ACCOUNTING FOR SPECIAL TRANSACTIONS 2

This Module includes:

ACCOUNTING FOR SPECIAL TRANSACTIONS

Module Learning Objectives:

After studying this Module, the students will be able to –

- Learn the accounting for Consignment business
- Learn the accounting for Joint Venture business
- Learn the accounting for Bills of Exchange

Consignment

2.1

Concept of Consignment

Wholesalers and Manufactures find it quite convenient and profitable to sell goods, through an agent at home and abroad. The mode is extremely helpful when an entity wants to expand its market but does not want to incur substantial cost to build up own retail facilities. An agent sells the goods on behalf of sender of goods and charges commission. The knowledge of the agent regarding local conditions proves quite useful for increasing the sales. The person who sells the goods is called 'consignor' or 'principal', the person to whom the goods are sent is termed as 'consignee' or 'agent' and the shipment of the goods is known as consignment. Thus, a consignment may be defined as shipment of goods by a manufacturer or wholesale dealer to an agent for sale on commission basis. An agent sells the goods on account of consignor and risk is borne by the consignor. It is not transfer of ownership of goods, but only sending of goods by one person to another at a different place to be sold by the latter on behalf of the former. When the goods are sent by the consignor, it is known as outward consignment. To the consignee, it is an inward consignment. Consignee does not become the debtor for the goods received on consignment. The relationship between both the parties is that of an agent and a principal only. The goods consigned to the agent are treated as sales only when these are sold by the consignee and he becomes entitled to be reimbursed for the expenses incurred on behalf of consignor and is also entitled to receive commission for the goods sold by him.

Parties to a Consignment

As discussed above, the parties involved in consignment business are Consignor and Consignee.

a) **Consignor:** It is the party who sends the goods to its agent for sale of goods. The consignor is the 'principal' in the consignment business. Consignor remains the owner of the goods sent on consignment basis, till they are actually sold by the consignee.

b) **Consignee:** It is the party to whom goods are sent on consignment basis by the consignor. It sells the goods received on consignment basis and acts as the 'agent' in a consignment relation. It is entitled to receive commission from the consignor as consideration.

Distinction between Consignment and Sale

The following are the main points of difference between consignment and sale of goods:

a) In case of consignment, legal ownership of goods rests with the consignor. It is only the possession of goods which is transferred to the consignee. In case of sale, the legal ownership of goods is transferred immediately from the seller to the buyer of goods.

b) In case of consignment the relationship between the consignor and consignee is that of principal and an agent and continue till terminated, while in case of sale, the relationship between the two parties is that of buyer and seller and terminate as soon as payment is made and goods are transferred.

c) In case of consignment, the risk of loss or damage to the goods remains with the consignor till the goods consigned are sold by the consignee. In case of sale, risk attached to the goods passes along with ownership to the buyer of goods.

d) In consignment, the consignor usually bears the expenses incurred by the consignee in connection with the goods consigned to him. In case of sale, expenses incurred by the buyer, after its completion, will be borne by him.

e) In consignment, 'Account Sales' is required to be submitted periodically by the consignee to the consignor. But in case sale, no 'Account sales' is required to be submitted by the buyer to the seller.

f) In consignment, goods are sold by the consignee against commission, while in case of sale, goods are sold against price.

g) In consignment, unsold goods with the consignee can be returned at any time if he feels that goods cannot be sold except at a loss, while in case of sale, the goods cannot be returned by the buyer after the sale is complete.

⦿ Operating Cycle of Consignment Arrangement

a) Goods are sent by consignor to the consignee.

b) Consignor incurs expenses to send the goods.

c) Consignee may pay some advance or accept a bill of exchange.

d) Consignee incurs expenses for receiving, carrying/holding and finally selling the goods.

e) Consignee maintains records of all cash and credit sale.

f) Consignee prepares a summary of results called as Account sales.

g) Consignor pays commission to the consignee.

h) Consignee remits the amount to the consignor after deducting expenses incurred and commission receivable.

Note: Sometimes, the consignor may send the goods at a price higher than cost so that the consignee gets no knowledge of the real cost of goods which is confidential for the consignor. Such a price is known as Invoice Price.

⦿ Important Documents in a Consignment Business

In a consignment arrangement, the following two documents are considered to be of prime importance. These are (a) Proforma Invoice and (b) Account Sales. These are discussed below.

(a) Proforma Invoice

When the goods are sent by consignor to the consignee, consignor sends a 'Proforma Invoice' in the form of an invoice to the consignee, 'Proforma Invoice' contains information related to the nature of goods, number and/ or quantity, weights, other measurements related to the goods and marked price, etc. It is to be noted that proforma invoice is only in the nature of memorandum invoice and is not a regular invoice. So, it does not make the consignee accountable to pay the amount mentioned therein. Generally, the price shown in such invoice is not the cost price but it is sometimes the selling price and sometimes the cost price plus an arbitrary percentage of profit, better known as invoice price. Following is the general format of a Proforma Invoice.

ABC Toy Merchant **Proforma Invoice**		
Goods sent on Consignment to: Bimal Stores 80A, Nehru Road, Guwahati – 781005. Date: March 17, 2024		
Particulars		**(₹)**
1,400 Toy Guns @ ₹ 200 each 500 Dolls @ ₹ 100 each		2,80,000 50,000
Charges: Packing Carriage Insurance	₹ 2,500 4,200 1,300	3,30,000 8,000
Goods despatched vide A.W.B. No. 96415 dated 18.6.2023	Total	3,38,000
E.& O.E. Ahmedabad		**ABC Toy Merchant** Anurag Verma *Partner*

(b) Account Sales

This is a periodical statement prepared by consignee to be sent to the consignor giving details of all sales (cash and credit), expenses incurred and commission due for sales, goods destroyed-in-transit, or in godown and deducting the amount of advance remitted by him. Following is the general format of an Account Sales.

Account Sales for Toys sold by Bimal Stores **on behalf of ABC Toy Merchant**		
Particulars	**(₹)**	**(₹)**
Gross Sale Proceeds:		
1,050 wrist watches @ ₹ 240 each	2,52,000	2,79,000
180 wall clocks @ ₹ 150 each	27,000	
Less: Charges:		
Unloading & Carriage to godown	450	
Godown rent & insurance	2,600	
Selling expenses	2,500	
Commission @ 5% on ₹ 2,79,000	13,950	19,500
Net Sale Proceeds:		2,59,500
Less: Advance (by Bank Draft No. …. dated ….)		1,00,000
		1,59,500
Less: Amount remitted (by Bank Draft No. …. dated ….)		1,00,000
Balance Due		59,500
E. & O.E. Guwahati		For Bimal Stores ………………….. (Signature)

Type of Commission

It is the consideration for which the Consignee acts as the agent of the Consignor. Commission can be of the following types:

a) Ordinary Commission: This is a fee payable by consignor to consignee for sale of goods when the consignee does not guarantee the collection of money from ultimate customer. The percentage of such commission is generally lower.

b) Del Credre Commission:This is additional commission payable to the consignee for taking over additional responsibility of collecting money from customers. In case, the customers do not pay of the consignee takes over the loss of bad debts in his books. Although it's paid for taking over risk of bad debts that arise out of credit sales only, this commission is calculated on total sales and not on credit sales.

c) Over-riding Commission/Special Commission: This is an extra commission which is paid over and above the ordinary commission. It is also referred to as Special Commission. This commission is paid when the consignee manages to sell the goods above a pre-determined selling price, or exceeds the sales target.

Accounting for Consignment

The consignor and consignee keep their own books of accounts.The consignor generally maintains the following accounts:

i) Consignment Account (to know the profit or loss on consignment)

ii) Consignee Account (to know the amount due from consignee)

iii) Goods Sent on Consignment Account (to adjust the goods sold on consignment from the main business)

iv) Consignment Debtors Account (when goods are sold on credit and consignee is not paid any Del-credere Commission)

v) Consignment Stock Reserve Account (to cancel the load on cost price)

On the other hand, the Consignee keeps the following accounts:

i) Consignor Account (to know the amount due from or to consignor)

ii) Commission Received Account (To know the commission received)

iii) Consignment Debtors Account (To know the amount due from consignment debtors when goods are sold on credit and consignee is paid Del-credere Commission)

The journal entries under various situations are discussed below.

I. Goods sent at cost, ordinary commission, sale in cash only

Situations	Consignor'sbooks	Consignee'sbooks
Opening stock	Consignment A/c Dr. To Consignment Stock A/c	No Entry
On sending goods	Consignment A/c Dr. To Goods Sent on Consignment A/c	No Entry
On return of goods by consignee	Goods Sent on Consignment A/c Dr. To Consignment A/c	No Entry
Onexpensesforsendinggoods	ConsignmentA/c Dr. To Cash/BankA/c	No Entry

On consignee paying cash or accepting Bill of Exchange as advance	Cash/Bank/Bill Receivables A/c Dr. To Consignee's Personal A/c	Consignor's Personal A/c Dr. To Cash/Bank/Bills Payable A/c
On consignor discounting the bill	Bank A/c Dr. Discount on Bill A/c Dr. To Bills Receivable A/c	No Entry
	P/L A/c or Consignment A/c Dr. To Discount on Bill A/c	No Entry
On expenses incurred by consignee	ConsignmentA/c Dr. To Consignee's Personal A/c	Consignor's Personal A/c Dr. To Cash/Bank A/c
On consignee reporting sales	Consignee's Personal A/c Dr. To Consignment A/c	Cash/Bank A/c Dr. To Consignor's Personal A/c
For commission	Consignment A/c Dr. To Consignee's PersonalA/c	Consignor's PersonalA/c Dr. To Commission A/c
On closing stock	Stock on Consignment A/c Dr. To Consignment A/c	No Entry
For Goods-in-transit	Goods-in-Transit A/c Dr. To Consignment A/c	No Entry

II. Goods sent at Invoice Price

Sometimes, the consignor does not want to reveal actual price of the goods to the consignee so that he may not know the actual profit or loss being made by him on these goods. Therefore, the consignor sends the goods at aprice higher than cost price, known as proforma invoice price. The consignor adds some profit margin to the cost price of the goods and prepare an invoice showing the invoice price of the goods. Thus, consignment account stands debited with the invoice price of the goods. Therefore, some adjustments are required at the end of each balancing period to ascertain the correct profit or loss on consignment. Hence, the following journal entries are required to be passed in the books of consignor.

Situations	Consignor's books	Consignee's books
Opening stock	Consignment A/c Dr. To Consignment Stock A/c	No Entry
Cancellation of load on opening stock	Consignment Stock Reserve A/c Dr. To Consignment A/c	No Entry
On sending goods at I.P	Consignment A/c Dr. To Goods Sent on Consignment A/c	No Entry
On return of goods by consignee	Goods Sent on Consignment A/c Dr. To Consignment A/c	No Entry
Cancellation of load on goods sent less return	Goods Sent on Consignment A/c Dr. To Consignment A/c	No Entry
Onclosingstock	Stockon Consignment A/c Dr. To Consignment A/c	No Entry

Cancellation of load on closing stock	Consignment A/c Dr. To Consignment Stock Reserve A/c	
For Goods-in-transit	Goods-in-Transit A/c Dr. To Consignment A/c	No Entry
Cancellation of load on goods-in-transit	Consignment A/c Dr. To Goods-in-Transit A/c	

Note: Valuation of Unsold Stock with Consignee

If the consignee fails to sell all the goods sent to him during the accounting period, the remaining unsold goods are treated as 'Stock Lying with Consignee' or simply, 'Consignment Stock'. Its ownership lies with the consignor, even though they lie physically with the consignee. Valuation of such consignment stock is necessary for determination of correct operating results of the consignment business. The valuation of unsold stock depends on the fact whether the goods sent have been recorded by the consignor 'at Cost' or 'at IP'.

a) **When goods sent at Cost:** Consignment stock is valued considering the cost of the goods sent on consignment. In addition, proportionate adjustments are required to be made for the expenses incurred by the consignor and non-recurring expenses incurred by the consignee.

b) **When goods sent at Invoice Price:** Consignment stock is valued considering the Invoice Price of the goods sent on consignment. Proportionateadjustments are required to be made for the expenses incurred by the consignor and non-recurring expenses incurred by the consignee on these goods. Moreover, for determination of correct operating result, the load margin on such goods needs to be adjusted.

   As per AS-2, unsold stock is to be valued at 'Cost' or 'Net Realisable Value (NRV)', whichever is lower. When the NRV (i.e., Expected Selling Price Less Incidental expenses for making such sale) of the unsold stock fall below its cost, in that case the consignment statement is to be valued at the lower NRV.

c) **Valuation of Goods-in-Transit:** The goods which have been dispatched by the consignor, but are yet to reach the premises of the consignee are referred to as Goods-in-Transit. The ownership of such goods lies with the consignor, and at the end of an accounting period, such goods are required to be valued for the purpose of reflecting such goods in the financial statements. Such goods-in-transit are required to be valued after considering the expenses incurred by the consignor for sending such goods. It is to be noted that no expenses incurred by the consignee are to be included in valuing the same.

Illustration 1.

Ram & Co. of Calcutta consigned 50 cases of goods at ₹200 each to Nathan of Bombay. The consignor pays ₹200 for insurance and for freight ₹300. Nathan sent an account sales showing the gross proceeds at ₹24,000. The expenses paid by Nathan were dock dues ₹ 20, carriage ₹ 50 warehousing expenses ₹ 130. He sent the amount due to the consignor after deducting 4% commission. Give journal entries in the books of both the parties.

