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Preface

Accounting is a process of recording transactions and preparing financial statements. However, this process is made for the use of accounting information by internal users and external users. Hence, accounting is nothing but information system according one approach when it collects data, store data and avail it whenever required. On the other hand, accounting is a language of business according to another approach where accounting serves purpose of communication as main function of language.

This book is written for the purpose of students on distance mode. It is contemplated here that the students will read the book, they will make exercise and come to the contact sessions with their queries which can be solved in it. This book is for their basic preparation for their study however they can make supplementary and extensive learning by using reference books.

This book is divided into eight chapters of 'Financial Accounting' for B. Com. Part-I (covering Semester-I and Semester-II). The book is divided for the convenience of the students into two parts, semester-wise. In the first section of the book, four units are on the topic of 'Introduction to Accounting', 'Amalgamation of Partnership Firms', 'Consignment Accounts' and 'Accounts of Professionals'. In the second section of the book, other four units are on the topic of 'Single Entry System', ' Conversion of Partnership firm into Limited Company', 'Branch Accounts' and 'Computerized Accounting System'.

Along with the theoretical components illustration are given in every unit to understand and learn every concept clearly. The model accounting entries are stated wherever necessary. At every regular interval, objective type questions are given to check the progress of the student. At the end of each unit, exercise is available which will be useful to students to make preparation according to the syllabus stipulated.

We are grateful to Hon. Vice-Chancellor Prof. (Dr.) Devanand Shinde and Hon. Pro-Vice-Chancellor Prof. (Dr.) D. T. Shirke, Prof. (Dr.) Anuse, Director, Centre for Distance Education and Registrar Dr. V. D. Nandavadekar for their support and cooperation. We are thankful to all authors and university staff for timely support for this book.

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B. Com Part-I

FINANCIAL ACCOUNTING

INDEX

Each Unit begins with the section objectives -

Objectives are directive and indicative of :

1. what has been presented in the unit and
2. what is expected from you
3. what you are expected to know pertaining to the specific unit, once you have completed working on the unit.

The self check exercises with possible answers will help you understand the unit in the right perspective. Go through the possible answers only after you write your answers. These exercises are not to be submitted to us for evaluation. They have been provided to you as study tools to keep you in the right track as you study the unit.

Dear Students

The SIM is simply a supporting material for the study of this paper. It is also advised to see the new syllabus 2018-19 and study the reference books & other related material for the detailed study of the paper.

Unit-1

Introduction to Accounting

Structure of Unit :

1.0 Objectives:

After studying this Unit, you will be able to:

- Understand the basic accounting concepts and conventions.
- Explain the accounting process.
- Describe the accounting standards issued in India.
- Introduce the International Financial Reporting Standards.

1.1 Introduction:

Accounting is called the language of business as accounting performs the functions of language for the business. It communicates a result of business operations to various users such as proprietor, management, creditors, investors, employees, government and regulatory authorities etc. Accounting has its own history. It is as old as money itself. It is broader than the book-keeping. Book-keeping mainly concerned with recording day-to-day transactions in a significant and orderly manner. However, accounting is concerned with designing system for recording, classifying and summarizing the recorded data and interpreting them for end-users.

Accounting is nothing but a process of recording transactions and preparing financial statements. It means accounting information is created by accounting system which is used in the process of decision-making. This unit covers basic concepts and conventions of accounting, accounting process and accounting standards issued in India.

1.2 Subject Matter:

Before going to know accounting concepts, conventions and standards, we must know what exactly accounting is. So firstly we should try to understand meaning, functions, branches of accounting etc.

1.2.1 Meaning of Accounting:

Accounting can be approached from two directions: either from the standpoint of accountant or from the standpoint of the user of accounting information. The former approach emphasizes the concepts and techniques that are involved in collecting, summarizing and reporting accounting information; the latter emphasizes what the user needs to know about accounting.

1) The American Institute of Certified Public Accountants[1] has defined accounting in the following manner:

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

2) American Accounting Association[2] has given the definition of accounting as:

'Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information'.

3)

'Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature and about economic activities, that is intended to be useful in making economic decisions'.

1.2.2 Characteristics of Accounting

The characteristics or features of accounting can be described as given below:

1.2.2.1 Recording: The process of accounting includes the recording of transactions in systematic way. This recording is made through stages of journalizing respective transactions (It has been described in detail under sub-heading 1.2.9.2).

1.2.2.2 Classification: The accounts involved in transaction are classified in accordance with types of accounts and rules of (double entry) accounting system (It has been described in detail under sub-heading 1.2.9.3).

1.2.2.3 Summarizing: All the transactions took place in the accounting period are recorded in journal and posted in the ledger. They are summarized in such a way that they will be useful to the users of accounting information. It is exercised in preparing Trial Balance and Final Accounts.

1.2.2.4 Only Monetary Expression: Accounting records only those business activities which can be expressed in monetary terms. Money is nothing but 'unit of measurement' for accounting. Here, money means currency of the respective country where accounts are maintained.

1.2.2.5 Transactions and Events: In accounting, both transactions and events are recorded. When the business activities involve outsiders, it is transaction, such as buying and selling of goods, taking loan, paying salary, rent etc. The events are those business activities which do not concern with outsiders. The examples of such events are loss due to fire, depreciation of assets etc. Here, we have to understand that both transactions as well as events are recorded in the accounts of any enterprise.

1.2.2.6 Interpretation of results: The outcome of accounting process provides financial performance of the respective enterprise. It compares 'income and gains' with 'expenses and losses' in Profit and Loss Account which presents financial result in the form of profit/loss. It also compare 'assets' with 'liabilities' in Balance Sheet which results into financial position in the form of net worth of the business. The information produced by accounting process can be used to know comparative position.

1.2.3 Functions of Accounting:

1) Recording transactions and events
2) Classifying transactions according to types of accounts
3) Summarizing transactions with accounts
4) Analyzing and Interpreting financial performance
5) Communicating accounting information after meaningful analysis and interpretation.

1.2.4 Branches of Accounting:

Accounting has main three branches called financial accounting, cost accounting and management accounting. The emerging branches of accounting include human resources accounting and social accounting.

1.2.4.1 Financial Accounting: It involves (a) the process of recording transactions and events and (b) presenting financial statements such as Profit and Loss Account and Balance Sheet. The purpose of financial accounting is to present financial performance of an enterprise.

1.2.4.2 Cost Accounting: It involves the processing and evaluation of monetary and non-monetary data to provide information for external reporting, internal planning and control of business operations and special analysis and decisions. It refers to the process of determining the cost of a particular product or activity. The purpose of cost accounting is to ascertain cost, to control cost and to reduce cost.

1.2.4.3 Management Accounting: It involves tools and techniques for planning and controlling to achieve organizational goal. The purpose of management accounting is provided for information to the management, to make planning, controlling and decision-making for proper utilization of resources.

1.2.4.4 Human Resource Accounting: It is an art of valuation, recording and presenting systematically the worth of human resources in the books of account of an enterprise.

1.2.4.5 Social Accounting: It is an accounting of social cost incurred by a business and social benefits derived from business. While earning profit, business organization may cause numerous social problems such as different type of pollution etc. It also may result into benefits like employment, earning foreign exchange etc. It is the accounting system which is to produce a report measuring the social cost incurred and social benefits generated.

1.2.5 Scope of Accounting

Accounting starts with identifying transaction and ends with preparation of financial statements at the end of accounting period. Book-keeping means recording transactions and the book-keeping is a part of accounting. Accounting includes recording transactions and presenting financial statements. It means accounting covers a process of recording, classifying, summarizing and interpreting transactions and events.

According to G. A. Lee, the accounting system has two stages:

(a) The making of routine records, in prescribed form and accordingly to set rules of all events which affect the financial state of the organization and

(b) The summarization from time to time of the information contained in the records, its presentation in a significant form to interested parties and its interpretation as an aid to decision-making by these parties.

1.2.6 Accounting Principles:

Accounting principles are nothing but those rules of conduct or procedure which are adopted by the accountants universally, while recording the accounting transactions. For ensuring uniformity, clarity and understanding, accounting principles are required to follow to record the transactions. The accounting principles are classified into two categories: (a) accounting concepts and (b) accounting conventions. In the next part we are going to discuss these principles.

1.2.7 Accounting Concepts:

Accounting concepts are those basic assumptions or conditions upon which the science of accounting is based. We will now discuss these accounting concepts in detail here.

1.2.7.1 Business Entity Concept:

Business is treated as separate entity in accounting. There is effect of transaction took place on the business and not on the proprietor or owner. It keeps business affairs strictly free from the effect of private affairs of the owner. Now we can see how it took place in practice. Suppose, Mr. X invests Rs.10,00,000 into business as a owner. It is shown as 'Capital' in the business in 'the form of liability' in the business's books. It is shown in the books that the business is liable to pay that much amount to Mr. X. If after some time Mr. X withdraws Rs.1,00,000 from the business, it will be charged to him and the amount payable by business to him is reduced to Rs.9,00,000.

As per law, partners and proprietors are not considered as separate entities. However, in accounting the concept of separate entity is applicable to all forms of business organization.

1.2.7.2 Going Concern Concept:

According to this concept, it is assumed that the business will continue for a long period of time to come and it is not likely to be liquidated in the foreseeable future. The accountants value the business assets at the cost at which they were originally acquired less depreciation till date. The business assets recorded in the books not at realizable value or the present market value of the assets.

This concept presumes that the enterprise will continue operation long enough to charge against income, the cost of fixed assets over their useful lives, to amortize over appropriate period other costs which have been deferred under the accrual or matching concept, to pay liabilities when they become due and to meet the contractual commitments.

In nutshell, going concern concept is nothing but ability of a business to 'run profitable' for an indefinite period of time until the concern is stopped due to bankruptcy and its assets were gone for liquidation.

1.2.7.3 Dual Aspect Concept:

The assumption of this concept is that 'every business transaction has a dual effect'. It is basic concept of accounting. In other words, for every debit, there is corresponding equal credit. For example, when Mr. Amit starts a business with a cash of Rs.60,000 and Computer of Rs.50,000, there are two aspects of this transaction. On one hand, the business has assets of Rs.1,10,000 and on the other hand, business has liability amongst owner i.e. capital. Here, the proprietor invested capital in his business in the form of cash and computer.

Capital (Equities) = Assets (Cash + Computer)

Rs.1,10,000 = Rs.1,10,000

If the business takes loan of Rs.15,000, then Capital + Liabilities = Assets

Rs.1,10,000 + Rs.15,000 = Computer Rs.50,000 + Cash Rs.75,000

The term 'assets' represents the resources owned by a business while the term 'Equities' represents the claims of the owners against the assets of the business. The outsiders' equity (liability) is the claim of the outside parties such as creditors or bankers or debenture-holders against the assets of the business. Accounting equation is based on this concept which put forth following equation:

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

It is the base of the entire double entry system of book-keeping.

1.2.7.4 Accounting Period Concept:

The assumption of this concept is that though the business is continuous affair, the life of the business is divided into suitable accounting periods, generally a period of one year. The transaction of the respective period is analyzed and summarized to ascertain the net result (profit or loss) of the business. The whole life of the business is divided into accounting periods so as to know the performance of the business. Because, performance of the business in the form of financial result and financial position can be measured by preparing profit and loss account and balance sheet at the end of every year.

1.2.7.5 Cost Concept

The assumption of this concept is that (a) an asset is ordinarily recorded in the accounting records at the cost (price paid to acquire it) and (b) this cost is the basis for all subsequent accounting for the assets. According to this concept, the market value is immaterial for accounting purpose since the business is not going to be liquidated. For example, when a business buys a plot of land for Rs.60,00,000, the asset would be recorded in the books at Rs.60,00,000 even if its market value at that time happens to be Rs.75,00,000. In case, a year later the market value of this assets comes down to Rs.50,00,000, it will ordinarily continue to be shown at Rs.60,00,000 and not at Rs.50,00,000.

This concept brings objectivity in the preparation and presentation of financial statements. But suppose, if this concept is not in course, figures shown in the accounting records would be subjective and questionable. Due to inflationary tendencies, the preparation of accounts and statements on the basis of historical costs has made the statements thoroughly unreliable and irrelevant for judging the true financial position of the business.

1.2.7.6 Money Measurement Concept

As per this concept, only those transactions are recorded which can be expressed in terms of money. For example, the dedicated team of employees or the skill of the manager, the good industrial relations etc. cannot be shown in the books of the business. The unit of measurement of accounting is money. It helps in understanding the state of affairs of the business in much better way. For example, when business owns Rs.25,000 of cash, 900 kg. of raw materials, two cars, 2,000 square feet of building space etc. these amounts cannot be added together to produce a meaningful total of what the business own. However, when items are expressed in monetary terms such as Rs.25,000 of cash Rs.24,000 of raw material, Rs.12,00,000 and Rs.1,00,00,000 of building, all such items can be added and much more intelligible and precise estimate about the assets of the business will be available.

1.2.7.7 Matching of Cost and Revenue Concept

This concept is based on accounting period concept. It is necessary that 'revenues' of the period should be matched with the costs of the period, in order to ascertain the profit made by the business during a period. The revenues recognized in the period should be matched with the expenses incurred in the same period. As we compute the profit as an excess of income over expenses and the loss as an excess of expenses over income. Here, income for the year either received or outstanding is to be taken, similarly, expenses for the year either paid or outstanding is to be taken. The question 'when receipt/payment was made' is 'irrelevant'. For example, if the commission is paid to salesman in April 2018, for sale made by him in March 2018, the commission paid to the salesman in April 2018 should be take as the cost for sales made by him in March 2018. It means that revenues of 2017-18 should be matched with the costs incurred for earning that revenue in March 2018 (though it is paid in April 2018). With considering this concept, adjustments are made for all outstanding expenses, accrued incomes, prepaid expenses and unearned incomes etc. at the time of preparing final accounts at the end of accounting period.

1.2.7.8 Realization Concept

The assumption of this concept is that 'revenue is recognized when sale is made'. The revenue earning is only a gradual process as it starts when the raw materials are purchased for production and ends with the sale. When the property in goods transfers to the buyer and he becomes legally liable to pay, here the revenue is recognized because sale is made. This concept can be clear to us with discussing the following example: Mr. Amit places an order with Mr. Rahul for supply of certain goods yet to be manufactured. On receipt of order, Mr. Rahul purchases raw materials, after processes goods are delivered to Mr. Amit. Mr. Amit makes payment on receipt of goods. In this case, the sale is considered when goods are delivered to Mr. Amit and not on receipt of order.

1.2.8 Accounting Conventions:

Accounting conventions are those customs or traditions that are being followed by the accountants for a long time while preparing the accounting statements. In this part we will see the accounting conventions:

1.2.8.1 Convention of Conservatism:

The conservative approach is nothing but policy of playing safe. Accountants are expected to be conservative in their approach at the time of preparing the accounts and they are expected not to take into account 'anticipated profits' but provide for all possible 'anticipated losses'. This practice of the accountants acts as a guard against the 'personal judgment' of the accountant in preparing the accounts and statements. The example of application of this convention is that the inventory is valued at 'cost price or market price whichever is lower'. In another case, provision for bad and doubtful debts is made in the books before ascertaining the profit. The third example we can see that in contract business, where only reasonable amount of profit shown by the books alone is taken as profit year after year and not the entire book profit.

1.2.8.2 Convention of Full disclosure:

Accounting reports should give full disclosure of the information which they are expected to provide. According to company law, income statement and balance sheet of a company must give a true and fair view of the state of affairs of the company and it also gives the prescribed forms for preparing these statements. The practice of giving footnotes, reference and parantheses in the statements is in pursuant of this convention only.

1.2.8.3 Convention of Consistency:

Accounting practices should be continued for a long time and should not be changed unless it becomes absolutely essential to change them. For example, if a particular method of charging depreciation is followed for a particular asset, the accounting techniques or methods. The comparison becomes meaningful due to the continuity in the accounting methods and practices followed. However, consistency does not mean inflexibility, it allows introduction of improved accounting techniques.

The method adopted may be example of this convention. If diminishing balance method is followed for charging depreciation on fixed assets, it is continued year after year. It provides comparability of data.

1.2.8.4 Convention of Materiality

'Material is significant' and 'insignificant is immaterial' for accountant. Accountant should report only what is material and ignore insignificant details while preparing final accounts. What is material is dependent on the circumstances and the discretion of the accountant. The cost of an asset or its written down value alone is shown in the balance sheet and not other information about the asset.

'Materiality' is subjective term and information becomes material if the knowledge of it would influence the decision of the informed investor. According to Kohler's Dictionary of Accountants, 'Materiality means the characteristic attaching to statement, fact or item whereby its disclosure or method of giving it expression would be likely to influence the judgment of a reasonable person.'

Check your progress-1

(A) Choose appropriate alternative:

1. Capital is liability of the business. This statement is based on …………
   a) Going Concern Concept
   b) Cost Concept
   c) Business Entity Concept
   d) Accounting Period Concept

2. The method of depreciation is continued for long period of time according to ……

   a) Convention of Conservatism

   b) Convention of Consistency

   c) Convention of Full Disclosure

   d) Convention of Materiality

(B) Fill in the blanks

1. Business and owner are different according to ………….. concept.
2. Assets are recorded at price at which they are acquired as per …….concept.
3. According to ………concept, revenue is recognized when sale is made.

1.2.9 Accounting Process

Accounting is a process of book-keeping and financial reporting together. Here, the book keeping the art of recording transactions in a set of books. In earlier age, it was being done manual, however, now it is done through information technology. The primary objective of book-keeping was to ascertain accurately (a) the amount gained or lost in the business during the specific period and (b) the amount of his assets, liabilities and capital in the business on any particular date. There are more expectations about the information they want to know from these books of accounts which include (i) how the amount he has gained or lost, (ii) what amount is owing to him by each of his customers or debtors, (iii) what amount is owing by him to each of his creditors, (iv) what is his liability for payment of taxes to government, (v) how his business stands in comparison to other similar business. Only accurate and complete record can provide this information.

Double Entry Book-keeping System:

Double Entry System is the only system which provides accurate and complete record as expected above. It creates a permanent record of his dealings. It helps to ascertain the result of his transactions whether it is profitable or otherwise, and what exact financial position is at a specific time. We can discuss the actual double entry system in the further part of this unit.

Important Terms:

Before going into detail, we should be familiar with the following terms which are used in book-keeping and accounting:

1) **Transaction:** Transactions are those activities which involve transfer of money or goods or services between two persons or two accounts.

2) **Entry:** An entry is a step to record a transaction in books of account.

3) **Accounts:** An account is a record or statement of financial expenditure and receipts relating to a particular period or purpose.

4) **Debtor:** A person who owes money is called a Debtor.

5) **Creditor:** A person to whom money owes is called Creditor.

6) **Personal Accounts:** Personal accounts are the accounts recording transactions with persons or firms. e.g. Mr. A Account, Bank Account etc.

7) **Real Accounts:** Real accounts are the accounts of property or possession, e.g. Cash Account, Goods Account and Office Furniture Account etc.

8) **Nominal Accounts:** Nominal accounts are the accounts which record expenses, gains or losses. e.g. Salaries Account, Rent Account, Advertisement Account etc.

9) **Goods:** Goods include all merchandise, commodities or wares in which a trader deals.

10) **On credit:** The purchase or sale on credit means receiving goods without any payment of cash at the time and in case of credit purchases and sales, delivery of goods is first made, an sales, payment is made on delivery of goods.

11) **Purchases:** Purchases includes the goods bought for resale to customers.

12) **Purchase Returns:** It is the goods returned by the trader to the supplier because of poor quality or defects in the goods supplied. It is also called as 'Returns Inward' or 'Returns from customers'.

13) **Sales:** It is the goods sold to customers. If it is made for cash, it is called 'cash sales'. If the payment for sale is received at a later date, it is called 'credit sales'.

14) **To Debit an Account:** To debit an account means to enter a transaction on the "Debit" side of that account i.e. the left-hand side.

15) **To Credit an Account:** To credit an account means to enter a transaction on the "Credit" or right-hand side of that account.

16) **Debit and Credit:** The receiver of any benefit is termed as a debtor and is debited, whereas the giver of any benefit is termed a creditor and is credited.

17) **Assets:** Assets are properties of every description belonging to a person, such as, goods, cash future, etc. and includes all sums of money owing to him.

18) **Liabilities:** Liabilities are the debts owing by a person.

19) **Capital:** Capital is the excess of assets over liabilities. Capital is the amount business owes to owner.

20) **Solvent:** A person is said to be solvent when his assets exceed or equal his liabilities.

21) **Insolvent:** A person is "Insolvent" when his liabilities exceed his assets.

Rules of Double Entry System:

The rules of double entry system are called 'Golden Rules of Accounting'. For passing accounting entry or recording transaction, following rules are followed:

Rule for Personal Accounts:	(a) Debit the receiver (b) Credit the giver
Rule for Real Accounts:	(a) Debit what comes in (b) Credit what goes out
Rule for Nominal Accounts:	(a) Debit all expenses and losses (b) Credit all incomes and gains

Accounting process has steps to record the transaction and presenting financial statements. The accounting process can be shown in the following stages:

1. Identifying transaction
2. Journalizing transaction
3. Posting in Ledger
4. Balancing of an account
5. Preparing Trial Balance
6. Preparing final accounts

We can understand this accounting process in detail here, right from indentifying transaction to preparing final accounts.

1.2.9.1 Identifying transaction:

In this first stage, an accountant has to identify the transaction. Only transactions are recorded in financial accounting. Transaction is any business activity which can be expressed in monetary terms. Hence, we have to identify transaction among various business activities. To understand this idea, let us see the example.

The business activities include (a) opening a shop, (b) selling goods, (c) depositing cash in bank, (d) receiving delivery of goods from supplier and (e) closing a shop. Here, all (a) to (e) are business activities but only (b), (c) and (d) are transactions. They are recorded. But (a) and (e) are not recorded in financial accounting.

1.2.9.2 Journalizing transaction:

Journal is the book of original or prime entry containing a chronological record of the transactions. As per double entry system, every transaction has two fold effects, one is debit and another is credit. After identifying transactions, we can apply rules according to types of accounts. Let us discuss how to journalize the following transactions:

Sr. No.	Date	Transaction
1	01-01-2018	Amit started business with Rs.60,000.

2	02-01-2018	Furniture was purchased for Rs.20,000.
3	03-01-2018	Bought goods from Rohit for Rs.30,000.
4	05-01-2018	Sold goods for cash Rs.25,000.
5	15-01-2018	Paid wages Rs.6,000.
6	16-01-2018	Interest received Rs.1,500

Journalizing of the above transaction can be decided in the way as shown in the following statement:

Sr. No.	Accounts Involved	Type of Account	Base for type	Accounts to be debited	Accounts to be credited
01	Cash A/c.	Real	Comes in	Cash A/c.	
	Capital A/c.	Personal	Giver		Capital A/c.
02	Furniture A/c.	Real	Comes in	Furniture A/c.	
	Cash A/c.	Real	Goes out		Cash A/c.
03	Purchase A/c.	Nominal	Expenses	Purchase A/c.	
	Rohit A/c.	Personal	Giver		Rohit A/c.
04	Cash A/c.	Real	Comes in	Cash A/c.	
	Sales A/c.	Nominal	Incomes		Sales A/c.
05	Wages A/c.	Nominal	Expenses	Wages A/c.	
	Cash A/c.	Real	Goes out		Cash A/c.
06	Cash A/c.	Real	Comes in	Cash A/c.	
	Interest A/c.	Nominal	Incomes		Interest A/c.

Actual Journalizing is done in the following way:

Journal

Page 101

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
01-01-2018	Cash A/c.	Dr.	102	60,000	
	To Capital A/c.		101		60,000
	(Being Capital brought in)				
02-01-2018	Furniture A/c.	Dr.	103	20,000	
	To Cash A/c.		102		20,000
	(Being purchased furniture for cash)				
					Page 02
03-01-2018	Purchase (of Goods) A/c.	Dr.	104	30,000	
	To Rohit A/c.		105		30,000
	(Being purchased goods on credit)				
05-01-2018	Cash A/c.	Dr.	102	25,000	
	To Sales A/c.		106		25,000
	(Being sold goods for cash)				
15-01-2018	Wages A/c.	Dr.	107	6,000	
	To Cash A/c.		102		6,000
	(Being paid wages)				
16-01-2018	Cash A/c.	Dr.	102	1,500	
	To Interest A/c.		108		1,500
	(Being received interest)				

1.2.9.3 Posting in Ledger:

Ledger is a book containing various accounts. It is the principal book of accounts. A ledger account is nothing but a summary statement of all transactions relating to persons, assets, liabilities, expenses or income which have taken place during an accounting period. For seeking a consolidated view of the transactions, the transactions entered in the journal are transferred to the ledger accounts. Transferring transactions from journal to ledger is called posting. For the above transactions, we can see the process of posting in the following Ledger:

Ledger

Page 101

Dr. Capital Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				1-1-18	By Cash A/c.	101	60,000

Ledger

Page 102

Dr. Cash Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
1-1-18	To Capital A/c.	101	60,000	2-1-18	By Furniture A/c.	101	20,000
5-1-18	To Cash A/c.	101	25,000	15-1-18	By Wages A/c.	102	6,000
16-1-18	To Interest Ac.	102	1,500				

Ledger

Page 103

Dr. Furniture Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2-1-18	To Cash A/c.	101	20,000				

Ledger

Page 104

Dr. Purchase Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
3-1-18	To Rohit A/c.	102	30,000				

Ledger

Page 105

Dr. Rohit Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				3-1-18	By Purchase A/c.	102	30,000

Ledger

Page 06

Dr. Sales Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				5-1-18	By Cash A/c.	102	25,000

Ledger

Page 107

Dr. Wages Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
15-1-18	To Cash A/c.	102	6,000				

Ledger

Page 108

Dr. Interest Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
				16-1-18	By Cash A/c.	102	1,500

1.2.9.4 Balancing of an Account:

At the end of accounting period, all the accounts are closed in order to find out ultimate result and the net position. The stage of totaling the debits and credits of account separately and finding out difference is called 'balancing of an account'. Such difference on each account is nothing but 'closing balance' and the same will be 'opening balance' for the next accounting period. When the total of debit side is smaller than the total of credit side, the difference is entered on the debit side to close the account for the period and the balance is called the 'credit balance'. On the contrary, when the total of credit side is smaller, the difference is entered on the credit side to close the account for the period and the balance is called the 'debit balance'. With taking the same example, let us see the process of 'balancing of an account'.

Ledger

Page101

Dr. Capital Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
31-3-18	To Balance c/d.*		60,000	1-1-18	By Cash A/c.		60,000
			60,000				60,000

Ledger

Page 102

Dr. Cash Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
1-1-18	To Capital A/c.	101	60,000	2-1-18	By Furniture A/c.	101	20,000
5-1-18	To Cash A/c.	101	25,000	15-1-18	By Wages A/c.	102	6,000
16-1-18	To Interest Ac.	102	1,500	31-3-18	By Balance c/d*		60,500
			86,500				86,500

Ledger

Page 103

Dr. Furniture Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2-1-18	To Cash A/c.	101	20,000	31-3-18	By Balance c/d.*		20,000
			20,000				20,000

Ledger

Page 104

Dr. Purchase Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
3-1-18	To Rohit A/c.	102	30,000	31-3-18	By Balance c/d.*		30,000
			30,000				30,000

Ledger

Page 105

Dr. Rohit Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
31-3-18	To Balance c/d.*		30,000	3-1-18	By Purchase A/c.	102	30,000
			30,000				30,000

Ledger

Page 06

Dr. Sales Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
31-3-18	To Balance c/d.*		25,000	5-1-18	By Cash A/c.	102	25,000
			25,000				25,000

Ledger

Page 107

Dr. Wages Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
15-1-18	To Cash A/c.	102	6,000	31-3-18	By Balance c/d.		6,000
			6,000				6,000

Ledger

Page 108

Dr. Interest Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
31-3-18	To Balance c/d.*		1,500	16-1-18	By Cash A/c.	102	1,500
			1,500				1,500

1.2.9.5 Preparing Trial Balance:

Trial balance is a tabular statement showing balances of accounts at the end of the accounting period. It includes debit balances as well as credit balances. Total of debit balances equals total of credit balances in the trial balance. Let us see the process of preparing trial balance with same example.

Trial Balance

Particulars	L.F.	Debit Rs.	Credit Rs.
Capital Account…………………………………		-	60,000
Cash Account……………………………………		60,500	-
Furniture Account………………………………		20,000	-
Purchase Account………………………………		30,000	-
Rohit Account…………………………………		-	30,000
Sales Account…………………………………		-	25,000

Wages Account……………………………………		6,000	-
Interest Account………………………………		-	1,500
Total		1,16,500	1,16,500

Valuation of Closing Stock of goods is Rs.15,000.

1.2.9.6 Preparing Final Accounts:

Final accounts are the final statements of accounts prepared to understand results of the financial activities of a business. After preparing Trial Balance, financial statements are prepared to ascertain the operating result and financial position of the business. Such financial statements include Trading Account, Profit & Loss Account and Balance Sheet etc. Many parties like owners, creditors, investors, employees, regulatory authorities and government etc. are interested in the information which financial statements provide for. In case of trading concern, its income statement is divided into two parts, the first- Trading Account, and the second- Profit and Loss Account. Now let us see how the final accounts are prepared. With taking into consideration the same example, we can understand the process of preparation of final accounts.

Trading, Profit and Loss Account for the year ending 31-3-2018

Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening Stock	-	By Sales	25,000
To Purchases	30,000		
To Wages	6,000	By Closing Stock	15,000
To Gross Profit*	4,000		
	40,000		40,000
		By Gross Profit	4,000
To Net Profit c/d.	5,500	By Interest	1,500
	5,500		5,500

Balance Sheet as on 31-3-2018

Liabilities		Amount Rs.	Assets	Amount Rs.
Capital	60,000		Furniture	20,000
Add: Net Profit	5,500	65,500	Cash	60,500
Creditors-Rohit		30,000	Stock	15,000
		95,500		95,500

We can understand here, accounting process right from passing entry to preparing final accounts.

Check your progress-2

Fill in the blanks:

1) …………. is the book of original or prime entry containing a chronological record of the transactions.

2) …………..is a book containing various accounts.

3) The stage of totaling the debits and credits of account separately and finding out difference is called ……………….

4) ………….. is a tabular statement showing balances of accounts at the end of the accounting period.

1.2.10 Accounting Standards- Need & Procedure:

A standard is a particular level of performance, goal or target. It is established by customs, professional or government authorities, common sense, regulatory or legal bodies etc., after extensive observation, testing, research etc. In accounting, it is a chosen set of accounting policies about the principles and methods to be adopted. In India, Accounting Standard Board (ASB) is authorized to issue accounting standards. The Accounting Standard Board of the Institute of Chartered Accountants of India (ICAI) was constituted on 21st April,1977 to formulate accounting standard applicable to Indian enterprises.

Accounting Standard is defined as “written documents issued from time to time by institutions of the accounting profession or institutions which has sufficient involvement and which are established expressly for this purpose”. Accounting standards deal mainly with financial measurements and disclosures used in producing a set of fairly presented financial statements. They attempt to limit theoretically possible flexibility and to give practitioners realistic working guidelines. Accounting standards enables accountants to attain both uniformity and flexibility in accounting practices.

1.2.11 Objectives of Accounting Standards:

The process of accounting should be well-regulated in order to ensure transparency, consistency, comparability, adequacy and correctness of financial statements. The financial statements should be presented with true and fair view. Hence, the following are the specific objectives of accounting standards:

1) To standardize different accounting policies and practices in order to eliminate/ non-comperability.
2) To provide standard accounting policies valuation norms and disclosure requirements.
3) To eliminate confusion about information presented through the financial statements.
4) To bring consistency in accounting and presentation of financial results.

1.2.12 Procedure of Setting Accounting Standards:

In India, the procedure of setting accounting standards is streamlined in the following steps:

1. **To determine the Area:** Firstly, the ASB determines the areas in which the accounting standard needs to be formulated and priority in regard to their selection.
2. **Formation of study Group:** The subject-specific study group is constituted to assist ASB in formulation of accounting standards. The group consists of members of ICAI and experts. The group develops proper primary draft of accounting standard.

3. **Hold dialogue and Consider view:** The ASB holds dialogue with the representatives of Government, public sector undertaking, industries and the organizations to consider the view in regards to formation of accounting standards.

4. **Preparation of Draft:** On the basis of the work of the study group and views of various experts referred to above a draft of proposed accounting standard is prepared. The draft includes the following points:

   a) A statement of concepts and fundamental accounting principles relating to the standard.

   b) The preparation and disclosure requirement in complying with the standard.

   c) Definition of the terms used in the standards.

   d) The class of enterprises to which the standard will apply.

   e) Date from which the standard will be effective

   f) Issue of draft.

5. **Issue of Draft for Comments**: The draft of the proposed accounting standard is issued for comments by the members of the ICAI and the public at large.

6. **Finalization of the draft:** After considering the comments, the draft of the proposed accounting standard is finalized by ASB. This final draft is sent to the Council of the ICAI.

7. **Issue of Accounting Standards**: The Council of the ICAI considers the final draft of the proposed standard, and if found necessary, modify the same in consultation with ASB. The accounting standard on the relevant subject will then be issued under the authority of the council.

ICAI has issued 32 Accounting standard (ASs). However, AS -8 on "Research and Development" and AS-6 on Depreciation was withdrawn consequent to issue of AS-26 and AS-10 (Revised) respectively. Effectively, there are 27 accounting standards at present. However, only the AS-1 to AS-5, AS-7 and AS-9 to AS-29 are notified by the Central Government u/s 133 of the Companies Act, 2013.

1.2.13 List of Accounting Standards in India:

AS-1 Disclosure of Accounting Policies

AS-2 Valuation of Inventories

AS-3 Change in Financial Statements

AS-4 Contingencies and Events Occurring after Balance Sheet Date

AS-5 Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies

AS-6 Depreciation Accounting (withdrawn and included in AS-10)

AS-7 Accounting for Construction Contracts (Revised)

AS-8 Accounting for Research and Development (withdrawn and included in AS-26)

AS-9 Revenue Recognition

AS-10 Accounting for Fixed Assets

AS-11 Effects of Changes in Foreign Exchange Rates (Revised)

AS-12 Accounting for Government Grants

AS-13 Accounting for Investments

AS-14 Accounting for Amalgamation

AS-15 Accounting for Retirement Benefits in the financial statement of Employer

AS-16 Borrowing Costs

AS-17 Segment Reporting

AS-18 Related Party Disclosure

AS-19 Leases

AS-20 Earning Per Share

AS-21 Consolidated Financial Statements

AS-22 Accounting for Taxes on Income

AS-23 Accounting for Investment in Associates in Consolidated Financial Statements

AS-24 Discounting Accounting

AS-25 Interim Financial Reporting

AS-26 Intangible Assets

AS-27 Financial Reporting on Interest in Joint Venture

AS-28 Impairment of Asset

AS-29 Provisions, Contingent Liabilities and Contingent Assets (Revised)

Now we will try to understand these accounting standards which have been issued by the ICAI.

1.2.13.1 AS-1 Disclosure of Accounting Policies

This accounting standard is related to the disclosure of accounting policies adopted by accountants in preparing financial statements. There are different areas where more than one method can be followed for accounting. These methods are followed in preparation of financial statements. In such situation where there are different methods are available and the specific method is followed, this method should be disclosed as accounting policy, according to this standard.

It is generally assumed that financial statements are prepared on the basis of fundamental accounting assumptions. As per this accounting standard, the fundamental accounting assumptions are: (a) Going Concern, (b) Consistency and (c) Accrual. If nothing is written about them, it is assumed that they are followed. However, if they are not followed, it must be disclosed.

For the purpose of selecting accounting policies, the important considerations are: (a) Prudence, (b) Substance over form and (c) Materiality. Prudence means making right estimates which are required under conditions of uncertainty while preparing financial statements. Substance over form means that transaction should be recorded in accordance with actual happening and economic reality of the transactions, not by its legal form. Materiality refers to disclosure of all the items and facts which are sufficient enough to influence the decisions of reader or user of financial statement.

According to this standard, disclosures are necessary to be made are (a) accounting policies adopted to prepare financial statements, (b) change in accounting policies and (c) effect of change in accounting policies on financial statements. The change in the accounting policies which has a material effect in current period or in latter period, should be disclosed.

1.2.13.2 AS-2 Valuation of Inventories:

The purpose of this standard is to formulate the method of computing cost of inventories, determine the value of closing inventory. As per this standard, inventories are those assets which (a) held for sale in the ordinary course of business, (b) in the process of production for such sale (raw material and work-in-progress) or (c) in the form of material or supplies to be consumed in the production process or in the rendering of services (stores, spares, raw material, consumables). Inventories do not include machinery.

As far as measurement of inventories is concerned, inventories should be valued at lower of cost and net realizable value. Cost of inventories should include the (a) cost of production, (b) cost of conversion and (c) other costs incurred in bringing the inventories to their present location and position. The net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. The comparison between cost and net realizable value should be made item by item or by group of items. The historical cost of inventories should normally be determined by using First in First out (FIFO) average cost or Last in First Out (LIFO) method of valuation. The base stock method of valuation may be used in exceptional circumstances only. Inventory of consumable stores and maintenance supplies should ordinarily be valued at cost.

As per this accounting standard, the financial statement should disclose: (1) accounting policy adopted in measuring inventories, (2) cost formula used and (3) classifications of inventories are: a) raw materials and components, b) work-in-progress, c) finished goods, d) stock-in-trade, e) stores and spares, f) loose tools and g) others.

1.2.13.3 AS-3 Cash Flow Statements:

This standard was issued in March 1997. In initial stage, the standard was recommendatory in character. However, under clause 32 of listing agreement, it is nothing but mandatory for listed companies since accounting year 1996-97.

Cash Flow Statement explains cash movement under three different heads: (a) Cash flow from operating activities, (b) Cash flow from investing activities and (c) Cash flow from financing activities.

An enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amount in the cash flow statement with the equivalent items reported in the balance sheet. It should disclose the amount of significant cash and cash equivalent balance held by the enterprises that are not available for use by it with explanation of management.

1.2.13.4 AS-4 Contingencies and Events Occurring after Balance Sheet Date

According to this standard, contingency refers to (a) existing conditions or situation at the balance sheet date, (b) result of which is not known on the balance sheet date, (c) result of which would be known only on happening or non-happening of certain events in future and (d) result may be either a gain or loss.

Events occurring after Balance Sheet Date are (a) events, which occur between the balance sheet date and date on which financial statements are approved by competent authority and (b) these events are significant events and it may be favourable and unfavourable.

As per this standard, material contingent loss effecting the financial position of enterprise, its nature and an estimate of financial effect should be disclosed by way of note. If estimate of financial effect cannot be made, the fact should be disclosed.

1.2.13.5 AS-5 Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies

This accounting standard was issued as “prior period and extra-ordinary items and change in accounting policies” in November 1982 first time. In 1997, it is revised with new title. Since 1st April 1996, it came into force as mandatory in nature.

Net profit or loss for the period includes two types of components: (a) Profit or loss from ordinary items and (b) extraordinary items. Ordinary activities are defined as any activities, which are undertaken by an enterprise as part of its business and incidental to main business. Extraordinary items are not expected to recur frequently or regularly. They are nothing but income or expense that arises from transactions that are clearly distinct from ordinary activities. The examples of extraordinary items are: (i) Attachment of property, (ii) Government grants becoming refundable, (iii) Loss due to earthquakes, (iv) Government grants for giving immediate financial support with no further cost and (v) Government grants receivable as compensation for expenses or losses incurred in previous accounting period.

a) Prior period items are income or expenses, which arise, in current period as a result of error or omission in the preparation of financial statement of one or more prior periods. The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in such a manner that their impact on current profit or loss can be perceived.

b) The change in accounting policies are made (a) for the compliance of accounting standards, (b) for the compliance the statute or law and (c) for better and appropriate presentation of financial statement. The material effect of such change should be disclosed in financial statement to reflect the effect of such change.

c) The change in an accounting estimate which has a material effect should be disclosed and quantified.

1.2.13.6 AS-6 Depreciation Accounting:

This standard was issued in September 1994 and made mandatory after 1st April 1995. However, ***it has been withdrawn as it is included in AS-10.***

Depreciation is the continuous and permanent reduction in the value of fixed assets by wear and tear. Different accounting policies are adopted by different enterprises.

This standard describes about accounting of depreciation in the following way:

1) The depreciable amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset.

2) The depreciation method selected should be applied consistently from period to period. A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. When such a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new

method should be adjusted in the accounts in the year in which the method of depreciation is changed. In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency should be charged in the statement of profit and loss. In case the change in the method results in surplus, the surplus should be credited to the statement of profit and loss. Such a change should be treated as a change in accounting policy and its effect should be quantified and disclosed.

3) The useful life of a depreciable asset should be estimated after considering the following factors:

   a) expected physical wear and tear;

   b) obsolescence;

   c) legal or other limits on the use of the asset.

4) The useful lives of major depreciable assets or classes of depreciable assets may be reviewed periodically. Where there is a revision of the estimated useful life of an asset, the unamortised depreciable amount should be charged over the revised remaining useful life.

5) Any addition or extension which becomes an integral part of the existing asset should be depreciated over the remaining useful life of that asset. The depreciation on such addition or extension may also be provided at the rate applied to the existing asset. Where an addition or extension retains a separate identity and is capable of being used after the existing asset is disposed of, depreciation should be provided independently on the basis of an estimate of its own useful life.

6) Where the historical cost of a depreciable asset has undergone a change due to increase or decrease in long term liability on account of exchange fluctuations, price adjustments, changes in duties or similar factors, the depreciation on the revised unamortised depreciable amount should be provided prospectively over the residual useful life of the asset.

7) Where the depreciable assets are revalued, the provision for depreciation should be based on the revalued amount and on the estimate of the remaining useful lives of such assets. In case the revaluation has a material effect on the amount

of depreciation, the same should be disclosed separately in the year in which revaluation is carried out.

8) If any depreciable asset is disposed of, discarded, demolished or destroyed, the net surplus or deficiency, if material, should be disclosed separately.

9) The following information should be disclosed in the financial statements:

    a) the historical cost or other amount substituted for historical cost of each class of depreciable assets;

    b) total depreciation for the period for each class of assets; and

    c) the related accumulated depreciation.

10) The following information should also be disclosed in the financial statements alongwith the disclosure of other accounting policies:

    a) depreciation methods used; and

    b) depreciation rates or the useful lives of the assets, if they are different from the principal rates specified in the statute governing the enterprise.

1.2.13.7 AS-7 Accounting for Construction Contracts (Revised):

Accounting for long-term construction contracts involves question as to when revenue should be recognized and how to measure the revenue in the books of contractor. As the period of construction contract is long, work of construction starts in one year and is completed in another year or after 3-4 years or so on. Here, question arises how the profit or loss of construction contract should be determined by contractor.

There are two types of construction contracts which are as follows: (a) Fixed Price Contract and (b) Cost Plus Contract. Fixed Price Contract is the contract in which contractor agrees for fixed price of the contract or fixed rate per unit. However, in some cases contract price is subject of escalation. Cost-plus Contract is the contract in which contractor is reimbursed the cost as defined plus fixed percentage of fee/profit.

Accounting Treatment of Construction Contract:

1) There are two methods of accounting for contracts which are percentage of completion method and completed contract method. However, the revised

standard adopts only percentage of completion method for recognizing the revenue.

2) When a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

   (a) separate proposals have been submitted for each asset;

   (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or rejectthat part of the contract relating to each asset; and

   (c) the costs and revenues of each asset can be identified.

3) A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when:

   (a) the group of contracts is negotiated as a single package;

   (b) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and

   (c) the contracts are performed concurrently or in a continuous sequence.

4) A contract may provide for the construction of an additional asset at the option of the customer or may be amended to include the construction of an additional asset. The construction of the additional asset should be treated as a separate construction contract when:

   (a) the asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or

   (b) the price of the asset is negotiated without regard to the original contract price.

5) Contract revenue should comprise:

   (a) the initial amount of revenue agreed in the contract; and

   (b) variations in contract work, claims and incentive payments:

      (i) to the extent that it is probable that they will result in revenue; and

      (ii) they are capable of being reliably measured.

6) Contract costs should comprise:

   (a) costs that relate directly to the specific contract;

   (b) costs that are attributable to contract activity in general and can be allocated to the contract; and

   (c) such other costs as are specifically chargeable to the customer under the terms of the contract.

7) When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. An expected loss on the construction contract should be recognized as an expense immediately.

8) In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

   (a) total contract revenue can be measured reliably;

   (b) it is probable that the economic benefits associated with the contract will flow to the enterprise;

   (c) both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and

   (d) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

9) In the case of a cost plus contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

   (a) it is probable that the economic benefits associated with the contract will flow to the enterprise; and

   (b) the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

10) Under the percentage of completion method, contract revenue is recognized as revenue in the statement of profit and loss in the accounting periods in which the work is performed. Contract costs are usually recognized as an expense in the

statement of profit and loss in the accounting periods in which the work to which they relate is performed. However, any expected excess of total contract costs over total contract revenue for the contract is recognized as an expense immediately.

11) An enterprise should disclose:

    (a) the amount of contract revenue recognized as revenue in the period;

    (b) the methods used to determine the contract revenue recognized in the period; and

    (c) the methods used to determine the stage of completion of contracts in progress.

12) An enterprise should disclose the following for contracts in progress at the reporting date:

    (a) the aggregate amount of costs incurred and recognized profits (less recognized losses) upto the reporting date;

    (b) the amount of advances received; and

    (c) the amount of retentions.

13) An enterprise should present:

    (a) the gross amount due from customers for contract work as an asset; and

    (b) the gross amount due to customers for contract work as a liability.

1.2.13.8 AS-8 Accounting for Research and Development:

Firstly this accounting standard was issued in January 1985 for corporate entities which was made mandatory for them after 1st April 1991 and for non-corporate entities after 1st April 1993. It was related to the accounting treatment of cost incurred on research and development. ***From 1st April 2003, this accounting standard has been withdrawn and included in Accounting Standard-26.***

1.2.13.9 AS-9 Revenue Recognition:

AS- 9 revenue recognition has been issued in November 1985 and is mandatory. This standard deals with the base for revenue recognition in the statement of profit and loss account.

1) Revenue recognition is mainly concerned with the timing of recognition of revenue in the statement of profit and loss account of an enterprise.

For example, in the case of sale of goods revenue may6 be recognized at the time the sale is made or the receipt of cash by the seller or receipt of goods by the buyer.

2) This standard does not apply to:

   (a) Revenue arising from construction contracts.

   (b) Revenue arising from hire-purchase agreements

   (c) Revenue of insurance companies arising from insurance business.

   (d) Realised and unrealized gains in relation to non-current assets.

   (e) Unrealisaed holding gains in relation to currents.

3) Revenue for sale for goods: As per accounting consideration, the revenue is the income of a business derived from its normal business activities, usually from the sale of goods and services to customers. Some companies receive revenue from interest, royalties or other fees. Revenue form may refer to the amount in a monitory unit, earned during a period of time as in last year.

4) Revenue results form:

   (a) The sale of goods

   (b) The rendering of service.

   (c) Interest, royalties and dividends resulting from the use of resources of the enterprise.

5) Revenue recognition is mainly concerned with the timing of recognition of revenue is the statement of profit and loss. The amount of revenue arising on a transaction is usually determined by agreement between the parties to the goods for a price to the transaction.

6) Sale of goods:

   (a) Sale means transfer of property in the goods for a price.

   (b) It is essential that part or whole of the consideration should be in money.

(c) If consideration is entirely in kind for transfer of property in goods it will be called barter.

7) Revenue from sale of goods is recognized when:

(a) The seller has transfer the ownership is goods to the buyer.

(b) The degree usually associated with the ownership nor effective control over the goods sold

(c) The amount of revenue can be measured reliably

(d) Probable that the economic benefits associated with the transaction will flow to the entity

(e) The cost incurred or to be incurred in respect of the transaction can be measured reliably

8) Revenue from Interest, Royalties and dividends:

Along with sale of goods revenue arises from interest, royalties and dividends. Revenue arising from the use by others of enterprise resources yielding interest, royalties and dividends should only be recognized when no significant uncertainty as to measurability or collectivity exists.

(a) Interest: Charges for the use of cash resources or amounts due to the enterprise.

(b) Royalties: Charges for the use of such assets as know-how, patents, trade-marks and copyrights.

(c) Dividend: Rewards form the holding of investments in shares.

9) The enterprise should disclose the matter regarding revenue recognition as:

(a) Disclosure of the accounting policies adopted for the recognition of revenue

(b) Disclose the amount of revenue arising form exchanges of goods or services

(c) Disclosure the circumstances it revenue recognition has been postponed

(d) Disclosure the amount of each significant category of revenue recognized during the period

1.2.13.10 AS-10 Property Plant and Equipment (Revised):

This standard should be applied in accounting for Property, Plant and Equipment (PPE) generally known as fixed assets which are tangible assets. Intangible fixed assets are not covered under this standard whereas they are dealt by AS-26.

1) This accounting standards is not applicable to the following items: (a) biological assets related to agricultural activity other than bearer plant, (b) Wasting assets including minerals rights, expenditure on the exploration for and extraction of minerals, oil, and natural gas and similar non-regenerative resources, (c) Investment property.

2) The examples of Property, Plant and Equipment (PPE) are land, building plant and machinery, vehicles, furniture and fittings and office equipments etc.

3) Fixed Assets are those assets which are (a) held with intention of being used for the purpose of producing or providing goods and services, (b) not held for sale in the normal courses of the business and (c) expected to be used for more than one expected to be used for more than one accounting period.

4) The cost of an item of PPE should be recognized as an asset if and only if: (a) it is probable that future economic benefits associated with the asset will flow to the entity and (b) the cost of the item can be measured reliably.

