x 10)			5,00,000
	(Being 50,000 Equity Shares allotment)			
6	Bank A/c – Dr		17,50,000	
	To Equity share allotment A/c			17,50,000
	(Being allotment money received)			

Date	Particulars	LF	Debit	Credit
7	General reserve A/c - Dr		25,50,000	
	To Capital redemption reserve A/c			25,50,000
	(Being amount transferred to CRR)			
8	8% Preference share A/c – Dr		48,00,000	
	Premium on redemption of preference shares A/c- Dr		2,40,000	
	To Preference shareholders (Being redemption due)			50,40,000

Date	Particulars	LF	Debit	Credit
9	Preference shareholders A/c – Dr		50,40,000	
	To Bank A/c			50,40,000
	(Being amount paid on redemption)			
10	General reserve A/c – Dr		2,40,000	
	To Premium on Redemption of preference Share A/c			2,40,000
	(Being Premium Paid on redemption adjusted against general Reserve)			

Date	Particulars	LF	Debit	Credit
11	Forfeited shares A/c – Dr		1,40,000	
	To Capital Reserve A/c			1,40,000
	(Being Profit on forfeiture of 2,000 Preference shares Transferred to capital reserve)			

Balance sheet as on

Sr. No	Particulars	Note No	31-3-22	31-12-21
A	EQUITY AND LIABILITIES			
	Shareholders funds			
	Share Capital	1	122500	135000
	Reserves & Surplus	2	79000	75000
	Total		201500	210000
B	ASSETS			
	Current Assets			
	Cash & Cash Equivalent	3	6500	15000
	Total		6500	6500

Note 1 Share Capital

Sr. No	Particulars	31-3-22	31-12-21
1	5 000 8% Preference shares of 100 each	—	350000
2	100 000 Equity shares of 100 each fully Paid up	1000000	1000000
3	50 000 Equity shares of 100 each Paid up 45	225000	—
		1225000	1350000

Note 2 Reserves & Surplus.

Sr. No	Particulars	31-3-22	31-12-21
1	Securities Premium	10000₹	5000₹
2	Capital Redemption reserve	45500₹	20000₹
3	General Reserve	22100₹	5000₹
4	Capital reserve.	14000₹	-
	Total	190000₹	75000₹

Note 3 Cash & Cash Equivalent.

Sr. No	Particulars	31-3-22	31-12-21
1	Balance with Bank	65000	150000
	Total	65000	150000

Arrangement for Redemption of Preference Shares.

Amount due on redemption.

48000×105

$= 5040000$

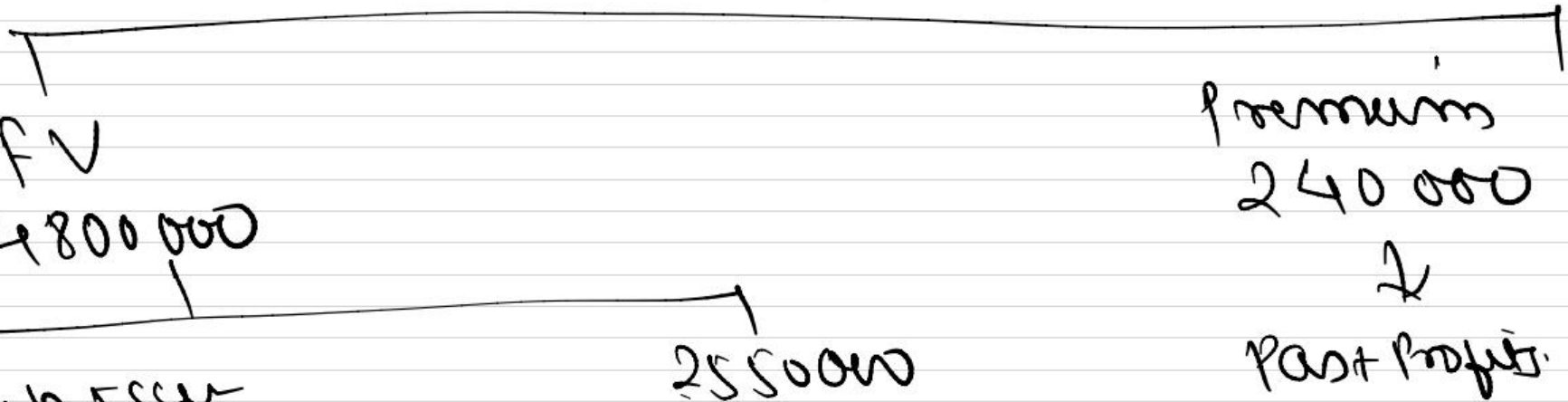


ILLUSTRATION 11

The books of B Ltd. showed the following balance on 31st December, 2023:

30,000 Equity Shares of ₹10 each fully paid; 18,000 12% Redeemable Preference Shares of ₹10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹ 10 each, ₹ 8 paid up (all shares issued on 1st April, 2022).

Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹ 80,000; General Reserve ₹ 1,20,000; Securities Premium Account ₹ 15,000 and Capital Reserve ₹ 21,000. For redemption, 3,000 equity shares of ₹10 each are issued at 10% premium. At the same time, Preference shares are redeemed on 1st January, 2024 at a premium of ₹2 per share. The whereabouts of the holders of 100 shares of ₹10 each fully paid are not known.

A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.

Show the necessary Journal Entries to record the transactions. (Ignore date column)

In the Books of B Ltd.
Journal Entries

Date	Particulars	LF	Debit	Credit
1	Bank A/c – Dr (3,000 x 11)		33,000	
	To Equity share capital A/c (3,000 x 10)			30,000
	To Securities Premium A/c (3,000 x 1)			3,000
	(Being 3,000 shares issued for redemption)			
2	General Reserve A/c – Dr		1,20,000	
	Profit & Loss A/c – Dr		30,000	
	To Capital Redemption reserve A/c			1,50,000
	(Being amount transferred to CRR)			

Date	Particulars	LF	Debit	Credit
3	12% redeemable preference share capital A/c – Dr		1,80,000	
	Premium on redemption of preference shares A/c – Dr		36,000	
	To preference Shareholders A/c			2,16,000
	(Being redemption due)			
4	Preference shareholders A/c – Dr		2,14,800	
	To Bank A/c			2,14,800
	(Being amount paid on redemption)(17900 x 12)			

Date	Particulars	LF	Debit	Credit
5	Profit & Loss A/c – Dr		36,000	
	To premium on redemption of preference shares A/c			36,000
	(Being premium on redemption adjusted Against Profit & loss A/c)			
6	Capital Redemption reserve A/c – Dr		1,20,000	
	To Bonus to shareholders A/c			1,20,000
	(Being 12,000 Bonus shares in the ratio of 2:5 due)			

Date	Particulars	LF	Debit	Credit
7	Bonus to shareholders A/c – Dr		1,20,000	
	To Equity shares capital A/c			1,20,000
	(Being 12,000 shares issued as bonus shares)			

NAV

Amount due on Redemption

18000 x 12

= 216000

FV

18000

Premium

36000

Fresh Issue

30000

(300 x 10)

Past Profits

15000

(BF)

Past Profits



thank you!