Solution:

In the Books of Ram & Co.
Journal Entries

Consignor's books		Dr. ₹	Cr. ₹
Consignment A/c	Dr.	10,000	
To Goods Sent on Consignment A/c			10,000
(Being the cost of 50 cases of goods @ ₹200 each consigned to consignee)			

Consignment A/c To Cash A/c (Being ₹200 for Insurance and ₹300 for freight paid)	Dr.	500	500
Nathan's A/c To Consignment A/c (Being the sales proceeds at ₹24,000)	Dr.	24,000	24,000
Consignment A/c To Nathan's A/c (Being expenses paid by Nathan i.e. dock dues ₹20, carriage ₹50 and warehousing expenses ₹130)	Dr.	200	200
Consignment A/c To Nathan's A/c (Being the commission payable to Nathan @4% on ₹24,000)	Dr.	960	960
Consignment A/c To Profit and Loss A/c (Being the profit on consignment transferred to Profit and loss A/c)	Dr.	12,340	12,340
Cash A/c To Nathan's A/c (Being the amount due from Nathan received)	Dr.	22,840	22,840
Goods Sent on Consignment A/c To Trading A/c (Being the transfer of goods sent on consignment account to Trading A/c)	Dr.	10,000	10,000

In the Books of Nathan
Journal Entries

Particulars		Dr. (₹)	Cr. (₹)
Ram & Co. A/c To Cash A/c (Being various expenses paid on goods on consignment)	Dr.	200	200
Bank A/c To Ram & Co. A/c (Being goods sold on behalf of Ram & Co.)	Dr.	24,000	24,000
Ram & Co. A/c To Commission A/c (Being the commission due on sale proceeds paid to Ram & Co.)	Dr.	960	960
Ram & Co. A/c To Bank A/c (Being amount due on consignment remitted to Ram & Co.)	Dr.	22,840	22,840

Illustration 2.

The B Ltd. of Bombay consigns to their Calcutta agent ₹10,000 worth of piece goods, drawing on Calcutta for the amount. They pay charges fright and insurance on the consignment amounting to ₹650 and discount the bill which costs ₹200. The goods were received in Calcutta and in due course the account Sales was received as follows:
Account sales of 200 bales of piece goods from Bombay Mills Ltd. of Bombay.

Particulars	(₹)	(₹)
200 Bales of piece goods at		14,000
Less:		
Delivery charges etc.,	500	
Godown rent	70	
Insurance	80	
Sundry charges	18	
Commission	700	1,368
		12,632
Draft paid		10,000
Balance herewith		2,632

Enter these particulars in the ledger of the consignor and complete the transaction showing final profit or the loss on the consignment.

Solution:

In the Books of B Ltd.

Dr. **Consignment Account** **Cr.**

Particulars	(₹)	(₹)	Particulars	(₹)
To Goods Sent on Consignment A/c		10,000	By Agent (Sales)A/c	14,000
To Cash (Freight & Insurance)A/c		650		
To Agent A/c				
Delivery charges etc.	500			
Godown rent	70			
Insurance	80			
Sundry charges	18			
Commission	700	1,368		
To Profit & Loss A/c		1,982		
		14,000		**14,000**

Dr. **Agent Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Consignment A/c	14,000	By Bills Receivable A/c	10,000
		By Consignment A/c	1,368
		By Bank A/c	2,632
	14,000		**14,000**

Dr. **Goods sent on Consignment Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Trading A/c	10,000	By Consignment A/c	10,000
	10,000		**10,000**

Dr. **Bills Receivable Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Agent A/c	10,000	By Bank	9,800
		By Discount	200
	10,000		**10,000**

Illustration 3.

'A' sends goods worth ₹50,000 to 'B' for sales for 5% commission. He incurs ₹1,500 for Freights and ₹500 for Insurance. The goods are sold for ₹60,000, consignee incurs ₹500 unloading expenses and ₹500 rent. B sends a draft after deducting his expenses and commission.

Prepare necessary accounts in the books of A.

Solution:

In the books of A

Dr. **Consignment Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Goods Sent on Consignment A/c	50,000	By B's A/c Sale	60,000
To Cash A/c (Freight)	1,500		
To Cash A/c (Insurance)	500		
To B's A/c			
- Unloading Expenses	500		
- Rent	500		
To B's A/c - Commission (₹60,000 x 5%)	3,000		
To Profits and Loss A/c (Profit on Consignment)	4,000		
	60,000		**60,000**

Dr. **B's (Consignee's) Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Consignment A/c- Sale	60,000	By Consignment A/c – (Unloading Expenses)	500
		By Consignment A/c (Rent)	500
		By Consignment A/c (Commission)	3,000
		By Bank A/c	56,000
	60,000		**60,000**

Dr. **Goods Sent on Consignment Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Trading A/c (Balancing Figure)	50,000	By Consignment A/c	50,000
	50,000		**50,000**

Illustration 4.

Usha sent goods costing ₹75,50,000 on consignment basis to Gayathri on 1.2.2023 @ 8.5% commission, ₹8,25,000 was spent on transportation by Usha. Gayathri spent ₹5,25,000 on unloading. 88% of the goods received were sold for ₹90,00,000, 10% of the goods for ₹10,00,000 and the balance was taken over by Gayathri @10% below the cost price. She has sent a demand draft to Usha for the amount due show in Usha's Books.

(i) Consignment Account

(ii) Gayathri's Account.

Solution:

In the Books of Usha

Dr. **Consignment Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Goods Sent on Consignment A/c	75,50,000	By Gayathri A/c (W.N.- 1)	1,01,35,900
To Bank A/c – Transportation	8,25,000		
To Gayathri A/c – Unloading Expenses	5,25,000		
To Gayathri A/c –Commission (W. N.- 2)	8,61,551		
To Profit and Loss on Consignment A/c	3,74,349		
	1,01,35,900		**1,01,35,900**

Dr. **Gayathri's Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Consignment A/c	1,01,35,900	By Consignment A/c – Expenses	5,25,000
		By Consignment A/c – Commission	8,61,551
		By Bank A/c (Balancing Figure)	87,40,349
	1,01,35,900		**1,01,35,900**

Working Note:

1. Computation of Amount of Sales by Gayathri

Particulars	(₹)
Goods Sent on Consignment Basis	75,50,000
88% of the goods received, sold for	90,00,000
10% of the goods received, sold for	10,00,000
2% of the goods received taken over (₹75,50,000 × 2%) × 90%	1,35,900
Total Amount of Sales	**1,01,35,900**

2. Computation of Commission

Commission = Total Sales Proceeds × Rate of Commission = ₹1,01,35,900 × 8.5% = ₹8,61,551

Illustration 5.

Sree Traders of Gujrat purchased 10,000 sarees @ ₹100 per saree. Out of these 6,000 sarees were sent on consignment to Nirmala Traders of Kolkata at the selling price of ₹120 per saree. The consignor paid ₹3,000 for packing and freight. Nirmala Traders sold 5,000 sarees @ ₹125 per saree and incurred ₹1,000 for selling expenses and remitted ₹5,00,000 to Gujrat on account. They are entitled to a commission of 5% on total sales plus a further of 25% commission on any surplus price realized over ₹120 per saree. 3,000 sarees were sold at Gujrat @ ₹110 per saree. Owing to fall in market price, the value of stock of saree in hand is to be reduced by 5%. Your are required to prepare (i) Consignment Account, and (ii) Nirmala Traders Account.

Solution:

i) **In the books of Sree Traders**

Consignment Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To, Goods Sent on Consignment A/c (6,000 × ₹ 120)	7,20,000	By, Nirmala Traders A/c : Sale proceeds (5,000 × ₹ 125)	6,25,000
To, Bank A/c (Packing and Freight)	3,000	By, Stock on Consignment A/c (W.N.2)	1,14,285
To, Nirmala Traders A/c		By, Goods Sent on Consignment A/c	1,20,000
- Selling Expenses	1,000		
- Commissions (W.N.1)	37,500		
To, Profit & Loss A/c (Profit on Consignment)	97,785		
	8,59,285		**8,59,285**

Note:

3,000 sarees which were sold at Gujrat @ ₹110 per saree are not to be taken into consideration since it is not a consignment transaction and hence the same is excluded from Consignment Account.

Although the consignor purchased 10,000 sarees, only 6,000 sarees are related to consignment transaction, balance is not to be taken into Consignment Account at all.

(ii)

Nirmala Traders Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Consignment A/c:		By, Bank A/c (Advance)	5,00,000
Sales Proceeds	6,25,000	By, Consignment A/c (Exp. + Com.)	38,500
		By, Balance c/d	86,500
	6,25,000		**6,25,000**

Workings:

1. Calculation of Commission payable to Nirmala Traders:

Particulars	(₹)
Total Sales @ ₹ 125 per saree	6,25,000
Less: Amount ₹ 120 per saree	6,00,000
Surplus Price Realised	25,000
Commission: @ 5% on total Sales (₹ 6,25,000 × 5%)	31,250
Add: 25% on ₹ 25,000	6,250
	37,500

2. Valuation of Unsold Stock:

Since market price has fallen by 5%, valuation of unsold stock on consignment will be calculated as under:

Particulars	(₹)
Total Cost (1,000 × ₹ 120) (without Considering expenses)	1,20,000
Add: Expenses paid by consignor (3,000 × 100/1000)	300
Total	1,20,300
Less: 5% reduction (1,20,300 × 5%)	6,015
	1,14,285

Illustration 6.

T of Jamshedpur consigned goods costing ₹2,00,000 to his agent P of Patna. The invoice was made pro-forma so as to show a profit of 25% on cost. T paid freight and insurance ₹4,000. P sold part of the consignment for ₹1,76,000 at a uniform price of 10% over invoice price and spent ₹6,000 as warehousing charges and ₹2,000 as selling expenses. P is entitled to a commission of 5% on sales and 20% of the net profit after charging commission on sales. Draw up the Consignment Account in the books of T.

In the books of T

Consignment to Patna Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
	To Goods Sent on Consignment A/c (Note 1)	2,50,000		By Goods Sent on Consignment A/c	50,000
	To Bank A/c (freight and insurance)	4,000		By P's A/c (sale proceeds)	1,76,000
	To P A/c:			By Stock on Consignment A/c (Note 2)	91,440
	Warehousing Charges	6,000		By Profit b/d	
	Selling Expenses	2,000			
	Commission (5% on ₹1,76,000)	8,800			
	To Stock Reserve A/c (Note 3)	18,000			
	To Pulak A/c (share of profit) (Note 4)	5,728			
	To Profit and Loss on Consignment A/c	22,912			
		3,17,440			**3,17,440**

Working Notes:

1. Invoice price - Cost price + 25% profit on cost (loading) – ₹2,00,000 + ₹50,000 = ₹2,50,000.
2. Valuation of Stock on Consignment

Invoice price of the goods sent	₹2,50,000
Less: Invoice price of the goods sold (₹1,76,000 /110) × 100	₹1,60,000
Invoice price of the Stock on Consignment	₹90,000
Add: Expenses by Consignor (₹4,000 × 90,000 / 2,50,000)	₹1,440
	₹91,440

3. Loading on stock = 90,000 × 25/125 = ₹18,000
4. Profit after charging commission on sales but before charging commission on profit = ₹28,640

   P's share = 20% of 28,640 = ₹5,728

Illustration 7.

K of Kolkata sends 1,000 boxes of clothing to P of Patna on consignment basis. The goods in each box cost ₹200. K pays railway freight and insurance ₹500 and draws upon P a bill for ₹10,000, which is duly accepted. P forwards an Account Sales to K showing that 500 boxes have been sold at ₹250 per box while 300 boxes were sold at ₹260 per box. 200 boxes remained unsold. The expenses incurred by P consisted of carriage ₹100 and other charges ₹2,000. P is entitled to a commission @ 7% on the gross sales. P encloses a cheque for the balance due to K.

Show the Consignment Account in the books of K.

Solution:

In the books of K

Consignment to Patna Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Goods Sent on Consignment A/c [Goods sent: 1,000 × ₹200] To Bank A/c [Expenses incurred] - Railway freight & Insurance	2,00,000 500	By P A/c [Sale] 500 boxes: (500 × 250) 1,25,000 300 boxes: (300 × 260) 78,000	 2,03,000
To P A/c [Expenses paid by consignee] - Carriage 100 - Other Charges 2,000	 2,100	By Consignment Stock A/c [WN: 1]	40,120
To P A/c [Commission due] - Ordinary Com. [₹2,03,000 × 7%]	14,210		
To P/L A/c [Profit on consignment transferred]	26,310		
	2,43,120		**2,43,120**

Workings:

1. Valuation of Unsold Stock

Particulars	Units	₹
Cost of Goods Sent Add: Consignor's expenses (being, railway freight & insurance)	1,000 –	2,00,000 500
 Add: Non-recurring expenses incurred by consignee (being, carriage)	1,000	2,00,500 100
		2,00,600
Unsold Stock = [1,000 – (500 + 300)] = 200 units Value of 200 units	₹2,00,600 × 200/1000 = ₹40,120	

III. Credit Sales and Del-Credre Commission

It is not necessary that all the goods are to be sold by the consignee in cash. He may require to sell some part of the goods on credit. When goods are sold on credit, the problem of bad debt arises. Since consignee has better knowledge about the local market conditions, he may be offered an additional commission to take the responsibility of realizing the proceeds from the customers and also to bear the consequent bad debt loss. This additional commission is known as del-credre commission. Accordingly, accounting in the books of the consignor and the consignee differs based on whether the bad debts loss is borne by the consignee or the consignori.e., whether del credere commission is given to the consignee or not.

(a) When del-credre commission is given to the consignee

Situations	Consignor'sbooks	Consignee'sbooks
For credit sales	Consignee's Personal A/c Dr. To, Consignment A/c	Consignment Debtors A/c Dr. To, Consignor A/c
For bad debt	No entry	Bad Debts A/c Dr. To, Consignment Debtors A/c
For del-credre commission	Consignment A/c Dr. To, Consignee's Personal A/c	Consignor A/c Dr. To Commission Received A/c
For realization of proceeds	No entry	Cash/ Bank A/c Dr. To, Consignment Debtors A/c
For transfer of bad debt	No entry	Commission Received A/c Dr. To Bad Debt A/c

(b) When del-credre commission is not given to the consignee

Situations	Consignor'sbooks	Consignee'sbooks
For credit sales	Consignment Debtor A/c Dr. To, Consignment A/c	No entry
For bad debt	Consignment A/c Dr. To Consignment Debtors A/c	No entry
For realization of proceeds	Cash/Bank A/c Dr. To, Consignment Debtors A/c (if collected by consignor)	No entry
	Consignee's Personal A/c Dr. To, Consignment Debtors A/c (if collected by consignee)	Cash/ Bank A/c Dr. To, Consignor A/c

Consider the following illustrations.

Illustration 8.

S of Mumbai consigned 100 units of a commodity to M of Kotkata. The goods were invoiced at ₹300 so as to yield a profit of 50% on cost. S incurred ₹2,000 on freight and insurance. M incurred ₹1,000 on Salesmen's salary and ₹1,600 on godown rent. M sold 50 units for cash at ₹320 per unit and 20 units on credit at ₹350 per unit. She retained her commission @ 6 per cent (including 1 per cent for the del credere arrangements) and remitted the balance due. A debtor for ₹2,000 to whom the goods were sold by M became insolvent and only 50 paise in a rupee was recovered.