5) Once an item of PPE qualifies for recognition as an asset, it will be initially measured at cost. The cost of items of PPE comprises: (a) purchase price, including import duties, non-refundable purchase taxes, less trade discounts and rebates, (b) cost directly attributable to bringing the asset to the location and condition necessary for it to be used in a manner intended by management and (c) initial estimates of cost of dismantling/decommissioning, removing and site restoration at present value if the entity has an obligation that it incurs on acquisition of the asset or as a result of using the asset other than to produce inventories.

6) As an accounting policy, an entity may choose between the cost model and the revaluation model. Cost model carries at cost less any accumulated depreciation and any accumulated impairment losses. Revaluation model carries at a revalued amount, being fair value at the date of the revaluation less any subsequent

accumulated depreciation and any accumulated impairment losses; however, to use this model, fair values must be reliably measurable.

7) This standard also includes depreciation accounting related to PPE. Depreciable amount should be allocated on a systematic basis over useful life. Useful life and residual value must be reviewed at least at each financial year end. Depreciation method should reflect the pattern in which the asset's economic benefits are consumed.

8) Depreciation charge for each period should be recognized as an expense unless it is included in the carrying amount of another asset. This standard does not specify a method to be used.

9) The disclosure should include: measurement basis used for determining gross carrying amount, depreciation method used, useful lives or the depreciation rates used, gross carrying amount and accumulated depreciation, a reconciliation of carrying amount at beginning and end of period. Some other disclosures are also expected as specified in the standard.

1.2.13.11 AS-11 Effects of Changes in Foreign Exchange Rates (Revised)

Initially this standard was issued in 1976. It has been revised in 2003 and it is mandatory in nature and applicable after 1st April 2004. This standard applies to: (a) In accounting for transactions in foreign currencies, (b) In translating the financial statement of foreign operation-integral as well as non-integral and (c) the accounting standard also prescribes the accounting for forward exchange contracts.

1) Transactions in foreign currency include (a) buying and selling of goods or services priced in foreign currency, (b) acquisition or disposal of fixed assets denominated in foreign currency, (c) incurs or settles liabilities denominated in foreign currency, (d) lending or borrowings when the amounts are denominated in a foreign currency and (e) un-performed forward exchange contract.

2) This accounting standard prescribes the accounting treatment for the issues: (a) initial recognition of foreign transaction, (b) valuation at the balance sheet date, (c) contingent liabilities and (d) treatment of exchange difference.

3) A transaction in a foreign currency is normally recorded in the financial records of an enterprise using the exchange rate prevailing at the time of transaction or a standard rate. Standard rates are normally used where the transactions are

numerous. The use of standard rate requires that standards are realistic, are reviewed regularly and, where necessary revised in the light of prevailing exchange rates.

4) An enterprise should disclose:

   (a) Amount of exchange difference included in the net profit or loss

   (b) Amount accumulated in foreign exchange translation reserve

   (c) Reconciliation of opening and closing balance of foreign exchange translation reserve

   (d) If the reporting currency is different from the currency of the country in which entry is domiciled, the reason for such difference.

   (e) A change in classification of significant foreign operation

   (f) Amount remaining unamortized in Foreign Currency Monetary Items Translation Difference Account if entity has exercised option to capitalize the exchange difference.

1.2.13.12 AS-12 Accounting for Government Grants:

This standard deals with accounting for government grants which are called as subsidies, cash incentives duty drawbacks etc.

1) There are two methods of accounting of such transactions: (a) capital approach in which grant is treated as part of shareholders found and (b) income approach in which grant is taken to income over one or more period.

2) Non-monetary government grants include (i) grants given at concessional rate, then such assets are accounted for at their acquisition cost and (ii) grants given free of cost, then such assets are recorded at nominal value.

3) Monetary government grants consist of (i) grants related to depreciable fixed assets and (ii) grants related to non-depreciable fixed assets.

4) Grants related to depreciable fixed assets have two accounting treatments: (a) grants shown as deduction from the gross value of asset in arriving its book value. When the grant is equal to the cost of assets, the asset should be shown in balance sheet at nominal value and (b) grants are treated as deferred income which is recognized in profit and loss account on a systematic and rational basis

over the useful life of assets. Such allocation of income is made over the periods and in proportions in which depreciation on related assets is charged.

5) Grants related to non-depreciable fixed assets have accounting treatments: (a) Grants is shown as deduction from the gross value of asset in arriving at its book value. When the grant is equal to the cost of assets, the assets should be shown in balance sheet at nominal. (b) If the conditions attached to grants are fulfilled. Grants are credited to capital reserve account or (c) If condition attached to grants is yet to be fulfilled, grants are credited to income over the same period over which the cost of meeting such conditions is charged to income and unapportioned deferred income is disclosed in the balance sheet as 'Deferred Government grants'.

6) The enterprise should make the disclosures related to the government grants:

   (a) The accounting policy adopted for Government grants including the methods of presentation in the financial statement

   (b) The nature and extent of Government grants recognized in the financial statements including grants of non-monetary assets given at a concessional rate or free of cost.

   (c) In the case of companies, deferred government grants should be disclosed separately under the head non-current liabilities to the extent entity expects not to recognize the same within the next 12 months after the end of reporting period and the remaining balance should be disclosed separately under the head current liabilities.

1.2.13.13 AS-13 Accounting for Investments:

This accounting standard deals with accounting for investments in the financial statement of the enterprises. It consists of classification of investment, cost of investment, carrying amount/valuation of investment, disposal of investment, reclassification of investment and disclosure of investment in the financial statement.

1) Cost of investment comprises of purchase price and acquisition charges such as brokerage, fees and duties etc. Purchase price of investment is the fair value of the securities issued if investment is acquired by issue of shares or other securities. Acquisition cost of investment is fair value of the asset given or fair

value of the investment received if it is more clearly evident, when investment is acquired in exchange for another asset.

2) The receipt of pre-acquisition interest and dividend from pre-acquisition profits are deducted from the cost of investment.

3) Investments are classified as current investment, long-term investment and investment property.

4) In respect of investments, following items should be disclosed:

   (a) Accounting policies followed for valuation of investment.

   (b) Classification of investment into current and long-term in addition to classification as per Schedule VI of Companies Act in case of company.

   (c) Aggregate amount of quoted and unquoted securities separately.

   (d) Any significant restriction on investment like minimum

1.2.13.14 AS-14 Accounting for Amalgamation:

Initially this standard was issued in 1994 came into force with effect from 1st April 1995 as mandatory in nature. This standard deals with accounting for amalgamation.

1) The standard is applicable where acquired company is dissolved and separate entity ceased to exist.

2) Types of amalgamation can be (a) amalgamation in the nature of merger or (b) amalgamation in the nature of purchase.

3) As far as accounting method is concerned, 'pooling of interest method' is followed for the amalgamation in the nature of merger and 'purchase method' is followed for the amalgamation in the nature of purchase.

4) The following items should be disclosed in the first financial statements of transferee company:

   (a) Names and general nature of business of amalgamating companies, effective date of amalgamation, method of accounting used and particulars of scheme sanctioned under a statute.

(b) When amalgamation is recorded under pooling interest method, it should disclose description and number of shares issued and difference between consideration and net assets acquired.

(c) When amalgamation is recorded under purchase method, it should disclose consideration for the amalgamation and difference between consideration and net assets acquired and treatment thereof including period of amortization of goodwill.

1.2.13.15 AS-15 Employee Benefits (Revised):

This Standard should be applied by an employer in accounting for all employee benefits, except employee share-based payments1

Employee benefits include:

(a) short-term employee benefits, such as wages, salaries and social security contributions (e.g., contribution to an insurance company by an employer to pay for medical care of its employees), paid annual leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits such as gratuity, pension, other retirement benefits, post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; and

(d) termination benefits.

Basic principles for accounting short-term employee benefits are that the undiscounted amount of short-term employee benefits should be recognized when the employee rendered service.

1.2.13.16 AS-16 Borrowing Costs:

This standard deals with borrowing costs.

1) Borrowing costs are defined as interest and other costs incurred relating to borrowing of funds.
2) It includes the costs or charges:
   (a) interest and commitment charge on borrowing
   (b) amortization of discounts or premiums relating to borrowing
   (c) amortization of ancillary costs incurred in connection with arrangement of borrowings
   (d) finance charges when the asset acquired under finance leases
   (e) exchange difference arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.
3) As per this standard, borrowing cost, which is directly related to the acquisition, construction or production of qualifying asset should be capitalized.
4) The financial statement should disclose: (a) the accounting policy adopted for borrowing cost and (b) the amount of borrowing cost capitalized during the period.

1.2.13.17 AS-17 Segment Reporting

This standard deals with segment reporting based on products/services and operations in different geographical areas. They are exposed to different risk and return. The disclosure of information regarding such segments is called segment reporting.

1) There are two types of segments: business segments and geographical segments.
2) Business segment is made on the basis of products/services, which are exposed, to different risks and returns.
3) Geographical segment is made on the basis of its operation in different geographical areas, which are exposed to different risks and returns.
4) The disclosure requirements include: revenue from external customers, revenue from transactions with other segments, segment result, cost to acquire tangible and intangible fixed assets, depreciation and amortization expenses, carrying

amount of segment assets, segment liabilities, non-cash expenses other than depreciation and amortization and reconciliation of revenue, result, assets and liabilities.

1.2.13.18 AS-18 Related Party Disclosure:

1) Related parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

2) According to this accounting standard, following facts should be disclosed: (a) related party relationship and (b) transaction between a reporting enterprise and its related parties.

3) Related party transaction means a transfer of resource or obligations between related parties regardless of whether or not a price is charged.

1.2.13.19 AS-19 Leases:

This standard deals with lease transactions. A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

1) For the purpose of accounting, lease is classified into two categories: (a) Finance lease and (b) Operating lease.

2) Finance lease is a lease which transfers substantially all the risks and rewards incidental to ownership reward incidental to ownership.

3) Disclosure in operating lease by lessor- general description of significant leasing arrangements, accounting policy for initial direct payment, future lease payments in aggregate.

4) Disclosure in operating lease by lessee- general description of significant leasing arrangements, total of future minimum lease payments and lease payments.

5) Disclosure in finance lease by lessor- general description of significant leasing arrangements, accounting policy for initial direct cost, reconciliation of total gross investment in lease and present value of MLP receivable at balance sheet date.

6) Minimum Lease Payment (MLP) receivable.

7) Disclosure in finance lease by lessee- asset under finance lease segregated from the asset owned, reconciliation of total MLP with its present value on balance sheet date and MLP on balance sheet date in classification.

1.2.13.20 AS-20 Earning Per Share

An enterprise should present basic and diluted earnings per share on the face of the statement of profit and loss for each class of equity shares that has a different right to share in the net profit for the period. An enterprise should present basic and diluted earnings per share with equal prominence for all periods presented.

1) This Standard requires an enterprise to present basic and diluted earnings per share, even if the amounts disclosed are negative (a loss per share).
2) Basic earnings per share should be calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period.
3) For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares.
4) An enterprise should disclose the following:
   (a) where the statement of profit and loss includes extraordinary items (within the meaning of AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies), the enterprise should disclose basic and diluted earnings per share computed on the basis of earnings excluding extraordinary items (net of tax expense); and
   (b)
      (i) the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period;
      (ii) the weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other; and
      (iii) the nominal value of shares along with the earnings per share figures.

Table 1

Other Accounting Standards (ASs)

Sr. No.	Number of AS	Title of the Accounting Standard	Date from which mandatory
21	AS-21	Consolidated Financial Statements	1-4-2001
22	AS-22	Accounting for Taxes on Income	
23	AS-23	Accounting for Investment in Associates in Consolidated Financial Statements	1-4-2002
24	AS-24	Discounting Accounting	1-4-2004
25	AS-25	Interim Financial Reporting	1-4-2002
26	AS-26	Intangible Assets	1-4-2003
27	AS-27	Financial Reporting on Interest in Joint Venture	1-4-2004
28	AS-28	Impairment of Asset	1-4-2005
29	AS-29	Provisions, Contingent Liabilities and Contingent Assets (Revised)	1-4-2004

1.2.14 International Financial Reporting Standards (IFRSs):

International Financial Reporting Standards (IFRSs) is a set of high quality and globally acceptable financial reporting standards developed by the International Accounting Standard Board (IASB). The IASB is the independent standard setting body of the IFRS Foundation, its head-quarter is London. The IFRSs are followed in more than 114 countries of the world. Following the IFRSs is like speaking one accounting language all over the world.

IFRSs are a set of high quality, understandable and enforceable global accounting standards which includes:

1. International Accounting standards (IASs)
2. International Financial Reporting standards (IFRSs)

3. International Financial Reporting Interpretations (IFRIs)

4. Standing Interpretations (SIs)

List of IFRSs

International Accounting Standards

Sr. No.	IAS	Description
1	IAS-1	Presentation of Financial Statements
2	IAS-2	Inventories
3	IAS-3	Consolidated Financial Statements (originally issued in 1976, effective 1 Jan 1977, Superseded in 1989 by IAS-27 and IAS-28
4	IAS-4	Depreciation Accounting (withdrawn in 1999, replaced by IAS-16, 22 and 38, all of which were issued or revised in 1998)
5	IAS-5	Information to be Disclosed in Financial Statements (originally issued in Oct.1976, effective 1 Jan. 1997, Superseded by IAS-1 in 1997)
6	IAS-6	Accounting Responses to Changing Prices (Superseded by IAS-15, which was withdrawn in Dec 2003)
7	IAS-7	Cash Flow Statements
8	IAS-8	Accounting Policies, Changes in Accounting Estimates and Errors
9	IAS-9	Accounting for Research and Development Activities (Superseded by IAS-38, effective 1 July 1999)
10	IAS-10	Events after the Balance Sheet Date
11	IAS-11	Construction Contracts
12	IAS-12	Income Taxes
13	IAS-13	Presentation of Current Assets and Current Liabilities (Superseded by IAS-1)
14	IAS-14	Segment Reporting

15	IAS-15	Information Reflecting the Effects of Changing Prices (withdrawn in Dec.2003)
16	IAS-16	Property, Plant and Equipment
17	IAS-17	Leases
18	IAS-18	Revenue
19	IAS-19	Employee Benefits
20	IAS-20	Accounting for Government Grants and Disclosure of Government Assistance
21	IAS-21	The Effects of Changes in Foreign Exchange Rates
22	IAS-22	Business Combinations
23	IAS-23	Borrowing Costs
24	IAS-24	Related Party Disclosures
25	IAS-25	Accounting for Investments (Superseded by IAS-39 and IAS-40 effective 2001)
26	IAS-26	Accounting and Reporting by Retirement Benefit Plans
27	IAS-27	Consolidated and Separate Financial Statements
28	IAS-28	Investments in Associates
29	IAS-29	Financial Reporting in Hyperinflationary Economics
30	IAS-30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions (Superseded by IFRS-7 effective 2007)
31	IAS-31	Interests in Joint Ventures
32	IAS-32	Financial Instruments: Presentation (Disclosure provisions superseded by IFRS-7 effective 2007)
33	IAS-33	Earnings Per Share
34	IAS-34	Interim Financial Reporting
35	IAS-35	Discontinuing Operations (Superseded by IFRS-5 effective 2005)

36	IAS-36	Impairment of Assets
37	IAS-37	Provisions, Contingent Liabilities and Contingent Assets
38	IAS-38	Intangible Assets
39	IAS-39	Financial Instruments: Recognition and Measurement
40	IAS-40	Investment Property
41	IAS-41	Agriculture

(Source: https://www.ifrs.org)

International Financial Reporting Standards

Sr. No.	IFRS	Description
1	IFRS-1	First-time Adoption of International Financial Reporting Standards
2	IFRS-2	Share-based Payment
3	IFRS-3	Business Combination
4	IFRS-4	Insurance Contracts
5	IFRS-5	Non-current Assets held for Sale and Discontinued Operations
6	IFRS-6	Exploration for and Evaluation of Mineral Assets
7	IFRS-7	Financial Instruments: Disclosures
8	IFRS-8	Operating Segments
9	IFRS-9	Financial Instruments
10	IFRS-10	Consolidated Financial Statements
11	IFRS-11	Joint Agreements
12	IFRS-12	Disclosure of Interest in other Entities
13	IFRS-13	Fair Value Measurement
14	IFRS-14	Regulatory Deferral Accounts

15	IFRS-15	Revenue from Contracts with Customers
16	IFRS-16	Leases

(Source: https://www.ifrs.org)

Financial statements consist of (1) A statement of financial position, (2) A statement of comprehensive Income, (3) A statement of changes in equity and (4) A cash flow statement or statement cash flow.

India made a commitment to G20 to follow IFRSs from 2011, however this date was postponed and the IFRSs are implemented from April 2016 for specific companies.

There are two approaches to move accept this framework: (a) adoption of IFRSs and (b) convergence of IFRSs with Accounting Standards. India has accepted second option i.e. convergence of IFRSs with its own accounting standards. The convergence gives a scope for making country specific changes. It was decided that the converged standards with the IFRSs be named as Indian Accounting Standards (Ind ASs).

Now India have two sets of accounting standards viz., existing accounting standards under Companies (Accounting Standard) Rules, 2006 and IFRSs converged Indian Accounting Standards (Ind Ass). Ind AS are named and numbered in the same way as the corresponding IFRSs. The Ministry of Corporate Affairs has notified Ind ASs as Companies (Indian Accounting Standards) Rules 2016 with the roadmap of implementation.

1.2.15 List of Ind ASs:

Ind ASs	Title	Corresponding IAS/IFRS No.
Ind AS 1	Presentation of Financial Statements	IAS 1
Ind AS 2	Inventories	IAS 2
Ind AS 7	Cash Flow Statements	IAS 7
Ind AS 8	Accounting Policies, Change in Accounting Estimates and Errors	IAS 8

Ind AS 10	Events after the Balance Sheet Date	IAS 10
Ind AS 11	Construction Contracts (See Note)	IAS 11
Ind AS 12	Income Taxes	IAS 12
Ind AS 16	Property, Plant and Equipment	IAS 16
Ind AS 17	Leases	IAS 17
Ind AS 18	Revenue (See Note)	IAS 18
Ind AS 19	Employee Benefits	IAS 19
Ind AS 20	Accounting for Govt. Grants and Disclosure of Government Assistance	IAS 20
Ind AS 21	The Effects of changes in the Foreign Exchange Rates	IAS 21
Ind AS 23	Borrowing Costs	IAS 23
Ind AS 24	Related Party Disclosure	IAS 24
Ind AS 27	Separate Financial Statements	IAS 27
Ind AS 28	Investments in Associates and Joint Ventures	IAS 28
Ind AS 29	Financial Reporting in Hyper Inflationary Economies	IAS 29
Ind AS 32	Financial Instruments: Presentation	IAS 32
Ind AS 33	Earnings Per Share	IAS 33
Ind AS 34	Interim Financial Reporting	IAS 34
Ind AS 36	Impairment of Assets	IAS 36
Ind AS 37	Provisions, Contingent liabilities and Contingent Assets	IAS 37
Ind AS 38	Intangible Assets	IAS 38
Ind AS 40	Investment Property	IAS 40
Ind AS 41	Agriculture	IAS 41
Ind AS 101	First time adoption of Indian Accounting Standards	IFRS 1

	(Ind AS)	
Ind AS 102	Share Based Payments	IFRS 2
Ind AS 103	Business Combination	IFRS 3
Ind AS 104	Insurance Contracts	IFRS 4
Ind AS 105	Non-current assets held for sale and discontinued operations	IFRS 5
Ind AS 106	Exploration for and evaluation of mineral resources	IFRS 6
Ind AS 107	Financial Instrument: disclosure	IFRS 7
Ind AS 108	Operating Segment	IFRS 8
Ind AS 109	Financial Instruments	IFRS 9
Ind AS 110	Consolidated Financial Statements	IFRS 10
Ind AS 111	Joint Arrangement	IFRS 11
Ind AS 112	Disclosure of interest in other entities	IFRS 12
Ind AS 113	Fair Value Measurement	IFRS 13
Ind AS 114	Regulatory Deferral Accounts	IFRS 14
Ind AS 115	Revenue from Contracts with Customers (See Notes)	IFRS 15

(Source: www.mca.gov.in)

Note: The Ind AS 115 'Revenue from Contracts with Customers' has been postponed for implementation and in place thereof Ind AS 11 'Construction Contracts' and Ind AS 18 'Revenue' have been notified by MCA. However, now The Ministry of Corporate Affairs notified Ind AS 115 for application by Ind AS companies from financial year beginning or after 1st April 2018.

Check your progress-3

(A) Choose the appropriate alternative:

1) The Accounting Standard Board (ASB) was constituted on …………….

(a) 21 April 1956

(b) 21 April 1977

(c) 21 April 1975

(d) 21 April 1947

2) According to AS-1, …………is not fundamental accounting assumption.

(a) Going Concern

(b) Consistency

(c) Accrual

(d) Business Entity

3) …………… has been withdrawn and included in AS-10.

(a) AS-8

(b) AS-7

(c) AS-6

(d) AS-5

4) According to AS-3, cash movement under three different heads. ……….. is not included in these heads.

(a) Cash flow from Operating Activities

(b) Cash flow from Investing Activities

(c) Cash flow from Financing Activities

(d) Cash flow from Marketing Activities

5) …………..is the reporting based on product/services and operations in different geographical areas.

(a) Product-wise reporting

(b) Geographical reporting

(c) Segment reporting

(d) Operation-wise reporting

(B) State whether the following statement is 'True' or 'False':

1) For accounting, pooling interest method is followed for the amalgamation in the nature of merger.

2) AS-15 Employee Benefits deals with accounting for all employee benefits, except employee share-based payments.

3) Operating lease is a lease which transfers substantially all the risks and rewards incidental to ownership rewards incidental to ownership.

4) AS-9 Revenue Recognition deals with revenue for sale of goods and revenue arising from hire-purchase agreements.

5) Intangible fixed assets are not covered under AS-10 whereas they are dealt by AS-26.

(C) Fill in the blanks:

1) ………… deals with the accounting for transactions in foreign currencies.

2) As per AS-12,…………..are nothing but subsidies, cash incentives, duty drawbacks etc.

1.3 Summary:

Accounting is a language of business. It is a process of identifying, recording, classifying, summarizing and interpretation of transactions and events in monetary terms. Accounting process includes stages of identifying transactions, recording transactions, classifying them according to accounts, summarizing results and interpreting performance in financial statements. Financial accounting, cost accounting, management accounting, human resource accounting and social accounting are branches of accounting. Accounting Standard is defined as "written documents issued from time to time by institutions of the accounting profession or institutions which has sufficient involvement and which are established expressly for this purpose". In India, Accounting Standard Board has issued 29 accounting standards. Out of them some are recommendatory and some are mandatory. International Financial Reporting Standards (IFRSs) is a set of high quality and globally acceptable financial reporting standards developed by the International Accounting Standard Board (IASB). IFRSs are a set of high quality, understandable and enforceable global accounting standards.

1.4 Terms to Remember:

1.4.1 Accounting: Accounting is the art of recording, classifying and summarizing in a significant manner, and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.

Journal: Journal is the book of original or prime entry containing a chronological record of the transactions.

1.4.2 Account: A ledger account is nothing but a summary statement of all transactions relating to persons, assets, liabilities, expenses or income which have taken place during an accounting period.

1.4.3 Balancing: The stage of totaling the debits and credits of account separately and finding out difference is called 'balancing of an account'.

1.4.4 Trial Balance: Trial balance is a tabular statement showing balances of accounts at the end of the accounting period. It includes debit balances as well as credit balances.

1.4.5 Accounting Standard: Accounting Standard is defined as "written documents issued from time to time by institutions of the accounting profession or institutions which has sufficient involvement and which are established expressly for this purpose".

1.4.6 Fundamental Accounting Assumptions: As per this accounting standard, the fundamental accounting assumptions are: (a) Going Concern, (b) Consistency and (c) Accrual.

1.4.7 Considerations: For the purpose of selecting accounting policies, the important considerations are: (a) Prudence, (b) Substance over form and (c) Materiality.

1.4.8 Inventories: Inventories are those assets which (a) held for sale in the ordinary course of business, (b) in the process of production for such sale (raw material and work-in-progress) or (c) in the form of material or supplies to be consumed in the production process or in the rendering of services (stores, spares, raw material, consumables).

1.4.9 Cash Flow Statement: Cash Flow Statement explains cash movement under three different heads: (a) Cash flow from operating activities, (b) Cash flow from investing activities and (c) Cash flow from financing activities.

1.4.10 Depreciation: Depreciation is the continuous and permanent reduction in the value of fixed assets by wear and tear.

1.4.11 Fixed Price Contract: Fixed Price Contract is the contract in which contractor agrees for fixed price of the contract or fixed rate per unit.

1.4.12 Cost-plus Contract: Cost-plus Contract is the contract in which contractor is reimbursed the cost as defined plus fixed percentage of fee/profit.

1.4.13 Lease: A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

1.4.14 Finance Lease: Finance lease is a lease which transfers substantially all the risks and rewards incidental to ownership reward incidental to ownership.

1.4.15 Operating Lease: Operating lease is a lease which transfers not substantially all the risks and rewards incidental to ownership reward incidental to ownership.

1.4.16 IFRSs: International Financial Reporting Standards (IFRSs) is a set of high quality and globally acceptable financial reporting standards developed by the International Accounting Standard Board (IASB). IFRSs are a set of high quality, understandable and enforceable global accounting standards.

1.5 Answers to Check your progress:

Answer to Check Your Progress 1:

(A) 1- c),

2 – b)

(B) 1- Business Entity Concept,

2-Cost Concept,

3- Realization Concept

Answer to Check Your Progress 2:

1- Journal, 2- Ledger, 3- Balancing, 4- Trial Balance

Answer to Check Your Progress 3:

(A) 1-(b), 2-(d), 3-(c), 4-(d), 5-(c)

(B) 1-True, 2-True, 3-False, 4-False, 5-True

(C) 1-AS-11, 2- Government grants

1.6 Exercise:

1. What is accounting?
2. What are characteristics of accounting?
3. Describe in detail, the branches of accounting.
4. Explain various accounting concepts?
5. What are the accounting conventions?
6. Describe accounting process?
7. Write an essay on accounting standards?
8. Write Short notes on:
    a) Journal
    b) Ledger
    c) Trial Balance
    d) Trading Profit and Loss Account
    e) Balance Sheet
9. Explain International Financial Reporting Standards.

1.7 Reference for further study:

1. The American Institute of Certified Public Accountants (AICPA) (1941), Committee on Terminology
2. American Accounting Association (1966), A Statement of Basic Accounting Theory, p.1.
3. Rawat, D. S., Students' Guide to Accounting Standards, Taxmann Publication (P.) Ltd., New Delhi.
4. Gupta, M. P. and Agarwal, B. M. (2018). Grewal's Accountancy (CA Foundation), S. Chand and Company Ltd., New Delhi.
5. Maheshwari, S. N.; Maheshwari, Suneel K. and Mahaeshwari, Sharad K. (2016). An Introduction to Accountancy, Vikas Publishing House Pvt. Ltd., Noida.

(Disclaimer: Partial information has been given about accounting standards just for introducing them to students. For details, students may refer original documents regarding Accounting Standards, available on the website of Ministry of Corporate Affairs: www.mca.gov.in)

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Unit-2

Amalgamation of Partnership Firms

Structure of Unit :

2.0 Objective

After studying this unit, you will be able to –

- Understand the meaning and objectives of Amalgamation of partnership firms.
- Pass journal entries in the books of old firm and new firm.
- Prepare ledger accounts in the books of old firm and new firms.

2.1 Introduction

Already you have studied different topics of partnership firm such as admission of partner, retirement of partner, death of partner, dissolution etc. In this unit you have to learn accounting procedure of amalgamation of partnership firms. This unit amalgamation of partnership firm covers meaning, objectives, journal entries and ledger posting and solution of practical problems of amalgamation of partnership firms.

2.2 Presentation of Subject Matter

2.2.1 Meaning of Amalgamation

When two or more firms carrying similar type business, come together to form a new partnership is called as amalgamation of partnership firms. It indicates dissolution of two or more existing firms and a new firm is formed to take over old business. As a result of the amalgamation, the partners of dissoluted firms become the partner of the new firm.

2.2.2 Objectives of Amalgamation

1. To avoid cut throat competition
2. To get the benefit of large scale production
3. To get the benefit of monopoly
4. To reduce the common expenses
5. To get benefit of expertise of management

2.2.3 Ways of Amalgamation

Amalgamation can be formed in any of the following ways:

1. When two or more sole proprietors end their separate business and form a new partnership firm.
2. When one existing partnership firm absorbs a sole proprietorship.
3. When one existing partnership firm absorbs another partnership firm
4. When two or more partnership firms end their separate businesses and form a new partnership firm.

2.2.4 Accounting Treatment in the books of Old (amalgamating/dissolving) Firm

In amalgamation the old firms are dissolved, so their books of accounts are closed by passing closing journal entries. There are two methods adopted for closing books of account of old firms.

a) Revaluation Method

In this method Revaluation A/c or Profit & Loss Adjustment A/c is prepared to record the effect of increase or decrease in the value of assets and liabilities. It means assets and liabilities of the old firm are revalued to ascertain true capital of the partners. In this unit Revaluation method is followed for accounting procedure.

b) Realisation Method

In this method all assets and liabilities are transferred to Realisation A/c and purchase price is calculated. Purchase price or consideration is calculated on the basis of agreed value of assets and liabilities taken over by the new firm.

Model Entries as per Revaluation Method :

Journal Entries in the books of Old Firms :

1. For revaluation of assets and liabilities

   a) For increase in the value of assets and decrease in the value of liabilities

   Assets A/c Dr (with increased amount)

   Liabilities A/c Dr (with decreased amount)

   To Revaluation A/c OR

   Profit & Loss Adjustment A/c

   (Being profit on revaluation of assets and liabilities)

   b) For decrease in the value of assets and increase in the value of liabilities.

   Revaluation A/c OR Profit & Loss Adjustment A/c Dr

   To Assets A/c (with decreased amount)

   To Liabilities A/c (with increased amount)

   (Being loss on revaluation of assets and liabilities)

c) For transfer of profit on Revaluation A/c to partner's capital (If there is profit)

Revaluation A/c OR Profit & Loss Adjustment A/c Dr (In profit sharing ratio)

To partners Capital A/c

(Being transfer of profit to partners capital account)

d) For transfer of loss on Revaluation A/c to partner's capital (If there is loss)

Partners Capital A/c Dr. (In profit sharing ratio)

To Revaluation A/c OR P&L Adjustment A/c

(Being transfer of loss to partners capital account)

2. For closing Assets and Liabilities which are not taken over by the new firm

a) When the assets are sold

Bank A/c Dr. (with sale value)

To Assets A/c (with sale value)

(Being assets are sold, not taken over by the new firm)

b) When the assets is taken over by any partner.

Partner's Capital A/c Dr. (agreed value)

To Asset A/c (agreed value)

(Being asset taken over by partner)

c) When the asset is taken over by all partners or if it is not stated clearly whether the assets not taken over by the new firm are sold out or taken over by any partners.

Partner's Capital A/c Dr. (in Capital ratio)

To Asset A/c

(Being asset taken by all partners)

d) When Liability paid by the old firm, if not taken by the new firm

Liability A/c Dr. (actual amount paid)

To Bank A/c

(Being Liabilities paid not taken by the new Firm)

e) When Liability is taken over by any of the partner

Liability A/c Dr. (at agreed value)

To Partners Capital A/c

(Being Liability taken by a partner)

f) When Liability is taken over by all partners or if it is not stated clearly whether it is paid by the firm or taken over by any partner

Liability A/c Dr. (in capital ratio)

To Partners Capital A/c

(Being liability taken by all partners)

3. For transfer of undistributed profits and losses appearing in the balance sheet.

a) For the profit appearing on Liability side of balance sheet.

Reserve Fund / General Reserve A/c Dr.

To All Partners Capital A/c (in profit sharing ratio)

(Being undistributed profits transferred to all partners capital A/c)

b) For the loss appearing on asset side of balance sheet

Partners Capital A/c Dr. (in profit sharing ratio)

To Profit and Loss A/c

(Being undistributed loss transferred to all partners capital A/c)

4. For creation of Goodwill (If there is no goodwill account in the books of old firm)

Goodwill A/c Dr.

To Partners Capital A/c (In profit sharing ratio)

(Being raised goodwill transferred to partners capital A/c)

5. For transfer of assets and liabilities taken over by the new Firm.

New Firm A/c Dr. (difference between agreed value)

Liabilities A/c Dr. (agreed values)

To Assets A/c (agreed values)

(Being Assets and Liabilities transferred to new firm)

6. For transfer of Partners Capital to the new firm.

Partners Capital A/c Dr.

To New Firms A/c

(Being partners capital transferred to new firm)

Illustration-1

Following were the Balance Sheets as on 31st march 2018 of two firm M/s J& K and M/S L& M.

Balance Sheet As on 31st March 2018

Liabilities	J & K Rs.	L &M Rs.	Assets	J & K Rs.	L & M Rs.
Sundry Creditors	20,000	25,000	Cash at bank	5,600	6,700
Mrs, J's loan	5,000		Stock	20,400	18,300
Capital			Sundry Debtors	15,000	20,000
J	40,000		Office Furniture	4,000	5,000
K	20,000		Premises	40,000	–
L		24,000	Investment	–	15,000
M		16,000			
	85,000	**65,000**		**85,000**	**65,000**

The two firms decided to amalgamate their business as from 1st April 2018 under the name Lucky Traders. For this purpose, it was agreed that-

a) Mrs. J's loan should be repaid

b) Investment of M/S L & M sold at Rs. 15,000

c) Goodwill of M/S J& K fixed at Rs. 8,000 and that of M/S L&M at Rs. 10,000

d) Stock of M/S J& K written down by Rs. 4,000 and that of M/S L&M written by Rs. 2000.

f) A provision on debtors, created in both firms at 5%

g) Partners in both firms sharing profits and losses equally.

Pass necessary journal entries and ledgers accounts in the books M/S J&K and M/S L&M.

In the Books of M/S J& K Firm (old Firm)

Journal

Date	Particulars	L/F	Dr. Rs.	Cr. Rs.
1	Premises A/c Dr. To Revaluation A/c / Profit & Loss Adjustment A/c (Being profit on revaluation of premises)		10,000	 10,000
2	Revaluation A/c / P& L Adjustment A/c Dr. To Stock A/c To Provision for Bad-Debts A/c (Being decrease in value of stock and debtors)		4,750	 4,000 750
3	Goodwill A/c Dr. To J's capital A/c To K's capital A/c (Being creation of goodwill)		8,000	 4,000 4,000
4	Mrs J's Loan A/c Dr. To Bank A/c (Being Mrs J's loan repaid)		5,000	 5,000
5	Revaluation A/c P& L Adjustment A/c Dr. To J's capital A/c To K's capital A/c (Being revaluation profit transferred to partners capital A/c)		5,250	 2,625 2,625

6	Lucky Traders A/c Dr. To cash at bank A/c To Stock A/c To Debtors A/c To Furniture A/c To Premises A/c To Goodwill A/c (Being assets transferred to new Firm)		94,000	 600 16,400 15,000 4,000 50,000 8,000
7	Sundry Creditors A/c Dr. Provision for Bad-Debts A/c Dr. To Lucky Traders A/c (Being Liabilities transferred to new firm)		20,000 750	 20,750
8	J's capital A/c Dr. K's Capital A/c Dr. To Lucky Traders A/c (Being partners capital transferred to new Firm)		46,625 26,625	 73,250

Ledger Accounts in the books of M/S J& K (Old Firm)

Revaluation A/c / P& L Adjustment A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Stock A/c	4,000	By Premises	10,000
To Provision for Bad-Debts A/c	750		
To J's Capital A/c	2,625		
To K's Capital A/c	2,625		
	10,000		**10,000**

Partner's Capital A/c

Dr. Cr.

Particulars	J. Rs.	K. Rs.	Particulars	J. Rs.	K. Rs.
To Luck Traders A/c	46,625	26,625	By Bal Old	40,000	20,000
			By Revaluation A/c	2625	2625
			by Goodwill A/c	4,000	4,000
	46,625	**26,625**		**46,625**	**26,625**

Lucky Traders A/c (New Firm)

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Cash at Bank A/c	600	By Sundry Creditors A/c	20,000
To Stock A/c	16,400	By Provision for Bad Debts A/c	750
To Debtors A/c	15,000	By J's Capital A/c	46625
To Furniture A/c	4,000	By K's Capital A/c	26,625
To Premises A/c	50,000		
To Goodwill A/c	8,000		
	94,000		**94,000**

Cash at Bank

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Bal b/d	5,600	By Mrs J's Loan A/c	5000
		By Lucky Traders	600
	5,600		**5,600**

Mrs. J's Loan A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Cash at Bank A/c	5,000	By Bal b/d	5,000
	5,000		**5,000**

Goodwill A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To J's Capital A/c	4,000	By Lucky Traders A/c	8,000
To K's Capital A/c	4,000		
	8,000		**8,000**

In the Books of M/s L& M Firm (old Firm)

Date	Particulars	L/F	Dr. Rs.	Cr. Rs.
1	Stock A/c Dr.		2,000	
	To Revaluation A/c / P & L Adjustment A/c			2,000
	(Being increase in value of stock)			
2	Revaluation A/c / P& L Adjustment A/c Dr.		1,000	
	To Provision for Bad-Debts A/c			1,000
	(Being provision made for Bad Debts)			
3	Revaluation A/c Dr.		1,000	
	To L's capital A/c			500
	To M's capital A/c			500
	(Being profit transferred)			
4	Goodwill A/c Dr.		10,000	
	To L's Capital A/c			5,000
	To M's Capital A/c			5,000
	(Being Creation of goodwill)			

5	Bank A/c Dr.		15,000	
	To Investment A/c			15,000
	(Being Investment sold)			
6	Lucky Traders A/c Dr.		77,000	
	To cash at bank A/c			21,700
	To Stock A/c			20,300
	To Debtors A/c			20,000
	To Furniture A/c			5,000
	To Goodwill A/c			10,000
	(Being assets transferred to new Firm)			
7	Sundry Creditors A/c Dr.		25,000	
	Provision for Bad-Debts A/c Dr.		1,000	
	To Lucky Traders A/c			26,000
	(Being Liabilities transferred to new firm)			
8	L's Capital A/c Dr.		29,500	
	M's Capital A/c Dr.		21,500	
	To Lucky Traders A/c			51,000
	(Being partners capital transferred to new Firm)			

Ledger Accounts in the Books of M/S L & M (old Firm)

Revaluation A/c / P&L Adjustment A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Provision for Bad Debts A/c	1,000	By Stock A/c	2,000
To L's Capital A/c	500		
To M's Capital A/c	500		
	2,000		**2,000**

Partners Capital A/c

Dr. Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Lucky Traders A/c	29,500	21,500	By Bal b/d	24,000	16,000
			By Revaluation A/c	500	500
			By Goodwill A/c	5,000	5,000
	29,500	**21,500**		**29,500**	**21,500**

Lucky Traders A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Cash at Bank A/c	21,700	By Sundry Creditors A/c	25,000
To Stock A/c	20,300	By Provision for Bad Debts A/c	1,000
To Debtors A/c	20,000	By L's Capital A/c	29,500
To Furniture A/c	5,000	By M's Capital A/c	21,500
To Goodwill A/c	10,000		
	77,000		**77,000**

Cash at Bank A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Bal b/d	6,700	By Lucky Traders A/c	21,700
To Investment A/c	15,000		
	21,700		21,700

Investment A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Bal b/d	15,000	By Bank A/c	15,000
	15,000		**15,000**

Goodwill A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To L's Capital A/c	5,000	By Lucky Traders A/c	10,000
To M's Capital A/c	5,000		
	10,000		**10,000**

Check your progress-I

A) Choose the correct alternative.

1. Undistributed profits appearing in the Balance Sheet transferred to Partner's Capital A/c in their ....

   a) Capital ratio   b) Profit sharing ratio

   c) Equal ratio   d) None of above.

2. Increase in the value of asset and decrease in the value of Liability shows ....

   a) Capital Profit   b) Revaluation Loss

   c) Revaluation Profit   d) Capital Loss.

B) Fill in the blanks

   1. When two or more firms come together to form a new partnership is called as .... of partnership firm.

2. .... account is prepared to record the effect of increase or decrease in the value of assets and liabilities.

C) State whether following statement are true or false.

1. Goodwill created is credited to partners capital account in old profit sharing ratio

2. Decrease in the value of asset and increase in the value of liability shows revaluation profit.

2.2.5 Accounting Treatment in the Books of New Firm.

After amalgamation old firms, new books are opened for the new firm by passing opening entries. The opening entries includes assets, liabilities and partners capital taken over from old firms.

1. For Assets, Liabilities and capital taken over.

Assets A/c	Dr. (at agreed value)
Goodwill A/c	Dr.
Reserve for discount on	
Creditors A/c	Dr. (if any)
To Liabilities A/c	(at agreed value)
To R. D. D. A/c	(If any)
To Partners Capital A/c	(at transferred balance)

(Being assets liabilities and capital taken over from old firms)

2. For the goodwill is written off or may be reduced by the new firm

All Partners Capital A/c	Dr. (in new Profit sharing ratio)
To Goodwill A/c	

(Being goodwill written off)

3. For Adjustment of capital as per new profit sharing ratio

a) If cash brought by partners

Bank / Cash A/c	Dr.
To Partners Capital A/c	

(Being cash brought by Partners)

b) If cash paid to partners

Partners Capital A/c Dr.

To Bank/ Cash A/c

(Being cash paid to partners)

Check your progress-II

A) Choose the correct alternatives.

1. Goodwill written off in the new firm in …..

   a) Old profit sharing ratio b) New Profit sharing ratio

   c) Equal ratio d) Capital ratio

2. Cash is insufficient to pay off the excess amount on capital in the new firm, it is transferred to …… account of the partners.

   a) Capital b) Current c) Cash d) None of above

B) Fill in the blanks.

1. ….. brought by partner's of new firm according to new profit sharing ratio.
2. Goodwill Account is not to be maintained in the books of the new firm, …. Accounts of all partners in the new firm are to be debited.

C) State whether following statement are true or false.

1. Assets taken by new firm are credited to Assets A/c
2. Capital balance are less than the required capital, the partners of new firm may bring cash.

Illustration-2

The Following are the Balance Sheet of Deep & Veer and Vikrant & Ishant at the date of amalgamation i. e. 31st March 2018

Balance Sheet of Deep & Veer as on 31st March 2018

Liabilities		Rs.	Assets	Rs.
Sundry Creditors		4,30,0000	Cash at Bank	60,000
Capitals –			Sundry Debtors	4,00,000
Deep	5,00,000		Stock	6,00,000
Veer	3,00,000	8,00,000		

		Investment	1,60,000
		Office Furniture	10,000
	12,30,000		**12,30,000**

Balance Sheet of Vikrant & Ishant as on 31st March 2018

Liabilities		Rs.	Assets		Rs.
Sundry Creditors		4,20,000	Cash at Bank		20,000
Reserve Fund		2,30,000	Sundry Debtors		
Capital-				5,00,000	
Vikrant	3,80,000		Less-Reserve	10,000	4,90,000
Ishant	2,20,000	6,00,000	Stock		4,00,000
			Trade Fixtures		20,000
			Leasehold Premises		2,40,000
			Goodwill		80,000
		12,50,000			**12,50,000**

It was agreed that balance sheet of Deep & Veer should be adjusted as follows before amalgamation.

a) Stock and Furniture depreciated by 10%

b) Create reserve for doubtful debts at Rs 8000

c) Investment taken over at Rs. 2,00,000

d) Goodwill valued at Rs. 80,000

e) Create reserve for discount on creditors of Rs. 6000

The Following adjustment were agreed upon in the balance sheet of Vikrant & Ishant.

a) Leasehold premises valued at Rs. 3,60,000

b) Goodwill valued at Rs. 1,20,000

c) Book debts, stock and trade fixtures valued at book value.

Capital of Deep, Veer, Vikrant & Ishant in the new firm were fixed at Rs. 6,00,000 Rs. 4,00,000 Rs. 6,00,000 and Rs. 4,00,000 respectively.

You are required to prepare-

i) P& L Adjustment A/c and partners capital A/c in the books of both the firms.

ii) Opening journal entries and opening Balance Sheet in the books of the new firm named as Padmavat Firm.

In the books of Deep & Veer

Profit & Loss Adjustment A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Stock A/c	60,000	By Investment A/c	40,000
To Furniture A/c	1,000	By Reserve for Discount on creditors A/c	6,000
To R. D.D. A/c	8,000	By Deep's Capital A/c	11,500
		By Veer's Capital A/c	11,500
	69,000		**69,000**

Partner's Capital A/c

Dr. Cr.

Particulars	Deep Rs.	Veer Rs.	Particulars	Deep Rs.	Veer Rs.
To P&L Adj. A/c	11,500	11,500	By Bal b/d	5,00,000	3,00,000
To Padmavat A/c	5,28,500	328500	By Goodwill A/c	40,000	40,000
	5,40,000	**3,40,000**		**5,40,000**	**3,40,000**

In the books of Vikrant & Ishant

Profit & Loss Adjustment A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Vikrant's Capital A/c	80,000	By Leasehold Premises A/c	1,20,000
To Ishant's Capital A/c	80,000	By Goodwill A/c	40,000
	1,60,000		**1,60,000**

Partner's Capital A/c

Dr. Cr.

Particulars	Vikrant Rs.	Ishant Rs.	Particulars	Vikrant Rs.	Ishant Rs.
To Padmavat A/c	5,75,000	4,15,000	By bal b/d	3,80,000	2,20,000
			By Reserve Fund A/c	1,15,000	1,15,000
			By P & L Adj. A/c	80,000	80,000
	5,75,000	**4,15,000**		**5,75,000**	**4,15,000**

Opening Journal Entries in the books of Padmavat Firm (New Firm)

Date	Particulars		L/F	Dr. Rs.	Cr. Rs.
1	Cash at Bank A/c	Dr.		60,000	
	Sundry Debtors A/c	Dr.		4,00,000	
	Stock A/c	Dr.		5,40,000	
	Investment A/c	Dr.		2,00,000	
	Office Furniture A/c	Dr.		9,000	

	Res on Dis on Creditors A/c Dr.		6,000	
	Goodwill A/c Dr.		80,000	
	To Sundry Creditors A/c			4,30,000
	To Res. For Dis on Creditors A/c			8,000
	To Deep's Capital A/c			5,28,500
	To Veer's Capital A/c			3,28,500
	(Being assets & liabilities of Deep & Veer's taken by Padmavat Firm)			
2	Cash at Bank A/c Dr.		20,000	
	Sundry Debtors A/c Dr.		5,00,000	
	Stock A/c Dr.		4,00,000	
	Trade Fixtures A/c Dr.		20,000	
	Leasehold premises A/c Dr.		3,60,000	
	Goodwill A/c Dr.		1,20,000	
	To Res. For Dis. On Creditors A/c			10,000
	To Sundry Creditors A/c			4,20,000
	To Vikrant's Capital A/c			5,75,000
	To Ishant's Capital A/c			4,15,000
	(Being assets & liabilities of Vikrant & Ishant taken by padmavat firm)			
3	Bank A/c Dr.		1,68,000	
	To Deep's Capital A/c			71,500
	To Veer's Capital A/c			71,500
	To Vikrant's Capital A/c			25,000
	(Being cash brought by partners)			
4	Ishant's Capital A/c Dr.		15,000	
	To Bank A/c			15,000
	(Being cash paid to Ishant)			

Opening Balance Sheet of padmavat Firm as on 1-4-2018

Liabilities	Rs.	Assets	Rs.
Sundry Creditors 8,50,000		Cash at Bank	2,33,000
Less Res. For Dis 6,000	8,44,000	Sundry Debtors 9,00,000	
Capitals-		Less Res on Drs 18,000	8,82,000
Deep 6,00,000		Stock	9,40,000
Veer 4,00,000		Investment	2,00,000
Vikrant 6,00,000		Office Furniture	9,000
Ishant 4,00,000	20,00,000	Trade Fixtures	20,000
		Lease Hold premises	3,60,000
		Goodwill	2,00,000
	28,44,000		**28,44,000**

Note – Calculation of cash at Bank.

Cash taken from Deep & Veer	=	60,000
Cash taken from Vikrant & Ishant	=	20,000
Cash brought by Deep, Veer & Vikrant	=	1,68,000
		2,48,000
Less Cash paid to Ishant		15,000
Cash Bal on 1/4/2018		2,33,000

Illustration-3

A & B who were partners and C & D who were partners decided to amalgamate as on 1st April 2018 under the name Sonhira Trading Company. Their balance sheet on march 31, 2018 were as follows.

Balance Sheet As on 31st March 2018

Liabilities	A&B Rs.	C&D Rs.	Assets	A&B Rs.	C & D Rs.
Creditors	10,000	22,000	Building	18,000	
Reserve	20,000		Stock	30,000	26,000
Bank loan		8000	Debtors	12,000	24,000
Capitals-			Investment	20,000	
A	30,000		Goodwill		10,000
B	20,000				
C		15,000			
D		15,000			
	80,000	**60,000**		**80,000**	**60,000**

A & B shared profit in proportion to their capitals, while C & D shared profit equally. The terms of amalgamation were.

1) A, B, C & D in the new firm i. e. Sonhira Trading company and to share profit and losses in the same ratio as their capital in the new firm after all adjustment had been made.
2) The buildings owned by A& B to be taken over by the new firm at a valuation of Rs. 23,000. However, the new firm does not take over their investment.
3) The goodwill appearing in the balance sheet of C & D was worthless.
4) After the above adjustments have been made C & D each to bring in Rs. 5,000 as additional capitals.

On the assumption that the above transactions were duly completed on 1st April 2018. Show the necessary journal entries to close the books of the old firms and open the books of the new firm and prepare its Balance Sheet.