Show necessary ledger accounts in the books of M.

Solution:

In the Books of M

S Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
	To Commission Received A/c:	1,150		By Bank A/c (cash sales)	16,000
	Ordinary commission	230		By Consignment Debtors A/c	7,000
	Del credere commission				
	To Bank A/c (Expenses)	2,600			
	To Bank (Final remittance)	19,020			
		23,000			**23,000**

Dr. **Consignment Debtors Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
	To S A/c	7,000		By Bank A/c	6,000
				By Bad Debts A/c	1,000
		7,000			**7,000**

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

Date	Particulars	₹	Date	Particulars	₹
	To Consignment Debtors A/c (Bad Debts)	1,000		By S A/c	1,380
	To Profit and Loss A/c	380			
		1,380			**1,380**

Illustration 9.

On 1st November, 2023, K of Calcutta sends goods costing ₹1,00,000 to D of Delhi on consignment basis. K paid ₹5,000 as railway freight and ₹2,000 as insurance. On 31st December, 2023, an Account Sales was received from D disclosing that the entire quantity of goods were sold for ₹1,50,000 — out of which, ₹30,000 was sold on credit. A customer who purchased goods for ₹5,000 failed to pay and the debt proved bad. All other debts were collected by D in full. As per agreement, D is allowed a commission @ 10% on sales. D sends the amount due to K by a cheque. Prepare necessary ledger accounts in the books of K.

Solution:

In the books of K

Consignment to D Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2023 Nov1	To Goods Sent on Consignment A/c	1,00,000	2023	By D A/c (Cash Sales)	1,20,000
	To Cash A/c		Dec 31	By Consignment Debtors A/c (Credit Sales)	30,000
	Railway Freight	5,000			
	Insurance	2,000			
Dec 31	To D A/c (Commission @ 10%)	15,000			
	To Consignment Debtors A/c (Bad Debts)	5,000			
	To Profit & Loss on Consignment A/c	23,000			
		1,50,000			**1,50,000**

D Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
	To Consignment to D A/c	1,20,000		By Consignment to D A/c	15,000
	To Consignment Debtors A/c	25,000		By Bank A/c	1,30,000
		1,45,000			**1,45,000**

Consignment Debtors Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2023 Dec 31	To Consignment to D A/c	30,000	2023 Dec 31	By D A/c	25,000
	To Consignment Debtors A/c			By Consignment to D A/c	5,000
		30,000			**30,000**

Goods Sent on Consignment Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2023 Dec 31	To Trading A/c (B/f)	1,00,000	2023 Dec 31	By Consignment to D A/c	1,00,000
		1,00,000			**1,00,000**

IV. Loss of Goods Sent on Consignment

In consignment business losses may be divided into two broad categories – Normal Loss and Abnormal Loss. The loss of goods which occurs due to the inherent nature of the goods involved is referred to as Normal Loss. It is by nature an unavoidable loss and forms part of the cost of goods sold. For example, evaporation of materials, spillage of liquid materials etc. On the other hand, Abnormal Loss of goods refers to those losses which are avoidable in nature. Such loss is not considered to be a part of the cost of goods sold. For example,goods pilfered, goods stolen, goods lost by fire and other natural calamities etc. Depending on the stage of occurrence of abnormal loss in a consignment business, such loss arising can be broadly discussed under two heads:

a) Goods lost in Transit: These losses occur on the movement of the goods from the consignor's premise to the consignee's warehouse. Such goods lost are required to be valued after considering the expenses incurred by the Consignor for sending such goods. Any expense incurred by the consignee which are of non-recurring nature are not to be included in valuing the goods lost in transit.

b) Abnormal loss of goods in Consignee's premises: Such loss includes goods damaged by fire in consignee's godown, goods stolen from godown, loss due to bad handling etc. For the purpose of valuation of such loss, all expenses incurred by the consignor and the non-recurring expenses incurred by the consignee are considered.

Consider the following illustration.

Illustration 10.

a) A consigned to B 5,000 kg. of tea costing ₹40 per kg. A incurred ₹3,000 on freight and ₹2,000 on insurance. 500 kg of tea were lost in transit. The insurance company admitted the claim for ₹15,000. After receiving the goods, B spent ₹1,000 on carriage, ₹500 on selling and ₹500 on godown rent, B was allowed a commission of 5% on sales. 3,000 kg of tea were sold at ₹64 per kg. 25 kg of tea were lost due to breakage of a chest which was considered to be normal. Prepare necessary Ledger Accounts in the books of A and B.

b) Will your answer be different, if in the above example, abnormal loss of 500 kg took place in the consignee's godown by theft—other things remaining the same?

Solution:

(a)

In the Books of A

Consignment to B Account

Dr. **Cr.**

Date	Particulars		₹	Date	Particulars	₹
	To Goods Sent on Consignment A/c		2,00,000		By Abnormal Loss A/c (Note 1)	20,500
	To Bank A/c (Expenses)				By B A/c (sale proceeds)	1,92,000
	Freight	₹3,000			(3000 × ₹ 64)	
	Insurance	₹2,000	5,000		By Stock on Consignment A/c	61,142
					(Note 2)	
	To B A/c (Expenses)					
	Carriage	₹1,000				
	Selling	₹500	2,000			
	Godown rent	₹500	9,600			
	To B A/c - commission					
	(5% on ₹1,92,000)					
	To Profit and Loss on Consignment A/c		57,042			
			2,73,642			**2,73,642**

Working Notes:

1. Calculation of Abnormal Loss

		₹
Cost of 5,000 kgs @ ₹ 40 per kg.	=	2,00,000
Add: Expenses prior to the loss (3,000 + 2,000)	=	5,000
Value of 5,000 kgs	=	2,05,000

Therefore, value of 500 kg. = 2,05,000 × 500/5,000 = ₹20,500

2. Calculation of Stock on Consignment

	₹
Value of 5,000 kgs (Note 1)	2,05,000
Less: Abnormal loss of 500 kgs (Note 1)	20,500
Value of the goods received by the consignee	1,84,500
Add: Non-recurring expenses of the consignee (Cartage)	1,000
Total value of the goods sent to the consignee	1,85,500

The consignee received 4,475 kgs (5,000 kgs – 500 kgs abnormal loss – 25 kgs normal loss). Out of that 3,000 kgs sold by him. Therefore, stock in hand is 1,475 kgs (4,475 – 3,000).

Thus, Value of stock = (1,85,500 × 1,475) ÷ 4,475 = ₹61,142.

Solution:

(b)

When the abnormal loss of 500 kgs takes place in the consignee's godown (other things remaining the same) the value of abnormal loss and stock on consignment will be as follows:

Ascertainment of Abnormal Loss and Unsold Stock	₹
Value of the goods received by the consignee	2,05,000
Add: Proportionate expenses of the consignee (cartage)	1,000
	2,06,000

The consignee received 4,975 units (5,000 kgs – 25 kgs normal loss)

Therefore, Value of Abnormal Loss = 2,06,000 × 500/4,975 = ₹20,704

Value of Unsold Stock = 2,06,000 × 1,475/4,975 = ₹61,075

Profit on consignmentwill be ₹57,179.

Illustration 11.

Ashok sends goods on consignment basis to Srinivas. The terms are that srinivas will receive the 10% commission on Invoice price and 20% on price realized over and above the Invoice price. Srinivas will meet his expenses himself.

Ashok sent goods whose cost was ₹16,000 at a proforma Invoice price cost plus 25% and spent ₹1,500 on fright charges. Srinivas accepted a bill for 16,000 immediately on receiving the consignment. His expenses were ₹200 as rent and ₹100 as insurance. Srinivas sold ¾ of goods for ₹19,500. Part of sales were on credit and one customer failed to pay ₹400. Pass journal entries in the books of Ashok.

Solution:

Journal Entries
In the books of Ashok

	Particulars		Dr. (₹)	Cr. (₹)
1	Consignment A/c To Goods Sent on Consignment A/c (Being the invoice value of the goods sent on consignment)	Dr.	20,000	20,000
2	Consignment A/c To Bank A/c (Being the expenses incurred on consignment)	Dr.	1,500	1,500
3	Consignment A/c To Srinivas A/c (Being the expenses incurred by Srinivas)	Dr.	300	300
4	Bill Receivable A/c To Srinivas A/c (being the bill drawn as an advance	Dr.	16,000	16,000
5	Srinivas A/c To Consignment A/c (being the sales made by srinivas)	Dr.	19,500	19,500
6	Consignment A/c To Srinivas A/c (being the commision due to srinivas)	Dr.	2,400	2,400
7	Consignment Stock A/c To Consignment A/c (Being the value of ¼ of the goods left unsold)	Dr.	5,375	5,375[2]
8	Goods Sent on Consignment A/c To Consignment A/c (Being the excess of invoice price over cost price in stock adjusted)	Dr.	4,000	4,000
9	Consignment A/c To Consignment Stock Reserve A/c (Being the excess of invoice price over cost price in stock adjusted)	Dr.	1,000	1,000
10	Consignment A/c To Srinivas A/c (Being the bad debts on the credit sale made by srinivas)	Dr.	400	400
11.	Consignment A/c To Profit and Loss A/c (Being the profit on consignment transferred to P & L A/c	Dr.	3,575	3,575
12.	Goods Sent on Consignment A/c To Trading A/c (Being the transfer of goods sent on consignment account)	Dr.	16,000	16,000

Working Notes:

1. Calculation of commission

		₹
	10% on invoice price	
	(i.e., 10% on 15,000 × 3/5)	1,500
	20% on excess of invoice price	
	(i.e., 20% on 19,500 – 15,000)	900
	Total commission	2,400

2. Closing stock:

	Invoice price of ¼ of the goods	
	Left unsold, i.e., ¼ × 20,000	5,000
	Add: ¼ of freight ¼ × 1,500	375
		5,375

Joint Venture

2.2

Concept of Joint Venture

Joint venture is a short-term business undertaking jointly by two or more persons who share the profits and losses in an agreed ratio. Joint Venture is a temporary form of business organization. There are certain business activities or projects that mayinvolve higher risks; higher investments and even they demand multiple skills. In such cases, an individual person maynot be able to master all resources. Hence two or more people having requisite skill sets come together to forma temporary partnership. This is called a Joint Venture. There is a Memorandum of Undertaking (MOU) signed forthis purpose.

A joint venture (JV) is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task.This task can be a new project or any other business activity.

Examples of Joint Venture

The business activities for which Joint Ventures (JV) are formed could be:

i) Construction of dams, bridges, roads.

ii) Buying & selling of goods for a particular season

iii) Producing a film

iv) Purchasing land selling plots etc.

Features of Joint Venture

The basic features of a Joint Venture business are:

i) It is done for a specific purpose and hence has a limited duration.

ii) The partners are called co-venturers

iii) The profit or loss on joint venture is shared between the co-venturers in the agreed ratio.

iv) The co-venturers may or may not contribute initial capital.

v) The joint venture is dissolved once the purpose of the business is over.

vi) The accounts of the co-venturers are settled immediately on dissolution.

vii) A joint venture has no name.

Difference between Joint Venture and Consignment

The following are differences between Joint Venture and Partnership.

Sl. No.	Point of Distinction	Joint Venture	Consignment
1	Relation between parties.	Relation is that of owners.	Relation is that of the principal and the agent.
2	Methods of keeping accounts.	There are multiple methods of keeping accounts.	There is only one method of keeping accounts.
3	Ownership of goods.	Ownership is that of co-venturers.	Ownership remains with the consignor though possession of goods passes from the consignor to theconsignee.
4	Profit earned	Profit belongs to the co-venturers.	Profit belongs to the consignor and not to the consignee.
5	Management	The co-venturers enjoy full powers to manage the business & contribute funds for the business.	The consignee being an agent has no powers except that he has simply to obey instructions of his principal
6	Finance	Money is contributed by all co-venturers in acertain proportion	All money is invested by the consignor
7	Risk	Risk is shared between venturers.	Sales are made at consignor's risk.

- **Difference between Joint Venture and Partnership**

The following are differences between Joint Venture and Partnership.

Sl. No.	Point of Distinction	Joint Venture	Partnership
1	Name of the firm.	It is carried on with out a firm's name.	It is carried on with firm's name.
2	Co-venturers/ Partners	Parties are called co-venturers.	Parties are called partners.
3	Continuity	It is a temporary partnership and comes to an end after the completion of a particular venture.	Continuous and does not end after the completion of a particular venture.
4	Liability	Liability is limited to the adventure concerned for which they agree to contribute capital and share profits or losses.	Liability is unlimited to the extent of their business and private estate.
5	Location of Business	It is generally local.	It may be located at different places.
6	Position of a Minor	In it, minor is generally not admitted.	A minor, can be admitted only for benefits.
7	Application of the Act	No enactment is applicable.	Indian Partnership Act, 1932 is applicable.
8	No. of Partners / Members	There is no limit in it	It is limited to 20 in ordinary trade and 10 in banking business.

Accounting of Joint Venture

There are different methods of recording joint venture transactions. They can be broadly classified into two following methods:

I. When separate set of books are maintained

II. When separate set of books are not maintained.

Method I: When separate set of books are maintained

As the business duration is short, the books of accounts are not very comprehensive. The basic purpose is to knowprofit or loss on account of the joint venture.Therefore, under this approach, only three accounts are maintained:

a) Joint Venture Account: It is similar to a Profit& Loss A/c. a "Joint Venture A/c" is opened which records all transactions related to theactivities carried out. In this account, in the debit side all expenses(paid personally by the co-venturers or out of join bank) irrespective of its nature (i.e., capital or revenue) are recorded. In the credit side, all sales (to outsiders as well as to the co-venturers) are recorded.The net result of this account will be either profit or loss.

b) Joint Bank Account: A "Joint Bank A/c" is maintained to record all cash/bank transactions. This could take a form of cash book withcash and bank column. It will record, the initial contributions made by each co-venturer, proceeds of sales,expenses and distribution of net balances among co-venturers on dissolution of the venture.All cash inflows are recorded in the debit side and the outflows are recorded in the credit side. Final settlement of the co-venturers is lastly put into this account so that it tallies.

c) Co-venturers Account:Co-Venturers' personal A/cs are maintained to record transactions related to co-venturers. At the end of the joint venture, the balance of these accounts represents the the claim of a co-venture to / from the business which is ultimately settled through Joint Bank A/c.