Solution -

In the books of A & B

Journal

Date	Particulars	L/F	Dr. Rs.	Cr. Rs.
	Buildings A/c Dr.		5,000	
	To P & L Adjustment A/c			5,000
	(Being Buildings revalued)			
	Sonhira Trading company A/c Dr.		65,000	
	To Building A/c			23,000
	To Stock A/c			30,000
	To Debtors A/c			12,000
	(Being assets transferred to the new firm)			
	Creditors A/c Dr.		10,000	
	To Sonhira Trading Company A/c			10,000
	(Being Liabilities transferred to new firm)			
	A's Capital A/c Dr.		12,000	
	B's Capital A/c Dr.		8,000	
	To Investment A/c			20,000
	(Being investment not taken over transferred to partners capital A/c)			
	Reserve A/c Dr.		20,000	
	P & L Adj. A/c Dr.		5,000	
	To A's Capital A/c			15,000
	To B's Capital A/c			10,000
	(Being revaluation profit and reserve transferred to partner's capital A/c)			

	A's Capital A/c Dr. B's Capital A/c Dr. To Sonhira Trading Company A/c (Being Capital account balances transferred to the new firm)		33,000 22,000	 55,000

In the Books of C & D

Journal

Date	Particulars	L/F	Dr. Rs.	Cr. Rs.
	P & L Adj A/c Dr. To Goodwill A/c (Being goodwill written off)		10,000	 10,000
	Sonhira Trading Company A/c Dr. To Stock A/c To Debtors A/c (Being assets transferred to the new firm)		50,000	 26,000 24,000
	Bank Loan A/c Dr. Creditors A/c Dr. To Sonhira Trading Company A/c (Being liabilities transferred to the new firm)		8,000 22,000	 30,000
	C's Capital A/c Dr. D's Capital A/c Dr. To P & L Adj. A/c (Being loss transferred to partner's capital A/c)		5,000 5,000	 10,000

	C's Capital A/c Dr.		10,000	
	D's Capital A/c Dr.		10,000	
	To Sonhira Trading Company A/c			20,000
	(Being Capital balances transferred to the new Firm)			

Balance Sheet A on 1st April 2018

Liabilities	Rs.	Assets	Rs.
Creditors	32,000	Bank	10,000
Bank Loan	8,000	Debtors	36,000
Capitals		Stock	56,000
A	33,000	Building	23,000
B	22,000		
C	15,000		
D	15,000		
	1,25,000		**1,25,000**

Illustration – 4

M/s Shiv Industries and M/s Shankar Industries decided to amalgamate as on 1st April 2018 under the name Shiv Shankar Industries. Their balance Sheets as on 31st March 2018 were as follows.

M/S Shiv Industries
Balance Sheet as at 31st March 2018

Liabilities	Rs.	Assets	Rs.
Bill Payable	10,000	Cash at Bank	50,000
Sundry Creditors	1,30,000	Premises	1,00,000
Capital		Machinery	70,000
Dev	1,20,000	Furniture	30,000
Anand	1,10,000	Stock	1,20,000
	3,70,000		**3,70,000**

M/S Shankar Industries

Balance Sheet as at 31st March 2018

Liabilities	Rs.	Assets	Rs.
Bank Loan	1,00,000	Cash at Bank	40,000
Sundry Creditors	30,000	Building	1,20,000
Capital		Furniture	40,000
Raj	2,00,000	Equipments	80,000
Shekhar	1,00,000	Sundry Debtors	60,000
		Stock	90,000
	4,30,000		**4,30,000**

The terms of amalgamation and valuation of their assets and liabilities were agreed for the taken over by M/S Shiv Shankar Industries as follows.

Assets	M/S Shiv Industries Rs.	M/S Shankar Industries Rs.
Premises	1,20,000	
Building		1,30,000
Machinery	50,000	
Equipments		60,000
Furniture	20,000	20,000
Stock	1,30,000	1,00,000
Debtors		50,000
Goodwill	40,000	30,000

1. Dev & Anand were equal partners and Raj & Shekhar were sharing profits in the ratio of 2:1
2. In the new firm their profit sharing ratio was agreed to be equal for which the partners agreed to maintain their capital equally at Rs. 1,50,000 each.
3. They also agreed to introduce fresh capital if necessary in the new firm.
4. The goodwill was to continue in the new firm.

You are required to prepare Revaluation A/c, Partner's Capital A/c and New Firm A/c in the books of both the old firms and also prepare balance sheet of Shivshankar Industries as at 1st April 2018

Solution

In the books of M/S Shiv Industries

Revaluation A/c / P& L Adj. A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Machinery A/c	20,000	By Premises A/c	20,000
To Furniture A/c	10,000	By Stock A/c	10,000
	30,000		**30,000**

Partner's Capital A/c

Dr. Cr.

Particulars	Shiv Rs	Shankar Rs.	Particulars	Shiv Rs	Shannkar Rs.
To Shivshankar Industries A/c	1,40,000	1,30,000	By bal b/d	1,20,000	1,10,000
			By Goodwill A/c	20,000	20,000
	1,40,000	**1,30,000**		**1,40,000**	**1,30,000**

Shivshankar Industries A/c

Dr. Cr.

Particular	Rs.	Particular	Rs.
To Cash at Bank A/c	50,000	By Bills Payable A/c	10,000
To Goodwill A/c	40,000	By Sundry Creditors A/c	1,30,000
To Premises A/c	1,20,000	By Dev's Capital A/c	1,40,000
To Machinery A/c	50,000	By Anand's Capital A/c	1,30,000
To Furniture A/c	20,000		
To Stock A/c	1,30,000		
	4,10,000		**4,10,000**

In the books of M/S Shankar Industries

Revaluation A/c / P & L Adj. A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Furniture A/c	20,000	By Building A/c	10,000
To Equipments A/c	20,000	By Stock A/c	10,000
To R.D.D. A/c	10,000	By Raj's Capital A/c	20,000
		By Shekhar's Capital A/c	10,000
	50,000		**50,000**

Partner's Capital A/c

Dr. Cr.

Particulars	Raj. Rs.	Shekhar Rs.	Particulars	Raj. Rs.	Shekhar Rs.
To Revaluation A/c	20,000	10,000	By bal b/d	2,00,000	1,00,000
To Shivshankar Industries A/c	2,00,000	1,00,000	By Goodwill A/c	20,000	10,000
	2,20,000	**1,10,000**		**2,20,000**	**1,10,000**

Shivshankar Industries A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Cash at Bank A/c	40,000	By Bank Loan A/c	1,00,000
To Goodwill A/c	30,000	By Creditors A/c	30,000
To Equipments A/c	60,000	By Raj's Capital A/c	2,00,000
To Furniture A/c	20,000	By Shekhar's Capital A/c	1,00,000
To Stock A/c	1,00,000		
To Debtors A/c	50,000		
To Building A/c	1,30,000		
	4,30,000		**4,30,000**

Balance Sheet As on 1st April 2018

Liabilities	Rs.	Assets	Rs.
Bank Loan	1,00,000	Goodwill	70,000
Creditors	1,60,000	Premises	1,20,000
Bills Payable	10,000	Building	1,30,000
Capitals		Machinery	50,000
Dev	1,50,000	Equipments	60,000
Anand	1,50,000	Furniture	40,000
Raj	1,50,000	Stock	2,30,000
Shekhar	1,50,000	Debtors	50,000
		Bank	1,20,000
	8,70,000		**8,70,000**

Working Note-1 Adjustment of Capitals

	Dev Rs.	Anand Rs.	Raj Rs.	Shekhar Rs.
Capital required in New Firm	1,50,000	1,50,000	1,50,000	1,50,000
Capital transferred from Old Firm	1,40,000	1,30,000	2,00,000	1,00,000
Cash brought	10,000	20,000	–	50,000
Cash Paid	–	–	50,000	–

Working Note- 2

Calculation of Cash at Bank balance

Received from Shiv Industries	50,000
Received from Shankar Industries	40,000
Cash brought by Dev	10,000
Cash brought by Anand	20,000
Cash brought by Shekhar	50,000
	1,70,000
Cash paid to Raj	50,000
	1,20,000

Illustration-5

M/S Deepika & Priyanka and Katrina & Karina are two Partnership Firm carrying on similar type business sharing Deepika & Priyanka 8:7 and Katrina & Karina3:2 respectively. They agreed to amalgamate their business as on 1st April 2018.

Balance Sheet As on 31-3-18

Deepika and Priyanka

Liabilities	Rs.	Assets	Rs.
Creditors	25600	Land	30,000
Outstanding Expenses	2800	Furniture	7,200
Current A/c's		Machinery	10,000
Deepika	4000	Stock	23,600
Priyanka	2400	Debtors	28,400
Capital A/c's		Investment	6000
Deepika	48,000	Cash	19,600
Priyanka	42,000		
	1,24,800		**1,24,800**

Balance Sheet As on 31-3-2018

Katrina and Karina

Liabilities	Rs.	Assets	Rs.
Creditors	22,400	Land	20,000
Bills Payable	2,000	Furniture	5,600
Capital A/c's		Machinery	6,800
Katrina	44,000	Stock	26,800
Karina	31,200	Debtors	26,000
		Cash	14,400
	99,600		**99,600**

The amalgamation done on the following terms.

1) Assets to be revalued as under

	Deepika & Priyanka	Katrina & Karina
Stock	22,800	24,800
Machinery	9,200	6,000
Furniture	8,000	10,000
Land	38,000	30,000

2) Provision to be made for doubtful debts M/S Deepika and Priyanka for 1600 and M/S Katriana and Kriana Rs. 2,000.

3) The creditors of both the firms were to be taken by the new firm at a discount of 2.5% and other liabilities are paid in full by respective firms.

4) Deepika to take over the investments at Rs. 4,800.

5) The goodwill of M/S Deepika and Priyanka is to be taken at Rs. 30,000 and that of M/S Katrina and Karina Rs. 20,000.

6) The capital of the new firm is to be Rs. 2,00,000 and the capital of Deepika, Priynaka, Katrina, and Karina was to be in their Profit Sharing ratio which was to be $6/_{20}$, $5/_{20}$, $5/_{20}$ and $4/_{20}$ respectively.

You are required to prepare P& L Adj. A/c and Partner's Capital A/c in the books of both the firms and Balance Sheet of the new firm.

In the Books of M/S Deepika & Priyanka
P & L Adj. A/c / Revaluation A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Stock A/c	800	By Furniture A/c	800
To Machinery A/c	800	By Land A/c	8,000
To R.D.D. A/c	1,600	By Res for Dis. On Cr. A/c	640
To Investments	1,200		
To Deepika's current A/c	2,688		
To Priyanka's Current A/c	2,352		
	9,440		**9,440**

Partner’s Capital A/c

Dr. Cr.

Particulars	Deepika Rs.	Priyanka Rs.	Particulars	Deepika Rs.	Priyanka Rs.
To New Firm's A/c	65,880	60,752	By bal b/d	48,000	42,000
			By Current A/c's	17,880	18,752
	65,888	**60,752**		**65,888**	**60,752**

Working Note-1

Partner's Current A/c

Particulars	Deepika Rs.	Priyanka Rs.	Particulars	Deepika Rs.	Priyanka Rs.
To Investment A/c	4,800		By bal b/d	4,000	2,400
To Deepika's Capital A/c	17,888		By P & L Adj. A/c	2,688	2,352
To Priyanka's Capital A/c		18,752	By Goodwill A/c	16,000	14,000
	22,688	**18,752**		**22,688**	**18,752**

In the Books of Katrina & Karina

P & L Adj. A/c / Revaluation A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Stock A/c	2,000	By Furniture A/c	4,400
To Machinery A/c	800	By Land A/c	10,000
To R. D. D.	2,000	By Res. for Dis. on Crs. A/c	560
To Katrina's Capital A/c	6,096		
To Karina's Capital A/c	4,064		
	14,960		**14,960**

Partner's Capital A/c's

Dr. Cr.

Particulars	Katrina Rs.	Karina Rs.	Particulars	Katrina Rs.	Karina Rs.
To New Firm A/c	62,096	43,264	By bal b/d	44,000	31,200
			By P & L Adj. A/c	6,096	4,064
			By Goodwill A/c	12,000	8,000
	62,096	**43,264**		**62,096**	**43,264**

In the Books of New Firm

Balance Sheet as on 01-04-2018

Liabilities		Rs.	Assets		Rs.
Sundry Creditors	48,000		Goodwill		50,000
Less Reserve for					
discount	1,200	46,800	Land		68,000
Capital A/c's			Furniture		18,000
Deepika		60,000	Machinery		15,200
Priyanka		50,000	Stock		47,600
Katrina		50,000	Debtors	54,400	
Karina		40,000	Less R.D.D.	3,600	50,800
Current A/c's			Cash		29,200
Deepika		5,888			
Priyanka		10,752			
Katrina		12,096			
Karina		3,264			
		2,78,800			**2,78,800**

Working Note-2

Calculation of Cash Balance

Cash taken from Deepika and Priyanka	
19600-2800 (Outstanding expences paid)	16,800
Cash taken from Katrina & Karina	
14,400-2,000 (Bill payable paid)	12,400
	29,200

Working Note-3

Calculation of Current A/c balances

	Deepika	Priyanka	Katrina	Karina
Capital from old Firms	65,888	60,752	62,096	43,264
Capital required	60,000	50,000	50,000	40,000
	5,888	10,752	12,096	3,264

Transferred to Current A/c's (Cash is insufficient to pay excess amount of capital, so it is transferred to current A/c's)

Illustration- 6

M/S A & B and M/S C & D were the two firms agreed to amalgamate their business. A & B were sharing profit & losses in the ratio of 2:1 whereas C & D sharing profit & losses in the ratio of 3: 2 Their Balance Sheets on 31st March 2018 were as follows.

Balance Sheets as on 31st March 2018

Liabilities	A & B Rs.	C & D Rs.	Assets	A & B Rs.	C & D Rs.
Reserve Fund	1,50,000	1,50,000	Machinery	2,80,000	2,70,000
Creditors	1,00,000	80,000	Furniture	1,00,000	1,30,000
Capital A/c's			Stock	1,80,000	50,000
A	3,00,000		Debtors	1,70,000	90,000

B	2,00,000		Cash at Bank	20,000	40,000
C		2,00,000			
D		1,50,000			
	7,50,000	**5,80,000**		**7,50,000**	**5,80,000**

The new firm revalued assets as under.

Assets	A & B Rs.	C & D Rs.
Machinery	3,00,000	2,50,000
Furniture	1,25,000	1,10,000
Stock	1,50,000	62,500
Debtors	1,59,500	80,000

The new firm agreed to take over creditors of both the firms at book value. The total capital of the new firm was agreed at Rs. 12,00,000 to be divided in the partners equally. Partners are to bring in or pay necessary cash to adjust their capitals.

You are required to prepare P & L Adj. A/c Partner's Capital A/c & New Firm A/c in the books of both the old firms. Pass necessary journal entries and prepare opening Balance Sheet in the books of new firm.

Solution- In the books of M/S A & B

Profit & Loss Adjustment A/c

Dr. Cr.

Particular	Rs.	Particulars	Rs.
To Stock	30,000	By Machinery A/c	20,000
To Debtors	10,500	By Furniture A/c	25,000
To Partners Capital A/c			
A	3,000		
B	1,500		
	45,000		**45,000**

Partners Capital A/c

Dr. Cr.

Particular	A Rs.	B Rs.	Particular	A Rs.	B Rs.
To New Firm A/c	4,03,000	2,51,500	By bal b/d	3,00,000	2,00,000
			By Reserve Fund A/c	1,00,000	50,000
			By P & L Adj. A/c	3,000	1500
	4,03,000	**2,51,000**		**4,03,000**	**2,51,000**

New Firm A/c

Dr. Cr.

Particular	Rs.	Particulars	Rs.
To Machinery A/c	3,00,000	By Creditors A/c	1,00,000
To Furniture A/c	1,25,000	By A's Capital A/c	4,03,000
To Stock A/c	1,50,000	By B's Capital A/c	2,51,500
To Debtors A/c	1,59,500		
To Bank	20,000		
	7,54,500		**7,54,500**

In the books of C & D

Profit & Loss Adjustment A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Machinery A/c	20,000	By Stock A/c	12,500
To Furniture A/c	20,000	By Partner's Capital A/c	
To Debtors A/c	10,000	C	22,500
		D	15,000
	50,000		**50,000**

Partner's Capital A/c

Dr. Cr.

Particulars	C Rs.	D Rs.	Particulars	C Rs.	D Rs.
To P & L Adj. A/c	22,500	15,000	By bal b/d	2,00,000	1,50,000
To New Firm A/c	2,67,500	1,95,000	By Reserve Fund A/c	90,000	60,000
	2,90,000	**2,10,000**		**2,90,000**	**2,10,000**

New Firm A/c

Dr. Cr.

Particulars	Rs	Particulars	Rs
To Machinery A/s	2,50,000	By Creditors A/c	80,000
To Furniture A/c	1,10,000	By C's Capital A/c	2,67,500
To Stock A/c	62,500	By D's Capital A/c	1,95,000
To Debtors A/c	80,000		
To Bank A/c	40,000		
	5,42,500		**5,42,500**

In the books of New Firm
Journal

Date	Particulars	L/F	Dr. Rs	Cr. Rs
1-4-17	Machinery A/c Dr.		3,00,000	
	Furniture A/c Dr.		1,25,000	
	Stock A/c Dr.		1,50,000	
	Debtors A/c Dr.		1,59,500	
	Bank A/c Dr.		20,000	
	To Creditors A/c			1,00,000
	To A's Capital A/c			4,03,000
	To B's Capital A/c			2,51,500
	(Being assets and liabilities taken			

	from M/S A& B)			
1-4-17	Machinery A/c Dr Furniture A/c Dr Stock A/c Dr Debtors A/c Dr Bank A/c Dr To Creditors A/c To C's Capital A/c To D's Capital A/c (Being assets and liabilities taken from M/S C & D)		2,50,000 1,10,000 62,500 80,000 40,000	 80,000 2,67,500 1,95,000
1-4-17	Bank A/c Dr To B's Capital A/c To C's Capital A/c To D's Capital A/c (Being cash brought by partners)		1,86,000	 48,500 32,500 1,05,000
1-4-17	A's Capital A/c Dr To Bank A/c (Being cash paid to A)		1,03,000	 1,03,000

Working Note -1

Calculation of cash brought or paid to Partner's

	A Rs.	B Rs.	C Rs.	D Rs.
Capital balance taken from firm	4,03,000	2,51,500	2,67,500	1,95,000
New Capital required	3,00,000	3,00,000	3,00,000	3,00,000
Cash paid to partners	1,03,000			
Cash brought by partners		**48,500**	**32,500**	**1,05,000**

Working Note- 2

Calculation of Bank Balance

Balance taken from M/S A & B	20,000
Balance taken from M/S C & D	40,000
Cash brought by B, C & D	2,46,000
Less Cash paid to A	1,03,000
	1,43,000

Balance Sheet As on 1st April 2018

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	1,80,000	Machinery	5,50,000
Capital A/c's		Furniture	2,35,000
A	3,00,000	Stock	2,12,500
B	3,00,000	Debtors	2,39,500
C	3,00,000	Bank	1,43,000
D	3,00,000		
	13,80,000		**13,80,000**

Illustration- 7

The Following were the Balance Sheets as on 31st March 2018 of M/S P & Q and R & S

Balance Sheet of M/S P & Q as on 31st March 2018

Liabilities	Rs.	Assets	Rs.
Creditors	5,00,000	Cash at Bank	2,00,000
Bank Loan	1,00,000	Plant	8,00,000
Capital A/c's		Stock	4,00,000
P	10,00,000	Debtors	6,00,000
Q	6,00,000	Furniture	2,00,000
	22,00,000		**22,00,000**

Balance Sheet of M/S R & S as on 31st March 2018

Liabilities	Rs	Assets	Rs
Creditors	6,00,000	Cash at Bank	1,10,000
Bill payable	2,10,000	Machinery	8,00,000
Capital A/c's		Stock	3,00,000
R	6,00,000	Debtors 4,50,000	
S	4,00,000	Less R. D. D. 50,000	4,00,000
		Investment	2,00,000
	18,10,000		**18,10,000**

The above two firms agreed to amalgamate their business as on 1st April 2018, on the following terms.

1) Investments are not taken over by the new firm.

2) Bank loan should be repaid that firm.

3) A Reserve of 5% was to be credited on debtors of P & Q and Rs 13,500 on debtors of R & S.

4) Goodwill of M/S P & Q was fixed at Rs. 1,60,000 and that M/S R & S at Rs. 1,20,000.

5) Plant & Machinery were appreciated by 10%.

6) The stock of M/S P & Q was found overvalued by Rs. 40,000 and stock of M/S R & S was found undervalued by Rs. 1,00,000.

7) The total capital of New Firm were Rs. 28,00,000 and the capitals of all partners should be fixed in their new profit sharing ratio which was equal.

8) Goodwill Account in the new firm was to be written off.

You are required to prepare Revaluation A/c, Partners Capital A/c and New Firm A/c in the books of both the firms. Also prepare Opening Balance Sheet in the books of New Firm.

In the books of P & Q

Revaluation A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To R. D. D. A/c	30,000	By Plant A/c	80,000
To Stock A/c	40,000		
To P's Capital A/c	5,000		
To Q's Capital A/c	5,000		
	80,000		**80,000**

Partner's Capital A/c

Dr. Cr.

Particulars	P Rs.	Q Rs.	Particulars	P Rs.	Q Rs.
To New Firm A/c	10,85,000	6,85,000	By bal b/d	10,00,000	6,00,000
			By Goodwill A/c	80,000	80,000
			By Revaluation A/c	5,000	5,000
	10,85,000	**6,85,000**		**10,85,000**	**6,85,000**

New Firm A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Bank A/c	1,00,000	By R. D. D. A/c	30,000
To Goodwill A/c	1,60,000	By P's Capital A/c	10,85,000
To Plant A/c	8,80,000	By Q's Capital A/c	6,85,000
To Stock A/c	3,60,000	By Creditors A/c	5,00,000
To Debtors A/c	6,00,000		
To Furniture A/c	2,00,000		
	23,00,000		**23,00,000**

In the books of R & S

Revaluation A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To R's Capital A/c	1,08,250	By Machinery A/c	80,000
To S's Capital A/c	1,08,250	By Stock A/c	1,00,000
		By R. D. D. A/c	36,500
	2,16,500		**2,16,500**

Partner's Capital A/c

Dr. Cr.

Particulars	R Rs.	S Rs.	Particulars	R Rs.	S Rs.
To Investment A/c	1,20,000	80,000	By bal b/d	6,00,000	4,00,000
To New Firm A/c	6,48,250	4,88,250	By Goodwill A/c	60,000	60,000
			By Revaluation A/c	1,08,250	1,08,250
	7,68,250	**5,68,250**		**7,68,250**	**5,68,250**

New Firm A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Bank A/c	1,10,000	By Creditors A/c	6,00,000
To Goodwill A/c	1,20,000	By Bills Payable A/c	2,10,000
To Machinery A/c	8,80,000	By R. D. D. A/c	13,500
To Stock A/c	4,00,000	By R's Capital A/c	6,48,250
To Debtors A/c	4,50,000	By S's Capital A/c	4,88,250
	19,60,000		**19,60,000**

Balance Sheet of New Firm As on 31st March 2018

Liabilities	Rs.	Assets	Rs.
Creditors	11,00,000	Plant & Machinery	17,60,000
Bills Payable	2,10,000	Furniture	2,00,000
Capital A/c's		Stock	7,60,000
P	7,00,000	Debtors 10,50,000	
Q	7,00,000	Less -R. D. D 43,500	10,06,500
R	7,00,000	Cash at Bank	3,83,500
S	7,00,000		
	41,10,000		**41,10,000**

Working Note -1 Calculation of Capital balance in the new firm

	P Rs.	Q Rs.	R Rs.	S Rs.
Capital balance taken from old firm	10,85,000	6,85,000	6,48,250	4,88,250
Less- Goodwill written off	70,000	70,000	70,000	70,000
	10,15,000	6,15,000	5,78,250	4,18,250
Capital required in the new firm	7,00,000	7,00,000	7,00,000	7,00,000
Cash paid	3,15,000			
Cash brought		85,000	1,21,750	2,81,750

Working Note -2 Calculation of Bank Balance

Bank balance taken from M/S P & Q	1,00,000
Bank balance taken from M/S R & S	1,10,000
Cash brought by Q, R & S (85,000+ 1,21,750+ 2,81,750)	4,88,500
	6,98,500
Cash paid to P	3,15,000
Bank Balance	3,83,500

Illustration -8

Following are the Balance Sheets of two firms viz M/S A & B and M/S X & Y as on 31st March 2015

Balance Sheets as on 31st March 2015

Liabilities	M/S A&B Rs.	M/S X &Y Rs.	Assets	M/S A & B Rs.	M/S X&Y Rs.
S. Creditors	20,000	25,000	Cash at Bank	5,600	6,700
Bills Payable	10,000	5,000	Stock	20,400	18,300
Capitals			S. Debtors	15,000	20,000
A	40,000		Office Premises	40,000	
B	20,000		Furniture	4,000	20,000
X		24,000	Bills Receivable	5,000	5,000
Y		16,000			
	90,000	**70,000**		**90,000**	**70,000**

The two Firms decided to Amalgamate their business as on 1st April 2016 on the following conditions.

a) Goodwill of M/S A & B be fixed at Rs. 8,000 and that of M/S X & Y at Rs. 10,000.

b) Premises be valued at Rs. 50,000/-

c) Stock of M/S A & B be written down by Rs. 4,000 and that of M/S X & Y be written up by Rs. 2,000/-

d) A provision for R. D. D. be created on Sundry Debtors at 5% in both firms.

e) A create 5% discount on Sundry Creditors of both the firms.

You are required to prepare.

i) Revaluation A/c and Partners Capital A/c in both the firms.

ii) Opening Balance Sheet in the books of the New Firm (S. U. April 2015)

In the books of M/S A & B

Revaluation A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Stock A/c	4,000	By Premises A/c	10,000
To R. D. D. A/c	750	By Discount on Creditors A/c	1,000
To A's Capital A/c	3,125		
To B's Capital A/c	3,125		
	11,000		**11,000**

Partners Capital A/c

Dr. Cr.

Particulars	A Rs.	B Rs.	Particulars	A Rs.	B Rs.
To New Firm A/c	47,125	27,125	By Bal b/d	40,000	20,000
			By Goodwill A/c	4,000	4,000
			By Revaluation A/c	3,125	3,125
	47,125	**27,125**		**47,125**	**27,125**

In the books of M/S X & Y

Revaluation A/c

Dr. Cr.

Particulars	Rs.	Particulars	Rs.
To Stock A/c	2,000	By Discount on Creditors A/c	1,250
To R. D. D. A/c	1,000	By X's Capital A/c	875
		By Y's Capital A/c	875
	3,000		**3,000**

Partners Capital A/c

Dr. Cr.

Particulars	X Rs.	Y Rs.	Particulars	X Rs.	Y Rs.
To Revaluation A/c	875	875	By Bal b/d	24,000	16,000
To New Firm A/c	28,125	20,125	By Goodwill A/c	5,000	5,000
	29,000	**21,000**		**29,000**	**21,000**

In the books of New Firm

Balance Sheet As on 1st April 2016

Liabilities	Rs.	Assets	Rs.
Sundry Creditors 45,000		Cash at Bank	12,300
less- Discount 2,250	42,750	Stock	32,700
Bills payable	15,000	Sundry Debtors 35,000	
Capital A/c's		Less R. D. D. 1,750	33,250
A	47,125	Premises	50,000
B	27,125	Furniture	24,000
X	28,125	Bills Receivable	10,000
Y	20,125	Goodwill	18,000
	1,80,250		**1,80,250**

Amalgamation of Partnership Firms- Realisation Account Method

Whentwo or more partnership firm dissolve their separate business and form a new partnership firm are called as amalgamation of partnership firm. When two or more partnership firms amalgamate to form a new partnership firm, the books of account of the old firm is to be closed. In the books of each old firm, a realization Account is opened. All the assets and liabilities are transferred to Realization Account at book values.

Accounting Entries in the books of Amalgamating Firms (old firm)

1. For transferring assets to realization account

Realisation A/c Dr.

To Sundry Assets A/c

(Being assets transferred to Realisation Account at their book values)

2. For transferring different liabilities to realisantion account

Liabilites A/c Dr.

To Realisation A/c

(Being the liabilities transferred to Realisation Account at their book values)

3. For purchase consideration due

New Firm A/c Dr.

To Realisation A/c

(Being purchase consideration due from the new firm)

4. For assets taken over by the partners

Partners' Capital A/cs Dr.

To Realisation A/c

(Being assets taken over by the partners)

5. For realization of assets not taken over by the new firm

Bank A/c Dr.

To Realisation A/c

(Being the Realisation of assets not taken over)

6. For recording unrecorded assets

Assets A/c

To Partners' Capital A/c Dr.

(Being the unrecorded assets recorded in the books of account)

7. For realization of unrecorded assets

Bank A/c Dr.

To Assets A/c

(Being the realization of unrecorded assets)

(Note: if unrecorded assets are also taken over by the new firm, it is also transferred to realization Account along with other assets)

8. For payment of liabilities not taken over by the new firm

Realization A/c Dr.

To Bank A/c

(Being the payment of liabilities not taken over by the new firm)

9. For recording unrecorded liabilities

Partners' Capital A/c Dr.

To Liabilities A/c

(being the unrecorded liabilities recorded in the books of account)

10. For payment off unrecorded liabilities

Liabilities A/c Dr.

To Bank A/c

(Being the payment of unrecorded liabilities)

(Note: if unrecorded Liabilitiestaken over by the new firm, it is also transferred to Realisation Account along with other liabilities)

11. Liabilities assumed by the partners

Realization A/c Dr.

To Partners' Capital A/c

(Being liabilities assumed by the partners)

12. For realization expenses

Realisation A/c Dr.

To Bank A/c

(Being realization expenses paid)

13. For profit on realization

Realisation A/c Dr.

To Pertners' Capital A/cs

(Being profit on realization transferred to Parners' Capital Acount in the profit sharing ratio)

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14. For loss on realization

Capital A/cs Dr.

To Realisation A/c

(Being loss on realization transferred to Partners' Capital Accounts in the profit-sharing ratio)

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15. For accumulated profits/reserves

Reserve A/c Dr.

Profit & Loss A/c Dr.

To Partners' Capital A/cs

(Bing the undrawn profits transferred to Partners' Capital Accounts in the profit sharing ration)

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16. For accumulated losses

Partners' Capital A/cs Dr.

To Profit & Loss A/c

(Being ac cumulated loss transferred to capital Accounts in the profit sharing ratio)

---

17. For transferring partners current accounts to capital accounts

Partners' Current A/c Dr.

To Partners' Capital A/cs

(Being the credit balance of Partners' Current Accounts transferred to Partners' Capital Accounts)

---

18. For settlement of purchase consideration by the new firm

Partners' Capital in New firm A/c Dr.

To New A/c

(Being the settlement of purchase consideration)

---

19. For final adjustment of capital

Partners' Capital A/cs Dr.

To Partners' Capital in

New Firm A/c

(Being the final adjustment to close the books of account)

IIlustration 1

Two partnership firms, carrying on business under the style of AB Ltd and XY Ltd respectively, decided to amalgamate into Modern Ltd with effect 1st January 2016. The respective Balance Sheets are:

Balance Sheets of AB Ltd as on 31st December 2015

Liabilities	Rs	Assets	Rs
Mr B's Capital Accounts	38,000	Plant and Machinery	20,000
Sundry Creditors	20,000	Stock-in-trade	40,000
Bank Overdraft	30,000	Sundry Debtors	20,000
		Mr A's Capital Account	8,000
	88,000		**88,000**

A and B share profits and losses in the proportion of 1:2.

Balance sheets of XY Ltd as on 31st December 2015

Liabilities	Rs	Assets	Rs
Mr 's Capital Account	20,000	Goodwill	10,000
Mr 's Capital Account	4,000	Stock-in-trade	10,000
Sundry Creditors	19,000	Sundry Debtors	20,000
		Cash in hand	3,000
	43,000		**43,000**

X and Y Share profit and losses equally.The following further information is given:

1 All fixed assets are to be devalued by 20%.

2 All stock in trade is to be appreciated by 50%.

3 AB Ltd owes Rs 10,000 to XY Ltd as on 31st December 2015. This debit is settled at Rs 4,000

4 Goodwill is to be ignored for the purpose of amalgamation.

5 The fixed capital accounts in the new firm are to be : Mr A Rs. 4,000 ; Mr B Rs. 6,000 Mr X Rs. 2,000 Mr Y Rs .8,000

6 Mr B takes over bank overdraft AB Ltd and gifts to Mr A the amount of money to be brought in by Mr A to make up his capital contribution.

7 Mr X is paid off in cash from XY Ltd and Mr Y brings in sufficient cash to make up his required capital contribution.

Press necessary Journal entries to close the books of both the firms as on 31st December 2015

Solution

In the books of AB Ltd

Journal

Date	Particulars	Rs.	Rs.
	Realisation A/c Dr.	80,000	
	To Plant and Machinery A/c		20,000
	To Stock-in-trade A/c		40,000
	To Sundry Debtors A/c		20,000
	(Being the different assets transferred to Realisation Account)		
	Sundry Creditors A/c Dr.	20,000	
	To Realisation A/c		20,000
	(Being sundry creditors transferred to Realisation Account)		

	Bank Overdraft A/c Dr. To B's Capital A/c (Being overdraft taken over by B)	30,000	 30,000
	Modern Ltd. (Note 10) Dr. To Realisation A/c (Being purchase consideration due from Modern Ltd.)	82,000	 82,000
	Realisation A/c (Note 2) Dr. To A Capital A/c To B Capital A/c (Being profit on realization transferred to partners capital in the ratio of 1:2)	22,000	 7,333 14,667
	B Capital A/c Dr. To A Capital A/c (Being deficit in A's Capital made good by B)	4,667	 4,667
	A Capital A/c Dr. B capital A/c Dr. Modern Ltd. (Being the Capital accounts of the partners closed by transfer to Modern Ltd.)	4,000 78,000	 82,000

In the books of X Y Ltd
Journal

Date	Particulars	Rs.	Rs.
	Realisation A/c Dr. To Goodwill A/c To Stock-in-trade A/c To Sundry Debtors A/c (Being the different assets transferred to Realisation Account)	40,000	 10,000 10,000 20,000

	Sundry Creditors A/c Dr. To Realisation A/c (Being sundry creditors transferred to Realisation Account)	19,000	19,000
	Modern Ltd A/c Dr. To Realisation A/c (Being purchase consideration due from Modem Ltd.)	10,000	 10,000
	X Capital A/c Dr. Y Capital A/c Dr. To Realisation A/c (Note 2) (Being loss on realization transferred to Partners' Capital Accounts equally)	5,500 5,500	 11,000
	Bank A/c Dr. To Y Capital A/c (Being the necessary amount brought in by Y to make up his required capital contribution)	9,500	 9,500
	X Capital A/c Dr. Y Capital A/c Dr. To Modern Ltd To Bank A/c (Being the capital accounts of the partners closed by transfer to Modern Ltd and balance paid by cash)	14,500 8,000	 10,000 12,500

Working Notes: **(1) Calculations of purchase consideration**

Assets taken over:	AB Ltd	XY Ltd
Plant & Machinery	16,000	-
Stock-in-trade	60,000	15,000
Sundry Debtors [(*After adjustment of Rs 6.000 (Rs 10.000-Rs 4.000)]	20,000	14,000
(A)	96,000	29,000
Liability taken over: Sundry Creditors (B)	14,000	19,000
Purchase consideration (A-B)	82,000	10,000

Dr. **(2) Realisation Account** **Cr.**

Date	Particulars	AB Ltd	XYLtd	Date	Particulars	AB Ltd	XYLtd
	To Goodwill A/C	-	10,000		By Sundry Creditors A/C	20,000	19,000
	To Plant & Machinery A/C	20,000	-		By Modern Ltd	82,000	10,000
	To Stock-in-trade A/C	40,000	10,000		By X Capital A/c (loss)	-	5,500
	To Sundry Debtors A/c	20,000	20,000		By Y Capital A/c (loss)	-	5,500
	To A Capital A/c (profit)	6,667	-				
	To B Capital A/c (profit)	14,333	-				
		102,000	**40,000**			**102,000**	**40,000**

Partners' Capital Accounts

Dr. **Cr.**

Date	Particulars	A	B	Date	Particulars	A	B
	To Balance b/d	8,000	-		By Balance b/d	-	38,000
	To A Capital A/c	-	4,667		By Realisation A/c (Profit)	7,333	14,667
	To Modern Ltd	4,000	78,000		By B Capital A/c	4,667	-
					By Bank Overdraft A/c	-	30,000
		12,000	**82,667**			**12,000**	**82,333**

Dr **Partners' Capital Accounts** **Cr**

Date	Particulars	X	Y	Date	Particulars	X	Y
	To Realisation A/c	5,500	5,500		By balance b/d	20,000	4,000
	To Modern Ltd	2,000	8,000		By bank A/c	-	9,500
	To Bank A/c	12,500	-		-		
		20,000	**13,500**			**20,000**	**13,500**

IIlustration 2

M/s A and Co., having A and B as equal partners, decided to amalgamate with C and Co., having C & D as equal partners on the following terms and conditions:

1. The new firm AC and Co. to pay Rs 14,000 to each firm for Goodwill.

2. The new firm to take over investments at 10% depreciation, land at Rs 132,800, premises at Rs 106,000, machinery at Rs 18,000 and only the trade liabilities of both the firms. The debtors being taken over at given value.
3. Typewriters (written-off) woth Rs 16,000, belonging to C and Co., and not appearing in the Balance Sheet was also not taken over by the new firm.
4. Bills payable pertain to trade transactions only.
5. All the four partners in the new firm to bring in Rs 2,60,000 as capital in equal shares.

The following were the Balance Sheets of both the firms on the date of amalgamation:

Liabilities	A & Co.	C & Co.	Assets	A & Co.	C & Co.
Trade creditors	40,000	20,000	Cash	30,000	24,000
Bills payable	10,000	-	Investments	20,000	16,000
Bank overdraft	4,000	20,000	Debtors		
			Rs 20,000		
A's Loan	12,000	-	Less: Provision	18,000	8,000
			Rs 2,000		
Capitals			Furniture	24,000	12,000
A	70,000	-	Premises	30,000	-
B	44,000	-	Land	-	100,000
C	-	72,000	Machinery	30,000	-
D	-	40,000	Goodwill	18,000	-
General Reserve	16,000	6,000			
Investment Fluctuation Fund	4,000	2,000			
	2,00,000	**16,000**		**2,00,000**	**16,000**

Assuming immediate discharge of bank overdraft. Pass necessary Ledser A/cs to close the books of A & Co and C & Co. also pass Journal entries in the books and prepare the Balance Sheet of the New firm.

Dr. **Realisation Account** Cr.

Date	Particulars	A& Co.	C &Co.	Date	Particulars	A & Co.	C & Co.
	To Cash A/c	26,000	-		By Provision for Bad Debts A/c	2,000	-
	To Investment A/c	20,000	16,000		By Trade Creditors A/c	40,000	20,000
	To Debtors A/c	20,000	8,000		By Bills Payable A/c	10,000	-
	To Furnitures A/c	24,000	12,000		By M/s AC & Co. A/c	1,60,000	1,60,000
	To Premises/Land A/c	60,000	1,00000		By A Capital A/c	12,000	-
	To Office Equipment A/c	-	1,600		By B Capital A/c	12,000	-
	To Machinery A/c	30,000	-		By C Capital A/c	-	6,800
	To Goodwill A/c	18,000	-		By D Capital A/c	-	6,800
	To A Capital A/c (profit)	18,500	-				
	To B Capital A/c (profit)	18,500	-				
	To C Capital A/c (profit)	-	28,000				
	To D Capital A/c (profit)	-	28,000				
		2,36,000	**1,93,600**			**2,36,000**	**1,93,600**

Partners' Capital Accounts

Dr. **Cr.**

Date	Particulars	A	B	Date	Particulars	A	B
	To Realisation (fur, takenover) A/c	12,000	12,000		By Balance b/d	70,000	44,000
	To Capital in M/s AC & Co. A/c	80,000	80,000		By General Reserve A/c	8,000	8,000
	To Cash A/c (final settlement)	10,500	-		By Inv. Fluctuation Fund A/c	2,000	2,000
					By A's Loan A/c	12,000	-
					By Realisation A/c (profit)	10,500	10,500
					By Cash A/c (final settlement)	-	10,500
		102,500	92,000			102,500	92,000

Partners' Capital Accounts

Dr. **Cr.**

Date	Particulars	C	D	Date	Particulars	C	D
	To Realisation A/c	6,400	6,400		By Balance b/d	72,000	40,000
	To Capital in M/s AC & Co. A/c	80,000	80,000		By General Reserve A/c	2,500	2,500
	To Cash A/c (final settlement)	18,000	-		By Inv. Fluctuation Fund A/c	1,000	1,000
					By Office Equipment A/c	800	800
					By Realisation A/c (profit)	28,000	28,000
					By Cash A/c (final settlement)	-	14,000
		1,04,400	**86,400**			**1,04,400**	**86,400**

Cash Book of C & Co.

Dr. **Cr.**

Date	Pariculars	Rs	Date	Particulars	Rs
	To Balance b/d	24,000		By Bank Overdraft A/c	20,000
	To D Capital A/c	14,000		By D Capital A/c	18,000
		38,000			**38,000**

In the books of AC & Company

Dr Cr

Date	Particulars		Rs	Rs
	Goodwill A/c	Dr.	24,000	
	Cash A/c	Dr.	26,000	
	Investments A/c	Dr.	18,000	
	Debtors A/c	Dr.	20,000	
	Premises A/c	Dr.	106,000	
	Machinery A/c	Dr.	18,000	
	To Provision for Bad Debts A/c			2,000
	To Trade Creditors A/c			40,000
	To Bills Payable A/c			10,000
	To A Capital A/c			80,000
	To B Capital A/c			80,000
	(Being the assets and liabilities taken over by the new firm)			
	Goodwill A/c	Dr.	24,000	
	Investments A/c	Dr.	14,000	
	Debtors A/c	Dr.	8,000	
	Land A/c	Dr.	133,600	

	To Trade Creditors A/c		20,000
	To C Capital A/c		80,000
	To D Capital A/c		80,000
	(Being the assets and liabilities taken over by the new firm)		

Balance Sheet of AC & Co. as at…

Liabilities	Rs	Assets	Rs
Partners' Capital :		Goodwill	48,000
A	80,000	Land	133,600
B	80,000	Premises	106,000
C	80,000	Machinery	18,000
D	80,000	Investments	32,000
Creditors	60,000	Debtors Less : Provision (Rs 28,000-Rs 2,000)	26,000
Bills Payable	10,000	Cash	26,000
	1,02,000		**1,02,000**

Working Notes : (1) Calculation of purchase consideration

Assets taken over :	A & Co.	C & Co.
Cash	26,000	-
Investment	18,000	14,200
Debtors	18,000	8,000
Premises	106,000	-
Machinery	18,000	-
Land	-	132,800
Goodwill	24,000	24,000
(A)	210,000	178,200

Less : Liabilities taken over :		
Trade creditors	40,000	20,000
Bills Payable	10,000	-
(B)	50,000	20,000
Purches consideration (A-B)	1,60,000	1,60,000

2.3 Summary

Amalgamation of partnership firms means two or more firms carrying same type of business come together and form new partnership. There are four ways of amalgamation of partnership firms. The amalgamation is made for purpose to avoid cuthroat competition, to get benefit of large scale production, to reduce the common expenses, to get benefit of expertise of management etc. All assets and Liabilities are revalued in order to ascertain the true position as on the date of amalgamation. Journal entries and ledger accounts are prepared for closing books of account of old partnership firms and opening journal entries and balance sheet of new firm is prepared in the books of new firm.

2.4 Terms to Remember

1. Amalgamation- When two or more firms close their old business and form a new firm.
2. Goodwill- An extra value attached to the business.
3. Revaluation- revised valuation.
4. Partnership firm- As an association of two or more persons who have agreed to share the profits of a business which they run together.
5. Partners of the firm- Who own the partnership business.

2.5 Answers to check your progress.

Answers to Check Your Progress-I

A. 1. Profit sharing ratio 2. Revaluation Profit

B. 1. Amalgamation 2. Revaluation A/c P& L Adj. A/c

C. 1. True 2. False

Answers to Check Your Progress-II

A. 1. New Profit Sharing ratio 2. Current

B. 1. Cash 2. Capital

C. 1. False 2. True

2.6 Exercise

1. Explain the meaning of amalgamation of partnership firm. State the objectives of amalgamation of partnership firm.
2. Give the journal entries in the books of old firm for accounting of amalgamation.
3. Give the journal entries for amalgamation in the books of new firm.
4. Write Short Notes:
   a) Objectives of amalgamation
   b) Treatment of assets & Liabilities not taken over by the new firm.
   c) Treatment of Goodwill
5. Following are the balance sheets of M/S A& B and M/S X & Y as on 31st March 2018.

Liabilities	M/S A&B Rs.	M/S X&Y Rs.	Assets	M/S A&B Rs.	M/S X&Y Rs.
Sundry Creditors	1,00,000	1,20,000	Cash at Bank	28,000	33,500
Mrs A's Loan	25,000		Stock	1,02,000	91,500
Capital A/c's			Debtors		
A	2,00,000		M/S A & B	75,000	
B	1,00,000		M/S X & Y 1,00,000		
X		1,20,000	Less R. D. D. 5000		95,000

Y		80,000	Furniture	20,000	25,000
			Premises	2,00,000	75,000
	4,25,000	**3,20,000**		**4,25,000**	**3,20,000**

The two firms decided to amalgamate their business as from 1st April 2018 under the name of Goodlucky Traders for this purpose it was agreed that Mrs A's loan should be repaid by that firm and the premises of M/S X & Y be not taken over by the new firm.

Goodwill of M/S A & B was fixed at Rs. 40,000 and that of X & Y at Rs. 50,000. Premises were revalued at Rs. 2,50,000 but the stock of M/S A & B was overvalued by Rs. 16,250. The stock of M/S X & Y was undervalued by Rs. 10,000. A reserve of 5% on debtors was to be created for bad and doubtful debts of both the firms. The total Capital of the Goodlucky Traders was to be Rs. 4,00,000. The Capital of A, B, X & Y were to in their profit sharing ratio which was to 3:2:3:2 respectively. Goodwill account in the new firm was to be written off. You are required to prepare.

a) Revaluation A/c and Partner's Capital A/c's in the books of both the firms.

b) Opening Balance Sheet of the Goodlucky Traders. (Ans.- Revaluation Profit of M/S A & B Rs. 30,000 & thus X & Y Rs. 10,000. Cash Balance Rs. 96,500. As the cash balance is insufficient to make payment to A & B, so their due balance transferred to current accounts)

6. A & B were partners sharing profits and losses in the ratio of 3:1 and C & D were partners sharing profits and losses in the ratio of 3:2 following were their balance sheets as on 31st March 2018.

Balance Sheet As on 31 -03-2018

Liabilities	AB Rs.	CD Rs.	Assets		AB Rs.	CD Rs.
Creditors	3,75,000	1,50,000	Land		2,50,000	1,80,000
Bank Loan		30,000	Plant			1,80,000
Reserve Fund	40,000		Furniture		15,000	

Capitals			Stock		2,00,000	90,000
A	3,00,000		Bills Receivable		30,000	
B	1,60,000		Debtors			
C		2,00,000	A & B	1,60,000		
D		2,50,000	-R.D.D.	5,000	1,55,000	
			C & D	1,00,000		
			-R.D.D.	8000		92,000
			Cash		2,25,000	88,000
	8,75,000	**6,30,000**			**8,75,000**	**6,30,000**

The two firms amalgamated on 1st April 2018 on the following terms-

1. Goodwill of A & B was fixed at Rs. 2,00,000 and that of C & D was fixed at Rs. 3,00,000, which was to be retained in the books of new firm.
2. Furniture of A & B was not taken over by the new firm, which was taken over by A at Rs. 13,500.
3. Stock of C & D was not taken over by the new firm, but stock of A & B was taken over at Rs. 1,92,000
4. A & B sold their land for Rs. 3,00,000 but land of C & D was taken over by the new firm at Rs. 2,50,000.
5. Bank loan of C & D was not taken over by the new firm, which was settled by C & D at Rs. 29,000.
6. A provision of 5% was to be maintained on debtors of both the firms for the bad-debts whereas a provision for discount on creditors was to be maintained at 2% on creditors of both the firms.

You are required to prepare-

a) Revaluation A/c and partners capital A/c's in the books of A & B and C & D.

b) Opening Balance Sheet in the books of the new firm (Ans.- Revaluation Profit A & B Rs. 45,000 and C & D Rs. 77,000 cash Bal- 5,84,000. Total of Balance Sheet- 19,83,000)

7. Balance Sheet of Ashok and Nilesh as on 31st March 2018

Liabilities	Rs.	Assets	Rs.
Capitals		Building	4,00,000
Ashok	6,00,000	Plant	3,00,000
Nilesh	3,00,000	Dead Stock	50,000
Bills payable	50,000	Stock	1,00,000
Creditors	2,50,000	Bank	70,000
		Debtors	2,80,000
	12,00,000		**12,00,000**

Balance Sheet of Sunil and Vikas as on 31st March 2018

Liabilities	Rs.	Assets	Rs.
Capitals		Machinery	2,50,000
Sunil	5,00,000	Stock	3,50,000
Vikas	2,50,000	Furniture	80,000
Creditors	1,50,000	Debtors	2,50,000
Bank Loan	1,00,000	Bills Receivables	60,000
		Cash	10,000
	10,00,000		**10,00,000**

The above mentioned two firms were amalgamated and following changes were made in the values of assets and liabilities of the two firms.

1. Buildings were appreciated by 20% and Dead Stock was subjected to 5% depreciation.
2. Plant as well as Machinery was taken at 10% less.
3. Provision for reserve for doubtful debts was to be created at 3% on debtors of both firms.
4. Provision for discount on creditors of both the firms was also to be made at 2%.

You are required to prepare Revaluation A/c, Partner's Capital A/c and New Firm A/c in the books of old firms. Also prepare Balance Sheet of new firm as on 1st April 2018.