The accounting entries are normally as follows:

No.	Transaction	Entry	
1	Contribution of co-venturers	Joint Bank A/c To,Co-Venturers A/c	Dr.
2	Goods sent by co-venturer out of his own stock	Joint Venture A/c To, Co -Venturers A/c	Dr.
3	Expenses paid by co-venturers	Joint Venture A/c To, Co -Venturers A/c	Dr.
4	Materials purchase dout of joint venture funds	Joint Venture A/c To Joint Bank A/c	Dr.
5	For expenses out of joint bankA/c	Joint Venture A/c To Joint Bank A/c	Dr.
6	For goods sold for cash	Joint Bank A/c To Joint Venture A/c	Dr.
7	Contract / sale price received in form of shares / cash	Joint Bank A/c Shares A/c To Joint Venture A/c	Dr. Dr.

8	Commission / salary to co-venturers	Joint Venture A/c Dr. To Co-Venturers A/c
9	Unsold goods taken over by co-venturers	Co-Venturers A/c Dr. To Joint Venture A/c
10	Shares taken over by co-venturers	Co -Venturers A/c Dr. To Shares A/c
11	If shares are sold in open market	Joint Bank A/c Dr. To Shares A/c
12	For profit on joint venture	Joint Venture A/c Dr. To Co -Venturers A/c
13	For loss on joint venture	Co -Venturers A/c Dr. To JointVentureA/c
14	For final distribution of funds	Co -Venturers A/c Dr. To Joint Bank A/c

Consider the following illustration.

Illustration 12.

Aditya and Amit entered into a joint venture to buy and sale Ganesh idols for the Ganesh festival. They opened a Joint Bank Account. Aditya deposited ₹2,00,000 and Amit ₹1,50,000. Aditya supplied Ganesh idols worth ₹25,000 and Amit supplied decoration material worth ₹15,000. The following payments were made by the venture:

a) Cost of Ganesh idols purchased ₹2,50,000

b) Transportation charges ₹12,000

c) Advertising ₹7,500 and Sundry Expenses ₹2,500. They sold idols for ₹4,00,000 for cash. Aditya took over some idols for ₹30,000 and Amit took over remaining for ₹10,000. The profit or losses were to be shared equally between co-venturers. Prepare Joint Venture Account, Joint Bank Account and each Co-Venturer's Account.

Solution:

Joint Venture Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Aditya A/c (Materials)	25,000	By Joint Bank A/c – Sales	4,00,000
To Amit A/c (Materials)	15,000	By Aditya A/c	30,000
To Joint Bank A/c (Materials Purchased)	2,50,000	By Amit A/c	10,000
To Joint Bank A/c (Transport)	12,000		
To Joint Bank A/c (Advertising)	7,500		
To Joint Bank A/c (Sundry Exp.)	2,500		
To Profit on Venture A/c :			
Aditya	64,000		
Amit	64,000		
	4,40,000		**4,40,000**

Joint Bank Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Aditya A/c (Contribution)	2,00,000	By Joint Venture A/c : (Material purchase)	2,50,000
To Amit A/c (Contribution)	1,50,000	By Joint Venture A/c :(Transport)	12,000
To Joint venture A/c (Sales)	4,00,000	By Joint Venture A/c : (Advertising)	7,500
		By Joint Venture A/c : (Sundry)	2,500
		By Aditya A/c : (Closing)	2,59,000
		By Amit A/c : (Closing)	2,19,000
	7,50,000		**7,50,000**

Aditya's Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Joint Venture A/c – (materials)	30,000	By, Joint Bank	2,00,000
To Joint Bank A/c – (closing)	2,59,000	By, Joint Venture – (materials)	25,000
		By, Joint Venture – (profit)	64,000
	2,89,000		2,89,000

Amit's Account

Dr. **Cr**

Particulars	(₹)	Particulars	(₹)
To Joint Venture A/c – (materials)	10,000	By, Joint Bank	1,50,000
To Joint Bank A/c – (closing)	2,19,000	By, Joint Venture A/c – (materials)	15,000
		By, Joint Venture A/c – (profit)	64,000
	2,29,000		2,29,000

Illustration 13.

Prabir and Mihir doing business separately as building contractors undertake jointly to build a skyscraper for a newly started public limited company for a contract price of ₹1,00,00,000 payable as ₹80,00,000 in cash and the balance by way of fully paid equity shares of the new company. A Bank Account was opened for this purpose in which Prabir paid ₹25,00,000 and Mihir ₹15,00,000. The profit sharing ratio was agreed as 2:1 between Prabir and Mihir.

The transactions were:

(a) Advance received from the company ₹50,00,000

(b) Wages to contractors ₹10,00,000

(c) Bought materials ₹60,00,000

(d) Material supplied by Prabir ₹10,00,000

(e) Material supplied by Mihir ₹15,00,000

(f) Architect's fees paid from Joint Bank Account ₹21,00,000

The contract was completed and the price was duly paid. The joint venture was duly closed by Prabir taking all the shares at ₹18,00,000 and Mihir taking over the balance material for ₹3,00,000. Prepare the Joint Venture Account, Joint Bank Account. Co-venturer's Accounts and Shares Account.

Solution:

Joint Venture Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To, Joint Bank A/c –(wages)	10,00,000	By, Joint Bank A/c – (advance)	50,00,000
To, Joint Bank A/c – (materials)	60,00,000	By, Joint Bank A/c – (balance) price	30,00,000
To, Joint Banks A/c – (Architect)	21,00,000	By, Shares A/c – (received)	20,00,000
To, Prabir A/c – (materials)	10,00,000	By, Mihir A/c – (stock taken)	3,00,000
To, Mihir A/c – (materials)	15,00,000	By, Prabir A/c – (2/3rd loss)	10,00,000
To, Shares A/c – (loss)	2,00,000	By, Mihir A/c – (1/3rd loss)	5,00,000
	1,18,00,000		**1,18,00,000**

Joint Bank Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To, Prabir A/c	25,00,000	By, Joint Venture A/c –(wages)	10,00,000
To, Mihir A/c	15,00,000	By, Joint Venture A/c – (materials)	60,00,000
To, Joint Venture A/c –(advance)	50,00,000	By, Joint Venture A/c – (Architect)	21,00,000
To, Joint Venture A/c –(balance)	30,00,000	By, Prabir A/c – (balance paid)	7,00,000
		By, Mihir A/c – (balance paid)	22,00,000
	1,20,00,000		**1,20,00,000**

Prabir's Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To, Shares A/c – (taken)	18,00,000	By, Joint Bank A/c	25,00,000
To, Joint Venture A/c – (loss)	10,00,000	By, Joint Venture A/c–(material)	10,00,000
To, Joint Bank A/c –(balance paid)	7,00,000		
	35,00,000		**35,00,000**

Mihir's Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To, Joint Venture A/c–(stock taken)	3,00,000	By, Joint Bank A/c	15,00,000
To, Joint Venture A/c – (loss)	5,00,000	By, Joint Venture A/c – (material)	15,00,000
To, Joint Bank A/c –(balance paid)	22,00,000		
	30,00,000		**30,00,000**

Shares Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To, Joint Venture A/c	20,00,000	By, Prabir A/c	18,00,000
		By, Joint Venture A/c – (loss)	2,00,000
	20,00,000		**20,00,000**

Method II: When no Separate Books of Accounts are Maintained

The co-venturers may decide not to keep separate books of account for the venture if it is for a very short periodof time. In this case, all co-venturers will have account for the transactions in their own books. Here no Joint BankAccount is opened and the co-venturers do not contribute in cash. Goods are supplied by them from out of theirstocks and expenses for the venture are also met by them. Each co-venturer will prepare a Joint Venture A/c andthe other Co-Venturer's A/c in his books. Naturally, the profit or loss is separately calculated by each co-venturer.Each co-venturer will take into A/c all transactions i.e., done by himself and by his co-venturer as well.

This method, again, has two versions as follows.

a) When each co-venturer keeps record of all transactions

Under this approach, each co-venturer will prepare a Joint Venture A/c and the other Co-Venturer's A/c in his books. Here, the profit or loss is separately calculated by each co-venturer. Each co-venturer will take into A/c all transactions i.e., done by himself as well as by his co-venturer.

The accounting entries are as follows:

In books of Co-venturer A	In books of Co-venturer B
When good sare supplied and expenses paid by A	
Joint Venture A/c Dr. To, Goods A/c To, Cash / Bank A/c	Joint Venture A/c Dr. To, A's A/c
When goods are supplied by B and expenses paid by B	
Joint Venture A/c Dr. To, B's A/c To, Cash / Bank A/c	Joint Venture A/c Dr. To, Goods A/c

When advance is given by A to B or bill accepted by A	
B's A/c Dr. To, Cash / Bank A/c To,B / P A/c	Cash / Bank A/cDr. B / R A/cDr. To, A's A/c
When sale proceeds are received by A	
Cash / Bank A/c Dr. To, Joint Venture A/c	A's A/c Dr. To, Joint Venture A/c
When sale proceeds are received by B	
B's A/c Dr. To, Joint Venture A/c	Cash / Bank A/c Dr. To, Joint Venture A/c
For unsold goods taken over by A	
Goods A/c Dr. To Joint Venture A/c	A'sA/c Dr. To Joint Venture A/c
For unsold goods taken over by B	
B's A/c Dr. To, Joint Venture A/c	Goods A/c Dr. To, Joint Venture A/c
For profit on joint venture business	
Joint Venture A/c Dr. To, B'sA/c To, P&L A/c	Joint Venture A/c Dr. To, A's A/c To, P&L A/c
For loss on joint venture business	
B's A/c Dr. P & L A/c Dr. To, Joint Venture A/c	A's A/c Dr. P & L A/c Dr. To, Joint Venture A/c

Consider the following illustrations.

Illustration 14.

Ram, Mohan and Rahim were partners in a joint venture, each contributing ₹5,000. Ram purchased goods for ₹13,000 and also supplied goods worth ₹1,000 from his stock, Rahim also supplied goods to the value of ₹1,500 from stock and his expenses in connection with the supplying of goods on account of joint venture amounted to ₹50. Ram paid ₹250 for expenses in connection with the joint venture. There was a sale of ₹20,800 by Ram. Ram was entitled to a commission of 5 per cent on sales. Unsold goods amounting to ₹500 were taken over by Mohan. Ram settled accounts of Mohan and Rahim by Bank draft.

Records these transactions in Ram's journal and also prepare Joint venture account and Rohan and Rahim accounts in Ram's books.

Solution:

Ram's Journal

Particulars	Dr. (₹)	Cr. (₹)
Bank A/c Dr.	10,000	
To Mohan A/c		5,000
To Rahim A/c		5,000
(Being amount received from Mohan and Rahim for joint venture)		
Joint Venture A/c Dr.	13,000	
To Bank A/c		13,000
(Being goods purchased on account of joint venture)		
Joint Venture A/c Dr.	1,000	
To Goods A/c		1,000
(Being goods supplied out of stock for joint venture)		
Joint Venture A/c Dr	1,550	
To Rahim A/c		1,550
(Being goods for ₹ 1,500 supplied for joint venture and expenses ₹ 50 incurred by Rahim)		
Joint Venture A/c Dr.	250	
To Bank A/c		250
(Begin expenses incurred in connection with joint venture)		
Bank A/c Dr.	20,800	
To Joint Venture A/c		20,800
(Being goods sold on account of joint venture)		
Joint Venture A/c Dr.	1,040	
To Commission A/c		1,040
(Being 5% commission on sale of ₹ 20,800 on account of joint venture)		
Mohan A/c Dr.	500	
To Joint Venture A/c		500
(Being unsold goods taken by Mohan)		
Joint Venture A/c Dr.	4,460	
To Profit and Loss A/c		1,486
To Mohan A/c		1,487
To Rahim A/c		1,487
(Being profit on joint venture transferred)		
Mohan A/c Dr	5,987	
Rahim A/c Dr	8,037	
To Bank A/c		14,024
(Being amount remitted to mohan and rahim in settlement of their accounts)		

Joint Venture Account

Dr. **Cr.**

Particulars		(₹)	Particulars	(₹)
To Bank Account (purchase)		13,000	By Bank Account (Sale)	20,800
To Goods Account (Goods Supplied)		1,000	By Mohan (unsold goods taken)	500
To Rahim (goods and expenses)		1,550		
To Bank Account (expenses)		250		
To Commission Account (5%)		1,040		
To Profit on joint venture transferred to:				
Profit & Loss Account	₹1,486			
Mohan	₹1,487			
Rahim	₹1,487	4,460		
		21,300		**21,300**

Mohan Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Joint Venture Account	500	By Bank Account	5,000
To Bank Account	5,987	By Joint Venture Account (profit)	1,487
	6,487		**6,487**

Rahim Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Bank Account	8,037	By Bank Account	5,000
		By Joint Venture Account	1,550
		By Joint Venture Account (profit)	1,487
	8,037		**8,037**

Illustration 15.

John and Smith entered into a joint venture business to buy and sale garments to share profits or losses in the ratio of 5:3. John supplied 400 bales of shirting at ₹500 each and also paid ₹18,000 as carriage & insurance. Smith supplied 500 bales of suiting at ₹480 each and paid ₹22,000 as advertisement & carriage. John paid ₹50,000 as advance to Smith. John sold 500 bales of suiting at ₹600 each for cash and also all 400 bales of shirting at ₹650 each for cash. John is entitles for commission of 2.5% on total sales plus an allowance of ₹2,000 for looking after business. The joint venture was closed and the claims were settled. Prepare Joint Venture Account and Smith's Account in the books of John and John's Account in the books of Smith.

Solution:

Books of John

Joint Venture Account

Dr. **Cr.**

Particular	(₹)	Particular	(₹)
To, Goods A/c - shirting (400×500)	2,00,000	By, Cash A/c – sales	
To, Bank A/c - carriage & insurance	18,000	shirting (500 × 600)	3,00,000
To, Smith A/c - suiting (500×480)	2,40,000	suiting (400 × 650)	2,60,000
To, Smith A/c - Advt & Carriage	22,000		
To, Commission A/c - 2.5%	14,000		
To, Allowance A/c	2,000		
To, P & L A/c (5/8th share)	40,000		
To, Smith A/c (3/8th share)	24,000		
	5,60,000		**5,60,000**

Smith's Account

Dr. **Cr.**

Particular	(₹)	Particular	(₹)
To, Cash A/c – advance	50,000	By, Joint Venture A/c – suiting	2,40,000
To, Cash A/c - balance paid	2,36,000	By, Joint Venture A/c – Expenses	22,000
		By, Joint Venture A/c - profit	24,000
	2,86,000		**2,86,000**

Books of Smith

John's Account

Dr. **Cr.**

Particular	(₹)	Particular	(₹)
To, Joint Venture A/c – sales	5,60,000	By, Cash A/c – advance	50,000
		By, Joint Venture A/c – shirting	2,00,000
		By, Joint Venture A/c – expenses	18,000
		By, Joint Venture A/c – commission	14,000
		By, Joint Venture A/c – allowance	2,000
		By, Joint Venture A/c – profit	40,000
		By, Cash A/c - balance paid	2,36,000
	5,60,000		**5,60,000**

b) Memorandum Joint Venture Account

Here each Co-Venturer records only those joint venture transactionswhich are affected by him with the help of a personal account designed as 'Joint Venture with……….(Name ofthe other Co-Venturer)……Account'. It is debited with the amount of purchases/supplies made and expensesincurred by the Co-Venturer. Each Co-Venturer sends a periodic statement of joint venture transactions effectedby him only, to the other Co-Venturer and on receipt of the aforesaid statement, each Co-Venturer preparesMemorandum Joint Venture Account in order to ascertain the profit/loss on Joint Venture transactions. Since thisaccount is in fact, not a part and parcel of double entry system the word 'memorandum' is prefixed.

The accounting entries are as follows:

1. (a) On receipt of any amount / Bills Receivable from other Co-Venturer:		
Cash / Bank / Bills Receivable A/c	Dr.	
To, Joint Venture with .... A/c		
1. (b) On discounting Bills Receivable:		
Bank A/c	Dr.	(with net proceeds)
Joint Venture with A/c	Dr.	(with discount)
To, Bills Receivable A/c		(with total)
2. On purchase of goods:		
Joint Venture with A/c	Dr.	(with total)
To, Cash / Bank A/c		(with cash purchase)
To, Supplier's A/c		(with credit purchase)
3. On making payment to supplier		
Supplier's A/c	Dr.	(with total)
To, Cash / Bank / Bills Payable A/c		(with payment made)
To, Joint Venture with A/c		(with discount received)
4. On supply of goods out of own stock:		
Joint Venture with A/c	Dr.	(if supplies at cost)
To, Purchases / Goodssenton Joint Venture A/c		(if supplies at profit)
5. On payment of expenses:		
Joint Venture with………….. A/c	Dr.	(with total)
To, Cash / Bank A/c		(with cash expenses)
To, Creditor's A/c		(with outstanding expenses)
6. On sale of goods:		
Cash / Bank A/c	Dr.	(with cash sales)
Customer's A/c	Dr.	(with credit sales)
To, Joint Venture with A/c		(with total)
7. On receiving payment from a customer:		
Cash / Bank A/c	Dr.	(with the payment received)
Joint Venture with A/c	Dr.	(discount allowed / baddebt)
To, Customer's A/c		(with the payment received)

8. On taking away of unsold goods:	
Goods Sent on Joint Venture A/c Dr.	
To, Joint Venture with A/c	
9. On considering some commission /salary to the Co-Venturer:	
Joint Venture with A/c Dr.	
To, Commission / Salary A/c	
10. On recording the share of Profit / Loss:	
(a) When profit-	
Joint Venture with A/c Dr.	
To, Profit &Loss A/c	
(b) When loss-	
Profit & Loss A/c Dr.	
To, Joint Venture with A/c	
11. On settlement of balance of Joint Venture with A/c:	
(a) When there is a debit balance:	
Cash / Bank A/c Dr.	
To, Joint Venture with A/c	
(b) When there is a credit balance:	
Joint Venture with A/c Dr.	
To, Cash / Bank A/c	

Illustration 16.

Bharat and Sujit joined together as co-ventures for equal share in profits through sale of television cabinets. On March 31, 2023. Bharat purchased 2,000 cabinets at ₹1,250 each for cash and sent 1,500 of these to sujit for sale, the selling price of each being ₹1,300. All the cabinets were sold by April 30, 2023 by both and the proceeds collected.

Each venturer recorded in his books only those transactions concluded by him, final profit and loss being ascertained through a Memorandum joint venture Account.

The expenses met by the venturer were:

Particulars	(₹)
Bharat: Freight and insurance	12,000
Selling expenses	5,000
Sujit: Clearing charges	1,000
Selling expenses	12,000

Final settlement between the venturers took place on May 31, 2023. You are required to show:

a) Joint Venture with Sujit A/c in the books of Bharat

b) Joint Venture with Bharat A/c in the books of Sujit; and

c) Memorandum Joint Venture Account.

Solution:

Bharat's books

Joint Venture with Sujit Account

Dr. **Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
2023 Mar. 31	To Purchases – 2,000 television cabinets @ ₹ 1,250	25,00,000	2023 April. 30	By Cash- sale proceeds of 500 @ cabinets ₹ 1,300 each	6,50,000
April, 30	To Cash – expenses: Freight & Insurance	12,000	May 31	By Cash (settlement of accounts)	19,02,000
	Selling Expenses	5,000			
May 31	To Profit & Loss Account ½ share of profit	35,000			
		25,52,000			**25,52,000**

Sujit's books

Joint Venture with Bharat Account

Dr. **Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
2023 Mar.31	To Cash – expenses: Clearing charges	1,000	2023 April 30	By Cash- sale proceeds of 1,500 cabinets at ₹1,300 each	19,50,000
	Selling expenses	12,000			
May 31	To Profit & Loss A/c ½ share of profit	35,000			
May 31	To Cash (settlement)	19,02,000			
		19,50,000			**19,50,000**

Memorandum Joint Venture Account

Dr. **Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
2023 Mar.31	To Purchases: Bharat 2,000 Television cabinets at ₹1,250 each	25,00,000	2023 April 30	By Sales : Bharat	6,50,000
April,30	To Expenses: Bharat (12,000 + 5,000)	17,000		Sujit	19,50,000
	Sujit (1,000 + 12,000)	13,000			
May 31	To Net profit: Bharat (1/2) 35,000 Sujit (1/2) 35,000	70,000			
		26,00,000			**26,00,000**

Illustration 17.

M and N decided to work in partnership with the following scheme, agreeing to share profits as under :

M — ¾ th share.

N — ¼ th share.

They guaranteed the subscription at par of 10,00,000 shares of ₹1 each in U Ltd. And to pay all expenses up to allotment in consideration of U Ltd. issuing to them 50,000 other shares of ₹1 each fully paid together with a commission @ 5% in cash which will be taken by M and N in 3 : 2. M and N introduced cash as follows:

Particulars	(₹)
M – Stamp Charges, etc.,	4,000
Advertising Charges	3,000
Printing Charges	3,000
N – Rent	2,000
Solicitor's Charges	3,000

Application fell short of the 10,00,000 shares by 30,000 shares and N introduced ₹30,000 for the purchase of those shares. The guarantee having been fulfilled, U Ltd. handed over to the venturers 50,000 shares and also paid the commission in cash. All their holdings were subsequently sold by the venturer N receiving ₹18,000 and M ₹50,000. Write-up necessary accounts in the books of both the parties on the presumption that Memorandum Joint Venture Account is opened for the purpose.

Solution:

Memorandum Joint Venture Account

Dr. **Cr.**

Particulars	(₹)	(₹)	Particulars	(₹)
To, N : Cost or Shares		30,000	By M : Commission (3/5)	30,000
To, M : Stamp Charges etc,	4,000		N : Commission (2/5)	20,000
Advertising Charges	3,000		By M : Sale Proceeds	50,000
Printing Charges	3,000	10,000	N : Sale Proceeds	18,000
To, N : Rent	2,000			
Solicitor's Charges	3,000	5,000		
To, Profit on Venture :				
To M — ¾	54,750			
To N — ¼	18,250	73,000		
		1,18,000		**1,18,000**

In the books of M

Joint Venture with N

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To, Bank : Stamp, Adv. & Printing Charges	10,000	By, Bank : Commission	30,000
To, Share of Profit	54,750	By, Bank : Sale Proceeds	50,000
To, Bank (Remittance)	15,250		
	80,000		**80,000**

In the books of N

Joint Venture with M

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To, Bank : Cost of Shares	30,000	By, Bank : Commission	20,000
To, Bank : Rent and Solicitor's Charges	5,000	By, Bank : Sale Proceeds	18,000
To, Share of Profit	18,250	By, Bank (Remittance)	15,250
	53,250		**53,250**

Bills of Exchange (excluding Accommodation Bill, Insolvency)

2.3

Concept of Bill of Exchange

A bill of exchange is a negotiable instrument. As per Section 13(1) of the Negotiable Instruments Act, 1881, "A negotiable instrument means a promissory note or bill of exchange or cheque, payable either to order or to the bearer".

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

Elements of a Bill of Exchange

Following are the essential elements of a bill of exchange:

a. It must be an instrument in writing;

b. It must contain an unconditional order;

c. It must be signed by the maker;

d. It must be drawn on a specific person;

e. There must be an order to pay a specific sum of money;

f. It must be dated;

g. It must bear revenue stamp;

Parties to a Bill of Exchange

The parties involved in transaction that uses bill of exchange as a mode of settlement are:

a. Drawer: He is a person who draws the bill. Typically, he is the seller or a creditor.

b. Drawee: He is the person on whom the bill is drawn. Normally, he is the buyer or debtor. He has to pay the amount of the bill to the payee on the due date.

c. Payee: He is the person to whom the amount of bill is payable. He may be the drawer himself or the creditor of the drawer.

In addition, there may be -

a. Endorser: He is the person who transfers rights of payment.

b. Endorsee: He is the person in whose favour the bill is endorsed by the drawer. He is usually the creditor of the drawer.

c. Bearer: He is the person in possession of bearer bill.

Types of Bills of Exchange

Following are the different Types of bills of exchange.

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

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

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

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

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

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

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

h. Accommodation Bill: A bill that is sponsored, drawn, accepted without any condition is known as an accommodation bill.

Trade Bill vs. Accommodation Bill

Following are the differences between a trade bill and an accommodation bill.

Points	Trade Bill	Accommodation Bill
Objectives	These bills are drawn to facilitate the trade transactions of sale and purchases of goods.	These bills are drawn to help someone in need of financial assistance.
Consideration	There is a definite consideration for which the bill is accepted.	These bills are drawn without consideration.
Extension of Credit	Trade bills are a form of credit extension.	These bills are not a form of credit extension.
Proceeds	When trade bills are discounted, the proceeds remain with the holder.	When these bills are discounted, the proceeds may be shared by two parties in an agreed ratio.
Recovery	If trade bills are dishonoured, the amount may be recovered easily through the court.	In case of dishonour of these bills, the drawer cannot file a suit against the drawee.

Date of Maturity / Due Date of a Bill of Exchange and Days of Grace

Due Date	
Maturity date in case of On Demand Bill / At Sight Bill / On Presentation Bill	➢ The bill at sight becomes due for payment, as soon as it is presented for payment. ➢ In case of 'Instrument payable on demand', No time for payment is mentioned. ➢ Such Bills are not entitled to the Days of Grace.
Maturity date in case of After Date Bill	➢ In the case of 'Bill after date,' the time for payment is mentioned. ➢ Three Days of Grace is allowed on such a bill.
Maturity date in case of After Sight Bill	➢ In case of 'Bill after Sight, payable at a fixed period 'after sight'. ➢ The period begins from the date of accepting the bill. ➢ Three Days of Grace is allowed on such a bill.

Grace Period	
When the Period of Bill is Given in Months	➢ In this case, the maturity date is calculated according to calendar months. ➢ Ignoring the number of days in a month. ➢ 3 days of the Grace period are added. ➢ For example: If a bill dated 4th May, 2023 is payable 3 months after date: = Then the maturity date will be 4th August 2023 + 3 Days of Grace = 7th August 2023.
When the Period of Bill is Given in Days	➢ The maturity date will be calculated in days, ➢ This excludes the date of transaction but includes the date of payment. ➢ 3 days of the Grace period are added in this case also. ➢ For example: If a bill dated 5th June 2023 is payable after 65 days, then the maturity date will be: =25 Days of June + 31 Days of July + 9 Days of August + 3 Days of Grace =12th August 2023
When Maturity Date Falls on a National Holiday	➢ If the due date of the bill is on the national holiday ➢ Then the maturity day of the bill shall be the preceding business day. ➢ Example: If due date of the bill falls on 26th January (Republic Day), then its due date will be 25th January. ➢ If the due date is 15th August (Independence Day), then the due date will be 14th August.
When the Maturity Date Has Been Declared as Emergency Holiday	➢ If the due date of the bill is declared as an emergency holiday, ➢ Then the due date of the bill shall be after 1 day from the date of maturity. ➢ Example: If the due date of a bill is 25th July and it is declared as an emergency holiday, then the due date will be 26th July.

Bills Receivable vs. Bills Payable

Bills Receivable (B/R)	➢ For the person who draws the bill of exchange and is entitled to receive its payment is known as Bill Receivable. ➢ The drawer of the bill will show B/R on the assets side of the Balance Sheet.
Bills Payable (B/P)	➢ For the person who accepts the bill, and is liable to make its payment, is known as Bills Payable. ➢ The Drawee of the bill will show B/P on the liabilities side of the Balance Sheet.

Dishonour of Bills

Dishonour of a Bill refers to a situation when the acceptor refuses to honour his commitment on due date and for this, payment of the bill on presentation does not take place. To provide legal evidence of dishonour, the fact of dishonour is to be noted on the bill by 'Notary Public'. The fact of dishonour which he is recording is called 'noting' and the amount charged by him for his services are called 'noting charges'. These charges are to be paid by the holder of the bill on the date of default. Actually, the acceptor of the bill is liable for the dishonour, the noting charges paid by the holder are to be reimbursed by the acceptor.