(Ans.- Revaluation Profit Ashok & Nilesh- Rs. 44,100 and Revaluation loss, Sunil & Vikas- Rs. 29,500 Balance Sheet- Total Rs. 22,06,600)

8. Following were the Balance Sheets of M/S Sachin and Viru and M/S Zahir and Irfan as at 31st March 2018.

Balance Sheet As at 31st March 2018

Liabilities	Sachin & Viru Rs.	Zahir & Irfan Rs.	Assets	Sachin & Viru Rs.	Zahir & Irfan Rs.
Creditors	19,500	24,000	Machinery	45,000	31,500
Bills Payable	15,000	18,000	Motor Car	22,500	27,000
Loan from Bank	7,500	6,000	Investment	15,000	13,500
Capital A/c's			Stock	30,000	37,500
Sachin	45,000		Debtors	24,000	30,000
Viru	60,000		Cash in Hand	10,500	9,000
Zahir		37,500			
Irfan		63,000			
	1,47,000	**1,48,500**		**1,47,000**	**1,48,500**

Sachin & Viru were sharing Profit & Loss in the ratio of 3:2 and Zahir & Irfan Sharing Profit and Losses in the ratio of 2:1. The two firms amalgamated on the following terms.

i) Provide R. D. D. 5% on Debtors on both the firms.

ii) Machinery of Sachin & Viru is to be depreciated by 15% and that of Zahir & Irfan is appreciated by 10%.

iii) Stock of Zahir & Irfan to be appreciated by 10% but stock of Sachin & Viru to be depreciated by 5%.

iv) Investment and Bills payable of both the firms were not taken over by the new firm.

v) Loan from bank paid by the both firms.

vi) The Motor Car are taken at Rs. 19,950 and Rs. 26,100 respectively.

You are required to prepare

a) Revaluation A/c and Partner's Capital A/c in the books of both the firms.

b) Opening Balance Sheet of the new firm (S. U. Oct 2018)

(Ans.- Revaluation Profit of Sachin & Viru Rs. 12,000 and Zahir & Irfan Rs. 4,500. Cash balance Rs. 6,000 Balance Sheet total Rs. 2,46,000)

9. Following are the balance Sheets of M/S Sai Traders and M/S Datta Traders as on 31st March 2018

Balance Sheets as on 31st March 2018

Liabilities	Sai Traders Rs.	Datta Traders Rs.	Assets	Sai Traders Rs.	Datta Traders Rs.
Creditors	6,500	11,000	Land & Building	22,000	19,500
Loan from Bank		11,000	Plant & Machinery	12,000	16,000
Capital A/c's			Debtors	9,600	8,400
Aman	18,000		Cash balance	6,100	13,000
Chaman	20,000		Profit & Loss A/c	–	2,000
Rane		15,000			
Sane		18,000			
Reserve Fund	5,000	10,000			
Bank Overdraft	12,000	4,000			
	61,500	**69,000**		**61,500**	**69,000**

Both the firms decided to amalgamate their business with effect from 1st April 2018 on the following terms.

i) Assets and Liabilities will be revalued as under-

	M/S Sai Traders	M/S Datta Traders
Land & Building	20,000	20,500
Machinery	15,000	16,000
Debtors	9,000	8,000
Stock	12,000	12,000
Bank Overdraft	11,000	5,000
Creditors	6,500	11,000

ii) Loan from bank should paid by Datta Traders itself.

iii) The Goodwill of M/S Sai Traders was valued at Rs. 15,000 and that of M/S Datta Traders Rs. 12,000. New firm will maintain goodwill at Rs. 25,000 only.

iv) Each partner would bring Rs. 30,000 as a capital by introducing or withdrawing cash if required.

v) Rane will pay for bank overdraft of their firm.

You are required to prepare-

a) Revaluation A/c and Partner's Capital A/c in the books of old firms.

b) Opening Balance Sheet of the new firm.

(Ans.- Revaluation Profit Sai Traders Rs. 1,600 and Datta Traders Rs. 1,500. Cash balance Rs. 11,000 Balance Sheet total Rs. 1,48,500)

6. Balance Sheet of Pawar & Naravane as on 31-03-2018

Liabilities	Rs.	Assets	Rs.
Capitals		Building	40,000
Pawar	60,000	Plant	30,000
Naravane	30,000	Dead Stock	5,000
Bills Payable	5,000	Debtors	28,000
Creditors	25,000	Stock in Trade	10,000
		Bank	7,000
	1,20,000		**1,20,000**

Balance Sheet of Ghate & Shaikh as on 31-03-2018

Liabilities	Rs.	Assets	Rs.
Capitals		Machinery	25,000
Ghate	50,000	Stock	35,000
Shaikh	25,000	Furniture	8,000
Creditors	15,000	Debtors	25,000
Bank Loan	10,000	Bills Receivable	6,000
		Cash	1,000
	1,00,000		**1,00,000**

The above mentioned two firms were amalgamated and the following changes were made in the value of assets and liabilities of the two firms.

1) Building were appreciated by 20% and Dead Stock was subjected to 5% depreciation.
2) Plant as well as Machinery was taken at 10% less.
3) Provision for Reserce for Doubtful Debts was to be created at 3% on Debtors of both firms.
4) Provision for Discount on Creditors of both the firms was also to be made at 2%.

Write up necessary Ledger Accounts in the books of two firms to give effect of Amalgamation. Also prepare a Balance Sheet of the new firm as on 1-4-2018 (S.U) (Ans- Revaluation Profit Pawar & Naravance Rs. 44,100, Ghate & Shaikh loss Rs. 29,500, B/s Total Rs. 22,06,600)

11. M/S Auto Industries and M/S Chandra Industries decided to amalgamate their business of Auto spares on 1st April 2018. Their Balance Sheet as at 31st March 2018 were as follows.

M/S Auto Industries

Balance Sheet as on 31-03-2018

Liabilities	Rs.	Assets	Rs.
Capital of Partners		Premises	1,00,000
Shashikant	1,20,000	Machinery	70,000
Harshal	1,10,000	Furniture	30,000
Bills Payable	10,000	Stock	1,20,000
Sundry Creditors	1,30,000	Bank Balance	50,000
	3,70,000		**3,70,000**

M/S Chandra Industries

Balance Sheet As on 31-03-2018

Liabilities	Rs.	Assets	Rs.
Capital of Partners		Building	1,20,000
Chandra	2,00,000	Furniture	40,000
Ratnakar	1,00,000	Equipments	80,000
Bank Loan	1,00,000	Sundry Debtors	60,000
Sundry Creditors	30,000	Stock	90,000
		Cash at Bank	40,000
	4,30,000		**4,30,000**

1) The terms of amalgamation and valuation of their Assets and Liabilities were agreed for the take over by the New Firm namely M/S Chandra Auto as follows.

	M/S Auto Industries	M/S Chandra Industries
Premises	1,20,000	-
Building	-	1,30,000
Machinery	50,000	-
Equipments	60,000	
Furniture	20,000	-
Stock	1,30,000	1,00,000

Debtors	-	50,000
Goodwill	40,000	30,000

2) Mr. Shashikant and Harshal were equal partners whereas Chandra & Ratnakar were sharing profit in the ratio of 2:1
3) In the new firm their profit sharing ratio were agreed to be equal for which the partners agreed to maintain their capitals equally at Rs. 1,50,000 each.
4) They also agreed to introduce fresh capital if necessary in the new firm.
5) The Goodwill was to continue in new firm.

You are required to close the books of the firms and prepare Balance Sheet of the new firm M/S Auto Chandra as at 1-4-2018 (S. U)

(Ans- Balance Sheet total Rs. 8,70,000. Cash at Bank Rs. 1,20,000)

12. The Respective Balance Sheet of P & Q and R & S at the date of amalgamation i. e. 31^{st} March 2017.

Balance Sheet of P & Q

Liabilities	Rs	Assets	Rs
Sundry Creditors	21,500	Cash at Bank	3,000
Capital		Sundry Debtors	20,000
P	25,000	Stock	30,000
Q	15,000	Investment	8,000
		Office Furniture	500
	61,500		**61,500**

Balance Sheet of R & S

Liabilities	Rs	Assets	Rs
Sundry Creditors	21,000	Cash at Bank	1,000
Reserve Fund	11,500	Sundry Debtors 25,000	
Capital		Less Reserve 500	24,500
R	19,000	Stock	20,000

S	11,000	Trade Fixtures	1,000
		Lease hold premises	12,000
		Goodwill	4,000
	62,500		**62,500**

It was agreed that the Balance Sheet of P & Q should be adjusted as follows before amalgamation.

a) That Rs. 400 be reserved for doubtful debts.

b) That stock and furniture be depreciated by 10%.

c) That investment be taken over at Rs. 10,000.

d) That Goodwill be valued at Rs. 40,000.

e) That Rs. 300 be reserved for discount on creditors.

The following adjustment were agreed upon in the Balance Sheet of R & S.

i) The Book debts, Stock and Trade Fixtures be taken over at book figures.

ii) That the Leasehold and Goodwill be valued at Rs. 18,000 and Rs. 6,000 respectively.

Capitals of P, Q, R & S in the new firm were fixed at Rs. 30,000, Rs. 20,000, Rs. 30,000 and Rs. 20,000 respectively.

You are required to prepare-

i) P & L Adjustment A/c and Partner's Capital A/c in both the Firms.

ii) Opening Balance Sheet in the books of the new firm. (S. U. March 2017)

(Ans- Revaluation Loss P & Q Rs. 1150, Revaluation Profit R & S Rs. 8,000 Balance sheet total Rs. 1,42,200).

13. PQ Ltd and RS Ltd are two partnership firms decided to amalgamate in to Good luck Ltd with effect From 1st January 2017. The respective Balance sheets are.

Balance sheet of PQ Ltd as on 31st December 2016

Liabilities	Rs	Assets	Rs
Sundry creditors	40,000	Plant and Machinery	40,000
Bank overdraft	60,000	Sundry Debtors	40,000
Mr.Q's Capital Accounts	76,000	Stock	80,000
		Mr.P's Capital Account	16,000
	1,76,000		**1,76,000**

Balancesheet of RS Ltd as on 31st December 2016

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	38,000	Stock	20,000
Mr. R'S capital A/c	40,000	Sundry Debtors	40,000
Mr.S'S Capital A/c	8,000	Goodwill	20,000
		Cash in hand	6000
	86,000		**86,000**

P and Q share profits and losses in 1:2, where as R and S share profits and losses equally.

The following additional information is given

1) All stock is to be appreciated by 50%
2) All Fixed assets are to be devalued by 20%
3) PQ Ltd owes RS 20,000 to RS Ltd ason 31st December 2016.This debit issettled at RS.8000.
4) Goodwill is to be ignored for the purpose of amalgamation.
5) The Fixed capital accounts in the new firm are to be : Mr. P - Rs.8000, Mr. Q- Rs.12,000, Mr.R - Rs.4000, Mr. S- Rs.16,000.

6) Mr. Q takes over bank overdraft of PQ Ltd and gifts to Mr. P the amount of money to be brought by Mr. A to make up his capital contribution.

7) Mr. R is paid off in cash from RS. Ltd and Mr.S brings sufficient cash to make up his required capital contribution

Prepare necessary Ledger accounts to close the books of both the firms as on 31st December 2016.

(Ans-Realisation profit-PQ Ltd-Mr.P-Rs.13,334 Mr. Q- Rs. 28,667 Realisation Loss-Mr. R -Rs. 9500 Mr.S- Rs.9500)

14. A & B are equal partners in the firm M/S A and Co and C & D are also equal partners in the firm Cand Co. The following were the Balance sheets of both the firms on 31st December 2016.

Liabilities	A & CO	C & CO	Assets	A & CO	C & Co
Trade creditors	40,000	20,000	Cash in hand	30,000	24,000
			Investment	20,000	16,000
Bank overdraft	4000	20,000	Debtors10,000	-	-
Bills Payable	10,000	-	Less prov 100	-	-
A's Loon	12,000	-	-	18,000	8000
Gen Reserve	16,000	6000	Premises	60,000	-
Investment	-	-	Furniture	24,000	12000
Fluctuation fund	4000	2000	Land	-	1,00,000
Capitals			Machinery	30,000	
A	70,000		Goodwill	18000	
B	44,000				
C		72,000			
D		40,000			
	2,00,000	**1,60,000**		**20,000**	**1,60,000**

The following additional information is given

1) The new firm A C & Co to pay Rs. 12,000 to each firm for goodwill.

2) The new firm to take over investments at 10% depreciation, land at Rs. 1,32,800,premises at Rs. 10,60,000 machinery at Rs. 18000 and only trade Liabilities of both the firms .The debtors being taken over at given value.

3) Typewriters (written-off) worth Rs.16000 belonging to C & Co and not appearing in the balance sheet was also not taken over by the new firm.

4) Bills payable pertain to trade transactions only.

5) All partners in the new firm to bring in Rs. 2,60,000 as capital in equal shares.

Assuming immediate discharge of bank overdraft. Pass necessary Ledger A/Cand prepare the Balance sheet of the new firm.

(Ans- Realisation profit- Mr. P - Rs. 19,000 Mr. Q Rs. 19,000 Mr. R - Rs. 28,000 Mr. S. Rs. 28,000)

2.7 References for further Study

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3. Tulsian P. C. (2004) New Delhi, Advanced Accountancy volume-I Pearson Edu. Ltd

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Unit-3

Consignment Accounts

Structure of Unit :

3.0 Objectives

After studying this unit you should be able to.........…

- Understand the concept of consignment;
- Explain the meaning of certain key terms;
- Get familiar with the special items concerning consignment transactions; and
- Prepare consignment accounts.

3.1 Introduction

Consignment is an arrangement in which goods are left in the custody of an authorized third party to trade. Normally, the consignor receives a percentage of the income from the sale (sometimes a very large percentage) in the form of a commission. Consignment deals are made on a diversity of products, such as paintings, artwork, clothing and accessories and books. Some types of retail sales may be termed as a special form of consignment where manufacturer rely on retail stores to sell their merchandise to consumers, even though secondhand stores and economy stores are more usually associated with the practice of consignment

The increasing size of the market is making more and more difficult for the owner or wholesaler to come in direct contact with customers living at far off distances. Consignment come into existence when goods are sent by their owner (the consignor) to an agent (the consignee), who undertakes to sell the goods. The consignor continues to own the goods until they are sold, so the goods appear as inventory in the accounting records of the consignor, not the consignee. It means, consignment is the sending of goods by manufacturer or its owner to his agent for the purpose of selling. The former is called the principal or consignor and the latter is called the agent or consignee. The goods so sent by the consigner is regarded as 'consignment outward' in the books of the consignor, whereas, the goods so received by the consignee is treated as 'consignment inward' in the books of consignee. Such a dispatch of goods from one person to another person at a different place for the purpose of warehousing and ultimate sale is termed as consignment. When the manufacturer or vendor dispatches goods are termed as 'Goods sent on Consignment', the sender is called "Consignor" and the receiver of the same goods is called as "Consignee".

For example if Mr. Rujul from Kolhapur sends 500 Computers to Mr. Mayank of Nagpur to sell on his (Rujul's) behalf and at his (Rujul's) risk, the transaction between Rujul and Mayank is a consignment transaction. Rujul is the 'consignor' and Mayank is the 'consignee'.

It should be noted that in the above example, Rujul continues to be the owner of the goods. Mayank is simply an agent of Rujul. He has not purchased the goods. He has agreed to sell the goods of Rujul to the best of his ability and capacity. He will, therefore, be responsible to Rujul for payment only when he has sold away the goods. Of course, he will be reimbursed by Rujul for any expenses incurred by his in obtaining and selling the goods besides remuneration for selling the goods as per the agreed terms.

3.2 Presentation of Subject Matter

3.2.1 Consignment Accounting

A person wishing to sell an item on consignment delivers it to a consignment shop or a third party to do the selling on his behalf. Before the third party takes custody of the goods, an agreement must be reached as to the revenue split when the item is sold. Most consignment shops have standard fee schedules that indicate the percentage of the sales price that is paid to the shop and the percentage paid to the seller. However, many consignment shops are willing to negotiate, particularly for larger-ticket items, such as artwork, that offer greater revenue potential.

3.2.1.1 Initial Transfer of Goods

When the consignor sends goods to the consignee, there is no need to create an accounting entry related to the physical movement of goods. It is usually sufficient to record the change in location within the inventory record keeping system of the consignor. In addition, the consignor should consider the following maintenance activities:

- Periodically send a statement to the consignee, stating the inventory that should be on the consignee's premises. The consignee can use this statement to conduct a periodic reconciliation of the actual amount on hand to the consignor's records.
- Request from the consignee a statement of on-hand inventory at the end of each accounting period when the consignor is conducting a physical inventory count. The consignor incorporates this information into its inventory records to arrive at a fully valued ending inventory balance.
- It may also be useful to occasionally conduct an audit of the inventory reported by the consignee.

From the consignee's point of view, there is no need to documentation the consigned inventory, since it is owned by the consignor. It may be useful to keep a separate record of all consigned inventory, for reconciliation and insurance purposes.

3.2.1.2 Sale of Goods by Consignee

When the consignee eventually sells the consigned goods, it pays the consignor a pre-arranged sale amount. The consignor records this prearranged amount with a debit to cash and a credit to sales. It also eliminates the related amount of inventory from its records with a debit to cost of goods sold and a credit to inventory. A profit or loss on the sale transaction will arise from these two entries.

Depending upon the understanding with the consignee, the consignor may pay a commission to the consignee for making the sale. If so, this is a debit to commission expense and a credit to accounts payable.

From the consignee's perspective, a sale transaction initiates a payment to the consignor for the consigned goods that were sold. There will also be a sale transaction to record the sale of goods to the third party, which are a debit to cash or accounts receivable and a credit to sales.

Due to increasing size of market, it is quiteobvious that producers or whole sellers cannot approach directly to every customer around the state or nation. To overcome this limitation, producers normally appoint trustworthy agents at every desired location to reach the customers directly. He makes an agreement with local traders who can sell goods on his behalf on commission basis.

3.2.1.3 Nature of Consignment

Consignment is a process under which the owner consigns/handovers his equipment to his agent/salesman for the purpose of shipping, transfer, sale etc.

Following are the points that throw more light on the nature and scope of a consignment −

- Here, ultimate ownership of the goods remains with the manufacturer or whole seller who handovers goods to his agent for sale on commission basis. Consignment is simply a transfer of custody of goods not an ownership.
- Since ownership of goods remain with the producer (consignor), consignee (agent) is not responsible for any loss or destruction of goods.
- The goods are sold on owner's risk and hence, profit/loss goes to owner.
- Consignee only gets re-imbursement of expenses incurred by him and commission on sale made by him, because sale that proceeds, belongs to owner (consignor).

3.2.1.4 Difference between Consignment and Sale

Following are the reasons that explain why consignment is not a sale −

- **Ownership** − Ownership of goods need to be transferred from seller to buyer in case of sale, but ownership of goods remains with the consignor, till the goods are sold by the consignee.
- **Risk** − In case of a consignment, normally, risk remains with the consignor in the event of goods being lost or destroyed. In case of sale, the risk also passes with the transfer of ownership. In other words, once the goods are sold, the buyer will bear the loss even if the goods are still in the custody of the seller.
- **Relationship** − The relation between a seller and a buyer will be of debtor and creditor in case where goods are sold on credit basis. On the other hand, the

relationship between a consignor and a consignee is that of principal and an agent.

- **Goods Return** − Usually, the sold goods cannot be returned back; however, if there is any manufacturing defect or any other technical fault, seller is obliged to take them back. On the other hand, consignee may return the unsold stock of goods to consignor anytime.

Journal Entries (in the books of Consignor)

Sr. No.	Transaction	Debit	Credit
1	When Security is asked	Bank or Cash A/c	Consignee's A/c
2	When Goods are Sent		
	a. at cost	Consignment A/c	Goods sent on Consignment A/c (with cost price)
	b. at Invoice price	Consignment A/c	Goods sent on Consignment A/c (with invoice price)
	c. In order to bring down the goods sent on consignment to cost, an adjustment entry will be necessary.	Goods sent on Consignment A/c (with difference amount)	Consignment A/c
3	For expenses incurred by the consignor	Consignment A/c	Cash A/c
4	When accounts sale received from the consignee		
	a. for sales made by Consignee	Consignee's A/c	Consignment A/c
	b. for expenses incurred by Consignee	Consignment A/c	Consignee's
	c. for commission.	Consignment A/c	Consignee's
5	When bad debts take place and consignee is not a del-credere agent	Consignment A/c	Consignee's (because he was debited with total sales)
6	For stock in the hands of the consignee:		

	a. if the goods were sent at cost	Stock on Consignment A/c (with cost price)	Consignment A/c
	b. if the goods were sent in invoice price	Stock on Consignment A/c (with invoice price)	Consignment A/c
7	For settlement of accounts with the consignee		
	a. if the consignee owes money he will pay it in cash or send B/E etc.	Bank or Cash or B/E A/c	Consignee's A/c
	b. if the consignor owes money to the consignee, he will pay him in cash or send B/E	Consignee's A/c	Bank or Cash or B/E A/c
8	If the B/E received from the consignee is discounted	Bank A/c Discount A/c	Bills of Exchange A/c
9	The discount A/c is closed by transferring it to P & L A/c	P&L A/c	Discount A/c
10	Goods sent on Consignment A/c will be closed by transferring its balance to Purchases or Trading A/c	Goods sent on Consignment A/c	Purchases or Trading A/c

Journal Entries (in the books of Consignee)

Sr. No.	Transaction	Debit	Credit
1	When he gives Security	Consignor's A/c	Bank or Cash A/c
2	When he incurs expenses for goods received on consignment	Consignor's A/c	Bank or Creditors A/c
3	For Sales made	Bank or Debtors A/c	Consignor's A/c
4	For commission earned by him	Consignor's A/c	Commission A/c

3.2.1.5 Important Terms

3.2.1.5.1 Pro-forma Invoice:

When an invoice is sent to the consignee by the consignor stating the facts relating to the full particulars of the goods, number and or quality, price, grade, weight, measurement, transport and other incidental expenses etc. at the time of dispatching the goods, such invoice is called 'Pro-forma Invoice'. 'Pro-forma Invoice' is like ordinary invoice which is used at the time of normal buying and selling transactions. Practically, it gives an idea to the consignee about the price in which the goods will be disposed of. Generally, 'pro-forma' invoice, which is charged by the consignor, includes a certain minimum amount of profit beyond which the consignee is not allowed to sell. Therefore, 'pro-forma invoice' price is always higher than the actual cost price. So, if goods are sent by the consignor on 'Pro-forma Invoice' price basis, an adjustment is to be made at the end of the period in order to ascertain the correct amount of profit.

3.2.1.5.2 Account Sale:

When sales relating to consignment is completed or the time period fixed by the consignor expires, consignee sends a statement relating to the goods received, destroyed-in-transit, or in godown, if any, effected sales including selling expenses and commission, deducting the amount of advance remitted by him to the consignor and finally the amount due to the consignor, such a statement is known as 'Account Sales'.

3.2.1.5.3 Commission

There are **three** types of commission payable to consignee on sale of the goods −

- **Simple Commission** − This is usually a fixed percentage on the total sale, calculated as per mutually agreed terms.
- **Over-riding Commission** − In case of an extra-ordinary sale of the goods, some specific amount is payable to consignee in the form of an incentive is called overriding commission. Over-riding commission is also calculated on the total sales.
- **Del-credere Commission** − "An agreement by which an agent or factor, in consideration of an additional premium or commission (called a del credere commission), engages, when he sells goods on credit, to insure, warrant, or

guarantee to his principal the solvency of the purchaser, the engagement of the factor being to pay the debt himself if it is not punctually discharged by the buyer when it becomes due."

3.2.1.5.4 Direct Expenses: Direct expenses are that expenses which is incurred for making the goods in a saleable condition. Normally, direct expenses are that all expenses which are incurred till the goods reaching in consignee's custody. These expenses are of a non-recurring nature and increase the value of goods. e.g. transportation, loading and unloading charges, travel insurance etc.

3.2.1.5.5 Indirect Expenses: These are expenses incurred after the goods reach the consignee's godown. They are of a recurring nature and do not increase the value of goods. e.g. godown rent, storage charges, insurance, salaries etc.

3.2.1.5.6 Account Sale: A periodical statement rendered by the consignor to the consignee containing details of the goods sold by the consignee together with balance finally due by him to the consignor.

3.2.1.5.7 Consignment: A dispatch of goods from one person to another person at a different place for the purpose of sale on behalf and at the risk of the sender.

3.2.1.5.8 Consignor: The person sending goods on consignment.

3.2.1.5.9 Consignee: The recipient of the goods sent on consignment.

3.2.1.5.10 Advance: Amount paid in advance by a consignee to consigner as security called as advance. What amount to be given as advance to consigner is depend upon nature and size of transaction and the amount is decided by mutual understanding.

Illustration- 1.

On 1st October 2018 M/s Raj consigned to M/s Taj 50 mobile handsets costing Rs. 10,000 per handset. M/s Raj incurred expenses Rs. 1,50,000. On 1st November 2018, an Account Sales was received from M/s Taj which showed that the entire mobile handsets were sold @ Rs. 20,000 each for Rs. 10,00,000/-. He sold 35 mobile handset for cash and 15 mobile handsets on credit. His expenses were – Clearing Charges Rs. 10,000, Godown Rent Rs. 5000. Other Expenses Rs. 15,500. He was entitled to a Commission @ 5% on sales and also entitled to DelCredere Commission @2% on sales for guaranteeing collection of credit sales. He sent an advance for Rs.

7,00,000/-. Make out an Account Sales assuming that M/s Taj remitted a Bank Draft for the balance on 30th November 2018.

Account Sales

Particulars	**Rs.**	**Rs.**	**Rs.**
Cash Sales (35 * 20,000)	7,00,000		
Credit Sales (15 * 20,000)	3,00,000		
Gross Sale Proceeds			10,00,000
Less: Expenses:			
Clearing Charges	10,000		
Godown Rent	5,000		
Other Expenses	15,500	30,500	
Less: Commission:			
Ordinary Commission @5% on Sales	50,000		
Del Credere Commission @ 2% on Sales	20,000	70,000	1,00,500
			8,99,500
Less: Advance Remitted by Cash			7,00,000
Net amount due remitted by a Bank Draft			2,99,500

Illustration- 2. Arjun from Kolhapur sent goods to Nakul of Pune valued Rs.1,00,000. Arjun incurred Rs.10,000 for various expenses. He alos received an advance from Nakul amounting to Rs.30,000. He received an account sales which showed that the entire goods were sold for Rs.1,50,000 (out of which credit sales amounted to Rs.10,000). Nakul collected Rs.8,000 from customers out of credit sales. Nakul incurred the following expenses:- Clearing Charges Rs.2,000, Godown Rent Rs.1,000. He informed that Rs.1,000 were totally bad and could not be recovered. He was also entitled to an Ordinary Commission @ 5% and Del-Credere Commission @ 2.5% on sales. You are required to prepare necessary accounts in the books of both Arjun and Nakul.

Solution:

In the Books of Arjun

Consignment to Pune Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To Goods Sent on Consignment A/c	1,00,000	By Nakul A/c-Sales Proceeds	1,50,000
To Bank A/c –Expenses	10,000		
To Nakul A/c – Clearing Charges	2,000		
-Godown Rent	1,000		
To Nakul A/c – Ordinary Commission	7,500		
-Del Credere Commission	3,750		
To Profit & Loss A.c	25,750		
	1,50,000		**1,50,000**

Nakul Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To Consignment to Pune – Sale Pro.	1,50,000	By Bank – Advance	30,000
		By Consignment to Pune A/c-Exp.	3,000
		By Pune A/c - Ord. Commission	7,500
		-Del Credere Com.	3,750
		By Balance c/d	1,05,750
	1,50,000		**1,50,000**

Goods Sent on Consignment Account

Particulars	Rs.	Particulars	Rs.
To Trading A/c – Transfer	1,00,000	By Consignment to Pune A/c	1,00,000
	1,00,000		**1,00,000**

Consignment Debtors Account

Particulars	Rs.	Particulars	Rs.
To Consignment to Pune-Credit Sales	10,000	By Nakul A/c-Cash Received	8,000
		By Consignment to Pune-Bad Debts	1,000
		By Balance c/d	1,000
	10,000		**10,000**

In the Books of Nakul

Arjun Account

Particulars	Rs.	Particulars	Rs.
To Bank – Advance	30,000	By Bank A/c – Cash Sales	1,40,000
To Bankt A/c-Exp.	3,000	By Consignment Debtors	
To Commission Receive - Ord. Com.	7,500	-Credit Sales	10,000
-Del Credere Com.	3,750		
To Balance c/d	1,05,750		
	1,50,000		**1,50,000**

Consignment Debtors Account

Particulars	Rs.	Particulars	Rs.
To Arjun A/c	10,000	By Bankl A/c-Cash Received	8,000
		By Consignment -Bad Debts	1,000
		By Balance c/d	1,000
	10,000		**10,000**

Commission Received Account

Particulars	Rs.	Particulars	Rs.
To Consignment Debtors A/c		By Arjun A/c -Ord. Com.	7,500
-Bad Debts	1,000	-Del Credere Com.	3,750
To Profit & Loss A/c- Transfer	10,250		
	11,250		**11,250**

Illustration- 3. Goods of Rs. 1,00,000 are sent on consignment to Rujul who sells away 50% goods for Rs. 80,000. Consignor required that 10 per cent of the value of the goods should be kept as an advance with him. Rujul's commission and expenses amount to Rs. 10,000. The amount to be sent by Rujul will be calculated as follows:

	Rs.	Rs.
Sale Value of the goods		80,000
Less: Commission and Expenses	10,000	
Advance Deposited 10% of Rs. 50,000	5,000	15,000
Amount to be sent by Rujul		65,000

Thus, 10 per cent of the value stock lying with the consignee i.e. Rs. 5,000 out of initial advance of Rs. 10,000 will still remain as advance with the consignor till these goods are finally sold.

The account heads that are to be created in the books of the consignor are

A/c Head	Type
Consignment a/c	Nominal
Consignee a/c	Personal
Goods Sent on Consignment a/c	Nominal
Stock on Consignment a/c	Real
Consignment Debtors a/c	Personal
Consignment Bad Debts a/c	Nominal
Stock Reserve a/c	Special Nominal

The account heads that are to be created in the books of the consignee are

A/c Head	Type
Consignor a/c	Personal
Ordinary Commission a/c	Nominal
Del Credere Commission a/c	Nominal
Overriding Commission a/c	Nominal
Special Commission a/c	Nominal
Consignment Debtors a/c	Personal
Consignment Expenses a/c	Nominal
Consignment Bad Debts a/c	Nominal
Consignment Income a/c	Nominal

3.2.1.6 Valuation of unsold Consignment

Valuation of unsold stock will be done like a closing stock of a Trading concern and should be valued at the cost or the market price whichever is low. This stock will be valued at −

- Proportionate cost price and
- Proportionate direct expenses.

Here, proportionate direct expenses mean — all expenses incurred by the consignor and the expenses of consignee, which are incurred by him till the goods reach the warehouse.

Invoicing Goods Higher than Cost

Under this method, goods are charged at the cost + profit and the pro-forma invoice also shows this higher price of such goods. To know the actual profit, at the end of an accounting period, consignment account will be credited with excess price so charged. Value of the stock will also be adjusted to the extent of profit element. Main reason to adopt this policy by consignor is −

- To hide actual profit from consignee.
- Valuation of a stock at the consignor's warehouse is comparatively easy in this case.
- In this case, consignor usually directs consignee to sale goods on invoice price only. It prevents different sale price to different customers.

3.2.1.7 Accounting Records

A proper record of all transactions relating to a particular consignment is necessary for ascertaining Net Profit or Net Loss on each separate consignment. To attain this objective the consignor usually maintains three accounts:

a. Consignment Account

b. Consignee's Account

c. Goods Sent on Consignment Account

Consignment Account is a Nominal Account. It is in fact a special Trading and Profit & Loss Account and therefore, its balance shows the Profit or Loss made on a particular consignment.

Consignee's Account is a Personal Account and therefore, in case the Consignee has not remitted the balance due by him in full, he will be a debtor, whereas if he has remitted more than the balance due by him, he will be a creditor.

Goods sent on Consignment Account is a Real Account. It is closed up by transferring its balance to Purchases Account (sometimes it is also transferred to the credit side of Trading Account).

The above accounts are maintained in respect of each of the consignments. For example, if goods have been sent on Consignment to Mumbai, Kolkata and Chennai, Consignment Account, Consignee's Account and Goods sent on Consignment Account will be maintained in respect of each of these consignments.

Check your Progress-I

A) Choose correct Alternative given below

1. Consignment deals are made on a ....

   a. diversity of products   b. only for special products

   c. particular date   d. year basis

2. When the consignee eventually sells the consigned goods, it pays the consignor a pre-arranged ....

   a. commission   b. discount

   c. purchase amount   d. sale amount

3. Consignment account is of the nature of a ---------- account

   a. real   b. nominal   c. personal

4. Goods sent on Consignment Account is a---------------account

   a. real   b. personal   c. nominal

5. Del-credere commission is allowed to the consignee to bear----------------

   a. normal loss   b. abnormal loss   c.loss on account of bad debts

B) Fill in the blanks

1. Consignment is a process under which the owner ……………………his equipment to his agent/salesman for the purpose of sale
2. When sales relating to consignment is completed or the time period fixed by the consignor expires, consignee sends a statement relating is known as ……………………

C) State the following statements are either True or False

1. Indirect expenses are that expenses which is incurred for making the goods in a saleable condition.
2. A proper record of all transactions relating to a particular consignment is necessary for ascertaining Net Profit or Net Loss.
3. Dispatch of goods on consignment amounts to sale of goods by the consignor.
4. A consignee is paid overriding commission for bearing the risk of bad debts on account of credit sales made by him.
5. Sales Account and Account Sales are Synonymous terms.

3.2.2 Pricing of Goods on Consignment

The goods sent on consignment can be sent either on a. cost or b. Invoice price

At Cost- in case of this method the goods are charge to the consignment at cost price by the consignor. The pro forma invoice is also prepared at cost. For example, if goods costing Rs. 1,00,000 are purchased by Amar and 75 per cent of such goods are sent by him on consignment to Susmita, proforma invoice will show the value of Goods as Rs. 75,000 and the Consignment to Susmita's account will also be charged with this price. The consignee may be given the direction regarding the price at which she should sell the goods.

At invoice price. When percent of profit is loaded in the cost price It shall become invoice price. Goods can be sent to the consignee after loading percentage of profit on cost . For example, if in the above case the goods are consigned at a profit of 30% on cost, the consignment account will be charged with Rs. 97,500 (i.e. Rs. 75,000 + Rs. 22,500) for the value of goods sent on consignment. However, in order to find out the profit, at the end of the accounting period, the consignment account will be given credit with the excess price so charged. In this case, the credit to the consignment account will be of Rs. 22,500. Thus, in fact, consignment account has been charged only with the cost (i.e. 97,500 – 22,500) of the goods sent on consignment as has been done in the first case. Suitable adjustment for profit element included in the stock with the consignee has also to be made.

3.2.2.1 Advantages of Invoicing Goods at Higher Price Than Cost

1. The consignee can keep secret from the consignee the profit that he is making on the goods sold, thus reducing the possibility of bringing more competition in the nature of field.
2. The consignee can be directed to sell the goods at invoice price only. Thus, he is prevented from charging different prices from different customers.
3. Control over stock with consignee will be slightly easier.

Goods are normally sent on cost price to the consignee but some time the consignor makes the invoice at the selling price i.e. proforma invoice price. The idea is that consignee should not know the actual cost of the goods. In such cases the entries are made by the consignor in his books at the invoice price. But for ascertaining profit or loss on a consignment the sale proceeds must be compared with the actual cost. Therefore, every item appearing in consignment account at invoice price must be suitably adjusted so as to reduce it to the cost price. This process of adjusting invoice price to the cost price is termed as "unloading". The following additional are made in the books of the consignor to effect unloading:

(i) *For unloading the difference between invoice price and cost price on the goods sent on consignment:*

Goods sent on consignment A/C	Dr.
Consignment A/C	Cr.

(ii) *For unloading the excess value put on the closing stock:*

Consignment A/C	Dr.
Stock reserve A/C	Cr.

The effect of the first entry is to reduce the balance on "goods sent on consignment account" to the cost price. As usual it will be transferred to the trading account.

The effect of the second entry is to show "stock on consignment" in the balance sheet as follows:

Balance Sheet (asset side)

Consignment stock	xxxxx	
Less stock reserve	xxxxx	xxxxx

The consignment stock account and the consignment stock reserve account will be taken to the next year's books and then transferred to the consignment account.

Illustration- 4. On 1st January 2018, Rujul& Co. of Kolhapur consigned 100 cases of dry milk to Mayank & Co. of Mumbai. The goods were charged at a Proforma invoice value of Rs.10,000 including a profit of 25% on cost. On the same date the consignor paid Rs. 600 for freight and insurance. On 1st July, the consignee paid clearing charges Rs.1,000, carriage Rs.200. On 1st August consignee sold 80 cases for Rs.10,500 and sent a remittance for the balance due to the consignor after deducting commission at the rate of 5% on gross sale proceeds.

Required: prepare consignment account and Mayank& Co. account in the books of Rujul& Co.

Solution:

Consignment Account

Date	Particulars	Amount	Date	Particulars	Amount
2018			2018		
Jan.1	To Goods sent on consignment A/C	10,000	Jan.1	By Goods sent on consignment A/C	2,500
	Bank A/C (freight and insurance)	600	Aug.1	By Mayank & Co. (sales)	10,500
July.1	To Mayank & Co.			By Stock on consignment	2,360

	Clearing charges 1000 Carriage 200 Commission 525	1,725			
	To Stock reserve A/C	500			
	Profit transfer to General P&L A/C	2,535			
		15,360			**15,360**

Mayank & Co. Account

Date	Particulars	Amount	Date	Particulars	Amount
2018			2018		
Aug.1	To Consignment to Chicago A/C - sales	10,500	July.1	By Consignment to Chicago A/C - exp. & commission	1,725
			Aug.1	By Bank A/C - final payment	8,775
		10,500			**10,500**

Working Notes:

(i) Loading on goods sent on consignment 25% on Rs. 10,000. 2,500

(ii) Loading on closing stock 25% on Rs. 2,000. 500

(iii) Direct expenses included in valuation of closing stock 1/5 of Rs. 1,800 360

Illustration- 5. On 1st April 2018, Susmita Mills Ltd., Kolhapur consigns 500 pieces of shirting costing Rs. 5,000 to Anita Stores, Pune. The consignee is entitled to 5% selling commission and 1% del-credere commission.

Following expenses were incurred by the consignor:

	Rs.
Carrriage	200
Insurance	100
Freight	150

Susmita Mills Ltd. draws a Bill of Exchange for Rs. 2,000 on Anita Stores, Pune, which was duly accepted by them. It is discounted for Rs. 1,950.

On 31st May, 2018, Anita Stores send the Account Sales which shows that they have sold goods for Rs. 7,500 and paid expenses amounting to Rs. 150. Stock in Consignee's hands on 31st May, 2018, is valued at Rs. 1,500.

Anita Stores enclose a sight draft with the Account Sales,for the net amount due to Susmita Mills Ltd. Give journal entries and ledger accounts in the books of the consignor.

Solution:

Journal

Date	Particulars		Debit Rs.	Credit Rs.
2018	Consignment to Pune A/c	Dr.	5,000	
April	To Goods Sent on Consignment A/c			5,000
	(500 pieces of shirting consigned)			
	Consignment to Pune A/c	Dr.	450	
	To Cash A/c			450
	(Expenses incurred)			
	Bills Receivable A/c	Dr.	2,000	
	To Anita Stores, Pune A/c			2,000
	(Bills of exchange received)			
	Bank A/c	Dr.	1,950	
	Discount A/c	Dr.	50	
	To Bills Receivable A/c			2,000
	(Bills receivable discounted)			

	Consignment to Pune A/c Dr. To Anita Stores, Pune A/c (Expenses incurred by the consignee)	150	 150
	Consignment to Pune A/c Dr. To Anita Stores, Pune A/c (Commission due to Anita Stores, being ordinary @5% and del-credere @1% on Rs. 7500)	450	 450
May 31	Anita Stores Ltd. A/c Dr. To Consignment to Pune A/c (Bing Sales made)	7,500	 7,500
	Stock on Consignment A/c Dr. To Consignment to Pune A/c (Stock with Consignee)	1,500	 1,500
Dec. 31	Goods Sent on Consignment A/c Dr. To Trading A/c (Transfer of goods sent on consignment)	5,000	 5,000
	Bills Receivable A/c Dr. To Anita Stores Ltd. A/c (Bills Receivable for net balance due)	4,900	 4,900
	Consignment to Pune A/c Dr. To Profit & Loss A/c (Transfer of profit)	2,950	 2,950
	Profit & Loss A/c Dr. To Discount A/c (Discount written off)	50	 50

Ledger Accounts

Consignment to Pune A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
2018 April	To Goods Sent on Consignment	5,000	2018 May	By Anita Stores A/c	7,500
	To Cash (Exp)	450		By Stock on Consignment	1,500
	To Anita Stores, Pune	150			
	To Anita Stores, Pune	450			
	To P & L A/c	2,950			
		9,000			**9,000**

Anita Stores, Pune

Date	Particulars	Rs.	Date	Particulars	Rs.
2018	To Consignment A/c	7,500	2018	By Bills Receivable A/c	2,000
				By Consignment A/c	150
				By Consignment A/c	450
				By Bills Receivable	4,900
		7,500			**7,500**

Goods Sent on Consignment A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
2018 Dec.31	To Trading A/c	5,000	2018 April	By Consignment A/c	5,000
		5,000			**5,000**

3.2.2.2 Stock Valuation

In order to prepare final accounts of the consignor, it becomes necessary to ascertain the value of unsold stock, if any, lying in the hands of consignee.

Otherwise, the net result i.e., true profit or loss, cannot be ascertained and that is why an adjustment is to be made in the Consignment Account bearing in mind the principles of valuations of stock, viz., cost price or market price, whichever is less. Usually, unsold stock is valued at cost to the consignor plus proportionate expenses incurred by him along with the proportionate non-recurring expenses of the Consignee. Alternatively, total cost of goods plus total expenses incurred by Consignor plus total non-recurring expenses of consignee are to be added and value of stock will be on the basis of proportionate unsold goods. (There are accountants who prefer to value stock only at cost price ignoring all expenses altogether. There are others who consider all expenses irrespective of caste and creed i.e. their nature. Similarly, there are some other experts who prefer to take only expenses incurred by consignor etc.). In the present study, we have followed the first method. The usual entry for this purpose will be

Stock on Consignment / Consignment Stock A/c Dr.	****	
To Consignment A/c		****

Unsold Stock will appear in the assets side of the Balance Sheet. However, if it is assumed that the Unsold Stock will realize at less than cost, the net realizable value (i.e. realizable value minus estimated expenses including consignee's commission) is to be considered for the purpose. And if net realizable value is found to be less than cost, the Stock must be written down accordingly since it is based on the principles of conservatism i.e., anticipated losses must be provided for in the books.

To sum up the following method should carefully be considered while valuing Unsold Stock:

Ordinary Method

a)	***Where Cost Price is less than Market Price***	Rs.
	Total Cost	***
Add:	Expenses incurred by Consignor	***
Add:	Non-recurring expenses incurred by Consignor	***
	Value of Stock $= \dfrac{\text{Value of total goods X Unsold units/cases}}{\text{Total no. of units/cases}}$	***

Alternatively

	Proportionate Cost Price	***
Add:	Proportionate expenses of Consignor	***
Add:	Proportionate expenses of Consignee	***
	Value of Unsold Stock	***

b) Where Cost Price is more than the Market Price

Market Price is to be considered as the value of Unsold Stock.

c) Where there is invoice price of goods

	Total Cost	Rs.
Add:	Expenses incurred by Consignor	
Add:	Non-recurring expenses incurred by Consignor	
	Total invoice value of goods	***

$$\text{Value of Stock} = \frac{\text{Value of total goods X Unsold units/cases}}{\text{Total no. of units/cases}} \quad ***$$

Stock Reserve /Suspense = Difference between Invoice value of Unsold Stock and Cost Price of unsold stock. ***

***

After ascertaining the cost price or market price with the help of the above, the lower/small one is to be considered as the value of unsold stock.

Illustration- 6. Mahantesh of Mumbai sent 500 units @ Rs. 150 each to Mr. Amardeep of Madras to be sold on his account and at his risk for 7.5% Commission and 2.5% Del Credere Commission and incurred Rs. 5,500 expenses. Rs. 20,000 advance has been received. Mr. Amardeep sent an Account Sale disclosing that 300 units have been sold for Rs. 230 each and another 100 units for Rs. 220 each. He has incurred unloading expenses etc. Rs. 750 and Selling Expenses Rs. 1,000. He informed that Rs. 1,000 was proved bad since the customer became insolvent and another customer deducted Rs. 500 due to a dispute in quality of goods.

Prepare:

1. Consignment to Madras A/c
2. Mr. Amardeep A/c
3. Goods Sent on Consignment A/c
4. Stock on Consignment A/c

Solution:

In the books of Mahantesh

Consignment to Madras Account

Particulars	Rs.	Particulars	Rs.
To Goods Sent on Consignment A/c (500 * Rs. 150)	75,000	By Mr. Amardeep (Sale Proceeds) A/c (Rs.300 * 230 = Rs. 69,000) (Rs.100 * 220 = Rs. 22000)	91,000
To Bank Expenses	5,500	By Stock on Consignment A/c	16,250[1]
To Mr. Amardeep A/c Expenses Unloading Exp 750 Selling 1000	1,750		
To Mr. Amardeep A/c Commission Ordinary 6,825 Del Credere 2,275	9,100		
To Disputed Amount	500[2]		
To Profit & Loss A/c (Profit on Consignment transferred)	15,400		
	1,07,250		**1,07,250**

Working Note:

1. Valued of Unsold Stock

	Rs.
Total Cost	75,000
Add: Expenses of Consignor	5,500
Add: Non-recurring Expenses of Consignee	750
Cost Price of 500 units	81,250

Value of Unsold Stock = (81250 / 500)*100 = 16,250

2. The loss which arises due to dispute in quality of goods is to be borne by the Consignor and, as such, it is a charge against the Consignment.
3. There will be no treatment for bad debts in the books of Consignor since Del Credere Commission is given.

Mr. Amardeep A/c

Particulars	**Rs.**	**Particulars**	**Rs.**
To Consignment to Madras A/c Sale Proceeds	91,000	By Bank – Advance Consignment to Madras A/c	20,000
		By Expenses	1,750
		By Commission	9,100
		By Dispute Amount	500
		By Balance c/d	59,650
	91,000		**91,000**

Goods Sent on Consignment A/c

Particulars	**Rs.**	**Particulars**	**Rs.**
To Trading A/c - Transfer	75,000	By Consignment to Madras A/c	75,000
	75,000		**75,000**

Stock on Consignment Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To Consignment to Madras A/c	16,250	By Balance c/d	16,250
	16,250		**16,250**

Illustration- 7. Mr. Avinash is a consignee agent for Caspro Ltd. Mumbai, who manufacture transistors. Model Alpha and Model Beta are the most popular models with fixed retail price of Rs. 200 and Rs. 250, respectively, on which the manufacturers have a profit of 20% calculated on the sales price. the consignment arrangement with Mr. Avinash provides for the following commission structure:

(i) Model Alpha 2.5% on the S.P. (ii) Model Beta 4% on the S.P. On July 1st 2018 stock with Mr. Avinash was 200 Nos. of Model Alpha and 200 Nos. of Model Beta. During the 31st Dec. 2018 the transactions were:

	Model	
	Alpha	Beta
Goods Sent to Mr. Avinash	2000 Nos.	1000 Nos.
Sales by Mr. Avinash	2100 Nos.	900 Nos.

The consignment sent to Mr. Avinash at cost of Rs. 30,000.

Show the Consignment Account showing separately the computation of commission due and the value of closing stock in the books of Caspro Ltd. Mumbai.

Solution:

In the books of Caspro Ltd. Mumbai

Consignment Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To Consignment Stock A/c (200 * 160) + (200 * 200)	72,000	By Mr. Avinash's A/c-Sale Proceeds (Rs.2100*200) + (Rs.900*250)	6,45,000
To Goods sent on Consignment (200 * 160) + (1000 * 200)	5,20,000	By Stock on Consignment	80,000
To Bank – Freight	30,000		
To Mr. Avinash-Commission	19,500		
To Profit & Loss A/c (Profit on Consignment transferred)	83,500		
	7,25,000		**7,25,000**

Working Note:

1. Calculation of Commission:	Rs.	2. Valuation of Unsold Stocks:	
Model Alpha = (4,20,000 * 2.5%)	10,500	Model Alpha =(100 * 160)	16,000
Model Beta = (2,25,000 * 4%)	9,000	Model Beta = (300 * 200	60,000
	19,500		**76,000**
3. Cost of:		Add: Proportionate Freight	
Model Alpha = 200 * 80%	**160**	{(100+300)/(2000+1000)}*Rs. 30,000	4,000
Model Beta = 250 * 80%	**200**		**80,000**

4. Unsold Stock = Opening Stock + Goods Sent - Sale of Goods

3.2.2.3 When Market Price is less than the Cost Price

The market price is the current price at which an asset or service or goods can be bought or sold. The economic theory contends that the market price converges at a point where the forces of supply and demand meet. Hence, sometimes it might be possible to be happen that consignee have to sale the goods at less than the cost price due to fall in market price.

Illustration- 8. National Traders of Kolhapur purchased 10,000 sarees @ Rs. 100 per sarees. Out of these 6,000 sarees were sent on consignment to Susmita Traders of Jodhpur at the selling price of Rs. 120 per saree. The consignors paid Rs. 3,000 for packing and freight.