Accounting for Trade Bills

The accounting entries under various circumstances are as follows:

Situation 1: When the drawer retains the bill till maturity

Situations	Drawer's books	Drawee's books
Drawing of a bill	B/R A/c Dr. To Drawee A/c	Drawer A/c Dr. To B/P A/c
Payment on due date	Bank A/c Dr. To B/R A/c	B/P A/c Dr. To Bank A/c/
Dishonour on due date	Drawee A/c Dr. To B/R A/c To Bank A/c/ (for noting charges)	B/P A/c Dr. Noting Charges A/c Dr. To Drawer A/c

Situation 2: When the drawer discounts the bill with bank before maturity

If the holder of a bill receivable cannot wait till the date of maturity of the bill and needs cash before the date due, then he can get the bill discounted from the bank. At the time of discounting it, the bank pays cash after deducting the discount from the value of the bill. The discount which is to be deducted depends upon the rate of interest and the remaining period of the bill and is calculated as follows.

Discount = Amount of the bill × Remaining period to maturity × Rate of interest

Discount is an expense for the holder receiving the payment and gain to the bank. Journal Entries in the books of drawer and drawee at the time of discounting and payment on due date are as under:

Situations	Drawer's books	Drawee's books
Drawing of a bill	B/R A/c Dr. To, Drawee A/c	Drawer A/c Dr. To, B/P A/c
Discounting with bank	Bank A/c Dr. Discount A/c Dr. To, B/R A/c	No Entry
Payment due date	No Entry	B/P A/c Dr. To, Bank A/c
Dishonoured on due date	Drawee A/c Dr. To Bank A/c (bill + noting charges)	B/P A/c Dr. Noting Charges A/c Dr. To Drawer A/c
Transfer of discount to Profit and Loss A/c	Profit & Loss A/c Dr. To Discount A/c	No Entry

Note: Treatment of Discount in the Books of the Bank

The following entries are recorded in the books of the bank:

(a) When the bill is discounted:

Bill Discounted A/c Dr.

To Customer's Current A/c

To Discounting on Bill A/c

(b) When amount is received from the drawee:

Cash A/c Dr.

To, Bills Discounted A/c

Situation 3: When the drawer endorses the bill to a person before maturity

Situations	Drawer's books	Drawee's books	Endorsee's books
Drawing of a bill	B/R A/c Dr. To Drawee A/c	Drawer A/c Dr. To B/P A/c	Not applicable
Endorsement	Endorsee A/c Dr. To B/R A/c	No Entry	B/R A/c Dr. To Drawer A/c
Payment on due date	No Entry	B/P A/c Dr. To, Bank A/c/cash	Bank A/c Dr. To B/R A/c
Dishonoured on due date	Drawee A/c Dr. To Endorsee A/c (bill + noting charges)	B/P A/c Dr. Noting Charges A/c Dr. To, Drawer A/c	Drawer A/c Dr. To B/R A/c To Bank A/c (noting charges)

Situation 4: When the drawer sends the bill to bank for collection before maturity

Situations	Drawer's books	Drawee's books
Drawing of a bill	B/R A/c Dr. To Drawee A/c	Drawer A/c Dr. To, B/P A/c
Sending for collection	Bill for Collection Dr. To B/R A/c	No Entry
Payment on due date	Bank A/c Dr. Collection Charges A/c Dr. To Bill for Collection	B/P A/c Dr. To Bank A/c
Dishonoured on due date	Drawee A/c Dr. To Bill for Collection A/c To Bank A/c (bill & noting charges)	B/P A/c Dr. Noting Charges A/c Dr. To Drawer A/c

Situation 5: Retiring a Bill under Rebate

Sometimes the acceptor of the bill desires to make its payment before its due date, he will do so if he is given some rebate or discount by the holder of the bill on earlier payment. This rebate is like discount and is calculated at agreed rate for the period between the date of earlier payment and the due date of the bill. Thus, if a bill is paid before its due date and some rebate or discount is allowed by the holder to the acceptor, it is said to be retired under rebate. The following are the accounting entries in connection with retiring a bill under rebate:

(a) Entries in Holder's Books:

Cash A/c Dr.

Rebate or Discount A/c Dr.

To Bills Receivable A/c

(Being bill retired under rebate, rebate given for the unexpired period of bill debited being loss to the holder)

(b) Entries in Acceptor's Books:

Bills Payable Account Dr.

To Cash A/c

To Rebate or Discount A/c

(Being bill retired under rebate, rebate granted for the unexpired period credited being gain to the acceptor)

Situation 6: Renewal of Bills

Sometimes the drawee of a bill is not able to meet the bill on due date. He may request the drawer to draw a new Bill for the amount due. Sometimes he pays a certain amount out and accepts a fresh bill for the balance for which he has to pay a certain amount of interest which is either paid in cash or is included with the fresh bill. This bill is known as Renewal of Bills. That, the amount of the new bill will be face value of the original bill minus cash payment, if any, plus interest for the renewed period.

Entries in the books of Drawer and Drawee are shown below:

Transactions	Entries in the books of Drawer	Entries in the books of Drawee
(a) For dishonor of Bills	Usual entry	Bills Payable A/c Dr. To Drawer A/c
(b) For interest on renewed period	Drawee A/c Dr. To, Interest A/c	Interest A/c Dr. To Drawer A/c
(c) If interest is paid in Cash	Cash A/c Dr. To Interest A/c	Interest A/c Dr. To Cash A/c
(d) For fresh Bill	Bills Receivable A/c Dr. To Drawee A/c	Drawer A/c Dr. To Bills Payable A/c

Consider the following illustrations

Illustration 18.

Mohan sold goods to Sohan for ₹50,000. On 1st Jan 2023, Mohan drew a bill for three months on Sohan who accepted the same. Pass necessary journal entries in the books of Mohan and Sohan in following situations:

a. The bill is retained by Mohan till 31st March and Sohan paid it on that day upon presentation.

b. Bill is discounted with the bank and the bank pays ₹ 49,000 to Mohan. Sohan paid the bill on due date.

c. Mohan endorsed the bill to Rohan (his creditor) in settlement of his claim for ₹ 51,000. The bill is settled on the due date.

d. Mohan sent the bill to the bank for collection on due date. The bank collected bill amount and after deducting collection charges of ₹100 paid the balance to Mohan.

Solution:

Entries in the books of Mohan

a. **Bill is retained by Mohan:**

Dr. **Cr.**

	Particulars	L.F.	(₹)	(₹)
On getting Sohan's acceptance	B/R A/c Dr.		50,000	
	To, Sohan's A/c			50,000
	(Being the bill accepted by Sohan)			
On payment on 31.03.2023	Bank A/c / Cash A/c Dr.		50,000	
	To, B/R A/c			50,000
	(Being the payment received against the B/R)			

b. **Bill is discounted by Mohan:**

	Particulars		L.F.	Dr. (₹)	Cr. (₹)
On getting Sohan's acceptance	B/R A/c	Dr.		50,000	
	To, Sohan's A/c				50,000
	(Being the bill accepted by Sohan)				
On discounting 31.03.2023	Bank A/c	Dr.		49,000	
	Discount A/c			1,000	
	To B/R A/c				50,000
	(Being bill discounted with bank)				

On the date of maturity, as the bill is settled by Sohan to bank, there will be no entry in Mohan's books.

c. **Bill is endorsed to Rohan by Mohan:**

	Particulars		L.F.	Dr. (₹)	Cr. (₹)
On getting Sohan's acceptance	B/R A/c	Dr.		50,000	
	To, Sohan's A/c				50,000
	(Being the bill accepted by Sohan)				
On endorsement 31.03.2023	Rohan A/c	Dr.		51,000	
	To, B/R A/c				50,000
	To Discount A/c				1,000
	(Being bill endorsed and discount received from Rohan in full settlement))				

d. **Bill is sent for collection to bank by Mohan:**

	Particulars		L.F.	Dr. (₹)	Cr. (₹)
On getting Sohan's acceptance	B/R A/c	Dr.		50,000	
	To, Sohan's A/c				50,000
	(Being the bill accepted by Sohan)				
On sending bill of collection	Bill for Collection A/c	Dr.		50,000	
	To, B/R A/c				50,000
	(being bill sent to bank for collection)				
On payment on due date	Bank A/c	Dr.		49,900	
	Collection Charges A/c	Dr.		100	
	To, Bills for Collection A/c				50,000
	(being payment received on bill collected).				

Entries in the books of Sohan

In all four situations, since the bill was honoured, the entries will be same as below.

	Particulars	L.F.	Dr. (₹)	Cr. (₹)
On acceptance of bill drawn by Mohan	Mohan's A/c Dr. To, B/P A/c (Being the bill of Mohan accepted)		50,000	50,000
On payment on due date	B/P A/c Dr. To, Bank A/c / cash A/c (Being payment of bill)		50,000	50,000

Illustration 19.

Sunil owed Anil ₹ 80,000. Anil draws a bill on Sunil for that amount for 3 months on 1st April 2023. Sunil accepts it and returns it to Anil. On 15th April 2023, Anil discounts it with CD Bank at a discount of 12% p.a. On the due date the bill was dishonoured, the bank paid noting charges of ₹100. Anil settles the bank's claim along with noting charges in cash. Sunil accepted another bill for 3 months for the amount due plus interest of ₹ 3,000 on 1st July 2023. Before the new bill became due, Sunil retires the bill with a rebate of ₹ 500. Show journal entries in books of Anil.

Solution:

In the books of Anil

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023 April 1	Bills Receivables A/c Dr. To Sunil's A/c (Being acceptance by Sunil)		80,000	80,000
2023 April 15	Bank A/c Dr. Discount A/c Dr. To, Bills Receivables A/c (Being discounting of the bill @ 12% p.a. & discounting charges for 2.5 months)		78,000 2,000	80,000
2023 June 30	Sunil's A/c Dr. To, Bank A/c (Being dishonour of the bill & noting charges paid by bank)		80,100	80,100

Date	Particulars	L.F.	(₹)	(₹)
2023 June 30	Bank A/c Dr.		80,100	
	To, Cash A/c			80,100
	(Being cash paid to bank)			
2023 July 1	Sunil's A/c Dr.		3,000	
	To, Interest A/c			3,000
	(Being interest due from Sunil)			
2023 July 1	Bills Receivables A/c Dr.		83,100	
	To, Sunil's A/c			83,100
	(Being new acceptance by Sunil for ₹80,100 & interest of ₹3,000)			
	Bank A/c Dr.		82,600	
	Rebate A/c Dr.		500	
	To, Bills Receivables A/c			83,100
	(Being the amount received on retirement of the bill)			

Illustration 20.

On 1st April 2023 Mr. Bala draws a bill of ₹1,20,000 on Mr. Lala for the amount due for 4 months. On getting acceptance, on 5th April 2023, Bala endorses it to Mr. Kala in full settlement of his claim of ₹1,40,000 by paying the difference in cash. Lala approached Bala on 26th July saying that he needed to renew the bill for a further period of 4 months at an interest of 12% p.a. which Bala accepted. A fresh bill including interest was accepted by Lala on 1st August 2023. Bala settled his liability to Kala by cheque. This was duly settled on the due date. Pass journal entries in the books of Bala and Lala. Also show Bills Receivables Account and Bills Payable Account.

Solution:

In the books of Bala

Journal

Dr. Cr.

Date	Particulars	L.F.	(₹)	(₹)
2023 April 1	Bills Receivables A/c Dr.		1,20,000	
	To Mr. Lala's A/c			1,20,000
	(Being acceptance by lal)			
2023 April 15	Kala's A/c		1,40,000	
	To Cash A/c			20,000
	To, Bills Receivables A/c			1,20,000
	(Being bill endorsed to Kala & cash payment made to him)			
2023 July 25	Lala's A/c Dr.		1,20,000	
	To, Kala's A/c			1,20,000
	(Being cancellation of bill for renewal)			

Date	Particulars	L.F.	(₹)	(₹)
2023 July 25	Lala's A/c Dr. To, Interest A/c (Being interest due from Lala)		4,800	 4,800
2023 July 25	Kala's A/c Dr. To, Bank A/c (Being claim of Mr. Kala settled)		1,20,000	 1,20,000
2023 August 1	Bills Receivables A/c Dr. To Lala's A/c (Being acceptance by Lala with interest of ₹ 3,000)		1,24,800	 1,24,800
2023 November 30	Bank A/c Dr. To Bills Receivables A/c (Being payment received on due date)		1,24,800	 1,24,800

Dr. **Bills Receivable Account** **Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
01.04.2023	To Lala A/c	1,20,000	05.04.2023	By Kala A/c	1,20,000
01.08.2023	To Lala A/c	1,24,800	30.11.2023	By Bank A/c	1,24,800
		2,44,800			**2,44,800**

Journal entries in the Books of Lala **Dr.** **Cr.**

Date	Particulars	L.F.	(₹)	(₹)
2023 April 1	Bala's A/c Dr. To Bills Payable A/c (Being acceptance of Bala's bill)		1,20,000	 1,20,000
2023 July, 26	Bills Payable A/c Dr. To Bala's A/c (Being cancellation of the bill for renewal)		1,20,000	 1,20,000
2023 August 1	Interest A/c Dr. To Bala's A/c (being interest due to Bala)		4,800	 4,800
2023 August, 1	Bala's A/c Dr. To Bills Payable A/c (Being Bala's bill accepted with interest)		1,24,800	 1,24,800
2023 November, 30	Bills Payable A/c Dr. To Bank A/c (Being settlement of the bill due)		1,24,800	 1,24,800

Bills Payable Account

Dr. **Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
2023 July, 26	To Bala A/c	1,20,000	2023 April, 1	By Bala A/c	1,20,000
2023 Nov. 30	To Bank A/c	1,24,800	2023 August, 1	By Bala A/c	1,24,800
		2,44,800			2,44,800

Illustration 21.

On 1st January, 2023, P draws three months bill of exchange for ₹30,000 on his debtor, Q who accepts it on the same date. P discounts the bill on 4th January, 2023 with his bankers, the discount rate being 6% p.a. On the due date, the bill is dishonored, the noting charges being ₹200. Q immediately makes an offer to P to pay him ₹10,000 cash on account and to settle the balance by agreeing to accept one bill of exchange for ₹ 12,000 at one month and the other for the balance at three months, the latter including at 12% p.a. for both the bills. P accepts the arrangement. The bill for ₹ 12,000 is met on the due date, but the other bill is dishonored. Show Q's Account and Bills Receivable Account in the books of P.