Susmita Traders sold 5,000 sarees @ Rs. 125 per saree and incurred Rs. 1,000 for selling expenses and remitted Rs. 5,00,000 to Kolhapur on account. They are entitled to a commission of 5% on thotal sales plus a further of 25% commission on any surplus price realized over Rs.120 per saree.

3000 sarees were sold at Kolhapur @ Rs. 110 per saree. Owing to fall in market price, the value of stock of saree in hand is to be reduced by 10%.

You are required to prepare

i. Consignment Account, and

ii. Susmita Traders Account

Solution:

In the books of National Traders

Consignment Account

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c (6000 * 100)	6,00,000	By Susmita Traders A/c -Sale Proceeds (5000 * 125)	6,25,000
To Bank A/c- Packing & Freight	3,000	By Stock on Consignment A/c	85,500
To Susmita Traders A/c			
-Selling Expenses	1,000		
-Commission	37,500		
To Profit & Loss A/c	69,000		
	7,10,500		**7,10,500**

Notes:

1. 3,000 sarees which were sold at Kolhapur @ Rs. 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.
2. 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.

Susmita Traders Account

Particulars	Rs.	Particulars	Rs.
To Consignment A/c		By Bank A/c – Advance	5,00,000
- Sale Proceeds	6,25,000	By Consignment A/c –Selling Exp	1,000
			37,500

		-Commission	
		By Balance c/d	86,500
	6,25,000		**6,25,000**

Working:

1.	Calculation of Commission payable to Susmita Traders		2.	Valuation of Unsold Stock	
	Total Sales @ Rs. 125	6,25,000		Since market price has fallen by 10%,	
Less:	Sales over Rs. 120	6,00,000		valuation of unsold	
	Surplus Price Realised	**25,000**		stock on	
Less:	@ 5% on total Sales			Consignment will be as under:	
	Rs. 625000 *5%	31,250			
Add:	25%on Rs. 25000	6,250		Total Cost (1000 * Rs.100)	1,00,000
				(without expenses)	
		37,500	Less:	10% Reduction	10,000
					90,000
			Less:	Consigniee's Commission	4,500
				Estimated Selling Price	**85,500**

3.2.2.4 Partial Return of the Goods by the Consignee

Sometimes a part of the goods are returned by the consignee to the consignor due to a number of reasons. In that case,the consignor passes the following entry:

Goods Sent on Consignment A/c	Dr.	***	
To Consignment A/c			***

(i.e. the reverse entry of when goods are sent.). Now, the problem arises about the expenses of such returned goods (whether paid by Consignor or Consignee) i.e. whether the same should be charged against the consignment or not. There are two schools of thought. Some say, the expenses should not be charged against the consignment since the expense of returning goods is not a charge against the consignment, as a whole, the same should be charged against Profit and Loss Account. Some others are of opinion that the expenses of returning goods relate to the consignment, as such, the same should be charged against Consignment Account. The latter method is followed in this volume. For this purpose, the consignor will pass the following entry:

Consignment A/c	Dr.	***	
To Cash/Bank A/c (if paid by consignor)			
To Consignee's Personal A/c (if paid by Consignee)			***

Illustration- 9. On 1st Jan. 2018 Sumana of Calcutta consigned to her agent, Suparna of Kanpur, 100 radio sets, which coast Rs. 200 each, Insurance and Freight amounting to Rs.1200. Suparna is entitled to a commission of 10% on gross sales.

On 1st May 2018 Suparna returned 10 radio sets which were of technical defects and paid return Freight and Insurance, Rs.150. Sumana whose financial year ends on 30th June 2018 received from Suparna an Account Sales, made up to that date; this showed that Suparnahas sold 80 radio sets for Rs. 30,000 and that she had paid Godown rent Rs.500 and carriage on sale Rs.400. Suparna sent a Sight Draft in settlement of the balance due. Suparna sold the remaining radio sets for Rs.7,000 incurring expenses Rs.200. She sent a second Account Sales made up to 30th Nov. 2018 accompanied by a Sight Draft for the balance due.

You are required to prepart the Consignment to Kanpur Account and Suparna's Account in the books of Sumana.

Solution:

In the books of Sumana

Consignment to Kanpur Account

	Particulars	**Rs.**		**Particulars**	**Rs.**
2018	To Goods sent on Consignment A/c	20,000	2018 May1	By Goods sent on Consignment A/c (Return)	2,000
Jan. 1	To Bank – Ins. & Freight	1,200		By Suparna –Sale Proceeds	30,000
	To Suparna- Return			By Balance c/d	
	Freight & Insurance	150		Stock on Consignment	2,133
	To Suparna-Rent	500			
	Carriage	400			
	Commision @10%	3,000			
	To Profit & Loss A/c	8,883			
		34,133			34,133
July 1	To Balance b/d	2,133	Nov30	By Suparna (Sale Proceeds)	7,000
Nov30	To Suparna- Expenses	200			
	-Commission @ 10%	700			
	To Profit & Loss A/c	3,967			
		7,000			**7,000**

1. Valuation of Unsold Stock as on 30^{th} June 2018

	Cost price of 100 radios @ Rs.200	20,000
Less:	Cost of radio sets returned (10 * Rs.200)	2,000
		18,000
Add:	Expenses of Consignor	1,200
	Cost Price of 90 Radio Sets	19,200

$$\text{Value of Unsold Stock} = \frac{\text{Rs.}19{,}200 * 10}{90} = 2{,}133$$

Suparna Account

	Particulars	Rs.		Particulars	Rs.
2018 June 30	To Consignment to Kanpur A/c - Sale Proceeds	30,000	2018 May 1	By Consignment to Kanpur -Return Freight & Insurance	150
			June30	By Consignment to Kanpur A/c – Expenses & Com.	3,900
				By Bank A/c (bal. figure)	25,950
		30,000			**30,000**
Nov.30	To Consignment to Kanpur A/c-Sale Proceed	7,000	Nov.30	By Consignment to Kanpur A/c – Expenses & Com.	900
		7,000			**7,000**

3.2.2.5 Discounting Charges of the Bill

When the consignor receives a bill from the consignee either as an advance or as a final settlement, he may discount the bill by the bank. Now the question arises whether the discounting charges of the bill will be treated as an expenses of the consignment or not. There are two schools of thought about it. Some accountants are of opinion that discounting charges should be adjusted against the Consignment

Account (i.e. discounting charges should appear in the debit side of Consignment Account) as it is an expense relating to consignment. Some other accountants are of opinion that discounting charges of the bill should be treated as a financial charge, hence, it should be adjusted against Profit and Loss Account and not against Consignment. However, both the method are correct. The students are advised to give a note whatever method they follow.

3.2.2.6 Loss of Goods

There may be two types of losses as explained below −

3.2.2.6.1 Normal Loss − Normal loss may occur due to inherent characteristics of goods like evaporation, drying up of goods, etc. It is not separately shown in the consignment account, but included in the cost of goods sold and the closing stock by inflating the rate per unit. To calculate the value of unsold stock, following formula is used.

$$\text{Value of closing stock} = \frac{\text{Total value of goods sent}}{\text{Net quantity received by consignee}} \times \text{Unsold quantity}$$

Net quantity received = Goods consigned quantity – Normal loss quantity

Illustration- 10. Kashmira informed you the following particulars of his transactions relating to goods consigned to Kareena for the year ended 31st March 2018:

Goods Sent (10,000kg)		Rs. 1,00,000
Kashmira's Expenses		Rs. 10,000
Karinaa's Expenses:		
Freight and Insurance	2,000	
Selling Expenses	5,000	Rs. 7,000
Sold (8,000kg) for		Rs.1,12,000
(Loss due to natural wastage (100kg)		
Commission @5% on gross sales		

You are asked to prepare the Consignment Account only with detailed calculation of unsold stock in the books of Kashmira.

Solution:

In the books of Kashmira

Consignment Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To Goods sent on Consignment A/c	1,00,000	By Kareena A/c	
		Sale Proceeds	1,12,000
To Bank (Expenses)	10,000	By Stock on Consignment	21,495
To Kareena's A/c			
-Freight & Insurance	2,000		
-Selling Expenses	5,000		
To Kareena A/c- Commission 5%	5,600		
To Profit & Loss A/c	10,895		
To Profit & Loss A/c	8,883		
	1,33,495		**1,33,495**

Working:

1. Valuation of Unsold Stock

Total Cost	1,00,000
Add: Consignor's Exp	10,000
Cost Price of 10,000kg	1,10,000
Add: Non-recurring Exp. of Kareena	2,000
Value of (10,000-100= 9,900kg)	1,12,000

Therefore, value of stock = (1900*112000)/9900 = Rs. 21,495

3.2.2.6.2 Abnormal Loss − An abnormal loss may occur due to any accidental reason. It is credited to the consignment account to calculate actual profitability. Valuation of closing stock is done on the same basis as explained earlier i.e. proportionate cost + proportionate direct expenses.

Illustration- 11. 2,000 shirts were consigned by Bhagwan& Co. of Delhi to Shreyans of Tokyo at cost of Rs.150 each. Bhagwan& Co paid freight Rs.20,000 and Insurance Rs.3,000. During the transit 200 shirts were totally damaged by fire.

Shreyans took delivery of the remaining shirts and paid Rs. 28,800 on custom duty. Shreyans settled his account immediately. Nothing was recovered from the insurer for the damaged goods. Shreyans had sent a bank draft to Bhagwan& Co. for Rs.1,00,000 as advance payment. 1,600 shirts were sold by him at Rs. 200 each. Expenses incurred by Shreyans on godown rent and advertisement etc. amounted to Rs.4,000. He is entitled to commission of 5%. One of the customers to whom the goods were sold on credit could not pay the cost of 10 shirts.

Prepare the Consignment Account and the account of Shreyans in the books of Bhagwan & Co.

Solution:

In the books of Bhagwan& Co.

Consignment Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To Goods sent on Consignment A/c (2000 * Rs.150)	3,00,000	By Shreyans A/c Sale Proceeds	3,18,000
To Bank – Freight	20,000	By Consignment Debtors A/c	21,495
- Insurance	3,000	-Credit Sales (10 * 200)	2,000
To Shreyans A/c		By Abnormal Loss A/c	32,300
- Custom Duty	28,800	By Stock on Consignment A/c	35,500
-Godown Rent, Adv. Etc.	4,000		
-Commission @5%	16,000		
To Consignment Debtors A/c -Bad Debts	2,000		
To Profit & Loss A/c	14,000		
	1,33,495		**1,33,495**

Shreyans Account

Particulars	Rs.	Particulars	Rs.
To Consignment A/c		By Bank Draft A/c	
-Sales Proceeds	3,18,000	-Advance	1,00,000
		By Consignment A/c	
		-Expenses & Commission	48,800
		By Bank A/c	
	3,18,000		**3,18,000**

Abnormal Loss Account

Particulars	Rs.	Particulars	Rs.
To Consignment A/c	32,300	By Profit & Loss A/c	32,300
	32,300		**32,300**

Working:

1. Valuation of Goods Lost-in-transit and Unsold Stock

	Total Cost	3,00,000
Add:	Consignor's Exp.	23,000
	Cost Price	3,23,000
Less:	Lost-in-transit	
(323000 * 200) /2000		32,300
		2,90,700
Add: Non-recurring Exp.		28,800
	Cost Price	3,19,500

Value of Unsold Stock = (319500 *200)/1800 = Rs. 35,500

3.2.2.6.3 Lost-in-Transit and Lost at Godown

Goods in **transit** refers to merchandise and other types of inventory that have left the shipping dock of the seller, but not yet reached the receiving dock of the buyer. The concept is used to indicate whether the buyer or seller of goods has taken possession, as it is in the same quantity as dispatched by the consignor or not. Hence, sometime in the transportation goods either lost or damage in transit and consignee gets the less quantity than it send by the consignor. At the same time in some cases goods may be stolen or damaged in godown itself due to negligence or any other reasons. So when such situation arises it should be recorded as follows.

Illustration- 12. Shiv Traders consignes on 1st Nov. 2018, 1000 tins of groundnut oil from Calcutta to Mr. Mayank of Kolhapur. Each tin costs Rs.30 @ Rs.3/kg. Shiv Traders pays Rs.5,000 by way of freight and other expenses. During transit 25 tins were accidentally destroyed. Mr. Mayank takes delivery on 15th Nov. 2018 and accepts a bill for Rs.20,000 drawn by Shiv Traders at 3 Months. On 31st Dec. 2018, Mr. Mayank sold 800 tins @Rs.50/tin and reports to Shiv Traders a theft of 35 tins. Mr. Mayank had also paid Rs.600 as clearing charges, Rs.1,000 as godown rent and Rs.2,000 by way of labour charges and fire insurance. Mr. Mayank is entitled to receive a commission of 5% plus 1% delcredere risk. Show important ledger accounts up to 31st Dec. 2018, in the books of Shiv Traders assuming that Mr. Mayank pays the dues by bank draft.

Solution:

In the books of Shiv Traders

Consignment Account

	Particulars	**Rs.**		**Particulars**	**Rs.**
2018 Nov.1	To Goods sent on Consignment	30,000	2018 Dec.31	By Abnormal Loss A/c -Lost-in-transit	875
	To Bank Expenses -Freight & Other	5,000		By Abnormal Loss A/c -Theft in MayanksGodown	1,247
Dec.31	To Mayank A/c Expenses:			By Stock on Consignment	4,986
	-Clearing Charges	600			
	-Godown Rent	1,000			

	-Labour Charges	2,000			
	To Mayank A/c				
	Commission:				
	-Ordinary @ 5%	2,000			
	-Del Credere Com. @ 1%	400			
	To Profit & Loss A/c	6,108			
		47,108			**47,108**

Mayank Account

	Particulars	Rs.		Particulars	Rs.
2018	To Consignment to		2018	By bills Receivable	20,000
Dec.31	Kolhapur A/c- Sales Proceeds	40,000	Nov.15		
			Dec.31	By Consignment to Kolhapur	
				-Expenses	3,600
				-Commission	2,400
				By Bank A/c (Amount Due)	14,000
		40,000			**40,000**

Working:

1. Valuation of Goods Lost-in-transit and Unsold Stock

	Total Cost	30,000
Add:	Consignor's Exp.	5,000
	Cost Price	35,000
Less:	Lost-in-transit	
(35000 * 25) /1000		875
		34,125
Add: Non-recurring Exp.		600
	Cost Price	34,725

Value of Unsold Stock = (34725 *975)/140 = Rs. 4,986

Value of theft at Mayank'sGodown (34725 *975)/35 = Rs. 1,247

3.2.2.6.4 Goods Lost for Consignee's Negligence

The goods are consigned from one place to another. After receiving the goods by consignee, the goods are stored by the consignee before selling them to customers. It is natural that some loss to the goods may take place within that period. The goods may be lost, destroyed or damaged due to consignee's negligence. The accounting treatment to be given as follows.

Illustration- 13. Mr.Om of Calcutta, consigned goods costing Rs.1,60,000 to Rujul of Kolhapur. The terms of the consignment were:

a. Consignee to get commission of 5% on cash sales and 4% on credit sales

b. Any goods taken by consignee himself or goods lost through consignee's negligence, shall be valued at cost plus 12.5% and no commission will be allowed on them.

The expenses incurred by the consignor were:

Carriage and freight Rs.6,720 and Insurance Rs.3,440. The consignor received Rs.50,000 as advance against the consignment. Account sales together with a draft for the balance due was received by the consignor showing the following position:

Goods costing Rs.1,28,000 were sold for cash at Rs.1,40,000 and on credit at Rs.1,08,000. Goods costing Rs. 8,000 were taken by Rujul and goods costing Rs.4,000 were lost through Rujul's negligence. The expenses incurred by Rujul were: Advertisement Rs.1,720, other selling expenses Rs.1,080.

Show the ledger accounts in the books of Om.

Solution:

In the books of Om

Consignment to Kolhapur Account

Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment	1,60,000	By Rujul A/c-Cash Sales	1,40,000
To Bank Expenses – Insurance	3,440	By Rujul A/c Goods taken (8000+8.5% on	

-Freight & Carriage	6,720	8000)	9,000
To Rujul A/c Expenses:		By Rujul A/c	
-Advertisement	1,720	Goods lost by negligence	4,500
-Selling Expenses	1,080	By Consignment Debtors	1,08,000
-Labour Charges	2,000	By Stock on Consignment	21,270
To Rujul A/c -Commission:			
-Cash Sales	7,000		
-Credit Sales	4,320		
To Profit & Loss A/c	98,490		
	2,82,770		**2,82,770**

Rujul Account

Particulars	Rs.	Particulars	Rs.
To Consignment to Kolhapur A/c		By Bank- Advance	50,000
-Cash Sales	1,40,000	By Consignment to Kolhapur A/c	
-Goods taken	9,000	-Expenses	2,800
-Goods Lost	4,500	-Commission	11,320
		By Bank A/c (Amount due)	89,380
	1,53,500		**1,53,500**

Goods Sent on Consignment Account

Particulars	Rs.	Particulars	Rs.
To Trading A/c- Transfer	1,60,000	By Consignment to Kolhapur	1,60,000
	1,60,000		**1,60,000**

Consignment Debtors Account

Particulars	Rs.	Particulars	Rs.
To Consignment to Kolhapur	1,08,000	By Balance c/d	1,08,000
	1, 08,000		**1,08,000**

Abnormal Loss with Partial Return

Illustration- 14. On 1st April 2017 Mr. Patil of Darjeeling consigned 2,000 kg. of Tea costing Rs.60/kg to Mr. Jadhav of Kolhapur. Mr. Patil incurred the following expenses: Freight Rs.2,000, Insurance Rs.400 and Sundry Expenses Rs.600. During the year ended 31st March 2018, Mr. Jadhav incurred the following expenses, Freight Rs.600, Godown Rent Rs.500 and Carriage to godown Rs.1,000.

On 1st Dec. 2017, Mr. Jadhav sold 1,200 kg. of tea for cash at a profit of 25% on sales. On 15th Dec. 2017, Mr. Jadhav returned 150 kg. of tea, which was of poor quality to Mr. Patil and paid return freight and carriage of Rs.250. Out of the remaining tea, 200 kg being partially damaged was valued at 30% less than cost. Mr. Jadhav charged his commission at 5% and the balance so far due from him to Mr. Patil on 31st March 2018. Mr. Patil closes his books every year on 31st March. You are required to prepare the following accounts in the books of Mr. Patil

a. Consignment to Kolhapur A/c

b. Goods Sent on Consignment A/c

c. Personal Account of Mr. Jadhav

Solution:

In the books of Mr. Patil

Consignment Account

	Particulars	Rs.		Particulars	Rs.
2017 Apr.1	To Goods Sent on Consignment A/c	1,20,000	2017 Dec.1	By Jadhav A/c -Sales Proceeds	96,000
	To Bank Exp. –	2,000	Dec.15	By Goods Sent on	

	Freight	600		Consignment A/c-Returned	9,000
	-Sundry Exp				
	-Insurance	400	2018	By Abnormal Loss A/c	4,420
Dec.15	To Jadhav A/c – Freight	600	Mar.31	By Stock on Consignment A/c	
	-Godown Rent	500		Good Quality 27,900	
	-Carriage	1,000		Damage 7,980	35,880
	To Jadhav A/c-Commission @5%	4,800			
	To Profit & Loss A/c	15,150			
		1,45,300			**1,45,300**

Consignment Account

	Particulars	Rs.		Particulars	Rs.
2017	To Consignment to Kolhapur A/c	96,000	2017 Dec.15	By Consignment to Kolhapur	250
				Returned Freight & Carriage	
Dec.1			2018 Mar.31	By Consignment to Kolhapur	2,100
				-Expenses A/c	4,800
				-Commission	
				By Bank A/c	88,850
		96,000			**96,000**

Goods Sent on Consignment Account

	Particulars	Rs.		Particulars	Rs.
2017 Dec.15	To Consignment to Kolhapur A/c -Returned	9000	2017 Apr.1	By Consignment to Kolhapur A/c	1,20,000
2018 Mar.31	To Trading A/c - Transfer	1,11,000			
		1,20,000			**1,20,000**

Abnormal Loss and Normal Loss:

Illustration- 15. Lubrizols Ltd. of Mumbai consigned 1,000 barrels of lubricant oil costing Rs.800 per barrel to Central Oil Ltd. of Delhi on 1st Jan. 2018. Lubrizols Ltd. paid Rs.50,000 as freight and insurance. 25 barrels were destroyed on 7th Jan. 2018 in-transit. The insurance claim was settled at Rs.15,000 and was paid directly to the consignor. Central Oil took delivery of the consignment on 19th Jan. 2018 and accepted a bill drawn upon them by Lubrizols Ltd., for Rs.5,00,000 for 3 months. On 31st March 2018, Central Oil reported as follows:

i. 750 barrels were sold as Rs.1,200 barel.

ii. The other expenses were:

	Rs.
Clearing charges	11,250
Godown Rent	10,000
Wages	30,000
Printing & Stationery	20,000

iii. 25 barrels of oil were lost due to leakage which is considered to be normal loss.

Central Oil Ltd. is entitled to a commission of 5% on all the sales effected by them. Central Oil Ltd. paid the amount due in respect of the consignment on 31st March itself. Show the Consignment Account, the account of Central Oil Ltd., and the Abnormal Loss Account as they will appear in the books of Lubrizols Ltd.

Solution: **In the books of Lubrizols Ltd.**

Consignment to Delhi Account

	Particulars	Rs.		Particulars	Rs.
2018 Jan. 1	To Goods Sent on Consignment A/c (1000*Rs.800)	8,00,000	2018 Jan. 7	By Abnormal Loss	21,250
Mar. 31	To Bank Exp. – Freight	50,000		By Central Oil Ltd.	
	To Central Oil Ltd. A/c			-Sale Proceeds (750*1200)	9,00,000
	-Clearing charges	11,250		By Stock on Consignment A/c	1,76,842
	-Godown Rent	10,000			
	-Wages	30,000			
	-Printing & Stationery	20,000			
	To Central Oil Ltd. A/c (Com.5%)	45,000			
	To Profit & Loss A/c	1,31,842			
		10,98,092			**10,98,092**

Central Oil Ltd. Account

	Particulars	Rs.		Particulars	Rs.
2018 Mar.31	To Consignment to Delhi A/c -Sale Proceeds	9,00,000	2018Jan.19	By Bills Receivable A/c	5,00,000
			Mar.31	By Consignment to Delhi	
				-Expenses A/c	71,250
				-Commission	45,000
				By Bank A/c (Amount due)	2,83,750
		9,00,000			**9,00,000**

Abnormal Loss Account

	Particulars	Rs.		Particulars	Rs.
2018 Jan.7	To Consignment to Delhi A/c	21,250	2018 Jan.7	By Bank Insurance Claim	15,000
			Mar.31	By Profit & Loss A/c	6,250
		21,250			**21,250**

Working:

1. Valuation of Goods Lost-in-transit and Unsold Stock

	Total Cost	8,00,000
Add:	Consignor's Exp.	50,000
	Value of 1000 barrels	8,50,000
Less:	Lost-in-transit (850000 * 25) /1000	21,250
		8,28,750
Add:	Non-recurring Exp.	11,250
	Value of (1000-25-25=950)	8,40,000

Value of Unsold Stock = (8,40,000 *200)/950 = Rs. 1,76,842

3.2.2.7 Shortage or Deficiency of Stock

Some shortage or deficiency may arise in stock at consignee's godown while actual physical stock taking is being conducted by the consignee. For this purpose proper valuation must be made for such shortage for stock. Valuation should be made on the same basis as the value of unsold stock. The following entries are to be passed in the books:

1. Stock Deficiency A/c Dr. ***
   To Consignment A/c ***
2. Profit and Loss A/c Dr. ***
   To Stock Deficiency A/c ***

But if there is an agreement between the consignor and consignee that such shortage or deficiency must be made good by the consignee, in that case, Consignee's Personal Account should be debited.

Illustration- 16. From the following particulars, show the entries in the books of Consignor:

Goods sent on Consignment 100 books @ Rs.100

Expenses incurred by Consignor

Freight	Rs.2,000
Insurance	Rs.1,000

Expenses incurred by Consignee

Clearing	Rs.2,000
Storage	Rs. 500

Consignee sold 82 books and he informed that a deficiency of 3 units disclosed by his actual physical stock taking.

Solution:

1. Valuation of Unsold Stock

	Total Cost	10,000
Add:	Consignor's Exp.	3,000
Add:	Non-recurring Exp.	2,000
	Cost of 100 books	15,000

Value of stock = (Rs.15000 *15)/100 = Rs. 2,250

Value of Deficiency of Stock = (Rs.15000 *3)/100 = Rs. 450

Journal Entries

Date	Particulars		LF No.	Debit	Credit
	Stock on Consignment A/c	Dr		2,250	
	To Consignment A/c				2,250
	Stock Deficiency A/c	Dr		450	
	To Consignment A/c				450
	Profit and Loss A/c	Dr		450	
	To Stock Deficiency				450

3.2.2.8 Invoice Price Method

Sometimes the consignor does not prefer to disclose the true profit that is earned on consignment for many reasons (viz. to avoid competition, to give the fair price of goods etc.). For the purpose, he sends goods at proforma invoice price to the consignee which is fixed after adding certain percentage on cost or on sale/invoice price so that the consignee will not be able to know the profit which is earned by the consignor in consignment transaction. For example, the cost prices of goods sent, say, Rs.10,000, if the rate of profit on cost is 25%, the invoice price [i.e. cost price + Profit (Loading)] will be Rs.12,500 (or, Rs.10,000 + Rs.2,500).

It must be remembered that if there is any unsold stock or any abnormal loss, they are to be valued at invoice price. Needless to mention that proper adjustment must be made to eliminate such loading either on unsold stock or on abnormal loss in order to bring them at cost.

Illustration- 17. Susmita consigned goods to Asmita worth Rs. 30,000. This was made by adding 50% on cost. Susmita paid Rs.2,000 for freight and insurance. Asmita accepted a 3 months bill drawn by Susmita for Rs.20,000. On arrival of the goods at the destination Asmita paid Rs.2,000 as Godown Rent. An Account Sale was received which showed that they had sold 90% goods for Rs.35,000. The consignee was entitled to a commission of 10% on gross sale proceeds. Show the entries and necessary accounts in the books of Susmita.

Solution:

In the Books of Susmita

Journal Entries

Date	Particulars		LF No.	Debit Rs.	Credit Rs.
	Consignment A/c	Dr		30,000	
	To goods Sent on Consignment A/c				30,000
	(goods sent on consignment at invoice price)				
	Consignment A/c	Dr		2,000	
	To Bank A/c				2,000
	(Expenses incurred)				
	Bills Receivable A/c	Dr		20,000	
	To Asmita A/c				20,000
	(Bills accepted for 3 months)				
	Cash/Bank A/c	Dr		20,000	
	To Bills Receivable A/c				20,000
	(Bills honoured at maturity)				
	Consignment A/c	Dr		2,000	
	To Asmita A/c				2,000
	(Expenses incurred)				
	Asmita A/c	Dr		35,000	
	To Consignment				35,000
	(Goods Sold)				
	Consignment A/c	Dr		3,500	
	To Asmita A/c				3,500
	(Commission by Susmita @ 10%)				
	Stock on Consignment A/c	Dr		3,200	
	To Consignment A/c				3,200
	(Value of stock in the hands of Asmita)				

	Goods Sent on Consignment A/c Dr To Consignment A/c (Difference between invoice price and cost price adjusted)		10,000	 10,000
	Consignment A/c Dr To Stock Reserve A/c (Difference between invoice price and cost price of unsold stock adjusted)		1,000	 1,000
	Consignment A/c Dr To Profit & Loss A/c (Profit on Consignment transferred)		9,700	 9,700
	Goods Sent on Consignment A/c Dr To Trading A/c (Cost price of Goods sent on Consignment transferred)		20,000	 20,000

In the Books of Susmita

Consignment Account

Particulars	**Rs.**	**Particulars**	**Rs.**
To Goods Sent on Consignment A/c	30,000	By Goods Sent on Consignment A/c (Loading)	10,000
To Bank Exp. – Freight & Insurance	2,000	By Asmita A/c -Sale Proceeds	35,000
To Asmita A/c		By Stock on Consignment A/c	3,200
-Godown Rent	2,000		
-Commission	3,500		
To Stock Reserve A/c	1,000		
To Profit & Loss A/c	9,700		
	48,200		**48,200**

Asmita Account

Particulars	Rs.	Particulars	Rs.
To Consignment A/c		By Bills Receivable A/c	20,000
-Sale Proceeds	35,000	By Consignment A/c	
		-Expenses	2,000
		-Commission	3,500
		By Balance c/d	9,500
	35,000		**35,000**

Goods Sent on Consignment Account

Particulars	Rs.	Particulars	Rs.
To Consignment A/c (Loading)	10,000	By Consignment A/c	30,000
To Trading A/c – Transfer	20,000		
	30,000		**30,000**

Consignment Stock Account

Particulars	Rs.	Particulars	Rs.
To Consignment A/c	3,200	By Balance c/d	3,200
	3,200		**3,200**

Stock Reserve Account

Particulars	Rs.	Particulars	Rs.
To Balance c/d	1,000	By Consignment A/c	1,000
	1,000		**1,000**

3.2.2.8.1 Invoice Price – Alternative Method or Stock and Trading Method

Under this method, the following accounts are to be opened:

i) **Consignment Stock Account:** This account reveals the excess amount realized over invoice price and also indicates the amount of stock on hand at invoice price.

ii) **Goods Sent on Consignment Account:** This account incorporates the actual goods which are transferred to Trading or Purchase Account after adjusting the loading on goods sent, i.e. it is almost similar to earlier method.

iii) **Consignment Stock Reserve Account:** This account shows the amount of gross profit without, however, considering the amount of any expense. The proportionate loading on unsold stock will be carry forward to the next accounting period.

iv) **Consignment Trading Account:** This account incorporates the amount of expenses and shows the profit or loss on consignment.

v) **Consignee's Personal Account:** This account is similar to the earlier method, (i.e. it takes into account the amount of sales against which the advance received from consignee, if any, his expenses and commission, the balance left at the end) but in a different manner.

Illustration- 18. Taking the previous Illustration- No. 17, prepare the necessary ledger accounts under Stock and Trading Method:

Consignment Stock Account

Particulars	Rs.	Particulars	Rs.
To Goods Sent on Consignment A/c	30,000	By Asmita A/c – Sale Proceeds	35,000
To Consignment Stock Reserve A/c	8,000	By Stock c/d	3,000
	38,000		**38,000**

Goods Sent on Consignment Account

Particulars	Rs.	Particulars	Rs.
To Consignment Stock Reserve A/c	10,000	By Consignment Stock A/c	30,000
To Trading A/c	20,000		
	30,000		**30,000**

Consignment Stock Reserve Account

Particulars	Rs.	Particulars	Rs.
To Consignment Trading A/c	17,000	By Goods Sent on Consignment A/c	10,000
To Balance c/d	1,000	By Consignment Stock A/c	8,000
	18,000		**18,000**

Consignment Trading Account

Particulars	Rs.	Particulars	Rs.
To Bank A/c- Expenses	2,000	By Consignment Stock Reserve A/c	17,000
To Asmita A/c – Expenses	2,000	By Proportionate all Exp. c/d	200
To Bank A/c	3,500		
To Profit & Loss A/c	9,700		
To Profit on Consignment - Transferred	---		
	18,000		18,000
To Proportionate Exp. b/d	200		

3.2.2.8.2 Invoice Price – Memorandum Column Method

In this method, there must be two columns in each side of the Consignment Account viz.:

(i) Invoice Price and (ii) Cost Price. Invoice price column represents total invoice price of goods consigned, sales and closing stock which, in other words, serves as a memorandum column and if the debit side of the invoice price column is greater than the credit side, there will be an apparent loss and vice versa. Cost price Column, on the other hand, reveals the profit or loss on consignment.

Illustration- 19. Taking the previous Illustration- No. 17 and show the Consignment Account using memorandum columns.

Consignment Stock Account

Particulars	Invoice Price	Cost Price	Particulars	Invoice Price	Cost Price
To Goods Sent on Consignment	30,000	20,000	By Asmita A/c		
To Bank A/c- Expenses	2,000	2,000	-Sales Proceeds	35,000	35,000
To Asmita A/c – Expenses	2,000	2,000	By Stock on Consignment	3,200	3,200
To Asmita A/c – Commission	3,500	3,500			
To Profit & Loss A/c	---	9,700			
To Profit on Consignment – Transferred *(bal fig.)*	700	---			
	38,200	**37,200**		**38,200**	**37,200**

Goods Sent on Consignment Account

Particulars	Invoice Price	Cost Price	Particulars	Invoice Price	Cost Price
To Trading A/c	30,000	20,000	By Consignment A/c	30,000	20,000
	30,000	**20,000**		**30,000**	**20,000**

Miscellaneous:

Illustration- 20. The account sales received from Agent disclosed that the total sales effected by him during 2-17-18 amounted to Rs.4,50,000. This included Rs.3,12,500 for sales made at Invoice price which is cost plus 25% and the balance at 10% above the Invoice price. He incurred expenses to the tune of Rs.5,000 out of which a sum of Rs.1,800 is recurring in nature. Forwarding expenses of the Consignor totaled Rs.2,400. The Agent had remitted the balance due from him through Bank Draft after deducting the expenses, 5% commission on gross sales, Bad debts Rs.850 & Bills payable accepted by him for Rs.10,000. The value of unsold stock at original cost lying with the Agent as on 31st march 2018 amounted to Rs.50,000. You are required to prepare the Consignment Account and the Agent's Account in the Books of Consignor.

Solution:

In the books of Consignor

Consignment Account

Particulars	Rs.	Particulars	Rs.
To Goods Sent on Consignment A/c (Invoice Price)	5,00,000	By Agents A/c -Sale Proceeds	4,50,000
To Bank Expenses	2,400	By Goods Sent on Consignment A/c (Loading)	1,00,000
To Agents A/c		By Unsold Stock A/c	63,200
-Expenses-Recurring	1,800		
-Non-Recurring	3,200		
-Commission	22,500		
-Bad Debts	850		
To Stock Suspense A/c	12,500		
To Profit & Loss A/c – Profit on Consignment – Transferred	69,950		
	6,13,200		**6,13,200**

Agent Account

Particulars	Rs.	Particulars	Rs.
To Consignment A/c		By Consignment A/c	
-Sale Proceeds	4,50,000	-Expenses	5,000
		-Commission	22,500
		-Bad Debts	850
		By Bills Receivable A/c	10,000
		By Bank Draft A/c	4,11,650
	4,50,000		**4,50,000**

3.2.2.8.3 Invoice Price – Abnormal Loss

The actual price paid to the manufacturer or distributor by the end-customer retailer, which is known as the invoice price. However, in many industries, the "invoice cost" actually varies from the "net purchase cost," or the actual price of a product.

Illustration- 21. Pooja Ltd. of Pune dispatched 1,000 radio sets costing Rs.150 each to Radha of Satara on 25th March 2018. The following expenses were paid by the company on the consignment: Freight Rs.7,500, Cartage Rs.500, Insurance Rs.2,000. The Proforma invoice price to the agents was for Rs.2,00,000 and the remunerations was fixed at 5% on gross sales proceeds. The agents accepted a bill for Rs.50,000 drawn on them as an advance. 50 sets were stolen-in-transit to Satara and an insurance claim of Rs.7,000 was received in final settlement. On 31st Dec. 2018, the company received an Account Sales from the agents as under:

		Rs.	Rs.
Sales proceeds of 800 sets			1,60,000
Less:	Clearing Charges	1,900	
	Storage	3,100	
	Commission	8,000	
	Net Proceeds		13,000
			1,47,000

They remitted a Sight Draft for the balance after deducting the amount of the bill already accepted. Show the ledger accounts in the books of the Consignor.

Solution:

In the books of Pooja Ltd.

Consignment to Satara Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2018 Mar. 25	To Goods Sent on Consignment	2,00,000	2018 Dect.31	By Goods Sent on Consignment A/c – Loading	50,000
	To Bank A/c - Expenses			By Radha A/c – Sale Proceeds	1,60,000
	-Freight	7,500		By Lost-in-Transit A/c	10,500
	-Cartage	500		By Stock on Consignment A/c	31,800
	-Insurance	2,000			
	To Radha A/c - Expenses				
	-Clearing Charges	1,900			
	-Storage	3,100			
	-Commission	8,000			
	To Lost in Transit A/c	2,500			
	(Loading – 50 * Rs.50)				
	To Stock Reserve A/c	7,500			
	To Profit & Loss A/c	19,300			
		2,52,300			**2,52,300**

Radha Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2018 Dec. 31	To Consignment to Satara A/c -Sale Proceeds	1,60,000	2018 Mar. 25	By Bills Receivable	50,000
			Dec. 31	By Consignment to Satara-Exp	13,000
				By Bank A/c (Amount Due)	97,000
		1,60,000			**1,60,000**

Goods Sent on Consignment Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2018 Dec. 31	To Consignment to Satara A/c - Loading	50,000	2018 Mar. 25	By Consignment to Satara A/c	2,00,000
	To Trading A/c	1,50,000	Dec. 31	By Consignment to Satara-Exp	13,000
		2,00,000			2,00,000

Lost-in-Transit Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2018 Dec. 31	To Consignment to Satara A/c	10,500	2018 Dec. 31	By Consignment A/c (Loading – 50 * Rs.50)	2,500
				By Bank A/c-Insurance Co.	7,000
				By Profit & Loss A/c (bal. fig)	1,000
		10,500			**10,500**

3.2.2.9 Consignment Between Two Countries with Different Foreign Exchange

In this case, preparation of Consignment and other accounts are same. The only difference is that due to the exchange (e.g. between $ and Rs.), if there is any loss in exchange, the said loss should be transferred to Consignment Account. Thus, the entry will be:

Consignment A/c	Dr.	***	
To Consignee's Personal A/c			***

In the opposite case, the entry will be reversed.

Illustration- 22. Mr. Ajay Shinde, a Kolhapur merchant, has an agent Abhijeet Sardesai in New York, to whom he sends goods on consignment. On June 1st ,Mr. Ajay Shinde consigned to Abhijeet Sardesai 100 cases of silk garments which had cost Rs. 2,000 each. Mr. Ajay Shinde paid duties etc. Rs.3,000 freight Rs.12,000 and insurance Rs.4,000. On September 30, Abhijeet Sardesai sent Mr. Ajay Shinde an Account Sales showing that he had 70 cases for 1,400 dollars each and that she had incurred the following expenses:

Landing Charges	Rs. 840
Selling expenses	Rs. 1,400

Abhijeet Sardesai's commission was at the rate of Rs. 200 per case sold plus one-third of the excess of the sale proceeds less ordinary commission over Rs. 900 per case. With the Account Sales a bank draft was enclosed for the balance due which was encashed by Mr. Ajay Shinde at the rate of Rs.7.95 per dolloar, Mr. Ajay Shinde closed his books on September 30. No further sales having been reported by Abhijeet Sardesai.

Using a rate of rupees 8 to a dollar, you are required to show the necessary accounts in the books of Mr. Ajay Shinde.

Solution:

In the books of Mr. Ajay Shinde.

Consignment to New York Account

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Goods Sent on Consignment A/c		2,00,000	By Seets A/c		
			-Sale of 70 Cases	98,000	7,84,000
To bank –Duties		3,000	By Stock on Consignment A/c		67,716
--Freight		12,000			
--Insurance		4,000			
To Abhijeet A/c- Landing Charges	840	6,720			
- Selling Exp.	1,400	11,200			
To Abhijeet A/c--					
-Ordinary Commission	14,000	1,12,000			
-Extra Commission	7,000	56,000			
To Abhijeet A/c					
-Loss on Exchange		3,738			
To Profit & Loss A/c		4,43,058			
		8,51,716			**8,51,716**

Goods Sent on Consignment Account

Particulars	Rs.	Particulars	Rs.
To Trading A/c - Transfer	2,00,000	By Consignment to New York A/c	2,00,000
	2,00,000		**2,00,000**

Mr. Abhijeet Sardesai Account

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Consignment to New York	98,000	7,84,000	By Consignment to New York A/c		
			- Landing Charges	840	6,720
			- Selling Exp.	1,400	11,200
			By Consignment to New York		
			-Ordinary Commission	14,000	1,12,000
			-Extra Commission	7,000	56,000
			By Bank A/c	74,760	5,94,342
			By Loss on Exchange		3,738
	98,000	**7,84,000**		**98,000**	**7,84,000**

Working:

1. Commission per box Rs. 200. 70 cases were sold =(70*200) = Rs.14,000
2. Extra Commission

Expected Rs. 1400

Less: Selling Price Rs. 900

Rs. 500 * 70 Cases = Rs. 35,000 additional selling price

Less: Ordinary Commission Rs. 14,000

Rs. 21,000 *1/3 = Rs. 7000 Extra Commission.

3. Loss in Exchange:

Bank draft was encashed. As a result of difference in exchange rate, for each Rs./Rs. 7.95 instead of Rs.8 i.e. a loss of (8.00 – 7.95) Rs. 0.50 was suffered.

Hence, total loss in exchange = Rs. 74,760 * 0.50 = Rs. 3,738.

Special Commission

Illustration- 23. Mr. Ravindra Huddar of Kolhapur sent on 15th Jan. 2018 a consignment of 500 toys costing Rs. 100 each. Expenses of Rs.700 met by the consignor. Mr. Raju Thorat of Mumbai spends Rs.1,500 for clearance and the selling expenses were Rs.10 per toy. Mr. Raju Thorat sold, on 5th April 2018, 300 toys @ Rs.160 each and again on 20th June 2018 150 toys @ Rs.172 each. Mr. Raju Thorat was entitled to a commission of Rs.25 per toy sold plus ¼ of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated @ Rs.125 per toy sold. Mr. RajuThorat sent the amount due to Mr. Ravindra Huddar on 30th June 2018.You are required to show the Consignment Account and Mr. Raju Thorat's Account in the Books of Mr. Ravindra Huddar.

Solution:

In the books of Mr. Ravindra Huddar.

Consignment to Mumbai Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2018 Jan. 15	To Goods Sent on Consignment A/c (500*100)	50,000	2018 Apr.5	By Raju A/c –Sale Proceed (300*160) = Rs.48,000 (150*172) = Rs.25,800	73,800
	To Bank A/c – Expenses	700			
	To Raju A/c - Expenses			By Stock on Consignment A/c	5,220
	-Clearance	1,500			
	-Selling	4,500			
June 30	To Raju A/c				
	-Ordinary Commission	11,250			
	-Special Commission	1,260			
	To Profit & Loss A/c	9,810			
		79,020			**79,020**

Mr. Raju Thorat Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2018	To Consignment A/c		2018	By Consignment A/c	
Apr. 5	-Sale Proceeds	73,800	Jan. 15	-Expenses	6,000
				-Commission	12,510
			June 30	By Bank A/c	55,290
		73,800			**73,800**

3.2.2.10 Advance from Consignee/Caution/Security Money

Sometimes the consignor takes some advance from the consignee against the goods which are dispatched for sale. The advance money so received will automatically be adjusted against the total dues for ascertaining the net amount payable to the consignor. The entire amount of advance money may be adjusted even if a part of goods are sold provided that such advance is not treated as a caution or security money. It is because if the advance is taken as a security deposit or caution money, that portion of the advance money which are related to the goods remaining unsold must not be adjusted but the same should be carried forward (see Illustration-20)

Illustration- 24. Mr. Rahul Hogadi of Kolhapur consigns goods to Mr. Santosh Chougule of Pune, for sale at invoice price or over. Mr. Santosh Chougule is entitled to a commission of 5% on invoice price and 25% of any surplus price realized. Mr. Rahul draws on Mr. Santosh at 90 days' sight for 80% of the invoice price, and upon sale, Mr. Santosh remits the balance of proceeds, after deducting his commission by sight draft. Goods consigned by Mr. Rahul to Mr. Santosh in the year cost Mr. Rahul Rs.10,450, including freight and were invoiced at Rs.14,200. Sales made by Mr. Santosh Rs.13,380 and goods in his hand unsold at 31st December, represented an invoice value of Rs.3,460 (original cost including freight Rs.2,610). Sight drafts actually received by Mr. Rahul from Mr. Santosh up to 31st December were

Rs.3,140. Others were in-transit. Prepare the necessary ledger accounts in the books of Mr. Rahul.

Solution:

In the books of Mr. Rahul Hogadi.

Consignment to Pune Account

Particulars	Rs.	Particulars	Rs.
To Goods Sent on Consignment A/c	14,200	By Goods Sent on Consignment A/c -Loading	3,750
To Santosh –Commission	1,197	By Santosh – Sale Proceeds	13,380
To Stock Reserve (3460-2610)	850	By unsold Stock A/c	3,460
To Profit & Loss A/c	4,343		
	20,590		**20,590**

Mr. Santosh Chougule Account

Particulars	Rs.	Particulars	Rs.
To Consignment A/c		By Bill Receivable A/c	11,360
-Sale Proceeds	13,380	By Consignment to Pune A/c	
To Balance c/d (3460*80%)	2,768	-Commission	1,197
		By Bank A/c	3,140
		By Draft-in-Transit (bal. fig)	451
	16,148		**73,800**

Goods Sent on Consignment Account

Particulars	Rs.	Particulars	Rs.
To Consignment A/c-Loading	3,750	By Consignment A/c	14,200
To Trading A/c (bal. fig.)	10,450		
	14,200		**14,200**

Check your Progress-II

A) Choose correct Alternative given below

1. If goods costing Rs. 50,000 are consigned at a profit of 25% on cost, the consignment account will be charged with Rs. ………………. for the value of goods sent on consignment.

   a. 50,000 b. 62,500 c. 37,500 d. None of these

2. To ascertained true profit or loss it becomes necessary to ascertain the value of …………………………………

   a. consignment b. commission c. unsold stock d. transactions

3. The Abnormal Loss on Consignment is credited to--------------

   a. profit & loss A/c b. consignee's account c. consignment account

4. Overriding commission is calculated on ------

   a. total sales b. credit sales c. cash sales

5. On sales being made by the consignee of the goods received by him on consignment, the amount is credited by him to-------------------account

   a. sales b. consignee's c. purchases

B) Fill in the blanks

1. Unsold Stock always appear in the **………………….** side of the Balance Sheet.

2. As per one of the school of thought that discounting charges of the bill should be treated as a financial charge, hence, it should be adjusted against **……………………….** and not against Consignment.

C) State the following statements are either True or False

1. The consignee cannot keep secret from the consignee the profit that he is making on the goods sold

2. Normal loss may occur due to inherent characteristics of goods like evaporation.

3. The consignee passes no entry in his books for unsold stock of the consignor, lying with him.
4. Discount on bills discounted is debited to Profit & Loss A/c and not to the Consignment Account on account of it being treated as a financial expense.
5. Abnormal loss of stock arises on account of natural and inherent characteristics of goods.

3.3 Summary:

Quite often, it happens that a manufacturer or a wholesale dealer who does not find ready market in his own place becomes desirous of seeking a good market elsewhere. Even when there is a good market for his goods in his own place, he is often anxious to make his goods popular elsewhere. For this purpose the merchant employs a leading dealer at the place where he wants to push his goods to act as his agent and sell goods *on his behalf and risk as agent on commission.* Goods so sent to a person are known as Consignment. The person who sends such goods is known as the Consignor and the person to whom the goods are sent is known as the consignee. Such goods sent to the Consignee remain the property of the Consignor. The Consignee to whom the goods are sent does not buy them, but, merely undertakes to sell them on behalf of the consignor. He is not responsible for any loss or damage to the goods, if such loss or damage is caused for no fault of the Consignee.Such a shipment of the goods by the Consignor cannot be treated as ordinary sale and such transactions require special treatment in the books of accounts.A consignment of stock is sent from a principal to an agent. The stock remains the property of the principal while in the hands of the agent. The agent sells stock on the principal's behalf in return for a commission. Unsold stock is included in the Balance sheet of the principal at cost, which includes all costs involved in transporting stock to the agent. There is no sale between the principal and agent. In this respect a consignment agreement differs from a sale or return agreement.

3.4 Terms to Remember

1. **Pro-forma Invoice:** When an invoice is sent to the consignee by the consignor stating the facts relating to the full particulars of the goods, number and or quality, price, grade, weight, measurement, transport and other incidental

expenses etc. at the time of dispatching the goods, such invoice is called 'Pro-forma Invoice'.

2. **Account Sale:** When sales relating to consignment is completed or the time period fixed by the consignor expires, consignee sends a statement relating to the goods received, destroyed-in-transit, or in godown, if any, effected sales including selling expenses and commission, deducting the amount of advance remitted by him to the consignor and finally the amount due to the consignor, such a statement is known as 'Account Sales'.

3. **Commission**

There are **three** types of commission payable to consignee on sale of the goods −

- **Simple Commission** − This is usually a fixed percentage on the total sale, calculated as per mutually agreed terms.
- **Over-riding Commission** − In case of an extra-ordinary sale of the goods, some specific amount is payable to consignee in the form of an incentive is called overriding commission. Over-riding commission is also calculated on the total sales.
- **Del-credere Commission** − *"An agreement by which an agent or factor, in consideration of an additional premium or commission (called a del credere commission), engages, when he sells goods on credit, to insure, warrant, or guarantee to his principal the solvency of the purchaser, the engagement of the factor being to pay the debt himself if it is not punctually discharged by the buyer when it becomes due."*

4. **Account Sale:** A periodical statement rendered by the consignor to the consignee containing details of the goods sold by the consignee together with balance finally due by him to the consignor.
5. **Consignment:** A dispatch of goods from one person to another person at a different place for the purpose of sale on behalf and at the risk of the sender.
6. **Consignor:** The person sending goods on consignment.
7. **Consignee:** The recipient of the goods sent on consignment.
8. **Overriding Commission:** Commission allowed to the consignee in case the sales exceed a specific amount.

9. **Stock Valuation:** In order to prepare final accounts of the consignor, it becomes necessary to ascertain the value of unsold stock, if any, lying in the hands of consignee.

10. **Normal Loss** − Normal loss may occur due to inherent characteristics of goods like evaporation, drying up of goods, etc.