Solution:

In the books of P

Q's Account

Dr. **Cr.**

Date	Particular	(₹)	Date	Particulars	(₹)
2023 Jan 1	To, Balance b/d	30,000	2023 Jan 1	By, Bills Receivable A/c	30,000
Apr 5	To, Bank A/c (dishonor +noting charge)	30,200	Apr 5	By, Bank A/c	10,000
Apr 5	To, Interest A/c	366	Apr 5	By, Bills Receivable A/c	12,000
July 8	To, Bills Receivable A/c	8,566		By, Bills Receivable A/c (8,200+366)	8,566
			July 8	By, Balance c/d	8,566
		69,132			**69,132**
July 9	To, Balance b/d	8,566			

Bills Receivable Account

Dr. **Cr.**

Date	Particular	(₹)	Date	Particulars	(₹)
2023 Jan 1	To Q' A/c	30,000	2023 Jan 4	By, Bank A/c	29,550
Apr 5	To Q' A/c	12,000		By, Discount A/c (₹30,000 × 6/100 × 3/12)	450
	To Q' A/c	8,566	May 8	By, Bank A/c	12,000
			July 8	By, Q' A/c	8,566
		50,666			**50,666**

Calculation of Interest

On ₹ 12,000 for 1 month @ 12%: (12,000 × 12% × 1/12)	=	₹120
On ₹ 8,200 for 3 month @ 12%: (8,200 × 12% × 3/12)	=	₹246
		₹366

Illustration 22.

X bought goods from Y for ₹4,000. Y draws a bill on 1.1.2023 for 3 months which was accepted by X for this purpose. On 1.3.2023, X arranged to retire the bill at a rebate of 12% p.a. Show the entries in the books of X and Y.

Solution:

In the books of Y
Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023 Jan 1	X A/c Dr.		4,000	
	To, Sales A/c			4,000
	(Goods sold to X)			
Jan 1	Bills Receivable A/c Dr.		4,000	
	To, X A/c			4,000
	(Bills drawn for 3 months)			
March 1	Cash A/c Dr.		3,954	
	Rebate Allowed A/c Dr.		46	
	To, Bills Receivable A/c			4,000
	(Bills retired under a rebate of 12% p.a.)			

Note: Rebate = ₹ 4,000 × 12/100 × 35/365 [(1st March to 4th April), In this illustration Rebate is calculated based on no: of days so from 1st march to 1st April = 32 days (inclusive of start date and end date) & 3 days as a grace period] = ₹46.

In the books of X
Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023 Jan 1	Purchase A/c Dr.		4,000	
	To, Y A/c			4,000
	(Goods purchased from Y)			
Jan 1	Y A/c Dr.		4,000	
	To, Bills Payable A/c			4,000
	(Bills accepted for 3 months)			
March 1	Bills Payable A/c Dr.		4,000	
	To, Cash A/c			3,954
	To, Rebate Received A/c			46
	(Bills retired under a rebate of 12% p.a.)			

Illustration 23.

Mohan sold goods to Gupta on 1st September, 2023 for ₹1,600. Gupta immediately accepted a three months bill. On due date Gupta requested that the bill be renewed for a fresh period of two months. Mohan agrees provided interest at 9% was paid immediately in cash. To this Gupta was agreeable. The second bill was met on due date. Give journal entries in the books of Mohan.

Solution:

In the books of Mohan

Journal

2021	Particulars		Dr. (₹)	Cr. (₹)
Sept. 1	Gupta A/c	Dr.	1,600	
	To Sales A/c			1,600
	(sales of goods to Gupta as per Invoice No….)			
	Bills Receivable A/c	Dr.	1,600	
	To Gupta A/c			1,600
	(3 months acceptance received from gupta for the amount due from him)			
Dec. 4	Gupta A/c	Dr.	1,600	
	To Bill Receivable A/c			1,600
	(Gupa's acceptance cancelled because of renewal)			
	Gupta A/c	Dr.	24	
	To Interest A/c			24
	(interest @ 9 % on ₹1,600 due form Gupta for 2 months because of renewal)			
	Bills receivable A/c	Dr.	1,600	
	Cash A/c	Dr.	24	
	To Gupta A/c			1,624
	(New acceptance for 2 months for ₹1,600 and cash (for interest) received from Gupta}			
2024 Feb. 7	Cash A/c	Dr.	1,600	
	To Bills Receivable A/c			1,600
	(Cash received against Gupta's second acceptance)			

Exercise

Theoretical Questions

- **Multiple Choice Questions (MCQ)**

1. Which of these is/are recurring (indirect expenses)?
   (a) transit insurance and freight
   (b) octroi
   (c) loading and unloading
   (d) godown rent and insurance
2. On receipt of goods the consignee debits which of these accounts
   (a) Purchase Account
   (b) Goods Account
   (c) Consignors Account
   (d) None of these
3. X sends out goods to Y, costing ₹1,50,000. Goods are to be sold at cost +33 1/3%. The consignor asked consignee to pay an advance for an amount equivalent to 60% of sales value. The amount of advance will be
   (a) ₹1,20,000
   (b) ₹1,00,000
   (c) ₹1,50,000
   (d) None
4. Goods of the invoice value of ₹ 2,40,000 sent out to consignee at 20% profit on cost the loading amount will be
   (a) ₹40,000
   (b) ₹48,000
   (c) ₹50,000
   (d) none
5. Goods sent on consignment account is of the nature of
   (a) Personal Account
   (b) Nominal Account
   (c) Real Account
   (d) Sales Account
6. Out of the given option which cannot be treated as part of cost of purchase for valuing stock on hand
   (a) packing

(b) octroi

(c) delivery charges

(d) freight

7. X sends out 100 bags to Y costing ₹1,000 each. 60 bags were sold at 10% above cost price. Sale value will be

(a) ₹66,000

(b) ₹65,000

(c) ₹60,000

(d) ₹65,500

8. The consignment accounting is made on the following basis

(a) accrual basis

(b) realization basis

(c) cash basis

(d) all of above

9. Which of the following term is true about consignment?

(a) sale of goods

(b) hypothecation of

(c) shipment of goods

(d) mortgage of goods

10. Which of these accounts are not opened in the books of consignor?

(a) Consignment Account

(b) Commission Account

(c) Goods Send on Consignment Account

(d) Consignees Personal Account

11. For closing stock held by consignee which account must be debited

(a) Consignment Stock

(b) Sales Account

(c) Consignee Account

(d) Consignment Account

12. X of Kanpur sends out 1000 boxes to Y Delhi costing ₹ 200 each at an invoice price of ₹ 220 each goods sent out on consignment to be credited in general trading will be

(a) ₹ 2,00,000

(b) ₹ 2,40,000

(c) ₹ 40,000

(d) None

13. A proforma invoice is sent by

(a) consignee to consignor

(b) consignor to consignee

(c) debtor to consignee

(d) debtor to consignor

14. Commission will be shared by

(a) consignor and consignee

(b) only consignee

(c) only consignor

(d) third party

15. X of Mumbai sends out certain goods at cost +25%. Invoice value of the goods is ₹2,00,000. 4/5th of the goods were sold by consignee at ₹1,76,000. Commission 2% upto invoice value and 10% of any surplus above invoice. The amount of commission will be.

(a) ₹4,800

(b) ₹5,200

(c) ₹3,200

(d) ₹1,600

16. Joint venture account is of the nature of

(a) Personal A/c

(b) Nominal A/c

(c) Real A/c

(d) Suspense A/c

17. A and B purchased a piece of land for ₹40,000 and sold it for ₹ 60,000 in 2021. Originally A had contributed ₹24,000 and B ₹16,000. What will be the profit on venture?

(a) ₹20,000

(b) ₹16,000

(c) ₹30,000

(d) Nil

18. A, for joint venture with B, Purchased goods costing ₹2,00,000. B sold 80% of the goods for ₹2,50,000. Balance of goods were taken over by B at cost less 25%. Find out profit on venture?

(a) ₹80,000

(b) ₹90,000

(c) ₹50,000

(d) None of these

19. If unsold goods costing ₹ 20,000 is taken over by venture at ₹15,000 the Joint venture A/c will be credited by

(a) ₹20,000

(b) ₹15,000

(c) ₹5,000

(d) Nil

20. Memorandum Joint Venture Account is

(a) Personal Account

(b) Real Account

(c) Nominal Account

(d) None of the above

21. A purchased goods costing ₹42,500. B sold goods of ₹40,000 at ₹50,000. Balance goods were taken over by A at same gross profit percentage as in case of sale. The amount of goods taken over will be.

(a) ₹3,125

(b) ₹2,500

(c) ₹3,000

(d) None

22. What is the nature of joint venture with co-venture account

(a) Nominal Account

(b) Real Account

(c) Personal Account

(d) None of these

23. 'M' and 'N' enter into joint venture where 'M' supplies goods worth ₹6,000 and spend ₹100 on various expenses. 'N' sells the entire lot for ₹7,500 meeting selling expenses amounted to ₹200 profit sharing ratio equal. N remits M the amount due. The amount of remittance will be

(a) ₹6,700

(b) ₹7,300

(c) ₹6,400

(d) ₹6,100

24. A and B purchased a piece of land for ₹ 20,000 and sold it for ₹60,000 in 2021. Originally A had contributed ₹12,000 and B ₹8,000. The profit on venture will be :

(a) ₹40,000

(b) ₹20,000

(c) ₹60,000

(d) Nil

25. A and B enter in to joint venture sharing profit and loss in the ratio 1:1 A purchased goods costing ₹20,000. B sold the goods for ₹25,000. A is entitled to get 1% commission on purchase and B is entitled to get 5% commission on sales the profit will be

    (a) ₹3,550

    (b) ₹3,600

    (c) ₹3,400

    (d) ₹3,800

26. Goods costing ₹10,000 destroyed by an accident, insurance claim nil

    (a) ₹10,000 will be credited to joint venture account

    (b) No entry will be made in the books of joint venture

    (c) ₹10,000 will be debited in Joint venture account as loss

    (d) ₹ 8,000 will be credited in joint venture account

27. Which of the following statement is true?

    (a) There is no difference between joint venture and partners

    (b) Consignment and joint venture is same

    (c) There is not separate act for joint venture

    (d) In case of joint venture, the number of third party is none only

28. Which of the following accounts are maintained in the joint venture when separate set of books are maintained

    (a) Joint Bank A/c

    (b) Joint Venture A/c

    (c) Co-ventruer A/c

    (d) All of these

29. If A co-venturer takes away goods under memorandum joint venture method then he will debit these goods in his books to

    (a) Joint Venture Account

    (b) Personal Account

    (c) Purchases Account

    (d) Sales Account

30. For opening Joint Bank Account, in case of separate sets of books:

    (a) Ventrue a/c will be debited and Co-ventures A/c will be credited

(b) Joint Bank A/c is debited and Ventures Capital A/c is credited

(c) Joint Venture A/c is debited and Joint Bank A/c will be credited

(d) Joint Bank A/c will be debited and Joint Venture A/c will be credited

31. The person other than the original creditor to whom the amount in the bill is made payable to is known as the ____ of the bill.

(a) holder

(b) payee

(c) drawer

(d) endorser

32. Payment of Bills of exchange is received

(a) by drawer

(b) by holder in due course of due date

(c) by endorsee

(d) by bank

33. Retirement of bill means:

(a) making payment before the due date

(b) cancellation of the bill

(c) sending the bill for collection

(d) endorsing the bill in favour of third party

34. At the time of retirement of a bill, the acceptor debits:

(a) Bills Receivable Account

(b) bill Payable Account

(c) Discount

(d) None of the above

35. The party who is ordered to pay the amount is known as

(a) payee

(b) Drawer

(c) drawee

(d) endorsee

36. In which of these ways a bill of exchange cannot be disposed of

(a) discounting with bank

(b) retain till maturity

(c) endorsement to creditors

(d) destroyed

37. Bills Receivable Book is a part of the

 (a) Ledger

 (b) Balance Sheet

 (c) Journal

 (d) Profit and Loss Account

38. X Sold goods to Y for ₹30,00,00. ½ of the amount will be received in cash and the balance through a B/R for what amount X should draw a bill Y

 (a) ₹1,50,000

 (b) ₹3,00,000

 (c) ₹1,00,000

 (d) ₹1,20,000

39. A person who endorses a bill is called

 (a) drawer

 (b) drawee

 (c) Bank

 (d) endorser

40. At the time of dishonor of an endorsed bill which one or these accounts would be credited by the drawee

 (a) Bill Payable Account

 (b) Drawer

 (c) Bank

 (d) Bill Dishonored Account

41. Date on which the payment of the bill is to be made

 (a) public holiday

 (b) date of grace

 (c) due date

 (d) date of bill + 3 days

42. Kuntal draws a bill on shyam for ₹ 3,000. Kuntal endorsed it to Ram. Ram endorsed it to Rahim. The payee of the bill will be:

 (a) Kuntal

 (b) Ram

 (c) Shyam

(d) Rahim

43. If the due date is a public holiday what will be the due date of the bill
    (a) following day
    (b) preceding day
    (c) the same day only
    (d) one month later
44. On 1-8-23, X draws a bill on Y for 30 days after sight The date of acceptance is 8-8-23. The due date of the bill will be
    (a) 8.9.2023
    (b) 10.9.2023
    (c) 11.9.2023
    (d) 9.9.2023
45. If bill drawn on 3rd July 2023 for 40 days, payment must be made on
    (a) 16th August, 2023
    (b) 15th August, 2023
    (c) 12th August, 2023
    (d) 14th August, 2023

State True or False

1. Goods Sent on Consignment Account is of the nature of Real Account.
2. Goods valued at invoice price refers to valued at lower price than its original cost.
3. Balance in Consignment Account shows profit and loss on consignment.
4. Profit and loss on consignment is retained / borne by consignor.
5. Commission will be shared between only consignee.
6. The details contained in Account Sales are unsold stock left with the consignee.
7. All proportionate consignee's expenses will be added up for valuation of consignment stock.
8. In consignment, the goods are dispatched on the basis that the goods will be sold on behalf of and at the expenses of and at the risk of the consignee.
9. Cost of the goods include all non-recurring expenses incurred till the goods reach the premises of the consignee's godown.
10. Accounts Sales is a statement furnished by consignor to consignee.
11. Expenses incurred by co-venture are debited in Joint Venture Account.

12. The profit to be shared between the venture in agreed ratio.
13. In joint venture, provisions of partnership act applies.
14. The transactions regarding transfer of goods from one venturer to another venturer will affect book-keeping entries.
15. If goods costing ₹10,000 destroyed by an accident, insurance claim nil then no entry will be made in the books of joint venture.
16. Joint Venture has a definite life.
17. Joint Venture agreement must be registered.
18. Memorandum Joint Venture Account is a Real Account.
19. Contract money received is credited to Joint Venture Account.
20. Joint Bank Account is a Nominal Account.
21. Oral bill of exchange is also valid.
22. Creditors can draw a bill on debtors.
23. Bank will draw a bill on customer at the time of overdraft.
24. Retirement of bill means sending the bill for collection.
25. A person by whom the bill is endorsed is called endorser.
26. Foreign trade is facilitated with the help of foreign bills of exchange.
27. If the bill is assigned by the drawer it is invalid.
28. In case of endorsement of bill endorser debits endorsee and credits B/R account.
29. Endorser or drawer credits endorsee when the payment is received.
30. When a bill is retired under rebate the holder of a bill debits B/R account.

Fill in the Blanks

1. The person who sends the goods for sale on fixed commission basis is ____.
2. When the consignor sends goods to consignee he prepares a ____.
3. A periodic statement furnished by the consignee to consignor is ____.
4. Del credere commission is allowed to cover the risk of ____.
5. Where goods are sent on consignment, credit is given to ____ in the books of consignor.
6. Goods costing ₹2,00,000 sent out to consignee at cost +25%. Invoice value of the goods will be ____.
7. Stock reserve is created to adjust ____.

8. Goods of the invoice value of ₹1,20,000 sent out to consignee at 20% profit on cost. The loading amount will be ____.

9. Extra commission given to the consignee, for making him responsible for bad debts this extra commission is known as ____.

10. Balance in consignment account shows ____ .

11. 'X' of Kolkata sends out certain goods to Y of Mumbai at cost + 25%. 1/2 of the goods received by Y is sold at ₹1,76,000 at 10% above Ip. Invoice value of goods send out is ____.

12. X of Kolkata sends out 400 bags to Y on Delhi costing ₹200 each consignor expenses ₹2,000. Y expenses non selling ₹2,000 selling 1000. 300 bags were sold by y. Value of consignment stock will be _____.

13. The balance of consignment stock is shown on the ___side of the balance shet.

14. Consignment account is ____Account.

15. Goods costing ₹1,80,000 sent out to consignee to show a profit of 20% on the invoice price. Invoice price of the good will be ____.

16. The account opened in the bank in joint name of the co-ventures is ____.

17. Partners of Joint venture business are called ____ .

18. Under Memorandum Joint venture, each co-venturer opens only one account which is in the nature of a ____ .

19. When goods are sold for the joint venture the account to be credited in separate set of books ____.

20. The accounts to be credited for transferring profit on Joint venture in the books of the co-venturer maintaining accounts regarding joint venture are ____ .

21. Generally, when the size of the venture is ___ the co-venture keep separate set of books of account for the joint venture.

22. ____ is the concept which the joint venture accounting does not follow.

23. ____ is credit balance of joint venture account.

24. ____ is not a part of double entry system.

25. When co-venture initially contribute for a joint venture ____ account should be debit in the case when separate set of books are maintained.

26. Maximum number of members in joint venture business ____ .

27. Memorandum Joint-venture account is prepared to find out ___in venture.

28. Joint venture does not follow _____basis of accounting.

29. When separate set of books is maintained expenses paid by venture will be ____to joint venture account.

30. Co-ventruer account is ____ account.

31. When a B/R is endorsed by the drawer what entry is passed by the drawee ____ .

32. Negotiable instrument act was enacted in the year ____ .

33. The debtor on whom a bill of exchange is drawn is called ____ .

34. ____ ____ is the date on which a bill false due for payment.

35. X-draws a trade bill of ₹25,000 for 6 months on Y. After holding the bill for 1.5 months, X-discounts the bill with bank @ 10% p.a. the amount of discount on bill is ____ .

36. A promissory note contains an ____ ____ to pay.

37. A bill of exchange is a _____ of indebtedness of the purchaser of goods or services on credit.

38. Amount ordered to be paid by the drawer in a bill must be _______ ____.

39. Renewal of a bill includes interest for the ___ ____ period.

40. When the drawer discount the bill with bank before maturity the drawee passes _____ entry in his books.

41. Rebate is given in case of ____ of a bill.

42. Bills receivable account is a _______ account.

43. Bills of exchange is a ____ instrument

44. The cash allowance provided by the drawer to the drawee for the pre-payment of the bill is known as ____.

45. M sold goods worth ₹50,000 to N on 1.1.23. N immediately accepted a three months bill on due date N requested that the bill be renewed for a fresh period of 3 months. N agrees to pay interest @ 18% p.a. in cash. How much interest to be paid in cash by N? ________.

B. Numerical Questions

Comprehensive Numerical Problems

1. On 1st July, 2023 Radio House of Delhi consigned 200 Radios to Banerjee Bros. of Calcutta. The cost of each radio was ₹400. Radio House paid ₹5,000 for freight and insurance. On 7 July, 2023 Banerjee Bros. accepted a 3 month bill drawn upon them by Radio House for ₹50,000. Banerjee Bors. Paid ₹2,200 as rent and ₹1,300 for advertisement and upto 31st December, 2023 (on which date Radio House close their books) they sold 180 radios at ₹500 each. Banerjee Bros. were entitled to a commission of 5% on sales.

   Give Journal entries and prepare necessary accounts to record the above transactions in the books of the parties.

   [**Answer:** Profit = ₹5,500, Value of Stock = ₹8,500, Balance due from Banerjee = ₹32,000]

2. A of Sonepat consigned 500 bicycles to B of Cochin to be sold on his account and at his risk. The cost

of one bicycle was ₹200. A paid ₹5,500 as freight and insurance and received ₹40,000 as advance from B. B paid ₹1,000 as octroi and carriage, ₹1,500 as rent and ₹1,200 as insurance. 410 bicycles were sold by B for ₹1,10,000. B was entitled to a commission of 5% on sale @ ₹250 per bicycle and 25% of any surplus price realized. Give journal entries in the books of A and B.

[**Answer:** Profit = ₹12,970, Value of Stock = ₹19,170,
Commission = ₹7,000, Balance due from B = ₹59,300]

3. H Ltd. Forwarded on 1.7.2023, 100 bicycles to Vasu of Hyderabd to be sold on behalf of H Ltd. The cost of each bicycle was ₹150 but the invoice price was ₹200. H Ltd. incurred ₹1,000 on freight and insurance. Vasu received the consignment on 14.7.2023 and accepted a three months draft drawn upon him by H Ltd. For ₹10,000. Vasu paid ₹400 as rent and ₹250 as insurance and by 31.12.2023 had disposed of 80 bicycles at ₹205 each. Vasu is entitled to a commission of 5% on sales including del credere commission of 1%. Vasu sold 20 bicycle on credit and was not able to recover sales proceeds of 5 bicycles because of insolvency of the debtor.

   Give journal entries to record the above transactions in the books of H Ltd. and Vasu.

   [**Answer:** Profit = ₹2,130, Value of Stock at invoice price = ₹4,200]

4. A and B were participants in a joint venture, sharing profits and losses in the proportion of 10:9 respectively. Each party maintains a complete record in his own books. A supplies goods to the value of ₹25,000 and incurs an expenditure of ₹500 on them; and B supplies goods to the extent of ₹21,000 and his expenses thereon amounted to ₹1,000. A sells all the goods for ₹70,000 for which he is entitled to receive a commission at 5 percent. Accounts are settled by bank draft. Give journal entries and prepare necessary accounts in the books of both parties.

   [**Answer:** Profit = ₹19.000, Amount Paid to B = ₹31,000]

5. Dilip and raj are doing business separately as engineering contractors. They undertake jointly to build and install new machinery for a company for a contract price of ₹1,34,000. ₹84,000 payable in installments in cash and the balance as fully paid share in the new company. A bank account is opened in joint names. Dilip paying ₹45,000 and Raj ₹20,000. They agree to share profits and losses in the proportion of 3/5 and 2/5 respectively. The transactions were as follows:

Particulars	(₹)
Amount advance to suppliers for supply of materials	52,000
Value of materials supplied by suppliers	89,000
Balance amount paid to suppliers in full and final settlement	35,500
Paid wages	36,000
Materials purchased in cash	2,500
Engineering consultant's fee paid	3,250

Materials supplied by Dilip from stock	9,250
Value of stocks lost by fire and not covered by insurance	3,500

The contract was completed and price duly received.

Dilip took all the shares at an agreed value of ₹47,000 and Raj took the balance stock of materials work ₹3,500 at an agreed value of ₹2,750.

Show the necessary ledger accounts assuming a separate set of books is opened.

[**Answer:** Loss of Joint Venture = ₹4,750, Final settlement Dilip- ₹4,400, Raj - ₹15,350 Discount allowed by the supplier - ₹1,500]

6. Das, Bose and Gupta undertake to erect a five storied mansion for National Housing Trust Ltd. The contract price is agreed at ₹25,00,000 to be paid in cash ₹22,00,000 by four equal installments and the balance amount in 8% Debentures of the company. They agree to share equally the profit or loss.

   They opened a Joint Banking Account with cash contributed as stated below; Das ₹3,00,000: Bose: ₹3,75,000: Gupta ₹2,00,000 Das arranges the preparation of building plans, etc., and pays ₹32,000 as architect's fees. Bose brings a concrete mixer and other implements valued at ₹80,000 and Gupta brings a motor lorry valued at ₹75,000.

   They paid in cash for the following;

Particulars	**(₹)**
Materials	12,26,800
Wages	7,33,200
Sundry Expenses	20,000
Plant	60,000

   On completion of the venture concrete mixer is sold ₹50,000 and plant and other implements are sold as scrap for ₹10,000. Gupta takes back the motor lorry at ₹40,000.

   Subsequently Das took over the Debentures issued by the company at a valuation of ₹2,80,000.

   Show the necessary ledger accounts for the joint venture.

[**Answer:** ₹3,54,000, Amount paid to Das ₹1,70,000, Bose ₹5,73,000 Gupta = ₹3,53,000]

7. A and B decided to work on a joint venture to sale electric motors. On 21th May 2022. A purchased 200 electric motors at ₹1,750 each and dispatched 150 motors to B incurring ₹10,000 as freight and insurance. 10 motors got damaged in transit. On 1st Feb 2023, insurance company paid ₹5,000 to A in full settlement of the claim. On 15th March, 2023, A sold 50 motors at ₹2,250 each. He received ₹1,50,000 from B on 1st April 2023.

On 25th M ay 2023, B took delivery of motors and paid ₹1,700 for clearing, repairs ₹3,000 and rent of ₹6,000. B sold motors as on 1st Feb 2023 – 10 damaged motors at ₹170 each, on 15th March 2023 – 40 motors at ₹2,000 each, on 1st April 2023 – 20 motors at ₹3,150 each and on 1st April 2023, 80 motors at ₹2,500 each. It was agreed that they would be entitled for a commission of 10% on the respective sales made by them and that the profit or losses will be shared by A & B in the ratio of 2:1.

On 30th April 2023, B remits the cash to A to close the venture Prepare "Joint venture with B A/c" in the books of A and the memorandum joint venture A/c.

[**Answer:** Profit A - ₹39,700, B - ₹19,850, Balance received from B - ₹1,43,450]

8. Pass journal entries in the books of Hema for the following transactions:

   a. Hema's acceptance to Nanda for ₹5,000 renewed for 3 month with interest at 10% p.a.

   b. Nalini's acceptance to Hema was for ₹10,000 was retired one month before due date at a discount of 12% p.a.

   c. Discounted Natasha's acceptance to Hema for ₹4,000 with the bank for ₹3,920.

   d. Neela requests Hema to renew her acceptance for ₹3,500 for 3 months. Hema accepted on the condition that interest of ₹100 was paid in cash which Neela did.

9. Mohan sold goods on 1st September, 2023 for ₹2,00,000 to Sohan. Sohan immediately accepted a 3 months bill. On the due date Sohan requested for the renewal of the bill for a further period of two months. Mohan agrees to pay interest @ 9% per annum to be included in the new bill. Determine the amount of the new bill.

[**Answer:** ₹2,03,000]

10. On 1.4.23, Mr. A draws a bill for ₹ 6,000 for 7 months on Mr. B who returned the bill to Mr. A after acceptance. On 10.4.23, Mr. A endorsed the bill in favour of Mr. C who endorsed the bill on 15.4.23 in favour of Mr. D. On 1.5.2023, Mr. D discounted the bill at 10%. On maturity, the bill was dishonoured and banker paid ₹ 50 towards noting charges. Pass necessary journal entries in the books of Mr. D.

11. Mr. A draws on Mr. B a bill of exchange for ₹5,000 on 1st Jan, 2023. Mr. A endoreses the bill in favour of Mr. C Before maturity, Mr. B approaches Mr. A with the request that the bills be renewed for a further period of 3 months at fifteen percent interest per annum. Mr. A pays the sum to Mr. C on due date and agrees to the proposal of Mr. B pass the journal entries in the books of Mr. A assuming that the second bill is duly met.

Answer:

Multiple Choice Questions (MCQ)

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
d	d	a	a	c	c	a	a	c	b	a	a	b	b	a	b	a	a	b
20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38
c	a	c	a	a	a	b	c	d	c	b	b	b	a	b	c	d	c	a
39	40	41	42	43	44	45												
d	b	c	d	b	b	d												

State True or False

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
T	F	T	T	T	F	F	F	T	F	T	T	F	F	T	T	F	F
19	20	21	22	23	24	25	26	27	28	29	30						
T	F	F	T	F	F	T	T	F	T	F	F						

Fill in the Blanks

1	consignor	2	proforma invoice
3	account sales	4	bad debts
5	Goods sent on consignment account	6	₹ 2,50,000
7	valuation of closing stock to cost	8	₹ 20,000
9	delcredere commission	10	profit or loss on consignment
11	₹ 3,20,000	12	₹ 21,000
13	asset	14	nominal
15	₹ 2,25,000	16	Joint bank account
17	Co-venturers	18	personal account
19	Joint venture account	20	profit and loss account and other party account
21	Big	22	Going concern
23	Profit	24	Memorandum
25	Joint bank	26	Unlimited.
27	profit or loss	28	Accrual
29	debited	30	personal

31	No entry at all	32	1881
33	Drawee	34	maturity date
35	₹ 938	36	undertaking or promise
37	conclusive proof	38	certain and unconditional
39	extended period	40	no entry
41	retirement	42	personal account
43	negotiable	44	rebate
45	₹ 2,250		