11. **Abnormal Loss** − An abnormal loss may occur due to any accidental reason.

3.5 Answers to Check your Progress

Check your Progress-I

A) Choose correct Alternative given below

1. a. diversity of products 2. d. sale amount

3. b. nominal 4. a. real 5. c. loss on account of bad debts

B) Fill in the blanks

1. consigns/handovers 2. Account Sale

C) State the following statements are either True or False

1. False 2. True 3. False 4. False 5. False

Check your Progress-II

A) Choose correct Alternative given below

1. b. 62,500 2. c. unsold stock

3. c. consignment account 4. a. total sales

5. b. consignee's

B) Fill in the blanks

1. assets 2. Profit and Loss Account

C) State the following statements are either True or False

1. False 2. True 3. True 4. True 5. False

3.6 Exercise

Essay type questions

1. Define Consignment? Distinguish it from a sale.
2. What is an 'account sales'? How does it differ from an invoice?
3. How will you treat the bad debts when:
   a) Consignee gets del-credere commission
   b) Consignee does not get del-credere commission.
4. Write two lines about each of the following:
   a) Pro-forma invoice b) Abnormal loss
   c) Valuation of consignment stock d) Normal loss
5. Distinguish between 'Overriding Commission' and 'Del-credere Commission'
6. How do you incorporate shortage or deficiency of stock in Consignment Account?
7. What is Caution Money? How do you treat it in the books of the consignor?
8. Discuss the procedure of valuation of Stock on Consignment.
9. Discuss the treatment of Normal Loss and Abnormal Loss in Consignment Account.
10. How do you treat the unsold stock in Consignment Account? Illustrate your answer with the help of an example.

Practical Problems:

Abnormal Loss

11. From the following particulars , prepare the necessary accounts in the books of Shah.

Goods consigned at cost (100 units)	90,000
Goods lost-in-transit (2units) Insurance recovered	2,521
Goods sold (80 Units) realized	1,08,000

Consignor's Expenses	6,020
Consignee's Charges	9,500

[Ans.: Profit on Consignment Rs.22,070; Value of Stock Rs.17,670; Value of Abnormal Loss Rs.1,920]

12. Bharat Petroleum consigned 1,00,000 liters of petrol to its agent at a cost Rs.5 per liter. The agent is to sell petrol on behalf of the company only to the registered dealers at Rs.5.50 per liter and he is entitled to a selling commission of 6%. Bharat Petroleum incurred the following expenses: Loading Charges Rs.5,000, Freight Rs.10,000 and Insurance & other Expenses Rs.10,000.10,000 liters of petrol were destroyed in transit and the insurance company admitted the claim of Rs.40,000. The agent actually received 89,500 litres only to leakages which was treated as normal loss. The agent incurred the following expenses:Clearing Charges Rs.4,000, Storege Rs.5,000. The agent sold 84,500 liters at scheduled rate, deducted his commission and expenses. He sent a Sight Draft for the balance. Show the necessary ledger accounts in the books of Bharat Petroleum.

    [Ans.: Loss on Consignment Rs.18,015; Value of Stock Rs.26,620; Value of Abnormal Loss Rs.52,500]

Invoice Price:

13. The export Promotion Company of New Delhi, consigned 300 bales of clothing to Mr. Amardeep in England, on 1st Jan. 2017. The cost price was Rs.600 per bale, but the pro-forma invoice piece was made out at a figure so as to show a gross profit of 20% on sales. The consignee reported on 31st Dec. 2017 that they had sold Two-Third of the consignment at a profit of 25% on sales and that they had incurred Rs.2,000 by way of freight, duty and landing charges and Rs.1,000 by way of Godown Rent, Salaries, exclusive of their Commission. The consignor had earlier incurred Rs.900 by way of expenses in dispatching the goods. the consignee is entitled to a commission of 5% on sales and to one-forth share of profit after charging up both their commission an share of profit. On 1st Jan. 2018, Mr. Amardeep sent a bill for the amount so far due from them. Show the necessary ledger accounts in the books of Consignor.

[Ans.: Profit on Consignment Rs.23,251; Value of Stock Rs.75,967; Consignee's Commission Rs.8,000; Consignment Share of Profit Rs.5,813]

14. Niresh consigns 1,000 bats costing Rs.500 each to Avinash for sales and incurs Rs.4,000 towards freight and Rs.1,000 for insurance. Avinash was able to take delivery of 900 bats only and 100 bats were destroyed in transit. Insurance Co. admitted the claim and paid the same. Avinash will be entitled to a commission of 5% on sales, 2% delcredere commission on credit sales only. He will be entitled for additional commission of 25% of the excess if the sale price exceeds the cost price by more than 20%. Avinash has spent Rs.2,000 toward sales expenses. The sale account is as under:

    500 bats @ Rs.600 each on cash

    200 bats @ Rs.700 each on credit.

    Consignment debtors paid their dues except one customer to whom 4 bats sold for Rs.2,800, could pay only Rs.800. Show the necessary ledger accounts in the books of Consignor.

    [Ans.: Profit on Consignment Rs.54,700; Value of Unsold Stock Rs.1,01,000]

Miscellaneous

15. Asmita of Singapore is the agent for sewing machines manufactured by Susmita Exports of Kolhapur. A machine costs Rs.300, the invoice price to Asmita is Rs.400. Asmita is entitled to a commission of 15% of this price plus 40% of the excess realized over Rs.400. She is also responsible for all expenses incurred by her but not for freight to Singapore of customs duty. Susmita Exports dispatched 200 machines in January 2018, drawing on Asmita for Rs.40,000 for 3 months. Asmita accepted the draft. Expenses paid by Asmita were: - Freight Rs.4,000; Customs duty Rs.2,000; Storage Rs.1,000 and Insurance Rs.800. At the end of March 2018, Asmitareported that she has sold 150 machines at an average price of Rs.4440. it was agreed then that Asmita would take over the remaining machines on her own account at landed cost plus 20%. Show the necessary ledger accounts in the books of Consignor.

    [Ans.; Profit on Consignment Rs.8,400; Value of Goods Taken Rs.19,800; Commission Rs.11,400]

16. On 15th September 2017, Abhijit a merchant of Kolhapur, sent a consignment of 100 cases of goods to Huddar, his agent in agent in Mumbai. On 22nd September, Abhijit received Huddar's acceptance of a six months' bill of exchange for Rs.10,000 drawn by Abhijit which was immediately discounted for Rs.9,750. The goods had cost Abhijit Rs.100 per case and carriage, freight and insurance paid by him on 30th September amounted in total to Rs.250. During the voyage two cases of the consignment were completely destroyed by fire and on 25th November Abhijit received the appropriate compensation from the insurance company. Abhijit's accounting year ened on 31st December every year and Huddar sent him an interim Account Sales made up to date. It disclosed that 60 cases had been sold for Rs.125 each and landing charges and import duty together amounted to Rs.960 and distributein expenses to Rs.100. Commission at 5% on sales and 2.5% del-credere was charged. On 31st march 2018 Abhijit received the final Account Sales showing that the remainder of the consignment had been sold for Rs.140 per case, distribution charges amounted to Rs.160 had been paid and commission was deducted from the balance due to Abhijit. You are required to show the accounts for the above transactions in the ledger of Abhijit. You are required to show the accounts for the above transactions in the ledger of Abhijit.

    [Ans.: Profit on Consignment Rs.998; Unsold Stock Rs.4,267; Abnormal Loss Rs.8,056]

17. Mr. Ajay sent to Mahantesh, on consignment, goods costing Rs.60,000 and incurred expenses totaling Rs.3,000. Account Sales revealed that three-fourth of the goods were sold at a profit of 20% on sales and that Mahantesh's expenses amounted to Rs.3,500 including Rs.1,500 being the cost of a type-writer purchased for Ajay's personal use. Mahantesh is entitled to a Commission of 10% on sales. Towards the end of the year, Mahantesh requested Ajay to allows him to purchase for his private use, goods costing Rs.2,000 at a concessional price of Rs.2,375 to which Ajay consented on the condition that Mahantesh would not charge Commission on this sale. A fire occurred in Mahantesh's godown, destroyed goods original cost of which to Ajay was Rs.5,000 and a claim of Rs.3,000 was settled with the insurance company. The terms of agreement between Ajay and Mahantesh provided that any loss caused by any accident at a Consignee's end shall be borne by them in equal proportion. The

rest of the goods remained unsold. Mahantesh had earlier sent an advance of Rs.10,000 to Ajay. Show Consignment Account, Consignee's Account and Insurance Claim Account in the books of Ajay.

[Ans.: Profit on Consignment Rs.3,292; Value of Stock Rs.8,667; Value of Abnormal Loss Rs.5,417]

3.7 Reference for further study:

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Unit-4

Accounts of Professionals

Structure of Unit :

4.0 Objectives of the Study

After studying this unit, you should be able to

- Understand the meaning and work of professional
- Understand the difference between accounting treatment for trading organization and non trading organization.
- Know the meaning and preparation of Receipt and Expenditure Account .
- Give new dimension to account knowledge as to know, how to collect required information to prepare final accounts that is from Receipt and Payment account to Receipt and Expenditure account.
- Understand certain new terms and adjustments.

4.1 Introduction

Professional persons are the persons who sell their talents, skill, knowledge, art or their personal specialty. They do not sell any physical products or articles. Professional persons includes Doctors, Lawyers, Chartered Accounts etc. Their main income source is fees collected from clients. While providing services they incurred some expenses. That excess income over expenditure is their profit. Now here question arises about compliance of Income tax Act. For their rules regarding taxability of income and preparation of final accounts, Section 44AA of the Income Tax Act applies. In this chapter, we are going to understand the preparation of final accounts of professionals.

To determine the profit and to record the expenses of the year, Receipt and Expenditure account is prepared. To understand the bottom line of the topic, we should have thorough knowledge of the following accounts.

4.2 Presentation of Subject Matter

4.2.1 Accounts of Professional

According to section 44AA of the Income Tax Act 1961, Every person carrying on profession like legal, medical, profession of accountancy shall keep and maintain such books of accounts and other documents as may enable the assessing officer to compute his total income. For computation of total income, Receipt and Expenditure account is opened. While preparing Receipt and Expenditure A/c, professional follows the principle of conservatism. In that, one can anticipate loss but not profit. That’s why outstanding expenses are recorded but not outstanding income. Hence professional can not file suit against recovery of money from client.

a) Transactions in Doctors' Profession :

Doctors falls under professional persons, who sells their personal skill for medical treatment. Fees received from patients, visit fee, receipt from dispensing are their main income source and medicine purchased, rent paid if any, salary to receptionist etc. are the expenses of the Doctor. Professional person maintain their income on cash basis. Therefore they maintain Receipt and Payment account only. As per Income Tax Act, it is mandatory to prepare Receipt and Expenditure account to ascertain surplus of the year and Balance sheet for the year to ascertain the position of the concern. All the incomes that is fee received, visit fee, dispensing fee (Income from giving medicine) shows on credit side and all revenue expenses debited to Receipt and Expenditure etc.

Doctor maintains various books like IPD register, OPD register, Discharge history for admitted patient, separate register (multi specialty hospital) for every Doctor visited and separate book for every services provided like ECG, X-Ray, Echo, Inject, Pathology etc. For OPD patient, Doctor prepares bill which generally include consultation fee, and charges for services provided like ECG, Echo, X-Ray etc. For IPD patient Doctor prepares bill which include all above charges plus accommodation charges, nursing charges etc.

For IPD patient doctor maintain discharge history statement, which include information regarding disease, line of treatment and name of medicine prescribed, One copy of this kept at hospital and other one is handed over to patient. Two small books are maintained for medicine inventory and inward outward register for pathology record.

b) Transactions in Chartered Accountants' Profession :

The transactions in Chartered Accountants' profession are similar to those in Doctors' Profession. Fees from client is the main income source for Chartered Accountant. Filing of tax returns, preparing audit reports, payment of tax on behalf of customers etc. are the functions of Chartered Accountant. Therefore client disbursement account is also maintained. Their expenses are common in nature, like rent for building, depreciation on assets, mainly on books etc. Chartered Accountant also maintain their account on cash basis. Same provisions of Income Tax Act applies here like Doctor. Therefore, it is mandatory to them to prepare Receipts and Expenditure account to ascertain the surplus and to ascertain position of the firm Balance sheet is required.

Every CA should maintain regular and proper books of accounts supported by supporting vouchers for expenditure which includes Cash Book, Ledgers, Journal. (If mercantile system is used) and supporting vouchers.

Like other professionals CAs can use cash system or mercantile system for maintaining books of account. In cash system, revenue is recognized as and when service charges /fees is actually been received. Expenditures are recognized on payment basis. If mercantile system is used then they have to recognize revenue as per AS 9 i.e. revenue is recognized if there is reasonable assurance about collection of fees and expenditures are recognized on accrual basis.

Chartered accountant can practice individually or more than one CAs can register a partnership firm and they can practice under the name of the firm. In case of the firm all accounting issues of partnership accounts i.e. admission, retirement, death etc. are also applicable to them.

The chartered accountants have main source of income in the form of professional fees against the services, skill such as audit, investigation and other consultancy. For providing services they have to incur some expenses. The excess of income over expenditure is their net earnings. To calculate net surplus/ profit they prepare Income and Expenditure / Profit And Loss Accpunts for each year. Balance Sheet is also prepared to know exact position on particular day.

4.2.2 Receipt and Expenditure Account

Receipt and Expenditure account is nominal account. Therefore, the rule of nominal account that is, Debit the expenses and losses and credit the income and gains is followed while preparing Receipt and Expenditure account. This account is similar to profit and loss account prepared by trading concern. As it records income and expenses of the current year, it is prepared on cash basis. Only revenue expenses and revenue incomes are recorded here to determine the surplus or deficit arising out of this non trading concern.

4.2.3 Preparation of Receipt and Expenditure Account:

While preparing Receipt and Expenditure account note the following steps –

1) Record all the revenue expenses on debit side of the account. As account is made on cash basis, expenses related with current year should be recorded only.
2) All revenue incomes should be recorded on credit side.
3) 100% provision should be made to the outstanding revenue income. Provision is to be recorded on debit side of the account (Since professionals can not get back their services provided to the client, there is no other way to recover the outstanding income, therefore 100% provision is made to safeguard them)
4) All adjustment for amounts prepaid and outstanding with respect to each item have to be made.
5) Non cash expenses like provisions, depreciation, profit or loss on sale of assets; have to be recorded/ included in this account.
6) After recording all the items, balancing figure reveal the surplus on debit side or deficit on credit side. This is final step while preparing Receipt and Expenditure account.

4.2.4 Proforma of Receipt and Expenditure Account

For the year ended

Dr. Cr.

Particulars	Amount	Particulars	Amount
To material consumed (Op. bal of material + purchase during the year – Cl.bal. of material) To salary /wages To Rent To Journals and Periodicals To printing and stationery To postage & telegrams To Travelling and conveyance. To Membership fee To Depreciation on fixed Assets. To Loss on sale of Assets. To Provision for O/s fees To surplus * (Bal. Fig) (excess income over expenditure)		(If there is adjustment regarding Income received follow the following step-) By Income/fee (+) outstanding for current year (-) last year income received in current year. (+) current year income, received in last year By Fees Received By Visit fee By Dispensing By Sundry receipt By Profit on sale of Assets By Deficit (Bal. fig) (Excess expenditure over income)	
Total		**Total**	

4.2.5 Some Important Accounts

1) Client account

The client account is opened in the books of professionals. It records the amount received from the client and amount outstanding from the client. It is a personal account, so cash received from client is debited to cash account and credited to client account . At the time of closing the account if client account shows debit balance it means outstanding fee. It is shown on asset side of the Balance sheet. If client account shows credit balance, then it means fees received in advance. It is shown on liability side of the Balance sheet.

2) Client disbursement Account

A disbursement is the payment of money to a third party. Client disbursement means paying money on behalf of client to the various authorities. When professionals made payment then this account is debited. When bill is created on name of the client it is credited.

3) Work In Progress Account

Sometimes it may happens fee are paid but due to some technical problem finalisation of work is remain. The opening balance of work in progress is given in trial balance and it is debited to Receipt and Expenditure Account or deducted from fees. The closing balance of work in progress is given in adjustment and it is added to the fees and shown on assets in the Balance sheet.

4.2.6 Important Adjustments

a) Outstanding Income and Income received in Advance :

Income received in a year (Cash received)	xx x
(+) Outstanding Income	xx
(Income related with current year)	
(100% provision should be made;	
Debited this amt. to Receipt & Expenditure Account)	
(-) Income received in Advance	xx
(Income related with next yr)	
Current year Income.	xx
(This amt is credited to Receipt and Expenditure Account)	

b) Outstanding expenses :

Current year expenses paid	xx
(+) Outstanding expenses for current year.	xx
Total expenses of the year	xx

(Amount outstanding is shown in Balance sheet under Liability side.)

c) Asset sold in During the year :

Calculation of profit or loss on sale of Asset.

Cost of Asset sold.	xx	
(-) Depreciation till the date of sale		xx
Depreciated value.		xx
(-) Sale value		xx
Profit or loss on sale of assets.		+xx / -xx

Note: Amount of profit should be credited to Receipt and Expenditure Account and loss should be debited to Receipt and Expenditure Account.

d) Drawings :

If any expenses of personal (own, domestic, Private, household etc.) nature

Expenses	xx
(-) Amount Spent on personal expenses	xx
Expense charge to Receipt & Expenditure Account	xx

e) Equation for material/ Medicine consumed during the year :

	Opening stock of material	xx
(+)	purchased during the year	xx
(-)	closing stock of material	xx
=	Material / medicine consumed during the year.	xx

Check your progress-I

1] Choose the corrective alternative.

i] All types of cash transactions are recorded in……………………

a) Receipt & Expenditure A/c b) Income & Expenditure A/c
c) Receipt and payment A/c d) none of the above.

ii] Receipt and Expenditure A/c is based on

a) Only cash system b) Accrual system
c) Both (a) & (b) d) NOTA.

2] State True or False.

i) Receipts and Payment A/c is a summary of cash transactions.

ii) The Client Account is opened to record the fee due by the client.

3] Fill in the Blanks

i) There is no difference between Income and Expenditure Account and Receipt of Expenditure Account except debiting the.................

ii) Outstanding incomes are treated as income when they are..............

iii) After recording all the items, balancing figure reveal the .... on debit side or ....on credit side.

4.2.7 Illustrations

Illustration -1

Dr. Sanvi commenced his practice on 01.04.2017 with capital of Rs. 2,00,000. His Receipt and Payment account for the year ending 31.03.2018 was as under.

Receipt and Payment Account

For the year ended 31/03/2018

Dr. Cr.

Receipt	Rs.	Payment	Rs.
To Cash	1,50,000	By purchase of medicine	40,000
To Bank	50,000	By Equipment	70,000

To Visit fee	2,25,000	By Furniture	70,000
To Receipt from Dispensing	75,000	By Salary to Assistant	33,000
To Sundry receipt	10,000	By Printing & Stationary	5,000
		By Electricity charges	1,000
		By Rent	52,000
		By Travelling Expenses	5,000
		By Balance c/f	2,34,000
Total	**5,10,000**	**Total**	**5,10,000**

Other information

1) Amount payable for purchase of Medicine was Rs. 5000, Stock of drugs on 31.3.2018 was Rs. 5000.
2) Depreciation on Furniture and Equipment are to be 10%
3) Salary to assistant is outstanding of Rs. 3000
4) Rent paid in advance of Rs. 4000.
5) Amount outstanding for visit fee were Rs. 10,000

From the above information prepare Receipt and Expenditure Account . for the year ended 31.03.2018

Solution :

In the Books of Dr. Sanvi

Receipt and Expenditure Account

For the year ended 31.3.2018

Dr. **Cr.**

Expenditure	Amount	Receipt	Amount
To Medicine consumed (Note)	40,000	By Visit fee 2,25,000	
To Salary to Assistant 33,000		(+)Outstanding visit	
(+) Outstanding salary 3,000	36,000	Fee 10,000	2,35,000
To Printing & Stationary	5,000	By Receipt from	
To Electricity Charges	1,000	Dispensing	75,000
To Rent 52,000		By Sundry Receipt	10,000
(-) Prepaid 4,000	48,000		

To Travelling expenses	5,000		
To Depreciation			
Furniture 7,000			
Equipment <u>7,000</u>	14,000		
To Provision for Outstanding fee	10,000		
To Surplus (Bal. fig)	1,61,000		
Total	**3,20,000**	**Total**	**3,20,000**

Note

Medicine purchased on cash	40000
(+) Amt outstanding	5000
Total purchase	45000
(-) Closing stock of medicine	5000
Medicine consumed during the year	40000

Illustration 2 : Following is the trial balance of Harshu, Karad a Chartered Accountant having office at Pune.

Trial Balance as on 31/03/2017

Dr. **Cr.**

Particulars	**Rs.**	**Particulars**	**Rs.**
Outstanding Fees (1/4/2016)	48,000	Capital	1,10,000
Salaries	1,85,000	Provision for Outstanding Fees (1/4/2016)	48,000
Rent	75,000		
Office Expenses	55,000		
Drawings	1,70,000	Fees received	6,28,000
Furniture	50,000	Clients Deposits	30,000
Books	40,000		
Stock of Stationery (1/4/2016)	22,000		
Computer	46,000		

Bank Balance Cash Balance Payments on behalf of Clients (from deposits)	90,000 10,000 25,000		
	8,16,000		**8,16,000**

Adjustments:

1. Depreciate Furniture by 10%, Books by 25% and Computers by 40%.
2. Outstanding fees for the year Rs. 57,000.
3. Office Expenses includes stationery Rs. 30,000. Stock of stationery on 2017 Rs. 12,500.

You are required to prepare –

a) Receipts and Expenditure Account for the year ended on 31/3/2017

b) Balance Sheet as on 31/3/2017

Solution:

Receipts and Expenditure A/c

For the year ended on 31/3/2017

Dr. **Cr.**

Expenditure		**Rs.**	**Receipts**		**Rs.**
To Salaries		1,85,000	By Provision for Outstanding fees		48,000
To Rent		75,000	By Fees	6,28,000	
To Office Expenses	55,000		+ Outstanding	57,000	
- Stationery	30,000	25,000	-for last year	48,000	6,37,000
To Stationery	30,000				
+ Opening Stock	22,000				
-Closing Stock	12,500	39,500			
To Depreciation					
Furniture	5,000				

Books 10,000 Computer 18,400	33,400		
To Provision for O/S Fees	57,000		
To Surplus	2,70,100		
Total	**6,85,000**		**6,85,000**

Balance Sheet as on 31/3/2017

Liabilities	Rs.	Assets	Rs.
Capital 1,10,000		Furniture 50,000	
- Drawings 1,70,000		- Depreciation 5,000	45,000
+ Surplus 2,70,100	2,10,100	Books 40,000	
Prov. for Outstanding Fees	57,000	- Depreciation 10,000	30,000
Clients Deposits 30,000		Computer- 46,000	
- Payments 25,000	5,000	Depreciation 18,400	27,600
		Stock of Stationery	12,500
		Bank Balance	90,000
		Cash Balance	10,000
		Outstanding Fees	57,000
	2,72,100		**2,72,100**

Illustration - 3

Dr. Viren, Commenced practice as a dental surgeon investing Rs. 2,00,000 in Equipment on 01.04.2017. The Receipt and Payment Account for the year ended 31.03.2018 was as follows

Receipt and Payment Account
For the year ended 31.03.2018

Dr. **Cr.**

Receipt	Amount	Payment	Amount
To Fees	3,60,000	By Salaries	36,000
To Sundry receipt	40,000	By Rent	19,200
To Equipment sold	12,000	By Journal	4,000
		By Purchase of Drugs	30,000

		By Equipment By Drawings By Library books By Conveyance By Bal c/f	30,000 50,000 20,000 18,000 2,04,800
Total	**4,12,000**	**Total**	**4,12,000**

Rs. 16,000 fees are still outstanding. Equipment purchased and sold on 31.12.2017. The cost of equipment sold Rs. 18,000. Depreciation on equipment 20% p.a. Salaries not paid Rs. 4,000. 20% of conveyance is for domestic purpose. Stock of drugs on 31.3.2018 is Rs. 8,000.

Solution :

In the Books of Dr. Viren
Receipt and Expenditure Account
For the year ended 31.03.2018

Dr. **Cr.**

Expenditure	Amount	Receipt	Amount
To Rent	19,200	By Fees received 3,60,000	
To Salaries 36,000		(+)Outstanding fee <u>16,000</u>	3,76,000
(+) Outstanding <u>4,000</u>	40,000	By Sundry Receipt	40,000
To Journals	4,000		
To Drugs consumed (Note-1)	22,000		
To Conveyance. 18,000			
(-) 20% For domestic purpose <u>3,600</u>	14,400		
To Depreciation (Note 2)	40,600		
To Loss on Sale of Equipment (Note 3)	3,300		
To Provision for outstanding fee	16,000		
To Surplus (Bal. fig)	2,56,500		
Total	**4,16,000**	**Total**	**4,16,000**

Note

1) Drugs consumed = Purchase (-) Closing stock of Drugs.

= 30,000 (-) 8,000

= 22,000

2) Calculation of Depreciation

Period	Value of Equipment	Calculation of Depreciation
1.4.17 to 31.12.17	2,00,000	(2,00,000 x 20% x 9/12) = 30,000
1.1.18 to 31.3.18	2,00,000+ 30,000 – 18,000 = 2,12,000	(2,12,000 x 20% x 3/12) = 10,600
	Total Depreciation	**= 40,600**

3) Calculation of loss or profit on sale on equipment

	Original cost of equipment sold	18,000
(-)	Depreciation till the date of sale (18000 x 20% x 9/12)	2,700
	Depreciated value on 31.12.2017	15300
(-)	Sale value	12000
	Loss on sale of equipment	3300

Illustrations 4 :

Vishwajit, a Chartered Accountant Commenced his practice on 1/4/2017 at Mumbai with Capital Rs. 1,95,000. For his office, he purchased Furniture of Rs. 1,23,000, computer Rs. 50,000, Printer, Scanner and Copier Rs. 22,000. His other Receipts and Payment for the first year are as follows.

Receipts- Fee Rs. 3,00,000 and Sundry Receipt Rs. 5,000.

Payment – Office expenses Rs. 84,000, Salary to staff Rs. 96,000. He decided to charge depreciation on furniture at 10% and other asset at 20%. Closing cash Balance Rs. 1,30,000.

He has no time to prepare his own account and hence request you to prepare Receipt and Expenditure account and Balance sheet for the year.

Solution : **In the Books of Vishwajit**

Receipt and Expenditure Account

for the year ended 31/03/2018

Dr. **Cr.**

Receipt	Rs.	Payment	Rs.
To Salary of Staff	96,000	By Professional fee	3,00,000
To Office expenses	84,000	By Sundry Receipt	5,000
To Depreciation			
Furniture 12,300			
Computer 10,000			
Printer & Scanner 4,400	26,700		
To Surplus (Bal fig)	98,300		
Total	**3,05,000**	**Total**	**3,05,000**

Balance sheet as on 31.03.2018

Liabilities		Amount	Asset		Amount
Capital	1,95,000		Furniture	1,23,000	
Surplus	98,300	2,93,300	(-) Depreciation	12,300	1,10,700
			Computer	50,000	
			(-)Depreciation	10,000	40,000
			Printing & Scanner	22,000	
			(-) depreciation	4,400	17,600
			Cash		1,30,000
Total		**2,93,300**	**Total**		**2,93,300**

Illustration :

Dr. Abhimanyu commenced practice as a dentist investing Rs. 50,000 in Equipment on 01.04.2017. The Receipt and Payment Account for the first year is as follows.

Receipt and Payment Account

For the year ended 31.3.2018

Dr. **Cr.**

Receipt	Amount	payment	Amount
To fees	1,00,000	By Salaries	15,000
To Miscellaneous Receipt	200	By Rent	5,000
To Equipment sold	4,000	By Journals	3,000
		By Library Books	6,000
		By Equipment	8,000
		By Drawings	24,000
		By Balance	
		Bank 43000	
		Cash 200	43,200
Total	**1,04,200**	**Total**	**1,04,200**

Rs. 3,000 of the Fees were still outstanding. Equipment sold and purchased were on 01.01.2018. The cost of equipment sold was Rs. 6,000. Depreciation on equipment 20% and on library books @ 5%. Salaries outstanding were Rs. 2,000.

Solution -

In the Books of Dr. Abhimanyu
Receipt and Expenditure Account
For the year ended 31.3.2018

Dr. **Cr.**

Expenditure	Amount	Receipt	Amount
To salaries 15,000 (+) Outstanding 2,000	17,000	By fees received 1,00,000 (+) Outstanding 3,000	1,03,000
To Rent	5,000	By Miscellaneous Receipt	200
To Journals	3,000		
To Depreciation on Books	300		
To Depreciation on equipment (Note -1)	10,100		
To Loss on sale of equipment (Note -2)	1,100		
To provision for O/s fee	3,000		
To Surplus (Bal. fig)	63,700		
Total	**1,03,200**	**Total**	**1,03,200**

Balance Sheet as on 31.3.2018

Liabilities	Amount	Assets	Amount
Capital 50,000 (+) Surplus 63,700 (-) Drawings 24,000	89,700	Equipment (Note -3)	42,800
		Library Books 6,000 (-) depreciation @ 5% 300	5,700
O/S Salaries	2,000	Outstanding fee	3,000
Provision for outstanding fee	3,000	Bank Balance	43,000
		Cash Balance	200
Total	**94,700**	**Total**	**94,700**

Note

1) Calculation of Depreciation on Equipment

Period	Value of Equipment	Calculation of Depreciation
1.4.17 to 31.12.17	50,000	50,000 x 20% x9/12 = 7,500
1.1.18 to 31.3.18	Op. bal(+) purchase (-) sale	52,000 x 20% x 3/12 = 2,600
	50000 + 8000 - 6000	Total Depreciation 10,100
	= 52,000	

2) Calculation of loss or profit on sale of Equipment

Particulars	Amount
Cost of equipment	6,000
(-) depreciation till the date of sale i.e. 31.12.17 (6000 x 20% x 9/12)	900
Depreciated value	5,100
(-) Sale value	4,000
Loss on sale of equipment	1,100

3) Balance of Equipment at the end of the year

Equipment Account

Dr. **Cr.**

Date	Particulars	Amount Rs.	Date	Particulars	Amount
1.4.17	To Cash/Bank	50,000	31.12.17	By Depreciation (500000 x 20% x 9/12)	7,500
31.12.17	To Cash/Bank (Purchase of equipment)	8,000	31.12.17	By Cash /Bank (Sale of Equipment)	4,000
			31.3.18	By Loss on sale	1,100
			31.3.18	By Depreciation (52,000 x 20% x 3/12)	2,600
			31.3.18	By Balance c/f (Bal. fig)	42,800
	Total	**58,000**		**Total**	**58,000**

Illustration : 6

Mrs. Shravani, a Chartered Accountant working at Pune Provides you the following Balance sheet as on 31.03.17 and Receipt and Payment Account for the year ended 31.03.18

Balance Sheet as on 31.3.2017

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital	8,10,000	Furniture	1,40,000
Reserve for Outstanding fees		Computer	1,50,000
		Motor Car	5,00,000
Audit fee 1,00,000		Outstanding Fee	
Consultancy Fee 35,000	1,35,000	Audit Fee - 1,00,000	
Audit Fee Received in Advance	50,000	Consultancy Fee 35,000	1,35,000
		Cash & Bank Balance	85,000
Outstanding Office Expense	15,000		
Total	**10,10,000**	**Total**	**10,10,000**

Receipt and Payment Account

For the year ended 31.3.2018

Receipt	Amount	Payment	Amount
To Balance b/f		By Motor Car exp.	2,00,000
Cash 5,000		By Office exp.	1,00,000
Bank 80,000	85,000	By Salary	400,000
To Audit Fee	24,50,000	By Computer Maintenance	40,000
To Consultancy fee	4,00,000	By Stationary	1,50,000
To Fees for tax services	3,00,000	By Postage	20,000
To Miscellaneous receipts	10,000	By Electricity Charges	1,20,000
		By Journals and Periodicals	25,000

		By Books (Purchased on 1.12.17)	90,000
		By Travelling Expenses	1,25,000
		By Membership fee	15,000
		By Sundary Expenses	10,000
		By Payment on behalf of client.	30,000
		By Drawings	7,00,000
		By Bank Balance	12,00,000
		By Cash Balance	20,000
Total	**32,45,000**	**Total**	**32,45,000**

Additional information

1. Fees receivable are - Audit Fee 80,000, consultancy 40,000 and fees for tax services -30,000
2. Charge depreciation at 20% on motor car, 25% on computers, 10% on furniture and 33 $^{1}/3$ % on Books.

Prepare Receipt and Expenditure Account for the year ended 31.03.18 and Balance sheet for the same date.

Solution:

In the Books of Shravani

Receipt and Expenditure Account

For the year ended 31.03.2018

Dr. **Cr.**

Expenditure	Amount	Receipt	Amount
To Motor Car Expenses	2,00,000	By Audit fee 24,50,000	
To Office exp. 1,00,000 (-) Last year exp. 15,000	85,000	(+) Received in advance 50,000	
To Salary of the staff	4,00,000	(-)Last year Outstanding 1,00,000	
To Computer maintenance	40,000	(+) Outstanding for current	

To Stationery	1,50,000	year 80,000	24,80,000
To Postage	20,000	By Consultancy fee 4,00,000	
To Electricity charges	1,20,000	(+) O/s for current year	
To Journals and periodicals	25,000	40,000 (-) O/s for last year 35,000	4,05,000
To Travelling exp.	1,25,000	By Fees for tax	
To Membership fee	15,000	services 3,00,000	
To Sundry expenses	10,000	(+) O/s for current year 30,000	3,30,000
To Depreciation on		By Miscellaneous receipt	10,000
Motor car 1,00,000		By Reserve for outstanding	
Computer 37,500		fee	
Furniture 14,000		Audit fee . 1,00,000	
Books 10,000	1,61,500	Consultancy fees. 35,000	1,35,000
(90,000 @ 33 1/3 x 4/12)			
To provision for Outstanding			
Audit fee 80,000			
Consultancy Fee 40,000			
Fees for tax			
Services 30,000	1,50,000		
To Surplus (Bal. fig)	18,58,500		
Total	**33,60,000**	**Total**	**33,60,000**

Balance Sheet as on 31.03.2018

Liabilities	Amt.	Assets	Amt.
Capital 8,10,000		Motor Car 5,00,000	
(-) Drawings 7,00,000		(-) Depr.@20% 1,00,000	4,00,000
(+) Surplus 18,58,500	19,68,500	Computers 1,50,000	
Provision for		(-) Depr.@25% 37,500	1,12,500

outstanding Audit Fee 80,000 Consultancy Fee 40,000 Fees for tax Services 30,000	1,50,000	Furniture 1,40,000 (-) Depr. @10% 14,000	1,26,000
		Books 90,000 (-) Depr.@33 1/3% 10,000	80,000
		Bank Balance	12,00,000
		Cash Balance	20,000
		Payment on behalf of client (Amount Receivable from client, for details read point 2 from 4.6)	30,000
		Outstanding Fee Audit Fee 80,000 Consultancy Fee 40,000 Fees for tax services 30,000	1,50,000
Total	**21,18,500**	**Total**	**21,18,500**

Illustration : 7

Dr. Patil prepare his Receipt and Payment Account for the year ended 31.03.2018

Receipt and Payment Account

For the year ended 31/03/2018

Dr. **Cr.**

Receipt	Rs.	Payment	Rs.
To Balance b/f	50,000	By Salary to Receptionist	50,000
To Fees received	4,00,000	By Rent	24,000
To Misc. Receipt	10,000	By Books purchased	15,000
		By Membership fee	11,000
		By Furniture (purchased on 1.10.17)	75,000
		By Travelling Expense	50,000

		By Printing & Stationary	20,000
		By Postage	5,000
		By Lighting	1,800
		By Journals	1,200
		By Drawings	2,000
		By Balance c/f	2,05,000
Total	**4,60,000**	**Total**	**4,60,000**

Additional information

1) Salary to Receptionist is Rs. 5000 pm.
2) Rs. 1000 is outstanding for membership fee.
3) 50% travelling expenses for domestic purpose.
4) Closing stock of printing and stationery is Rs. 5000.

Prepare Receipt and Expenditure Account for the year ended 31/3/2018

Solution :

In the Books of Dr. Patil

Receipt and Expenditure Account

For the year ended 31.3.2018

Dr. **Cr.**

Expenditure		Amount	Receipt	Amount
To Salary to			By fees received	4,00,000
Receptionist	50,000		By Misc. Receipt	10,000
(+) outstanding salary	10,000	60,000		
To Membership fee	11,000			
(+)outstanding	1,000	12,000		
To Travelling exp. 50,000				
(-) 50% for domestic purpose		25,000		
	25,000	5,000		
To Postage		1,800		
To Lighting		1,200		

To Journals To Printing & Stationary Consumed (Note) To Depreciation on Furniture (75000 x 10% x ½) To Surplus (Bal. fig)	 15,000 3,750 2,86,250		
Total	**4,10,000**	**Total**	**4,10,000**

Note

Stationary consumed

Purchased (-) closing stock

20,000 - 5000

= 15,000

Illustration : 8

Dr. Raj commenced his practice on 1st April, 2016 at Kolhapur. His Receipt and Payment for the first year as follows :

Receipts and Payments Account

For the year ended on 31st March 2017

Receipts	Rs.	Payment	Rs.
To Cash Introduced	10,00,000	By Furniture	1,00,000
To Fees received	5,00,000	By Equipments	3,80,000
To Receipt from Dispensary	9,00,000	By Generator	2,40,000
		By Medicines	60,000
To Visit Fees	3,00,000	By Salary of the Staff	3,00,000
To Miscellaneous Receipts	1,00,000	By Rent of Hospital Building	1,20,000
		By Office Expenses	74,000
		By Sundry Expenses	50,000
		By Drawings	4,60,000

		By Bank Deposits By Cash Balance	10,00,000 16,000
Total	**28,00,000**	**Total**	**28,00,000**

Other Information

1) Fees Rs. 50,000 is still to be received.
2) Salary to assistant unpaid Rs. 7,500
3) Depreciate Furniture, Equipments and Generator by 10%

Prepare Receipts and Expenditure Account for the year ended on 31/3/2017.

Receipt and Expenditure A/c

Expenditure	Rs.	Receipt	Rs.
To Medicines	60,000	By Fees received 5,00,000	
To Salary 3,00,000		Add O/S 50,000	5,50,000
Add O/S 7,500	3,07,500	By Receipt from	
To Rent	1,20,000	Dispensary	9,00,000
To Office Expenses	74,000	By Visit Fees	3,00,000
To Sundry Expenses	50,000	By Miscellaneous Receipt	1,00,000
To Reserve for O/S fees	50,000		
To Depreciation			
Furniture 10000			
Equipment 38000			
Generator 24000	72,000		
To Surplus	11,16,500		
Total	**18,50,000**	**Total**	**18,50,000**

Check your Progress-II

1] Choose the corrective alternative.

i] Receipt and Expenditure A/c is ………………..

a) Personal A/c b) Real A/c

c) Nominal A/c   d) Representative personal A/c.

ii] Payments made by professionals on behalf of their clinets are called as………………

a) Fee   b) Expenditure

c) Disbursements   d) None of above.

2] State True or False.

i) Income and Expenditure A/c and Receipts and Expenditure A/c are similar.

ii) Professionals can file a suit for the outstanding fee.

4.3 Summary

Doctors, Accountants etc. prepare Receipt and Expenditure account to ascertain their net income during the period. However they keep note of cash transaction only by preparing Receipt and Payment account. Receipt and Expenditure is then prepared on its basis. The method being same as discussed above. There is one point to be remembered in this case, professional people prepare their account on cash basis that is they ignored outstanding income. But they record outstanding expenses. An outstanding income is not recorded. So they do not file suit for recovery of their dues. When outstanding income is credited to the Receipt and Expenditure account at the same time, amount is debited for provisions of outstanding income to nullifies the effect of outstanding income.

4.4 Terms to Remember

1. Receipt and Payment account

This account shows the cash movement of the firm in accounting year. As this account does not distinguish the expenses in capital and revenue nature. We have to bifurcate it for preparation of Receipt and Expenditure account. One more point to be remembered, as Receipt and Payment account records all cash transaction so, we have to select transactions which are concern about current year only.

2. Receipt and Expenditure account

As discussed before, this account is similar to Profit & Loss account prepared by trading concern. Only current year transactions are recorded here on the basis of accrual system. Capital income & capital expenditure are not recorded here. But as depreciation profit or loss on sale assets are recorded here.

3. Balance Sheet

As balance sheet is positional statement, we come to know the position of Assets and liabilities of the firm. It becomes necessary to ascertain the various ratio and liquid position of the firm, which is differ from profit of the year. Asset and liabilities addition or reduction is shown here.

4.5 Answer to Check your progress-I

Ans. 1 - i) –c, ii) –b

2- i) True, ii) True

3- i) Provision for outstanding fees

ii) Actually received

Answer to Check your progress-II

Ans. 1. i) –c, ii) –c,

2. i) False ii) False,

4.6 Exercise

A) Practical Problems :

1) The summary of transactions of Dr. Viren, Mumbai for the year ended on 31.03.2018 was as follows.

1. Professional fees received during the year Rs. 10,25,000.
2. Motor car expenses Rs. 48,000.
3. Salary of Staff Rs. 1,10,000.
4. Electricity charges Rs. 24,000
5. Depreciation on Equipments Rs. 20,000, Building Rs. 1,00,000, Motor Car Rs. 40,000.

6. Drawings Rs. 8,00,000.

7. Outstanding fees on 3 l/3/2017 were Rs.40,000

8. Cash at Bank at the end of the year Rs. 93,000.

Additional Information -

1. Assets on l/4/20l7 were - Equipments Rs. 2,00,000, Buildings Rs. 20,00,000, Motor Car Rs. 3,00,000, Cash at Bank Rs. 50,000 and Outstanding Fees Rs. 25,000.

2. There were no outside liabilities at the beginning of the year.

Prepare -a) Receipts and Expenditure for the year ended on 31/3/2018

b) Balance Sheet as on 31/3/2018

[**Ans.** Surplus- 6,83,000, opening capital 25,50,000, Total of closing Balance Sheet-24,73,000]

2) You have provided the following information of Dr. Padmavati an Eye Specialist, Shirala

Receipts and Payments Account

For the year ended on 31st March 2018

Receipts	Rs.	Payments	Rs.
To Cash & Bank Balance	16,000	By Books purchased	80,000
To Fees received	6,00,000	By Motor Car Expenses	20,000
To Deposits by patients against fees	40,000	By Office Expenses	1,00,000
To Miscellaneous Receipts	15,000	By Maintenance of Equipments	25,000
		By Postage & Stationery	35,000
		By Electricity Charges	96,000
		By Journals and Periodicals	35,000
		By Travelling Expenses	1,09,000
		By Drawings	70,000
		By Bank Balance	81,000
		By Cash Balance	20,000
Total	**6,71,000**	**Total**	**6,71,000**

Income and Expenditure Account

For the year ended on 31st March 2018

Dr. Cr.

Expenditures	Rs.	Income	Rs.
To Motor Car Expenses	20,000	By Fees received	
To Office Expenses 1,00,000		6,00,000	
+ O/s for current year 40,000		+ deposits against fees	
- O/s in last year 50,000	90,000	in last year 85,000	
To Maintenance of Equipments	25,000	+ O/S for current	
To Postage & Stationery	35,000	year 5,000	
To Electricity Charges	96,000	- O/S in last year 8,000	6,82,000
To Journals and Periodicals	35,000	By Miscellaneous	15,000
To Travelling Expenses	1,09,000	Receipts	
To Depreciation on –			
Equipments 49,600			
Motor Car 60,000			
Furniture 4,000			
Books 16,000	1,29,600		
To Surplus	1,57,400		
Total	**6,97,000**	**Total**	**6,97,000**

Balances of fixed assets as on 31/3/2017. Equipments Rs. 4,96,000, Motor Car Rs. 4,00,000 and Furniture Rs. 8,000.

You are required to prepare Receipts and Expenditure Account for the year ended on 31/3/2018 and Balance Sheet as on that date

[**Ans.** Surplus- 5,000, Opening capital – 7,85,000, Total of closing Balance Sheet- 9,60,400]

3) Shruti and Vaidehi are in partnership practicing as chartered Accountants under the name and style Shruti-Vaidehi & Co. Sharing profits and losses equally. They close their accounts as on 31st March. The following was their Balance Sheet as on 31/03/2017.

Liabilities	Rs.	Assets	Rs.
Capital Shruti	83,000	Motor Car	1,00,000
Vaidehi	83,000	Adding Machine	8,000
Audit fee in advance	4,000	Typewriter	20,000
Clients Accounts	8,000	Furniture	24,000
Liabilities for Establishment		Outstanding Audit Fees	20,000
		Library Books	10,000
Expenses	2,000	Cash and Bank Balance	18,000
Provision for outstanding Audit fee	20,000		
Total	**2,00,000**	**Total**	**2,00,000**

The following is the summary of their cash transactions for the year ended 31/03.2018.

Receipts	Rs.	Payments	Rs.
Cash & Bank Balance	18,000	Motor Car Expenses	24,000
Audit Fees	3,20,000	Establishments-expenses	70,000
Fees for other Services	2,00,000	Printing & Stationary	10,000
Miscellaneous Income	2,000	Subscription for Journals	3,000
		Library Books	10,000
		Equipment	20,000
		Drawings	
		Shruti – 80,000	
		Vaidehi – 80,000	1,60,000
		Client Disbursement A/c	6,000
		Cash & Bank Balance	2,37,000
Total	**5,40,000**	**Total**	**5,40,000**

The following particulars are available :

1) Outstanding establishment expenses Rs. 4000.
2) Depreciation to be provided on : Motor Car at 20% , Machine, Type writer, equipment at 10%, Books at 20% and Furniture at 15%

3) Audit Fees receivable Rs. 24,000

Your are required to prepare Receipts and Expenditure A/c for the year ended 31/03/2018 and the Balance Sheet as on that date.

[**Ans.** N. P. of the Firm Rs. 3,84,600,

Balance Sheet Total Rs. 4,20,600]

4) Dr. Sangram is a medical practitioner. On 1st April 2016 he had following assets in his profession- Equipments and Furniture Rs. 40000, Telephone set Rs. 3000, Stock of medicines Rs. 2000, and Cash in hand Rs. 7000. The following is the Receipts and payments A/c of the profession for the year ended 31/03/2017

Receipts	Rs	Payments	Rs
Cash in hand	7,000	Purchases of medicine	35,000
Consultation Fee	41,000	Salary of Assistant	10,000
Fees from operations	10,000	Purchases of Motor Car	20,000
Income from Lectures	5,000	Postage & Stationery	700
Sale of Medicines	40,000	Telephone Charges	600
		Professional Periodicals	300
		Purchase of Equipment	10,000
		Motor Car Expenses	1,500
		Subscription to IMA	300
		Household Drawings	12,000
		Traveling Expenses	6,600
		Cash in hand	6,000
Total	**1,03,000**	**Total**	**1,03,000**

After considering the following information, ascertain the profit from profession of Dr Sangram year ended 31st March, 2017 and prepare a Balance Sheet as on that date.

1) Stock of medicines on 31/l2/2017 was Rs. 3000.

2) Equipment purchased on 01/10/2016 Depreciate equipment and furniture at 5%p.a.

3) Consultation fee was outstanding Rs. 6000 ; Salary of assistant due Rs. 2000.

4) 50% of the services of motor car is enjoyed by the family of Dr. Sangram.

5) Rs. 2000 was still payable to the suppliers of medicines.

6) Provide Rs 5000 for income tax of the profession.

[**Ans.** Net profit Rs. 31,500, Opening Capital Rs. 52,000,

Closing B/S Total Rs. 85,750]

5) Swarali a professional accountant, provides the following data

Receipts and Expenditure Account

Dr For the year ended, on 31st March 2018 Cr.

Receipt	Rs.	Payments	Rs.
To Motor Car Expenses	50,000	By Reserve for Outstanding Fees	44,000
To Office Expenses 1,30,000 +O/s for current year 30,000 - outstanding in last year 40,000	1,20,000	By Fees received 5,15,000 Advance fees in last year 65,000 + O/S for current year 35,000 - Advance Fees in Current year 15,000 – O/S in last year - 44,000	5,56,000
To Maintenance of Computers	25,000	By Miscellaneous Receipts	25,000
To Stationery & Postage	45,000		
To Electricity Charges	63,000		
To Depreciation on - Motor Car 45,000 Computers 64,000 Furniture 9,000	1,18,000		
To Provision for Outstanding Fees	35,000		
To Surplus	1,69,000		
	6,25,000		**6,25,000**

Other Information

a. Drawings during the year Rs. 164000;

b. The assets of Swarali were-

Particulars	31/3/2017 Rs.	31/3/2018 Rs.
Cash Balance	5,000	28,000
Bank Balance	1,10,000	1,50,000
Motor Car	4,50,000	
Computers	1,60,000	
Furniture	90,000	

You are asked to prepare- a) Balance Sheet as on 31/3/2017

b) Balance Sheet as on 31/3/2018

(**Ans.** Opening Capital Rs. 7,10,000 and Closing Balance Sheet Total Rs. 7,95,000)

B) Short notes

1) Accounts of Professionals.

2) Receipt & Expenditure A/C

4.7 Reference for Further Study

1. Shukla M.C. Grewal TlS,; Gupta S.C., Advanced Accounts, New Delhi : S. Chand & Co.
2. Maheshwari S.N. Maheshwari S.K.(2017), Financial Accounting, Volume-I, New Delhi : Vikas Publishing House Pvt. Ltd.
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Unit-1

Single Entry System

Structure of Unit :

1.0 Objectives:

The objectives of this unit are students should be able to –

- Understand the concept of Single Entry System.
- Know the features as well as limitations of this system.

- Familiar with the methods of computing profit or loss as per Single Entry System.
- Compute profit or loss as per Conversion Method
- Explain the meaning of key terms.

1.1 Introduction:

There are two systems of book-keeping. These Systems are i) Single Entry System, and ii) Double Entry System.

The only scientific and complete system of book keeping is Double Entry System. This system is based on the two fold effect of the transaction. That means every debit has its corresponding credit. Therefore, Double Entry System is used on large scale. But, in India so many small businessmen used Single Entry System, due to absence of proper knowledge of book keeping and accountancy as well as for the economic purpose.

1.2 Presentation of Subject Matter:

1.2.1 Concept of Single Entry System:

The names of the two systems of book keeping are opposite one. Hence, there may be misunderstanding regarding the meaning of these concepts, that, Double Entry System is based on two fold effect and Single Entry System is based on single effect. Though the name Single Entry System suggests that the single entry is considered in this system, it is not true. Actually, Single Entry System is a combination of double entry for certain transactions such as cash received from debtors, cash paid to creditors etc.; single entry for certain transactions such as cash sales, cash purchases, expenses paid etc. and no entry for certain transactions such as depreciation, bad debts etc.

In other words it is said that when any businessman does not follow strictly the rules of Double entry System then he uses Single Entry System. Single Entry System may be defined as any system which is not exactly the Double Entry System.

Kohler defines it as, "A system of book keeping in which, as a rule, only records of cash and of personal accounts are maintained; it is always incomplete double entry varying with the circumstances."

Cartor defines it as, "A method or a variety of methods employed for the recording of transactions, which ignore the two-fold aspect, and consequently fails to provide the businessman with the information necessary for him to be able to ascertain the position."

There are no hard and fast rules of the Single Entry System and each businessman follows a way which is convenient to him.

1.2.2 Types/ Methods of Single Entry System:

The term "single entry" includes wide range of accounting records, starting from the brief notes of transactions to the elaborate records. The degree of incompleteness of records differs from one business to another, according to its nature and complexity. Therefore, the Single Entry System can be classified into the following three types:-

i) Pure Single Entry System — In this method only Personal Accounts are maintained. No Real or Nominal accounts are maintained.

ii) Simple Single Entry System — In this type Personal Accounts as well as Cash Account is kept.

iii) Quasi Single Entry System — Under this method, Personal Account, Cash Accounts as well as some Subsidiary Books are maintained. Generally, this method is used on large scale, in practice.

1.2.3 Features of Single Entry System:

The features or characteristics of Single Entry System can be explained as follows:

i) There are no hard and fast rules under this system.

ii) The system may differ from businessman to businessman as per their requirement and convenience.

iii) This system is suitable for small proprietary or partnership firms. Limited companies cannot adopt this system due to legal requirements.

iv) This system is a mixture of double entry, single entry and no entry.

v) Under this system, generally, Personal Accounts are maintained and Real and Nominal Accounts are ignored.

vi) In this system, in order to collect the necessary information, businessman has to depend on original vouchers.

1.2.4 Limitations of Single Entry System:

The limitations or disadvantages of this system are as follows:

i) Results obtained under this system may be doubtful.

ii) Due to absence of two fold effect, trial balance cannot be prepared. Therefore the arithmetical accuracy of the books of accounts cannot be checked.

iii) In the absence of real and nominal accounts the Trading and Profit and Loss Account and the Balance Sheet cannot be prepared.

iv) In the absence of Trading and Profit and Loss A/C and the Balance Sheet, true profit or loss and true financial position of a business cannot be ascertained and judged.

v) Under this system profit or loss can be ascertained but its composition will not be available.

vi) Due to absence of realistic results, the businessman unable to take correct financial decisions.

vii) Under this system, the businessman cannot find out the real value of his business.

viii) Due to legal restrictions, no limited company can keep books under this system.

ix) In this system, checks and counter checks are not possible like Double Entry System, so frauds are easily committed and are very difficult to detect.

1.2.5 Methods of Ascertainment of Profit:

Under the Single Entry System the profit or loss of a business can be ascertained by any of the following two methods –

1. Capital Comparison Method / Statement of Affairs Method / Net Worth Method
2. Conversion into Double Entry / Conversion Method

1.2.6 Capital Comparison Method: (This method is not included in syllabus. This is given regarding this method is only for information to students)

This method is also called as statement of Affairs Method or Net Worth Method. Under this method profit or loss of a businessman can be ascertained by comparing the capitals or net worth on two different dates. It is ascertained by preparing the following statements —

a) Statement of Affairs, and

b) Statement of Profit and Loss

a) Statement of Affairs:

Statement of Affairs is prepared to find out the capital or net worth of the business. Capital is nothing but the difference between Total Assets and Total Outsider Liabilities. Hence, to find out the capital on a particular date a statement of Assets and Liabilities is prepared. This statement is called as Statement of Affairs. In Single Entry System a statement of Affairs on the opening date and on the closing date are prepared on the basis of information collected from the records kept by the businessman and information based on his memory.

A statement of Affairs is similar to a Balance Sheet, but there is some difference between these statements. A Statement of Affairs is prepared from the incomplete records and a Balance Sheet is prepared from the balance extracted from ledger accounts maintained under double entry system. Assets and Liabilities are recorded before adjustments in Statement of Affairs and are recorded after adjustments in Balance Sheet. So the Balance Sheet show the correct financial position of the business where as the financial position shown by the Statement of Affairs may not be hundred percent reliable.

Specimen of Statement of Affairs

Statement of Affairs of ……….

as on ....

Liabilities	**Rs.**	**Assets**	**Rs.**
Creditors	XXX	Cash in hand	XXX
Bank loan	XXX	Cash at Bank	XXX
Capital (Balancing Figure)	XXX	Stock	XXX

		Debtors	XXX
	XXX		**XXX**

b) Statement of Profit and Loss:

In Single Entry System nominal accounts are not maintained. Therefore a Profit and Loss A/C cannot be prepared to find out profit or loss. So in Single Entry System a statement of Profit and Loss is prepared to find out profit or loss. The difference between the capitals on two different dates i.e. at opening date of the period and at closing date of the period, shows profit or loss, if there are no transaction made which affect on capital. Such capital is find out by preparing Statement of Affairs. In the Statement of Profit and Loss, comparison of opening capital and closing capital is made with necessary adjustments and then profit or loss is ascertained. It will be cleared from the following Proforma.

Proforma of Statement of Profit and Loss

Statement of Profit and Loss of ……..

for the year ended ……

Particulars	Rs.	Rs.
Capital at the End / Closing Capital		XXX
Add — Drawings during the year		XXX
Less — Additional Capital / New Capital Introduced		XXX
Actual / Adjusted Capital		**XXX**
Less — Capital at the Beginning / Opening Capital		XXX
Profit / Loss before adjustments*		XXX
Less — Adjustments*		**XXX**
Depreciation, R.D.D. Interest on Capital Salary to Partners, Outstanding Expenses, Incomes received in advance etc.		XXX
Add — Adjustments*		**XXX**
Interest on Drawings, Outstanding Incomes, Prepaid Expenses etc		XXX
Net Profit		**XXX**

* If the statement of Profit and Loss shows a loss, the adjustments made above are to be reversed. That means the adjustments which are deducted from profit are to be

added to the loss and the adjustments which are added to profit are to be deducted from loss.

After ascertaining the profit or loss by using the above method, a final Statement of Affairs or Balance Sheet is prepared at the end of the period after incorporating all these adjustments.

Illustration 1

Ajay and Vijay are equal partners in a business in which the books are kept on Single Entry. Their position on 1st April 2016 was as under:

Statement of Affairs

Liabilities	Rs.	Assets	Rs.
Bills Payables	6,200	Cash in hand	270
Sundry Creditors	20,000	Cash at Banks	13,880
Capital Accounts		Bills Receivables	4,600
Ajay - 80000		Sundry Debtors	33,800
Vijay - 80000	1,60,000	Stock	48,650
		Plant & Machinery	80,000
		Furniture	5,000
	1,86,200		**1,86,200**

On 31st March 2017, the following was the state of affairs –

Cash in hand Rs.400, Cash at Bank Rs.15800, Sundry Creditors Rs.21200, Stock Rs.66700, Sundry Debtors Rs.30300. Bill Payable Rs.6600, Bills Receivables Rs.8800, Plant and Machinery and Furniture are to be depreciated by 10%.

Ascertain the profit for the year ended 31st March, 2017 and prepare a Balance Sheet as on that date assuming Ajay withdrew Rs.10000 and Vijay withdrew Rs.8000 during the year.

Solution:

Statement of Affairs as on 31st March, 2017

Liabilities	Rs.	Assets	Rs.
Bills Payable	6,600	Cash in hand	400
Sundry Creditors	21,200	Cash at Bank	15,800
Capital (Balancing Figure)	1,79,200	Stock	66,700
		Sundry Debtors	30,300
		Bills Receivables	8,800
		Plant & Machinery	80,000
		Furniture	5,000
	2,07,000		**2,07,000**

Statement of Profit and Loss for the year ended 31st March, 2017

Particulars	Rs.	Rs.
Closing Capital / Capital at the End		1,79,200
Add — Drawings		
Ajay	10,000	
Vijay	8,000	18,000
Adjusted Capital		1,97,200
Less — Opening Capital		1,60,000
Profit before Adjustments		37,200
Less — Adjustments		
Depreciation —		
Plant & Machinery	8,000	
Furniture	500	8,500
Net Profit		**28,700**

Balance Sheet as on 31st March, 2017

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Bills Payable		6,600	Cash in hand		400
Sundry Creditors		21,200	Cash at Bank		15,800
Capital Accounts			Stock		66,700
Ajay	80,000		Sundry Debtors		30,300
+ N.P.	14,350		Bills Receivables		8,800
	94,350		Plant & Machinery	80,000	
- Drawings	10,000	84,350	- Depreciation	8,000	72,000
Vijay	80,000		Furniture	5,000	
+ N.P.	14,350		- Depreciation	500	4,500
- Drawings	8,000	86,350			
		1,98,500			**1,98,500**

Illustration 2

A Businessman provides you the information kept on Single Entry and asks you to ascertain his position for the year ended 31st December, 2016.

Particulars	31.12.16 Rs.	31.12.15 Rs.
Stock	6,700	8,500
Sundry Creditors	5,400	4,000
Sundry Debtors	4,200	4,500
Cash in hand	200	150
Bank overdraft	3,200	5,000
Bills Receivables	1,050	2,000
Furniture	1,500	1,500
Vehicle	4,000	4,000
Plant	10,000	10,000

The drawings during the year amounted to Rs.3,600 and he brought into business further capital of Rs.3000 during the year.

Depreciate furniture at 10%, Plant at 20% and write off vehicle by Rs.500. As regards sundry debtors it is ascertained that Rs.500 was bad and 5% were doubtful. There was a need of reserving Rs.500 in respect of Bills Receivables.

Also prepare the Final Statement of Affairs.

Solution:

Statement of Affairs as on 31.12.15 and as on 31.12.16

Liabilities	31.12.16 Rs.	31.12.15 Rs.	Assets	31.12.16 Rs.	31.12.15 Rs.
Bank overdraft	3,200	5,000	Cash in hand	200	150
Sundry creditors	5,400	4,000	Stock	6,700	8,500
			Sundry Debtors	4,200	4,500
Capital (Balancing Figures)	19,050	21,650	Bills Receivables	1,050	2,000
			Furniture	1,500	1,500
			Vehicle	4,000	4,000
			Plant	10,000	10,000
	27,650	**30,650**		**27,650**	**30,650**

Statement of Profit and Loss for the year ended 31.12.16

Particulars	Rs.	Rs.
Closing Capital		19,050
Add- Drawings		3,600
		22,650
Less — Additional Capital		3,000
		19,650
Less -- Opening Capital		21,650
Loss before adjustments		2,000

Add — Adjustments			
Depreciation – Furniture	150		
Plant	2,000		
Vehicle	500	2,650	
Bad Debts		500	
R.D.D. (4200-500=3700-5%)		185	
Reserve for Bills Receivables		500	3,835
Net Loss			**5,835**

Final Statement of Affairs as on 31.12.16

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Bank overdraft		3,200	Cash in hand		200
Sundry Creditors		5,400	Stock		6,700
Capital	21,650		Sundry Debtors	4,200	
+ New Capital	3,000		- Bad Debts	500	
- Drawings 3,600				3,700	
Net Loss 5,835	9,435	15,215	- R.D.D. 5%	185	3,515
			Bills receivables	1,050	
			- Reserve for B/R	500	550
			Furniture	1,500	
			- Depreciation	150	1,350
			Vehicles	4,000	
			- Depreciation	500	3,500
			Plant	10,000	
			- Depreciation	2,000	8,000
		23,815			**23,815**

1.2.7 Conversion of Single Entry to Double Entry System or Conversion Method

The profit ascertained by Capital Comparison Method may not be accurate. That method does not provide a clear picture of the business transactions and business results. So meaningful analysis of the financial statements cannot be done nor effective steps can be taken to improve the financial position of the business.

To overcome these deficiencies, conversion method can be used. In Conversion Method, the accounts maintained on Single Entry System are converted into Double Entry System. Conversion of Single entry into double entry means journalizing each transaction and makes posting, balancing and preparing trial balance and then prepares final accounts.

But in practice it is not suitable to completely transform the books and prepare trial balance, so Abridged Conversion Method is used. Under this method, final accounts are to be prepared directly with the help of available information instead of preparing final accounts with the help of trail balance. Only information that is required for preparing the Trading and Profit and Loss Account and the Balance Sheet is to be collected. If Information is inadequate or missing it should be found out by preparing necessary ledger accounts.

Finding Out Missing Information:

Generally, in problems on single entry, there may be certain missing information. Such missing information can be found from —

i) Cash Transactions or Cash Book

ii) Opening balances of Personal and Real Accounts

iii) Closing balances of Personal and Real Accounts

iv) Other information and adjustments

Such missing information may be regarding credit sales, opening or closing balance of debtors, cash received from debtors, credit purchases, opening or closing balance of creditors, cash paid to creditors, bills payable accepted, opening or closing balance of bills payable, bills receivable received, opening or closing balance of bills receivable, opening or closing cash balance and bank balance, cash sales, opening capital etc. These missing figures are ascertained by preparing particular accounts.

i) Ascertainment of Credit Sales / Opening or Closing Balance of Debtors / Cash received from Debtors:

If any one of these items is missing. It is ascertained by preparing Total / Sundry Debtors A/C. The specimen of Total / Sundry Debtors A/C is as follows:

Dr. **Total / Sundry Debtors A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d (op.bal)	XXX	By Cash / Bank (Cash / Cheque received from debtors)	XXX
To Credit Sales	XXX	By Returns inward	XXX
To Bills Receivable dishonored	XXX	By Discount Allowed	XXX
		By Allowances given	XXX
		By Bad Debts	XXX
		By Bills Receivable received	XXX
		By Transfer to creditors	XXX
		By Balance c/d (cl.bal)	XXX
	XXX		**XXX**

ii) Ascertainment of Bills Receivables received / Opening or Closing Balance of Bills Receivables / Cash received for Bills Receivable.

If any one of these items is missing it is ascertained by preparing Bills Receivables A/C. The specimen of Bills Receivables A/C is as under:

Dr. **Bills Receivables A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d (op.bal)	XXX	By Cash (Cahs realized from Bill Receivables)	XXX
To Sundry Debtors A/C (Bill Receivables Received)	XXX	By Sundry Debtors (B/R dishonored)	XXX
		By Sundry Creditors (B/R	XXX

		endorsed)	
		By Balance c/d (Cl. Bal.)	XXX
	XXX		**XXX**

Note : If there are transactions regarding Bills Receivables as well as Sundry Debtors in the problem, students should take care to prepare Bills Receivables A/c first and then Total / Sundry Debtors A/C

iii) Ascertainment of Credit Purchases / Opening or Closing Balance of Creditors / Cash paid to Creditors.

If any one of these items is missing, it is ascertained by preparing Total / Sundry Creditors A/C. The specimen of Total / Sundry Creditors A/c is as follows:

Dr. **Total / Sundry Creditors A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Cash / Banks (Payment made to creditors)	XXX	By Balance b/d (Op. Bal.)	XXX
To Returns outward	XXX	By Credit Purchases	XXX
To Discount Received	XXX	By Bills Payable (Bills payable dishonored)	XXX
To Allowance Received	XXX		
To Bills Payable (Bills accepted)	XXX		
To Bills Receivable (Bills Receivable endorsed)	XXX		
To Transfer from Debtors	XXX		
To Balance c/d (Cl.Bal.)	XXX		

iv) Ascertainment of Bills Payables accepted / Opening or Closing Balance of Bills Payables / Cash paid for Bills Payables.

If any of these items is missing, it is ascertained by preparing Bills Payables A/C. The specimen of this account is as follows:

Dr. **Bills Payables A/C** Cr.

Particulars	**Rs.**	**Particulars**	**Rs.**
To Cash (Cash paid for Bill Payables)	XXX	By Balance b/d (Op.Bal.)	XXX
To Sundry Creditors (B/P dishonored)	XXX	By Sundry Creditors (B/P accepted)	XXX
To Balance c/d (Cl.Bal.)	XXX		XXX
	XXX		**XXX**

Note: If there are transactions about Bills Payables as well as Sundry Creditors in the problem, students should take care to prepare first Bills Payables A/C and then Total / Sundry Creditors A/C.

v) Ascertainment of Opening or Closing Cash / Bank Balance / Cash Sales / Cash Purchases:

If any one of these items is missing, it is ascertained by preparing Receipts and Payments A/C or Cash Book (in columnar form, if necessary).

vi) Ascertainment of Opening Stock or Closing Stock:

The amount of opening stock or closing stock can be ascertained by preparing Memorandum Trading A/C or by using the following formula.

Opening Stock = Cost of Sales + Closing Stock — Purchases

Closing Stock = Opening Stock + Purchases — Cost of Sales

Cost of Sales = Sales — Gross Profit

vii) Ascertainment of Opening Capital.

The amount of opening capital is ascertained by preparing Opening Balance Sheet or Opening Statement of Affairs.

viii) Ascertainment of Other Balances:

The balances of some other assets such as land, building, plant & machinery, furniture etc. or sale or purchases of such asset or depreciation are ascertained by preparing that particular account.

Illustration 3

Sunil commenced business as a cloth merchant on 1.1.2016 with a capital of Rs.100000. On the same day, he purchased furniture for cash Rs.30000. From the following particulars obtained from his books kept by single entry, you are asked to prepare a Trading and Profit and Loss A/C for the year ended 31st December, 2016 and a Balance Sheet as on that date.

Particulars	**Rs.**
Sales (inclusive of cash Rs.70,000)	1,70,000
Purchases (inclusive of cash Rs.40,000)	1,50,000
Sunils Drawings	12,000
Salaries to Staff	20,000
Bad Debts	5,000
Sundry Expenses	7,000

Sunil took cloth worth Rs.5,000 from the shop for private use and paid Rs.2,000 to his son, but omitted to record these transactions in his books. On 31st December, 2016 his sundry debtors were Rs.52,000 and sundry creditors Rs.36000. Stock in hand as on 31st December, 2016 was Rs.65,000.

Solution:

Trading and Profit and Loss A/C of Sunil

for the year ending 31st December, 2006

Dr. Cr.

Particulars		**Rs.**	**Particulars**		**Rs.**
To Purchases			By Sales		
Cash	40,000		Cash	70,000	
Credit	1,10,000		Credit	1,00,000	1,70,000
	1,50,000		By closing stock		65,000
Less — Drawings	5,000	1,45,000			
(Goods taken)					

To Gross Profit c/d	90,000		
	2,35,000		**2,35,000**
To Salaries	20,000	By Gross Profit b/d	90,000
To Sundry Expenses	7,000		
To Bad Debts	5,000		
To Net Profit	58,000		
	90,000		**90,000**

Balance Sheet of Sunil as on 31.12.2006

Liabilities		Rs	Assets	Rs
Sundry Creditors		36,000	Cash Balance	28,000
Capital	1,00000		Sundry Debtors	52,000
+ Net Profit	58,000		Closing Stock	65,000
	1,58,000		Furniture	30,000
- Drawings	19,000	1,39,000		
		1,75,000		**1,75,000**

Note: Sunils Drawings = Rs.12000 + 5000 + 2000 = 19000

The money given by Sunil to his son and the cloth taken by him from the business have been treated as drawings.

Working Notes:

Dr. **Sundry Debtors A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Credit Sales	1,00,000	By Bad Debts	5,000
		By Cash (Balancing Figure)	43,000
		By Balance c/d	52,000
	1,00,000		**1,00,000**

Dr. **Sundry Creditors A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Cash (Balance Figure)	74,000	By Credit Purchases	1,10,000
To Balance c/d	36,000		
	1,10,000		**1,10,000**

Dr. **Receipts and Payments A/C or Cash A/C** Cr.

Receipts	Rs.	Payments	Rs.
To Capital A/C	1,00,000	By Furniture	30,000
To Cash Sales	70,000	By Cash Purchases	40,000
To Sundry Debtors	43,000	By Drawings (12,000+2,000)	14,000
		By Salaries	20,000
		By Sundry Expenses	7,000
		By Sundry Creditors	74,000
		By Balance c/d (Balancing Figure)	28,000
	2,13,000		**2,13,000**

Illustration 4

Gajanan, a retail trader, who kept his books on single entry system, gives you the following information for the year 2017

Cash Book for the year 2017

Receipts	Rs.	Payments	Rs.
To Balance b/d	8,350	By Sundry Creditors	27,100
To Sundry Debtors	38,400	By Bills Payables	9,300
To B/R realized	12,000	By Wages	12,250
To Commission Received	1,500	By Salaries	6,500

To Cash Sales	8,600	By-Rent & Insurance	5,200
		By Purchase of ornament for his wife	1,000
		By Advertising	330
		By Personal Drawings	6,520
		By Balance c/d	650
	68,850		**68,850**

Particulars regarding assets and liabilities.

Particulars	1.1.2017 Rs.	31.12.2017 Rs.
Stock	18,700	23,400
Sundry Debtors	12,000	14,000
Sundry Creditors	9,000	1,500
Bills Receivables	4,000	5,000
Bills Payables	1,000	200
Furniture	2,600	2,600
Building	10,000	10,000

You are requested to prepare final accounts of Gajanan after taking into account following adjustments.

i) A provision of Rs.1450 for doubtful debts.

ii) Depreciation at the rate of 5% on furniture.

iii) Outstanding salaries Rs.1200.

iv) Insurance unexpired to the extent Rs.200.

v) Goods worth Rs.500 were taken by him for personal use.

Solution:

Trading and Profit & Loss A/C of Gajanan
for the year ended 31.12.2017

Dr. Cr.

Particulars		Rs.	Particulars		Rs.
To Opening Stock		18,700	By Sales		
To Purchases	28,100		Cash	8,600	
Less — Drawings	500	27,600	Credit	53,400	62,000
To Wages		12,250	By Closing Stock		23,400
To Gross Profit c/d		26,850			
		85,400			**85,400**
To Salaries	6,500		By Gross Profit b/d		26,850
+ Outstanding	1,200	7,700	By Commission received		1,500
To Rent & Insurance	5,200				
- Unexpired Insurance	200	5,000			
To Advertising		330			
To R.D.D.		1,450			
To Depreciation on Furniture		130			
To Net Profit		13,740			
		28,350			**28,350**

Balance Sheet of Gajanan as on 31.12.2017

Liabilities		Rs.	Assets		Rs.
Sundry Creditors		1,500	Cash Balance		650
Bills Payable		200	Closing Stock		23,400
0/S Salaries		1,200	Sundry Debtors	14,000	
Capital	45,650		- R.D.D.	1,450	12,550
+ N.P.	13,740		Bills Receivables		5,000
	59,390		Furniture	2,600	
- Drawings	8,020	51,370	- Depreciation	130	2,470

(6520 + 1000 + 500)		Building	10,000
		Unexpired Insurance	200
	54,270		**54,270**

Working Notes:

Dr. **Bills Receivables A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	4,000	By Cash (B/R realized)	12,000
To Sundry Debtors	13,000	By Balance c/d	5,000
(Bal.Fig. —B/R Received)			
	17,000		**17,000**

Dr. **Sundry Debtors A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	12,000	By Cash A/C	38,400
To Credit Sales	53,400	By Bills Receivables	13,000
(Balancing Figure)		By Balance c/d	14,000
	65,400		**65,400**

Dr. **Bills Payables A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Cash	9,300	By Balance b/d	1,000
To Balance c/d	200	By Sundry Creditors	8,500
		(Bal. Fig. B/P accepted)	
	9,500		**9,500**

Dr. **Sundry Creditors A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Cash A/C	27,100	By Balance b/d	9,000

To Bills Payable A/C	8,500	By Credit Purchases	28,100
By Balance c/d	1,500	(Balancing Figure)	
	37,100		**37,100**

Dr. **Balance Sheet as on 1.1.2017** Cr.

Liabilities	**Rs.**	**Assets**	**Rs.**
Sundry Creditors	9,000	Cash Balance	8,350
Bills Payable	1,000	Stock	18,700
Capital (Balancing Figure)	45,650	Bills Receivables	4,000
		Sundry Debtors	12,000
		Furniture	2,600
		Building	10,000
	55,650		**55,650**

Illustration 5

Prepare a Trading and Profit & Loss A/C for the year ended 31st December 2016 and a Balance Sheet as on that date from the following information available from the books of a trader.

Liabilities & Assets	31.12.2015 Rs.	31.12.2016 Rs.
Bank Balance	20,000	9,400
Cash Balance	3,000	3,250
Prepaid Expenses	5,000	7,000
Stock	70,000	60,000
Debtors	2,30,000	?
Furniture at written down value	70,000	82,000
Creditors	2,20,000	2,60,000
0/S Expenses	30,000	15,000

Receipts and payments during the year 2016 were as follows: Rs.

Collection from Debtors (After allowing 2½% discount)	5,85,000
Drawings	50,000
Capital Introduced	95,150
Purchase of furniture at the middle of the year	20,000
4% Investment on 1.7.2016 (Face value Rs.100000)	96,000
Business Expenses	2,00,000
Sale of Scrap	5,000
Payment to Creditors (After receiving 2% discount)	3,92,000
Cash realized from Bills Receivable	62,500

Other Information:

i) Sales are made so as to realize $33\frac{1}{3}\%$ profit on sale proceeds.

ii) Goods worth Rs.5000 were taken by the proprietor for personal use.

iii) During the year, Bills Receivables worth Rs.150000 were drawn on debtors of which bills amounting to Rs.30000 were endorsed in favour of the creditors.

iv) Sales and Purchases are made on credit.

Solution:

Trading and Profit & Loss A/C
For the year ending 31.12.2016

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Opening Stock		70,000	By Sales	7,12,500
To Purchases	4,70,000		By Closing stock	60,000
- Drawings	5,000	4,65,000		
To Gross Profit c/d		2,37,500		
		7,72,500		**7,72,500**
To Business Expenses	2,00,000		By Gross Profit b/d	2,37,500
+ 0/S in current year	15,000		By Interest on Investment	2,000

2,15,000		(4% on Rs.1,00,000 for 6 months)	
- 0/S in Last year 30,000		By Discount Received from	1,85,000
- Prepaid in C.Y. 7,000		Creditors (3,92,000 x 2/98)	8,000
1,78,000		By Sale of Scrap	5,000
+ Prepaid in L.Y. 5,000	1,83,000		
To Depreciation on Furniture	8,000		
To Discount Allowed to Debtors			
(5,85,000 x 2.5/97.5)	15,000		
To Net Profit	46,500		
	2,52,500		**2,52,500**

Balance Sheet as on 31.12.2016

Liabilities		Rs.	Assets		Rs.
Capital	1,48,000		Furniture	90,000	
+ New capital	95,150		- Depreciation	8,000	82,000
+ Net Profit	46,500		4% Investment		96,000
	2,89,650		(F.V. Rs.1,00,000)		
- Drawings	55,000	2,34,650	Stock		60,000
Sundry Creditors		2,60,000	Sundry Debtors		1,92,500
0/S Expenses		15,000	Bills Receivables		57,500
			Interest Accrued		2,000
			Prepaid Expenses		7,000
			Bank Balance		9,400
			Cash Balance		3,250
		5,09,650			**5,09,650**

Working Notes:

Dr. **Bills Receivables A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Sundry Debtors	1,50,000	By Cash	62,500
		By Sundry Creditors (endorsed)	30,000
		By Balance c/d (Bal. Figure)	57,500
	1,50,000		**1,50,000**

Dr. **Sundry Debtors A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	2,30,000	By Cash	5,85,000
To Credit Sales	7,12,500	By Discount	15,000
		By Bills Receivable	1,50,000
		By Balance c/d (Balancing Figure)	1,92,500
	9,42,500		**9,42,500**

Dr. **Sundry Creditors A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Cash	3,92,000	By Balance b/d	2,20,000
To Discount	8,000	By Credit Purchases	4,70,000
To B/R (endorsed)	30,000	(Balancing Figures)	
To Balance c/d	2,60,000		
	6,90,000		**6,90,000**

Dr. **Furniture A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	70,000	By Depreciation (Balance Figure)	8,000
To Cash	20,000	By Balance c/d	82,000
	90,000		**90,000**

Dr. **Memorandum Trading A/C** Cr.

Particulars		Rs.	Particulars	Rs.
To Opening Stock		70,000	By Sales	7,12,500
To Purchases	4,70,000		(Balancing Figure)	
- Drawings	5,000	4,65,000	By Closing Stock	60,000
To G. P. c/d (331/3% on Sales i.e. 50% on Cost of Sales)		2,37,500		
		7,72,500		**7,72,500**

Cost of sales = Opening Stock + Purchases - Closing Stock

475000 = 70000 + 465000 - 60000

Or

Cost of Sales = Sales - Gross Profit

$66\,^2/_3 = 100 - 33\,^1/_3$

So

$66\,^2/_3 : 33\,^1/_3$

475000 : ?

$$\frac{475000}{66\,^2/_3} \times \frac{33\,^1/_3}{1} = 237500$$

Balance Sheet as on 1.1.2016

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	2,20,000	Furniture	70,000
0/S Expenses	30,000	Stock	7,000
Capital (Balancing Figure)	1,48,000	Sundry Debtors	2,30,000
		Prepaid Expenses	5,000
		Bank Balance	20,000
		Cash Balance	3,000
	3,98,000		**3,98,000**

Illustration 6

From the following information of Sanjay, prepare final accounts for the year ending 31s' December 2016

Particulars	**Rs.**
Cash & Discount credited to Debtors	64,200
Discount received	200
Expenses paid by cash	3,400
Bad Debts	500
Expenses paid by cheques	3,500
Cash withdrawal from Bank	4,500
Cash collection from Debtors	20,300
Cash deposited in Bank	15,000
Cash drawings	1,500
Cheques collected from Debtors	43,200
Drawings by cheques	4,200
Cash in hand on 31.12.2016	12,200
Discount allowed	700
Cheques paid to creditors	53,400
Credit sales	69,100
Cash purchases	2,100
Cash paid to creditors	6,300

The assets and liabilities were as follows:

Particulars	1.1.2016 Rs.	31.12.2016 Rs.
Debtors	?	15,000
Cash and Bank	16,200	15,300
Stock	8,700	10,500

Plant	6,800	6,800
Creditors .	16,000	9,400
0/S Expenses	500	800

Solution :

Trading and Profit & Loss A/C of Sanjay

For the year ended 31.12.2016

Dr. Cr.

Particulars		Rs.	Particulars		Rs.
To Opening Stock		8,700	By Sales		79,100
To Purchases			Cash	10,000	
Cash	2,100		Credit	69,100	
Credit	53,300	55,400	By Closing Stock		10,500
To Gross Profit c/d		25,500			
		89,600			**89,600**
To Expenses paid -			By Gross Profit b/d		25,500
Cash	3,400		By Discount		200
Cheque	3,500				
	6,900				
+ 0/S in C.Y.	800				
	7,700				
- 0/S in L.Y.	500	7,200			
To Bad Debts		500			
To Discount		700			
To Net Profit		17,300			
		25,700			**25,700**

Balance Sheet of Sanjay as on 31.12.2016

Liabilities		Rs.	Assets	Rs.
Creditors		94,00	Cash in hand	12,200
0/S Expenses		800	Cash at Bank	3,100
Capital	25800		Sundry Debtors	15,000
+ Net Profit	17,300		Stock	10,500
	43,100		Plant	6,800
- Drawings		37,400		
(1,500 + 4,200)	5,700			
		47,600		**47,600**

Working Notes:

Dr. **Sundry Creditors A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Bank	53,400	By Balance b/d	16,000
To Cash	6,300	By Purchases (Balancing Figure)	53,300
To Discount	200		
To Balance c/d	9,400		
	69,300		**69,300**

Dr. **Sundry Debtors A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d (Balancing Figure)	10,600	By Bank	43,200
To Credit Sales	69,100	By Cash	20,300
		By Discount	700
		By Bad Debts	500
		By Balance c/d	15,000
	79,700		**79,700**

Dr. **Cash Book with Cash and Bank columns** Cr.

Particulars	Cash Rs.	Bank Rs.	Particulars	Cash Rs.	Bank Rs.
To Balance b/d	5,700	10,500	By Expenses	3,400	3,500
To Bank	4,500	-	By Cash	-	4,500
To Debtors	20,300	43,200	By Bank	15,000	-
To Cash	-	15,000	By Drawings	1,500	4,200
To Sales (Balancing Figure)	10,000		By Creditors	6,300	53,400
			By Purchases	2,100	-
			By Balance c/d	12,200	3,100
	40,500	**68,700**		**40,500**	**68,700**

Balance Sheet as on 1.1:2016

Liabilities	**Rs.**	**Assets**	**Rs.**
Creditors	16,000	Debtors	10,600
0/S Expenses	500	Cash in hand	5,700
Capital (Balancing Figure)	25,800	Cash at Bank	10,500
		Stock	8,700
		Plant	6,800
	42,300		**42,300**

Illustration 7

The following is the Balance Sheet of Shri Rajesh as on 31st March, 2016

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital	96,000	Building	65,000
Loan	30,000	Furniture	10,000
Creditors	62,000	Motor	18,000

		Stock	40,000
		Debtors	34,000
		Cash in hand	4,000
		Cash at Bank	17,000
	1,88,000		**1,88,000**

A riot occurred on the night of 31st March 2017 in which all the books and records were lost. The cashier had absconded with the available cash. Shri Rajesh gives you the following information:

a) His sales for the year ended 31st March, 2017 was 20% higher than the previous year's sales. He always sells his goods at cost plus 25%. Out of total sales 20% sales were for cash. There were no cash purchases.

b) On 1st April, 2016 the stock level was raised to Rs.60000 and stock was maintained at this new level throughout the whole year.

c) Collections from debtors amounted to Rs.2,80,000 of which Rs.70,000 was received in cash. Business expenses amounted to Rs.40,000 of which Rs.10,000 was outstanding as on 31st March 2017 and Rs.12000 was paid by cheques.

d) Analysis of the Pass Book revealed the followings:

Particulars	Rs.
Payment to Creditors	2,75,000
Personal Drawings	15,000
Cash Deposited in Bank	1,43,000
Cash withdrawn from Bank	24,000

e) Gross Profit as per last year's audited accounts was Rs.60,000.

f) Provide depreciation on Building and Furniture at 5% and on Motor at 20%

g) The amount defalcated by the cashier may be treated as recoverable from him.

Prepare the Trading and Profit & Loss A/C for the year ended 31st March, 2017 and the Balance Sheet as on that date.

Solution:

Trading and Profit & Loss A/C of Shri Rajesh

For the year ended 31st March, 2017

Dr. Cr.

Particulars	**Rs.**	**Particulars**	**Rs.**
To Opening Stock	40,000	By Sales	3,60,000
To Purchases (Balancing Figure)	3,08,000	Cash 72,000	
To Gross Profit c/d	72,000	Credit 2,88,000	
(20% on Sales)			
		By Closing Stock	60,000
	4,20,000		**4,20,000**
To Sundry Expenses	40,000	By Gross Profit b/d	72,000
To Depreciation on Building	3,250		
Furniture	500		
Motor	3,600		
To Net Profit	24,650		
	72,000		**72,000**

Balance Sheet of Shri Rajesh as on 31st March 2017

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital	96,000		Building	65,000	
+ Net Profit	24,650		- Depreciation	3,250	61,750
	1,20,650		Furniture	10,000	
- Drawings	15,000	1,05,650	- Depreciation	500	9,500
Loan		30,000	Motor	18,000	
Sundry Creditors		95,000	- Depreciation	3,600	14,400
0/S Expenses		10,000	Stock		60,000
			Sundry Debtors		42,000
			Cash at Bank		44,000

		Sundry Advances (Amount recoverable from cashier)	9,000
	2,40,650		**2,40,650**

Working Notes:

Dr. **Sundry Debtors A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	34,000	By Bank	2,10,000
To Credit Sales (80% of Rs.360000)	2,88,000	By Cash	70,000
		By Balance c/d (Balancing Figure)	42,000
	3,22,000		**3,22,000**

Dr. **Sundry Creditors A/C** Cr.

Particulars	Rs.	Particulars	Rs.
To Bank	2,75,000	By Balance b/d	62,000
To Balance c/d (Balancing Figure)	95,000	By Purchases	3,08,000
	3,70,000		**3,70,000**

Note : Total Sales, Cash Sales and Credit Sales

Selling Price = Cost + 25% profit

So Gross Profit on Sales is 20%

Last year's Gross profit was Rs.60000 so Last Year's Sales were Rs.3,00,000 (60,000 X 100/20)

Current year's sales are 20% higher than the last year's

Therefore current year's sales are Rs.3,60,000

[Rs.3,00,000 + Rs.60,000 (20% of Rs.3,00,000)]

Out of Total Sales, 20% sales are cash sales. Therefore cash sales are Rs.72,000 (20% of Rs.3,60,000) and credit sales are Rs.2,88,000 (80% of Rs.3,60,000)

Cash Book with Cash and Bank Columns

Particulars	**Cash Rs.**	**Bank Rs.**	**Particulars**	**Cash Rs.**	**Bank Rs.**
To Balance b/d	4,000	17,000	By Sundry Expenses	18,000	12,000
To Sales	72,000	-	By Drawings	-	15,000
To Sundry Debtors	70,000	2,10,000	By Sundry Creditors	-	2,75,000
To Cash	-	1,43,000	By Bank	1,43,000	-
To Bank	24,000	-	By Cash	-	24,000
			By Balance c/d (Balancing Figure)	9,000*	44,000
	1,70,000	**3,70,000**		**1,70,000**	**3,70,000**

* The Cash defalcated by the cashier is recoverable from him.

Check your progress:

1) Choose the correct alternatives.

i) The capital in the beginning of the accounting year is ascertained by preparing -----------

a) Cash Account, b) Opening Statement of Affairs

c) Total Creditors A/C d) Total Debtors A/C

ii) The amount of opening stock can be ascertained by preparing------------

a) Memorandum Trading A/C, b) Total Creditors A/C

c) Total Debtors A/C, d) Opening Statement of Affairs

iii) Cash Sales can be ascertained by preparing------------

a) Total Creditors A/C, b) Total Debtors A/C,

c) Cash A/c, d) Balance Sheet

iv) A Single Entry System of book —keeping is generally used by------------

a) Joint Stock Companies, b) Cooperative Societies,

c) Government Undertakings, d) Sole Traders & Partnership Firms

v) Net worth means----------------

a) Total Assets, b) Total Liabilities,

c) Excess of Assets over Liabilities, d) None of above

2. State 'True' or 'False'

i) Joint Stock Companies can also adopt the Single Entry System.

ii) Trial Balance can be prepared in case the books are maintained according to Single Entry System.

iii) In order to ascertain the profit according to Net Worth Method of Single Entry System, the Profit & Loss A/C is prepared.

iv) The amount of credit sales is determined by preparing a Total Creditors A/C.

v) The statement of Affairs shows the financial positions of the business on a particular date in the case of a Single Entry System.

1.3 Summary:

There are two systems of book-keeping i) Single Entry System and ii) Double Entry System.

Single Entry System is defined as any system of book — keeping which is not exactly the Double Entry System. It is a combination of double entry, single entry and no entry for certain transactions. Single entry system does not means the single or one side entry. There are no hard and fast rules of the single entry system and each businessman follows a way which is convenient to him. Under this system, generally Cash Book and Personal Accounts are maintained and Real and Nominal Accounts are ignored.

Though there are so many limitations of Single Entry System, so many small businessmen, in India, use this system, due to absence of proper knowledge of book keeping and accounting as well as for the economic purpose.

Under the Single Entry System, the profit or loss of a business can be ascertained by any of the following two methods :

1. Capital Comparison Method / Net Worth Method / Statement of Affairs Method, and
2. Conversion into Double Entry System / Conversion Method.

Under Capital Comparison Method the profit or loss of a business can be ascertained by comparing the capitals or net worth on two different dates i.e. on opening date and closing date. For this purpose the Statement of Profit and Loss is to be prepared, and to ascertain the capitals or net worth the Statement of Affairs is to be prepared.

In Conversion Method, the accounts maintained on Single Entry System are converted into Double Entry System. But in practice, it is not suitable to completely transform the books and prepare trial balance, so Abridged Conversion Method is used. Under this method final accounts are to be prepared directly with the help of available information. If information is inadequate or missing, it should be found out by preparing necessary ledger accounts.

1.4 Terms to Remember:

1. Single Entry System:

It is an incomplete double entry system varying with circumstances.

2. Net Worth:

Net worth means net book value of a business. It refers to the excess of the book value of assets of an enterprise over its liabilities.

3. Statement of Affairs:

It is a statement of assets and Liabilities of a business on a particulars date.

1.5 Answers to Check your progress:

1. Choose the correct alternatives.

i) – b ii) – a iii) – c iv) – d v) – c

2. State 'True' or 'False'

i) – F ii) – F iii) – F iv) – F v) – T

1.6 Exercise:

1. What is Single Entry System?
2. Give the features of Single Entry System.
3. What are the types of Single Entry System?
4. What are the disadvantages of Single Entry System?
5. What is a Statement of Affairs?
6. State the limitations of Single Entry System.

7. Mahesh commenced business on 1.1.2016 with a capital of Rs.45,000. He immediately purchased furniture of Rs.24,000. During the year he received from his uncle a gift of Rs.3,000 and he borrowed from his father a sum of Rs.5,000. He had withdrawn Rs.600 p.m. for his household expenses. He had no Bank Account and all dealings were in cash. He did not maintain any books but the following information is given:

Particulars	Rs.
Sales (including cash sales Rs. 30,000)	1,00,000
Purchases (including cash purchases Rs.10,000)	75,000
Carriage Inward	700
Wages	300
Discount allowed to Debtors	800
Salaries	6,200
Bad Debts written off	1,500
Trade Expenses	1,200
Advertisement	2,200

He used goods worth Rs.1,300 for personal purposes and paid Rs.500 to his son for examination fee.

On 31st December 2016 his Debtors were Rs.21,000 and Creditors Rs.15000. Stock was valued at Rs.10,000. Furniture to be depreciated by 10% p.a.

Prepare Trading and Profit and Loss A/C for the year ended 31.12.2016 and Balance Sheet as on that date.

(Ans. G.P. Rs.35,300, N.P. Rs.21,000, Balance Sheet Total Rs.80,000, Closing Cash Bal. Rs.27,400, Cash received from Debtors Rs.46,700, Cash paid to Cr. Rs.50000)

8. From the following information, you are required to prepare a Trading and Profit and Loss A/C for the year ended 31.12.2016 and a Balance Sheet as on that date.

Particulars	1.1.2016 Rs.	31.12.2016 Rs.
Sundry Assets	18,000	20,000
Stock	14,000	19,000
Cash in hand	8,200	4,800
Cash at Bank	2,200	8,000
Debtors	?	26,000
Creditors	12,000	9,800
0/S Expenses	1,000	6,000

Details relating to the year's transactions are

Particulars	Rs.
Receipts in the year & discount credited to Debtors	2,45,000
Returns from Debtors	6,000
Bad Debts	1,000
Total Sales	3,00,000
Returns to Creditors	3,000
Payment to Creditors by cheque	2,36,200

Receipts from Debtors deposited in Bank	2,43,000
Cash Purchases	10,000
Salaries & Wages paid by cheque	18,000
Expenses paid in cash	5,000
Drawings by cash	9,400
Purchases of Sundry Assets by cheque	2,000
Cash withdrawn from Bank	21,000
Cash sales deposited in Bank	?
Discount allowed by creditors	4,000

(Ans. G.P.Rs.51,000, N.P.Rs.24,000, Opening Capital Rs.47,400, B/S Total Rs.77,800, Cash Sales Rs.40,000, Opening Debtors Rs.18,000)

9. The following is the Balance Sheet of the retail business of Pramod as at 31.03.2016

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital	1,25,000	Furniture	25,000
Creditors	30,000	Stock	75,000
0/S Rent	1,000	Sundry Debtors	20,000
		Cash at Bank	35,000
		Cash in Hand	1,000
	1,56,000		**1,56,000**

You are furnished with the following information —

i) Pramod always sells goods at a profit of 25% on sales.

ii) Goods are sold for cash and credit. Credit customers pay by cheques only.

iii) Payments for purchases are always made by cheques.

iv) It is the practice of Pramod to send to the Bank every weekend the taking of the week after paying every week salaries of Rs.250 to the clerk, sundry expenses of Rs.50 and personal expenses of Rs.100.

An analysis of the Bank Pass Book for the period ending 31st March, 2017 disclosed the following :

Payment to creditors Rs.75,000, payment of Rent Rs.4,000 Amount remitted into the Bank Rs.1,35,000 including cheques for Rs.10,000 received from customer to whom the goods are sold on credit.

The following are the balances on 31st March, 2017 Stock Rs.32,500, Creditors Rs. 32,500, Sundry Debtors Rs.30,000. On the evening of 31st March, 2007 the cashier absconded with the cash available in the cash box.

You are required to prepare final accounts for the period ended 31.03.2017

(Ans. G.P.Rs.40,000, N.P. Rs.22,300, Total Sales Rs.1,60,000, Balance Sheet Total Rs.1,78,500 Cash defalcated Rs.10,800, Credit Sales Rs. 20,000, Credit Purchases Rs. 77,500) Note : 13 weeks are considered.

10. You are provided with:

Balance Sheet of Ajay as on 1st April 2016.

Liabilities	**Rs.**	**Assets**	**Rs.**
Bank overdraft	500	Cash in hand	70
Sundry Creditors	3,600	Bills Receivables	2,500
Bills Payable	1,600	Sundry Debtors	3,900
Capital	20,000	Stock	7,530
		Plant & Machinery	4,700
		Land & Building	7,000
	25,700		**25,700**

Dr. **Cash Book for the year ending 31.03.2017** Cr.

Particulars	**Rs.**	**Particulars**		**Rs.**
To Balance b/d	70	By Balance(B/0)		500
To Receipts From Debtors	29,000	By Salaries		49,000
To Bills Receivables	10,000	By Wages		1,580
To Cash Sales	3,700	By Bills Payables		14,300
		By Payment to Creditors		14,700
		By Office Expenses		800
		By Drawings		4,500
		By 9% Investment (1.10.2006)		1,000
		By Balance c/d		
		Cash	40	
		Bank	450	490
	42,770			**42,770**

A summary of remaining transactions for the year ending 31.03.2017

Particulars	Rs.
Sales (Credit)	40,700
Discount to Customers	200
Purchases	30,000
Discount received	100
Bills Receivable Balance	3,400
Bills Payable Balance	2,300
Stock	5,300

Adjustments:

i) Provide for doubtful debts at 5% on Debtors

ii) Provide for depreciation on Plant & Machinery at 5% and on Land & Building at 2.5%.

Prepare Trading and Profit & Loss A/C for the year ending 31.03.2007 and Balance Sheet as on that date.

(Ans. G.P.Rs.10,590, N.P. Rs.4,200, Balance Sheet Total Rs.25,800)

1.7 Reference for Further Study:

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4. Patil V.A., Korlahalli J.S; Principles and Practice of Accountancy, 4th Edition, R.Chand & Co., Delhi.
5. Shukla M.C., Grewal T.S., Gupta S.C, Advanced Accounts,l2th Revised Edition, S.Chand & Co. Ltd., New Delhi.

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Unit-2

Conversion of a Partnership Firm into a Limited Company

Structure of Unit :

2.0 Objectives

2.1 Introduction

2.2 Presentation of subject matter

  2.2.1 Meaning of Conversion

  2.2.2 Need, Objectives of or Reasons for conversion

    Check your Progress-

  2.2.3 Purchase Consideration

    2.2.3.1 Methods of Purchase Consideration

      Net Assets Method

      Lump-sum Method

      Net Payment Method

    2.2.3.2 Settlement of Purchase Consideration

  2.2.4 Distribution of shares, Debentures, Bank and cash balance

    Check your Progress-

  2.2.5 Accounting Treatment

    2.2.5.1 Journal Entries in the Books of Partnership Firm

    2.2.5.2 Journal Entries in the Books of limited company

2.3 Summary

2.4 Terms to Remember

2.5 Answers to Check Your Progress

2.6 Exercise

2.7 Reference for Further Study

2.0 Learning Objectives-

By learning this unit the students will be able to understand,

1. meaning of conversion of partnership firm into limited company;
2. objectives of conversion;
3. impact of conversion of partnership firm on the form of organisation;
4. accounting treatment in the books of the partnership firm

2.1 Introduction

Change is the constant phenomena in the sustainability, development and growth of any business. Sole trading was first type of business organisation. The partnership came into existence to overcome limitations of sole trading firm in expansion and growth of a business.

In the same way, in order to increase and expand business further more and gain benefits of the company form of organisation, a partnership firm is converted into a limited company. In this case, business of the firm is continued further under the company form of organisation. Present unit explains how this change is to be incorporated in the books of accounts of the firm and that of a company. Earlier to this, we have studied the final accounts of partnership firm, the accounting treatment of admission, retirement and death, admission of a new partner and dissolution of a firm.

2.2 Presentation of Subject Matter

2.2.1 Meaning of Conversion

When a new company is formed to take over the running business of a partnership firm, it is called conversion of partnership firm in to a limited company. In this case, the form of organisation is changed from partnership to a limited company. When an existing company takes over the running business of a partnership firm, it is called sale of partnership firm to a limited company. Here the business of partnership is absorbed by the company. In both the cases accounting procedure is same as explained below.

2.2.2 Need, Objectives of or Reasons for conversion

The partnership firm is converted in to a limited company or the business of a partnership firm is sold to a limited company with the following intentions-

1. To take an advantage of limited liability. The shareholders are not held responsible to pay the business liabilities out of their private estate as it is held in the case of partnership.
2. To take an advantage of less tax rate applicable to the company.
3. To get an advantage of separate entity where the death or retirement of any shareholder does not affect the existence of an organisation.
4. To expand the business and to raise required capital.
5. To enjoy better status in the market.
6. To avail services of expert managerial personnel.

Check your Progress-I

1. Under the principle of ....liability, shareholders are not held responsible for payment of liabilities of the company.
2. When an existing company acquires running business of a firm, it is called............... .

2.2.3 Purchase Consideration

In both the cases- absorption or conversion, the partnership firm ceases to exist. It is dissolved and the books of accounts are closed. Assets and liabilities, as agreed upon, are taken over by limited company and in return, pays price for purchase of business to the partnership firm, which is called as Purchase Consideration or Purchase Price. It is calculated by adopting any of the following methods as agreed upon.

2.2.3.1 Methods of Purchase Consideration

Purchase consideration can be calculated by three different ways as under.

1. **Net Assets Method-** A net asset is the difference between agreed values of assets and liabilities taken over by the company. This method is used more in practice. It is ascertained by using following formula -

		Rs.
	Agreed value of assets taken over	**xxx**
Less-	**Agreed value of liabilities taken over**	**xxx**
	Purchase Consideration (Net assets)	**xxx**

2. **Lump-sum Method** – In this case the purchase consideration is stated directly as a fixed sum of amount in the problem. Therefore, the question of calculation of purchase consideration does not arise. Therefore, this cannot be regarded as a method of calculation.

3. **Net Payment Method** - Under this method, purchase price is calculated by adding the payment made in the form of shares, debentures and cash or bank.

2.2.3.2 Settlement of Purchase Consideration

The Purchase consideration may be settled by allotment of shares and/or debentures of the company and the payment in cash or through bank.

2.2.4 Distribution of shares, Debentures, Bank and cash balance

The shares and debentures received from the company as purchase consideration are distributed among the partners for settlement of their final claims. If it is specifically mentioned regarding distribution of shares and debentures among partners, then these are distributed accordingly. However, in absence of information, shares and debentures are distributed among partners in their last claim (adjusted capital) ratio. Last claim (adjusted capital) ratio means the ratio of capitals adjusted after reserve fund, general reserve, profit and loss account balance, goodwill, realisation profit or loss, etc.

Check your progress-II

1. Conversion of partnership refers to …………. .
2. Purchase consideration is …… paid for purchase of business.
3. Addition of payments made by the company to a firm is known as….. .
4. The difference between agreed value of assets and liabilities taken is ……. .
5. Net asset is the difference between .... value of assets and liabilities taken.

6. Aggregate total of........... is called net payment.

7. Purchase consideration is settled by cash / …….. / ……. in purchasing company.

8. Under the principle of ….. ….. liability, shareholders are not held responsible for payment of liabilities of the company.

2.2.5 Accounting Treatment

2.2.5.1 Journal Entries in the Books of Partnership Firm

1. **For transfer of all assets to Realisation A/c**

Realisation A/c Dr.

To Sundry Assets A/c (Individually) (with book values)

(Being the assets transferred to Realisation A/c)

Note -: Cash and Bank balances are to be transferred to Realisation A/c **only when** they are taken over by the purchasing company.

2. For transfer of all third party liabilities to Realisation A/c -

Sundry Liabilities A/c (Individually) Dr. (with book values)

Reserve for Doubtful Debts A/c Dr.

To Realisation A/c

(Being the liabilities transferred to Realisation A/c)

3. For transfer of undistributed Profits and Reserves appearing in the balance sheet.

Reserve Fund A/c or General Reserve A/c Dr.

Other Reserves A/c Dr.

Profit and Loss A/c (credit balance) Dr.

To All Partners' Capital A/c (in their profit sharing ratio)

(Being undistributed profit and reserves transferred to partners' capital accounts)

4. **For transfer of undistributed losses appearing in the balance sheet.**

All Partners' Capital A/c Dr. (in their profit sharing ratio)

To Profit and Loss A/c (debit balance)

To Other Losses A/c

(Being undistributed losses transferred to partners capital accounts)

5. **For Purchase Consideration receivable**

Purchasing Company A/c Dr.

To Realisation A/c

(Being purchase consideration receivable)

6. **For receipt of purchase consideration**

Shares in Purchasing Co. A/c Dr.

Debentures in Purchasing Co. A/c Dr.

Cash / Bank A/c Dr.

To Purchasing Company's A/c

7. **For the Payment of Realisation expenses.**

Realisation A/c Dr.

To cash / Bank A/c

(Being Realisation expenses paid)

8. **For Recording unrecorded assets**

Assets A/c Dr.

To Partners' Capital A/c

(Being Assets brought in the books of accounts)

9. **For Recording unrecorded liabilities**

Partners' Capital A/c Dr.

To Liabilities A/c

(Being unrecorded liabilities recorded in the books of accounts)

10. For realisation of assets not taken over

Cash / Bank A/c Dr.

To Realisation A/c

(Being the assets not taken over realised)

11. When any asset is taken over by any partner

(That) Partner's Capital A/c Dr. (Agreed value)

To Realisation A/c

12. When assets are distributed among all partners

Partner's Capital A/c Dr. (Agreed value)

To Realisation A/c

Note: In absence of further information regarding disposal of asset not taken over by the company, such assets are distributed among all partners in their capital ratio

13. For the payment of liabilities not taken over

Realisation A/c Dr.

To Cash / Bank A/c

(Being liabilities not taken over paid)

14. When any liability is taken over by any of the partners

Realisation A/c Dr.

To (that) Partner's Capital A/c

(Being the liabilities taken over by a partner)

15. When liabilities are distributed among partners

Realisation A/c Dr.

To All Partners' Capital A/c

(Being the liabilities distributed among partners)

Note:- In absence of information regarding settlement of liabilities not taken over by the company, such liabilities are distributed among all partners in their capital ratio.

15. To close the Realisation A/c

(a) If there is profit

Realisation A/c Dr.

To all partners' capital A/c (in the profit sharing ratio)

(Being profit on Realisation A/c transferred to partners' capital A/c)

(b) If there is loss

All Partners' Capital A/c Dr. (in the profit sharing ratio)

To Realisation A/c

(Being loss on Realisation A/c transferred to partners' Capital A/c)

16. To discharge partners capital (final claim)

All Partner's Capital A/c Dr.

To Shares in purchasing company A/c

To Debentures in purchasing company A/c

To Cash / Bank A/c

(Being final claim of partners settled)

2.2.5.2 Journal Entries in the Books of limited company

(*Accounting in the books of the company is not included in the syllabus. The journal entries are given only for the information of the students*)

1. For assets and liabilities taken over

Sundry Assets A/c (Individually) Dr. (Agreed values)

To Liabilities A/c (Agreed values)

To Business Purchase A/c

(Being assets and liabilities taken from the partnership firm)

2. For payment of purchase price

Business Purchase A/c Dr.

Discount on issue of Shares A/c Dr. (if any)

Discount on issue of Debentures A/c Dr. (if any)

To Share Capital A/c

To Share Premium A/c (if any)

To Debentures A/c

To Premium on issue of Debentures A/c (if any)

To Cash or Bank A/c

3. When a company issues its shares to public for cash.

Cash /Bank A/c Dr. (Actual Amount received)

Discount on issue of Shares A/c Dr. (if any)

To Share Capital A/c (Face value of shares)

To Share Premium A/c (if any)

(Being shares issued for cash)

3. When preliminary expenses if any are paid by the company

Preliminary expenses A/c Dr.

To Cash /Bank A/c

(Being the preliminary expenses paid)

Illustrations 1. Ravi and Sunil were partners sharing profits in the ratio of 3:1 respectively. Their balance sheet as on 31/3/2019 was as follows -

Balance Sheet as on 31/3/2019

Liabilities	₹	Assets		₹
Creditors	2,00,000	Fixed Assets		5,00,000
Bills Payable	40,000	Loose Tools		40,000
Ravi's Loan A/c	60,000	Bills Receivables		80,000
Liabilities for Repairs	40,000	Stock		1,50,000
General Reserve	80,000	Debtors	1,40,000	
Capital A/c –		- R.D.D.	20,000	1,20,000
Ravi	3,20,000	Cash in hand		20,000
Sunil	1,70,000			
	9,10,000			**9,10,000**

The partnership was converted into Ltd. company on that date subject to the following adjustments.

i) Fixed Assets include a Motor Car of ₹ 80,000.

ii) The company agreed to take over Fixed Assets at ₹ 5,20,000, Stock at ₹ 1,40,000 and Debtors at ₹ 1,30,000. The company also agreed to pay Creditors and Bills Payables at 10% discount.

iii) Motor Car was sold by the firm for ₹ 1,00,000.

iv) Bills Receivables were taken over by Ravi for ₹ 70,000 whereas Sunil took the Loose Tools for ₹ 30,000.

v) Ravi's Loan and Liability for Repairs were paid in full.

vi) Realisation expenses amounted to ₹ 24,000.

vii) Goodwill was valued at 3 years' purchase of the average profits of the last 4 years. The profit figures were as follows: 2015-16 profit ₹ 40,000, 2016-17 profit ₹ 80,000, 2017-18 loss ₹ 20,000 and 2018-19 profit ₹1,40,000.

viii) The purchase consideration was discharged by issuing 7500 equity shares of ₹ 100 each at ₹80 per share paid up and the balance in cash.

You are required to compute Purchase Consideration of the firm

Solution: Working Notes

Calculation of Goodwill – 40,000 + 80,000 – 20,000 + 1,40,000 = 2,40,000 / 4 = 60,000 x 3 = 1,80,000

1. Calculation of Purchase Consideration

Particulars	₹	₹
Assets taken over at agreed values		
Fixed Assets	5,20,000	
Stock	1,40,000	
Debtors	1,30,000	
Goodwill	1,80,000	9,70,000
Less – Liabilities taken over at agreed values		
Creditors (2,00,000 – 20,000)	1,80,000	
Bills Payable (40,000 – 4,000)		2,16,000

Purchase Price Payment of Purchase Consideration - Shares 7500 x 80 Cash	36,000 6,00,000 1,54,000	7,54,000 7,54,000

Illustration 2. Mithun and Manish were equal partners. The balance sheet of the business as on 31st March 2017 was as under.

Balance Sheet as on 31/3/2017

Liabilities	₹	Assets	₹
Capital A/c –		Bank Balance	18,000
Mithun	60,000	Sundry Debtors	24,000
Manish	40,000	Stock	25,000
General Reserve	9,000	Machinery	15,000
Sundry Creditors	20,000	Building	57,000
Bills Payable	10,000	Furniture	15,000
10% Mortgage Loan	15,000		
	1,54,000		**1,54,000**

On 1st April 2017 Ashuji Ltd. was formed to acquire the business on the following conditions.

i) Building and stock to be taken over at ₹ 60,000 and ₹ 28,000 respectively. The other assets to be taken at book values and sundry debtors subject to provision for R D D at 5%.

ii) The goodwill of the firm to be valued at ₹ 42,000.

iii) The firm to discharge the 10% Mortgage Loan and the other liabilities to be taken at 5% discount.

iv) Realisation expenses amounted to ₹ 1,000.

v) The purchase consideration was to be satisfied by issuing 12,000 equity shares of ₹ 10 each and balance in cash.

You are required to compute the purchase consideration of the firm.

Solution:

Calculation of Purchase Price

Particulars	**₹**
Assets taken over at agreed values	
Bank Balance	18,000
Sundry Debtors (24000 – 1200)	22,800
Stock	28,000
Machinery	15,000
Building	60,000
Furniture	15,000
Goodwill	42,000
Total	2,00,800
– Liabilities taken over at agreed values	
Sundry Creditors (20000 – 1000)	19,000
Bills Payables (10000 – 500)	9,500
Total	28,500
Purchase Consideration	1,72,300
Payment of Purchase Consideration	
Shares (12,000 x 100)	1,20,000
Cash	52,300
	1,72,300

Illustration 3. The Kiran Ltd. was formed to acquire the business of A and B who share profits in the ratio of 2:1 respectively. The balance sheet of A and B was as under as on 31st March 2017.

Balance Sheet

Liabilities		₹	Assets		₹
Capital A/c			Goodwill		8,000
A	64,000		Land and Building		40,000
B	40,000	1,04,000	Machinery		20,000
Mrs. A's Loan		3,200	Sundry Debtors	30,000	
Sundry Creditors		21,600	- R D D	1,400	28,600
Bills Payables		7,200	Stock		24,000
			Investment		4,800
			Cash at Bank		10,600
		1,36,000			**1,36,000**

It was agreed by the company to take over the assets at book values with the exception of Land and Building and Stock which were taken over at ₹ 45,000 and ₹ 20000 respectively. The investment was retained by the firm and sold by them for ₹ 4000. They also discharged the loan of Mrs. A. The company took over remaining liabilities.

The purchase consideration was fixed at ₹ 124200 payable as - ₹ 45000 in 5% Debentures at ₹ 90 each, 4000 Equity Shares of ₹ 15 each and balance in cash.

Draw up Realisation A/c.

Solution:

Dr. **Realisation A/c** Cr.

Particulars	₹	₹	Particulars	₹	₹
To Sundry Assets			By Sundry Liabilities		
Goodwill	8,000		Mrs. A's Loan A/c	3,200	
Land and Building	40,000		Creditors	21,600	
Machinery	20,000		Bills Payables	7,200	32,000

Sundry Debtors	30,000		By R D D		1,400
Stock	24,000		By Kiran Co. Ltd.		1,24,200
Investment	4,800		(Purchase		
Bank	10,600	1,37,400	Consideration)		
To Bank (Loan repayment)		3,200	By Bank (Investment sold)		4,000
To Partners' Capital A/c					
A	14,000				
B	7,000	21,000			
		1,61,600			**1,61,600**

Illustration 4. Ram Co. Ltd. was to purchase the business of Shri Laxman and Bharat who were the partners sharing profits and losses as 2:1 respectively. The balance sheet of the firm as on 31/3/2017 was-

Balance Sheet

Liabilities	₹	Assets	₹
Capital A/c		Goodwill	10,000
Laxman 65,000		Land and Building	45,000
Bharat 45,000	1,10,000	Machinery	25,000
Loan A/c	6,000	Stock	20,000
Bills Payables	7,500	Debtors	22,000
Creditors	16,000	Bills Receivable	8,500
		Investment	6,500
		Cash at Bank	2,500
	1,39,500		**1,39,500**

The company took over all assets at book value except land and building and stock which were taken over at ₹ 50,000 and ₹ 15,000 respectively. The investment was sold by the firm for ₹ 6,000. The firm also discharged the loan account. The company took over remaining liabilities. The value of goodwill was fixed at ₹

25,000. The purchase consideration was paid by the company in the form of 10,000 equity shares of 10 each and balance in cash. Realisation expenses amounted to ₹ 1,000.

Show calculation of purchase consideration and prepare Realisation A/c.

Solution: Working Note – Calculation of Purchase Consideration

	₹	₹
Assets taken over at agreed values		
Goodwill	25,000	
Land and Building	50,000	
Machinery	25,000	
Stock	15,000	
Debtors	22,000	
Bills Receivable	8,500	1,45,500
Less – Liabilities taken over at agreed values		
Bills Payables	7,500	
Creditors	16,000	23,500
Purchase Price		1,22,000
Received in the form of - Equity Shares 10000 x 10		1,00,000
Cash		22,000

Dr. **Realisation A/c** Cr.

Particulars	₹	₹	Particulars	₹	₹
To Sundry Assets			By Sundry Liabilities		
Goodwill	10,000		Loan A/c	6,000	
Land and Building	45,000		Bills Payables	7,500	
Machinery	25,000		Creditors	16,000	29,500

Stock	20,000		By Ram Co. Ltd.		
Debtors	22,000		(Purchase Price)		1,22,000
Bills Receivable	8,500		By Bank		6,000
Investment	6,500	1,37,000	(sale of investment)		
To Bank (Expenses)		1,000			
To Bank (Loan repayment)		6,000			
To Partners' Capital A/c		13,500			
Laxman	9,000				
Bharat	4,500				
		1,57,500			**1,57,500**

[Note – students can transfer bank balance also, it will increase the amount of purchase price (124500) and amount received in the form of cash (24500)]

Illustration 5. A, B and C who are partners in a firm and share profits and losses in the ration of 2:2:1 respectively decided to sell their firm to a Ltd. Co. viz. Gurudas Co. Ltd. the balance sheet of the firm on the date of conversion shows the following position.

Balance Sheet as on 31/3/2017

Liabilities	₹	Assets	₹
Sundry Creditors	4,80,000	Building	6,00,000
Bills Payables	30,000	Plant and Machinery	3,60,000
General Reserve	1,20,000	Motor Van	2,40,000
Capital A/c - A	6,00,000	Furniture	50,000
B	5,60,000	Stock	94,000
C	3,40,000	Sundry Debtors	5,20,000
		Investment	1,20,000
		Cash at Bank	1,46,000
	21,30,000		**21,30,000**

The Gurudas Co. Ltd. agreed to take over following assets at values shown below-

Building ₹ 6,40,000, Plant and Machinery ₹ 3,30,000, Furniture ₹ 40,000, Stock ₹ 1,56,000 Goodwill ₹ 80,000 , Sundry debtors subject to 5% R.D.D.

The company has also agreed to take over sundry creditors at ₹ 4,40,000.

The purchase consideration was paid by the company by the issue of sufficient number of equity shares of ₹ 100 each fully paid.

The firm sold investment for ₹ 1,60,000 and paid off bills payable fully. The motor car was taken over by A at book value.

The firm paid realisation expenses of ₹ 16,000.

You are required to calculate Purchase Consideration and prepare Realisation A/c in the books of the firm.

Solution: Working Notes

1. Calculation of Purchase Price

Particulars	**₹**
Assets taken over at agreed values	
Building	6,40,000
Plant and Machinery	3,30,000
Furniture	40,000
Stock	1,56,000
Sundry Debtors (5,20,000 – 26,000)	4,94,000
Goodwill	80,000
Total	17,40,000
- Sundry Creditors taken over at agreed values	4,40,000
Purchase Consideration	13,00,000
Payment of Purchase Price - Shares 13,000 x 100	13,00,000

Dr **Realisation A/c** Cr

Particulars	₹	Particulars	₹
To Building	6,00,000	By Sundry Creditors	4,80,000
To Plant and Machinery	3,60,000	By Bills Payables	30,000
To Motor Van	2,40,000	By Gurudas Ltd.	13,00,000
To Furniture	50,000	(Purchase Consideration)	
To Stock	94,000	By A's Capial A/c	2,40,000
To Sundry Debtors	5,20,000	(Motor van)	
To Investment	1,20,000	By Bank (Investments)	1,60,000
To Bank			
Bills Payables	30,000		
Realisation Expenses	16,000		
To Partners' Capital (loss)			
A – 72,000			
B – 72,000			
C – 36,000	1,80,000		
	22,10,000		**22,10,000**

Illustration 6. Sane and Rane were in partnership sharing profits and losses equally. Their balance sheet as on 31/03/2017 was as follows.

Balance Sheet

Liabilities	₹	Assets	₹
Sundry Creditors	2,50,000	Bank	20,000
Bills Payables	1,00,000	Sundry Debtors 2,20,000	
Bank Overdraft	40,000	Less – R. D. D. 10,000	2,10,000
Rane's Loan	50,000	Commission Receivable	10,000
Depreciation Fund	30,000	Bills Receivable	70,000
Reserve Fund	40,000	Stock	3,40,000
Capital Accounts		Fixed Assets	5,60,000
Sane 4,00,000			
Rane 3,00,000	7,00,000		
	12,10,000		**12,10,000**

On 1st April 2017, the firm was converted into a company called 'Delta Ltd.'. The agreement with the company and other matters were as follows:

1. The company to take all assets except bank balance and commission receivable.
2. The company agrees to discharge outside liability only.
3. Purchase consideration was agreed at ₹ 9,50,000, payable ₹ 7,20,000 in shares of ₹ 100 each and balance in cash.
4. Nothing could be recovered by the firm on account of commission receivable.
5. The firm paid the realization expenses amounting to ₹ 20,000.

Show – a) Realisation A/c and Delta Ltd. A/c b) Partners' Capital A/c and Bank A/c

Solution

Dr. **Realisation A/c** Cr.

Particulars	₹	Particulars	₹
To Sundry Assets		By R. D. D.	10,000
Sundry Debtors	2,20,000	By Sundry Liabilities	
Commission Receivable	10,000	Sundry Creditors	2,50,000
Bills Receivable	70,000	Bills Payables	1,00,000
Stock	3,40,000	Bank Overdraft	40,000
Fixed Assets (less depre. Fund)	5,30,000	By Delta Co. Ltd. (Purchase Price)	9,50,000
To Cash (expenses)	20,000		
To Partners' Capital A/c			
Sane 80,000			
Rane 80,000	1,60,000		
	13,50,000		**13,50,000**

Dr. **Delta Co. Ltd. A/c** Cr.

Particulars	₹	Particulars	₹
To Realisation A/c	9,50,000	By Equity Shares in Delta Ltd. Co. A/c	7,20,000
		By Bank A/c	2,30,000
	9,50,000		**9,50,000**

Dr. **Partners' Capital A/c** Cr.

Particulars	Sane ₹	Rane ₹	Particulars	Sane ₹	Rane ₹
To Shares in Delta Ltd. A/c	4,00,000	3,20,000	By Balance b/d	4,00,000	3,00,000
			By Reserve Fund	20,000	20,000
To Bank A/c	1,00,000	80,000	By Realisation A/c	80,000	80,000
	5,00,000	**4,00,000**		**5,00,000**	**4,00,000**

Dr. **Bank A/c** Cr.

Particulars	₹	Particulars	₹
To Balance b/d	20,000	By Rane's Loan A/c	50,000
To Delta Ltd. Co. A/c	2,30,000	By Realisation A/c	20,000
		By Sane's Capital A/c	1,00,000
		By Rane's Capital A/c	80,000
	2,50,000		**2,50,000**

Working Note – Shares and bank balance are distributed between the partners in the ratio of their final claim i.e. 5,00,000 : 4,00,000 = 5:4

Illustration 7. A and B in partnership sharing profits and losses in the ratio of 3:2. The balance sheet of the firm as on 31st March 2017 was as under.

Balance Sheet

Liabilities	₹	Assets	₹
Sundry Creditors	70,000	Cash	10,000
Bills Payables	30,000	Investment	30,000
A's Loan	40,000	Sundry Debtors	60,000
Reserve Fund	50,000	Stock	2,00,000
Capital A/c - A	2,00,000	Furniture	30,000
B	1,50,000	Machinery	2,10,000
	5,40,000		**5,40,000**

On 1st April 2017 Tushar Ltd. incorporated to take over certain assets and liabilities of the firm.

1) The company took over all assets except cash and investment and all liabilities except A's loan.
2) The purchase consideration was agreed at ₹ 600000 payable 1/5 in cash and balance in shares of 100 each.
3) The firm sold investment for ₹ 40000 and paid off A's loan.
4) The expenses of dissolution paid by the firm amounted to ₹ 10000.

From the above information A) Prepare Realisation A/c

B) Prepare Tushar Ltd. A/c and Partners' Capital A/c

Solution: In the books of A B Firm

Dr. **Realisation A/c** Cr.

Particulars	₹	Particulars	₹
To Sundry Assets		By Sundry Liabilities	
Investments	30,000	Sundry Creditors	70,000
Sundry Debtors	60,000	Bills Payables	30,000
Stock	2,00,000	A's Loan	40,000
Furniture	30,000	By Tushar Co. Ltd.	6,00,000
Machinery	2,10,000	(Purchase Consideration)	

To Cash (expenses)	10,000	By Cash (Investment sold)	40,000
To Cash (repayment of A's loan)	40,000		
To Partners' Capital A/c A 1,20,000 B 80,000	2,00,000		
	7,80,000		**7,80,000**

Dr. **Tushar Co. Ltd. A/c** Cr.

Particulars	₹	Particulars	₹
To Realisation A/c	6,00,000	By Equity Shares in Tushar Ltd.	4,80,000
		By Bank	1,20,000
	6,00,000		**6,00,000**

Dr. **Partners' Capital A/c** Cr.

Particulars	A ₹	B ₹	Particulars	A ₹	B ₹
To Shares in Delta Ltd.	2,80,000	2,00,000	By Balance b/d	2,00,000	1,50,000
To Bank	70,000	50,000	By Reserve Fund	30,000	20,000
			By Realisation A/c	1,20,000	80,000
	3,50,000	2,50,000		3,50,000	2,50,000

Note – shares are distributed between the partners in the final claim ratio of 3,50,000:2,50,000 = 7:5

Illustration 8. Suraj Ltd. was formed to acquire the business of X, Y and Z, who share profits and losses in the ration of 2:1:1 respectively. The balance sheet of the partnership firm on 31/3/2017 was as follows.

Balance Sheet

Liabilities	₹	Assets	₹
Sundry Creditors	96,000	Cash at Bank	4,000
Bills Payables	64,000	Sundry Debtors	76,000
Investment Fluctuation Fund	20,000	Stock	68,000
Capital A/c - X	1,00,000	Vehicles	40,000
Y	48,000	Investment	40,000
Z	48,000	Plant and Machinery	1,48,000
	3,76,000		**3,76,000**

Suraj Ltd. took plant and machinery, stock and debtors at 10% less than the book values and agreed to pay ₹ 40000 for the goodwill. It also agreed to pay the creditors at book value. The purchase consideration was satisfied in 1,600 shares of ₹ 100 each and balance in cash. X took the vehicles at ₹ 32,000. Investments were sold in the market for ₹ 36,000. The partnership firm paid bills payable at 10% discount. Realisation expenses amounted to ₹ 9,200.

You are asked to prepare Realisation A/c and Partner's Capital A/c in the books of the firm.

Solution: Working Notes

1. Calculation of Purchase Consideration

Particulars	Calculation	₹
Assets taken over at agreed values		
Plant and Machinery	1,48,000 – 14,800	1,33,200
Stock	68,000 – 6,800	61,200
Sundry Debtors	76,000 – 7,600	68,400
Goodwill		40,000
Total		3,02,800
– Liabilities taken over at agreed values		
Sundry Creditors		96,000

Purchase Price		2,06,800
Payment of Purchase Consideration		
Shares	1,600 x 100	1,60,000
Cash		46,800

2. Calculation of Cash Balance available for repayment of partners' capital

Dr **Cash / Bank A/c** Cr

Particulars	₹	Particulars	₹
To Balance b/d	4,000	By Bills Payables	57,600
To Suraj Ltd. A/c	46,800	(64000 – 6400)	
To Investments	36,000	By Realisation Expenses	9,200
		By Partners' Capital	
		Y – 10,000	
		Z – 10,000	20,000
	86,800		**86,800**

Dr **Realisation A/c** Cr

Particulars	₹	Particulars	₹
To Sundry Debtors	76,000	By Sundry Creditors	96,000
To Stock	68,000	By Bills Payables	64,000
To Vehicles	40,000	By Suraj Ltd. (Purchase Price)	2,06,800
To Investment	40,000	By X's Capital A/c (Vehicle)	32,000
To Plant and Machinery	1,48,000	By Bank (Investments)	36,000
To Bank		By Partners' Capital (loss)	
Bills Payables	57,600	X – 2,000	
Realisation Expenses	9,200	Y – 1,000	
		Z – 1,000	4000
	4,38,800		**4,38,800**

Dr. **Partners' Capital A/c** Cr.

Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To Vehicles	32,000	-	-	By Bal. b/d	1,00,000	48,000	48,000
To Realisation	2,000	1,000	1,000	By Invest. Flu. Fund	10,000	5,000	5,000
To Shares in Suraj Co.	67,600	46,200	46,200				
To Cash	8,400	5,800	5,800				
	1,10,000	**53,000**	**53,000**		**1,10,000**	**53,000**	**53,000**

(Final balance due X – 1,10,000 – 34,000 = 76,000, Y – 53,000 – 1,000 = 52,000, Z – 53,000 – 1,000 = 52,000

Ratio for distribution of shares – 76,000:52,000:52,000 =19:13:13. Shares are divided among the partners in this ratio but rounded to nearest hundred as the face value of a share is ₹100.)

Illustration 9. Amar and Bhalchandra were sharing profits and losses equally. They decided to convert their business into a limited company named AB Ltd. on 31st March 2017, when their balance sheet was -

Balance Sheet as on 31/3/2017

Liabilities	₹	Assets	₹
Capital A/c –		Building	4,00,000
Amar	5,10,000	Plant	3,00,000
Bhalchandra	3,90,000	Furniture	50,000
Bills Payables	50,000	Debtors	2,80,000
Sundry Creditors	2,50,000	Stock	1,00,000
		Bank	70,000
	12,00,000		**12,00,000**

AB Ltd. agreed to take over all the assets and liabilities at the values stated below –

Building ₹ 4,20,000 Plant ₹ 2,50,000 Furniture ₹ 43,400 Stock ₹ 80,000

Debtors subject to provision for doubtful debts at 3% and creditors at a discount of 2%

The company issued to the firm 6,300 equity shares of ₹ 100 each at ₹ 120 per share and the balance in cash.

Give closing journal entries in the books of the firm.

Solution: Working Notes

1. Calculation of Purchase Price

Particulars	₹
Assets taken over at agreed values	
Building	4,20,000
Plant	2,50,000
Furniture	43,400
Stock	80,000
Sundry Debtors (280000 – 8400)	2,71,600
Total	10,65,000
- Sundry Creditors (250000 – 5000)	2,45,000
Purchase Consideration	8,20,000
Payment of Purchase Price - Shares 6300 x 120	7,56,000
Cash	64,000

Journal

Sr.	Particulars	l/f	Dr. ₹	Cr. ₹
1	Realisation A/c .... Dr		11,30,000	
	To Building			4,00,000
	To Plant			3,00,000
	To Furniture			50,000
	To Debtors			2,80,000
	To Stock			1,00,000
	(Being Assets transferred to Realisation A/c)			

2	Bills Payables .... Dr		50,000	
	Sundry Creditors A/c .... Dr		2,50,000	
	To Realisation A/c			3,00,000
	(Being liabilities transferred)			

3	The AB Co. Ltd A/c .... Dr		8,20,000	
	To Realisation A/c			8,20,000
	(Being purchase consideration due)			
	--			
4	Equity Shares in AB Co. A/c .... Dr		7,56,000	
	Cash A/c .... Dr		64,000	
	To AB Co. Ltd A/c			8,20,000
	(Being the receipt of purchase consideration)			
	--			
5	Realisation A/c .... Dr		50,000	
	To Bank A/c			50,000
	(Being Repayment of Bills Payables)			
	--			
6	Amar's Capital A/c .... Dr		30,000	
	Bhalchandra's Capital A/c .... Dr		30,000	

	To Realisation A/c (Being Distribution of loss between partners)			60,000
7	Amar's Capital A/c .... Dr Bhalchandra's Capital A/c .... Dr To Equity Shares in AB Co. Ltd's A/c (Being shares allotted to partners for settlement of their final claims)		4,32,000 3,24,000	 7,56,000
8	Amar's Capital A/c .... Dr Bhalchandra's Capital A/c .... Dr To Cash A/c (Being final payment to partners)		48,000 36,000	 84,000

Note - Shares are distributed in their final claim ratio i.e. 4: 3.

Illustration 10. Mithun and Abhijeet were in partnership sharing profits and losses in the capital proportion. Their balance sheet as on 31st March 2017 was as under.

Balance Sheet as on 31/3/2017

Liabilities	₹	Assets	₹
Capital A/c –		Cash in hand	15,000
Mithun	5,00,000	Machinery	4,80,000
Abhijeet	3,00,000	Furniture	2,00,000
Sundry Creditors	40,000	Stock	85,000
General Reserve	1,60,000	Sundry Debtors	2,20,000
	10,00,000		**10,00,000**

They converted their business into limited company viz. Komal Ltd. to take over the whole assets except cash and furniture at 10% less than book values and liabilities at book figures. Goodwill was valued at ₹ 1,00,000. The furniture was sold for ₹ 1,65,000 and realisation expenses were incurred at ₹ 15,000.

The purchase price is to be discharged by issuing of 6,000 equity shares of ₹ 100 each and balance in cash.

Prepare Realisation A/c and Partners' Capital A/c.

Solution: Working Notes

1. Calculation of Purchase Price

Particulars	Calculation	₹
Assets taken over at agreed values		
Machinery	4,80,000 –48,000	4,32,000
Stock	85,000 – 8,500	76,500
Sundry Debtors	2,20,000 – 22,000	1,98,000
Goodwill		1,00,000
Total		8,06,500
– Liabilities taken over at agreed values		
Sundry Creditors		40,000
Purchase Price		7,66,500
Payment of Purchase Consideration		
Shares	6,000 x 100	6,00,000
Cash		1,66,500

2. Calculation of Cash Balance available for payment on partners' capital

Dr **Cash / Bank A/c** Cr

Particulars	₹	Particulars	₹
To Balance b/d	15,000	By Realisation Expenses	15,000
To Komal Ltd. A/c	1,66,500	By Partners' Capital	
To Realisation (Furni. sold)	1,65,000	Mithun 2,07,187	
		Abhijeet 1,24,313	3,31,500
	3,46,500		**3,46,500**

Dr **Realisation A/c** Cr

Particulars	**₹**	**Particulars**	**₹**
To Machinery	4,80,000	By Sundry Creditors	40,000
To Furniture	2,00,000	By Komal Ltd.	7,66,500
To Stock	85,000	(Purcha. Price)	
To Sundry Debtors	2,20,000	By Cash (Furniture sold)	1,65,000
To Cash A/c	15,000	By Partners' Capital A/c	
(Realisation Expenses)		Mithun - 17,813	
		Abhijeet – 10,687	28,500
	10,00,000		**10,00,000**

Dr. **Partners' Capital A/c** Cr.

Particulars	**Mithun ₹**	**Abhijeet ₹**	**Particulars**	**Mithun ₹**	**Abhijeet ₹**
To Realisation	17,813	10,687	By Balance b/d	5,00,000	3,00,000
To Shares in Komal Co.	3,75,000	2,25,000	By General Reserve	1,00,000	60,000
To Cash	2,07,187	1,24,313			
	6,00,000	**3,60,000**		**6,00,000**	**3,60,000**

Illustration 11. Asha and Usha were equal Partners. Their balance sheet as on 31st March 2017 was as follows.

Balance Sheet as on 31/3/2017

Liabilities	**₹**	**Assets**	**₹**
Sundry Creditors	40,000	Cash in hand	20,000
Bills Payables	10,000	Stock	50,000
Capital A/c –		Debtors	60,000
Asha 80000		Machinery	40,000
Usha 60000	1,40,000	Furniture	20,000
	1,90,000		**1,90,000**

The partners decide to sell their business to Lata Ltd. The assets were taken over by Lata Ltd. as follows.

Stock, Machinery and Furniture were taken over at 10% excess than the book value, Debtors subject to provision for doubtful debts @ 2% and Goodwill was valued at ₹ 12,000. The creditors were taken subject to discount @5% and Bills Payables at book value. The company paid ₹1,20,000 in equity shares of ₹100 each and balance in cash. The realisation expenses amounted to ₹1,000.

You are required to find out the purchase consideration and prepare Realisation A/c.

Solution: Working Notes

1. Calculation of Purchase Price

Particulars	Calculation	₹
Assets taken over at agreed values		
Stock	50,000 + 5,000	55,000
Debtors	60,000 – 1,200	58,800
Machinery	40,000 + 4,000	44,000
Furniture	20,000 + 2,000	22,000
Goodwill		12,000
Total		1,91,800
– Liabilities taken over at agreed values		
Sundry Creditors	40,000 – 2,000	38,000
Bills Payables		10,000
Total		48,000
Purchase Consideration		1,43,800
Payment of Purchase Price	1,200 x 100	1,20,000
Shares		13,800
Cash		1,43,800

Dr	Realisation A/c		Cr

Particulars	₹	Particulars	₹
To Stock	50,000	By Sundry Creditors	40,000
To Debtors	60,000	By Bills Payables	10,000
To Machinery	40,000	By Lata Ltd.	1,43,800
To Furniture	20,000	(Purchase Consideration)	
To Realisation Expenses	1,000		
To Partners' Capital A/c			
Asha 11,400			
Usha 11,400	22,800		
	1,93,800		**1,93,800**

Illustration 12. Asha, Usha and Lata were in partnership sharing profits and losses in the proportion of 3:2:1 respectively. They decided to convert their businesses into Ltd. Co. under the name and style of Komal Co. Ltd. when their balance sheet was as follows.

Balance Sheet as on 31/3/2017

Liabilities	₹	Assets	₹
Creditors	1,80,000	Land and Building	4,14,000
Capital A/c –		Stock	1,00,000
Asha 2,14,000		Debtors 1,00,000	
Usha 1,60,000		- R D D 20,000	80,000
Lata 1,40,000	5,14,000	Cash	70,000
		Profit and Loss A/c	30,000
	6,94,000		**6,94,000**

The company take over all the assets and liabilities of the firm. The purchase consideration being ₹ 5,28,000 payable as to ₹ 1,28,000 in cash and the balance in equity shares of ₹ 100 per share of the company.

You are asked to prepare Realisation A/c and Partners' Capital A/c in the books of the firm.

Solution:

Dr **Realisation A/c** Cr

Particulars	₹	Particulars	₹
To Land and Building	4,14,000	By Sundry Creditors	1,80,000
To Stock	1,00,000	By R D D	20,000
To Sundry Debtors	1,00,000	By Komal Ltd.	5,28,000
To Cash	70,000	(Purcha. Price)	
To Partners' Capital A/c			
Asha 22,000			
Usha 14,667			
Lata 7,333	44,000		
	7,28,000		**7,28,000**

Dr. **Partners' Capital A/c** Cr.

Particulars	Asha ₹	Usha ₹	Lata ₹	Particulars	Asha ₹	Usha ₹	Lata ₹
To Profit and Loss A/c	15,000	10,000	5,000	By Bal. b/d	2,14,000	1,60,000	1,40,000
To Shares in Komal Co.	1,67,400	1,25,000	1,07,600	By Realisation A/c	22,000	14,667	7,333
To Cash	53,600	39,667	34,733				
	2,36,000	**1,74,667**	**1,47,333**		**2,36,000**	**1,74,667**	**1,47,333**

Note - Final Capital Ratio = 2,36,000 – 15,000, 1,74,667 – 10,000, 1,47,333 – 5,000 = 221:165:142

Shares in Komal Ltd. are divided among the partners in their final claim ratio

Illustration 13. M/s Patil Brothers is a partnership firm run by Bhausaheb, Annasaheb and Dadasaheb as equal partners. Their Balance Sheet as on 31st March 2017 is as under-

Balance Sheet as on 31st March 2017

Liabilities		₹	Assets		₹
Bank Loan		5,00,000	Furniture and Fixtures		1,20,000
Creditors		1,00,000	Plant and Machinery		2,20,000
Capitals-			Stock in trade		3,10,000
Bhausaheb	50,000		Debtors	1,10,000	
Annasaheb	1,00,000		Less -R.D.D.	10,000	1,00,000
Dadasaheb	30,000	1,80,000	Cash at Bank		48,000
Reserve fund		18,000			
		7,98,000			**7,98,000**

They decided to convert their partnership into a joint stock company in the name the BAD Co. Ltd. as from 1st April 2017. The terms were-

1. The assets of the firm are taken by the company at the revaluation as under.

   Furniture and fixtures ₹ 2,00,000   Plant and Machinery ₹ 2,50,000

   Stock-in-trade ₹ 3,00,000   Debtors ₹ 90,000

2. The company agreed to take over the creditors at 6% discount and bank loan at book figure.

3. The new company issued 1200 equity shares of ₹ 100 each fully paid, ₹ 66000 in 6% Debentures and balance in cash. Shares and debentures are to be divided in the profit sharing ratio among the partners.

   a) Show journal entries to close the books of the partnership firm

   b) Prepare Realisation A/c, Partners' capital A/c and BAD Co. Ltd. A/c in the books of the firm.

Solution: Working Note

Calculation of Purchase Price

Assets taken over at agreed values	₹
Plant and Machinery	2,50,000
Furniture and fixtures	2,00,000
Stock-in-trade	3,00,000
Debtors	90,000
Total	8,40,000
Less - Liabilities taken over at agreed values	
Bank Loan	5,00,000
Creditors [1,00,000 - 6000 (6%)]	94,000
Total	5,94,000
Purchase Price	**2,46,000**
Payment of Purchase Price	
Equity Shares – 1,200 x 100	1,20,000
6% Debentures	66,000
Cash (balancing figure)	60,000
	2,46,000

M/s Patil Brothers

Journal

Sr.	Particulars	l/f	Dr. ₹	Cr. ₹
1	Realisation A/c .... Dr		7,60,000	
	To Furniture and Fixtures A/c			1,20,000
	To Plant and Machinery A/c			2,20,000
	To Stock in trade A/c			3,10,000
	To Debtors			1,10,000
	(Being Assets transferred to Realisation A/c)			

2	Bank Loan A/c .... Dr		5,00,000	

	Creditors A/c .... Dr		1,00,000	
	Reserve for Doubtful Debts .... Dr		10,000	
	To Realisation A/c			6,10,000
	(Being liabilities transferred)			

3	Reserve Fund A/c .... Dr		18,000	
	To Bhausaheb's Capital A/c			6,000
	To Annasaheb's Capital A/c			6,000
	To Dadaseb's Capital A/c			6,000
	(Being distribution of reserve fund)			

4	The BAD Co. Ltd A/c .... Dr		2,46,000	
	To Realisation A/c			2,46,000
	(Being purchase consideration due)			

5	Equity Shares in BAD Co. A/c .... Dr		1,20,000	
	6% Debentures in BAD Co. A/c .... Dr		66,000	
	Bank A/c .... Dr		60,000	
	To BAD Co. Ltd A/c			2,46,000
	(Being the receipt of purchase consideration)			

6	Realisation A/c .... Dr		96,000	
	To Bhausaheb's Capital A/c			32,000
	To Annasaheb's Capital A/c			32,000
	To Dadasaheb's Capital A/c			32,000
	(Being the transfer of realisation profit to Partners Capital A/c)			

7	Bhausaheb Capital A/c .... Dr		40,000	
	Annasaheb Capital A/c .... Dr		40,000	
	Dadasaheb Capital A/c .... Dr		40,000	

	To Equity Shares in BAD Co. Ltd's A/c			1,20,000
	(Being shares allotted to partners for settlement of their final claims)			
	--			
8	Bhausaheb Capital A/c .... Dr		22,000	
	Annasaheb Capital A/c .... Dr		22,000	
	Dadasaheb Capital A/c .... Dr		22,000	
	To 6% Debentures in Co. Ltd's A/c			66,000
	(Being debentures allotted to partners for settlement of their final claims)			
	--			
9	Bhausaheb Capital A/c .... Dr		26,000	
	Annasaheb Capital A/c .... Dr		76,000	
	Dadasaheb Capital A/c .... Dr		6,000	
	To Bank A/c			1,08,000
	(Being final claim of the partners settled)			

Dr. **Realisation A/c** Cr.

Particulars		**₹**	**Particulars**	**₹**
To Sundry Assets			By Sundry Liabilities	
Furniture and Fixtures		1,20,000	Bank Loan	5,00,000
Plant and Machinery		2,20,000	Creditors	1,00,000
Stock in trade		3,10,000	By R.D.D.	10,000
Debtors		1,10,000	By BAD Co. Ltd.	2,46,000
To Partners' Capital				
Bhausaheb	32,000			
Annasaheb	32,000			
Dadasaheb	32,000	96,000		
		8,56,000		**8,56,000**

Partners' Capital A/c

Particulars	B ₹	A ₹	D ₹	Particulars	B ₹	A ₹	D ₹
To Shares in BAD Co. Ltd.'s A/c	40,000	40,000	40,000	By Bal. b/d	50,000	1,00,000	30,000
To Deben. in BAD Co. Ltd. A/c	22,000	22,000	22,000	By Reserve Fund A/c	6,000	6,000	6,000
To Cash A/c	26,000	76,000	6,000	By Realisation A/c	32,000	32,000	32,000
	88,000	**1,38,000**	**68,000**		**88,000**	**1,38,000**	**68,000**

Note : B = Babasaheb, A = Abasaheb, D = Dadasaheb

Bank A/c

Particulars	₹	Particulars	₹
To Bal. b/d	48,000	By B's Capital	26,000
To BAD Co. Ltd.'s A/c	60,000	By A's Capital	76,000
		By D's Capital	6,000
	1,08,000		**1,08,000**

2.3 Summary

Conversion of partnership firm is an act of changing the form of organisation. Here the partnership firm is converted into limited company. The business of partnership remains continue in the name of a Ltd. Company. This is done in order to take advantages attached to the company form of organisation. The partnership firm is dissolved and the books of the firm are closed.

The assets and liabilities of the firm are revalued to determine purchase consideration. The purchase consideration is settled by payment of cash or issue of shares or debentures. The partners are paid cash and allotted shares and/or debentures for their share in the partnership firm.

In order to close the books of accounts of the firm, all assets and liabilities are transferred to realization A/c at the first stage. The undistributed profits and losses are distributed among the partners in their profit loss sharing ratio. The assets which are not taken by company are either sold or transferred to partners' capital A/c. In the same way the, liabilities which are not taken over by the company are paid or transferred to the Partners' Capital A/c. The profit or loss arrived at Realization A/c is distributed among the partners in their profit loss sharing ratio. The balance remaining in the capital A/c of the partners is settled by payment of cash or allotment of shares or debentures which are received from the company as purchase consideration. These shares and debentures are allotted/distributed among partners in their last capital balance ratio. This ratio is also called as final claim.

2.4 Terms to Remember

1. **Conversion**- Change of the form of organisation.
2. **Partnership Firm**- An organisation of persons where at least two individuals come together to perform business.
3. **Company**- A company formed under the companies act
4. **Limited Company**- A company formed under the companies act and the shareholders have liability limited to the face value of shares held.
5. **Purchase Consideration**- The price paid for the purchase of business.
6. **Net Assets**-It is the difference between the value of assets and liabilities.
7. **Net Payment**- Total of payments made by company to a partnership firm in the form of cash, share or debentures.
8. **Lump-sum**- The amount of purchase consideration stated directly.

2.5 Answers to Check Your Progress

Answers to check your progress – I

1. Limited
2. Absorption

Answers to check your progress – II

1. Change in the form of organisation
2. Price

3. Net Payment
4. Net Assets
5. Agreed
6. Payments
7. Shares/Debentures
8. Limited

2.6 Exercise

1. What is meant by absorption of a partnership firm?
2. What is meant by purchase consideration?
3. What are the types of purchase consideration?
4. What is meant by agreed value?
5. What is meant by net asset?
6. How net asset is arrived at?
7. What is meant by net payment?
8. How purchase consideration is settled?
9. Gunde and Pande were equal partners. Their Balance Sheet was as follows-

Balance Sheet as on 31st March 2017

Liabilities	₹	Assets	₹
Sundry Creditors	5,00,000	Cash at Bank	2,00,000
Capitals		Stock in hand	6,00,000
Gunde	8,00,000	Debtors	5,00,000
Pande	6,00,000	Furniture	1,00,000
		Investment	2,00,000
		Machinery	3,00,000
	19,00,000		**19,00,000**

The partners decided to sell the firm's business to Bright Moon Company Ltd.

Except investment and bank balance all the assets and liabilities were taken over by the company. Investment was distributed between partners in their capital ratio.

The assets taken over were valued at ₹ 19,40,000 whereas liabilities were taken at their book values. The company paid ₹ 12,00,000 in shares and the balance in cash as purchase consideration.

₹10,000 were paid as realisation expenses by the firm.

a) Show calculation of Purchase Consideration and prepare Realisation A/c and Bank A/c

b) Prepare Shares A/c, Partners' Capital A/c and Bright Moon Co. Ltd. A/c

(Hint. PC Rs. 14,00,000, Realisation Profit Rs. 3,90,000)

10. Mangesh, Nilesh and Rupesh were partners sharing profits and losses in the ratio of 3:2:1 respectively. The Balance Sheet of the firm as on 31st March 2017 was as under.

Balance Sheet as on 31st March 2017

Liabilities	₹	Assets	₹
Sundry Creditors	60,000	Cash at Bank	1,44,000
General Reserve	54,000	Debtors	1,50,000
Bank Loan	1,00,000	Stock	1,20,000
Capitals		Furniture	90,000
Mangesh	2,25,000	Plant and Machinery	1,60,000
Nilesh	1,50,000		
Rupesh	75,000		
	6,64,000		**6,64,000**

The partners of the firm decided to dissolve the firm and to form a private Ltd. company to take over the business of the firm on the above date, subject to the following adjustments.

1. The assets are to be transferred to the new company at the following values- Debtors ₹ 1,40,000, Stock ₹ 1,00,000, Plant and Machinery ₹ 20,000

2. Furniture was sold at ₹ 80,000.
3. The new company valued the goodwill at ₹ 20,000
4. The creditors of the firm are to be transferred to new company at ₹ 56,000
5. Bank Loan was to be paid by the firm itself
6. Realisation expenses amounted to ₹ 6,000
7. Purchase consideration is to be given in the form of 3,600 equity shares of ₹ 100 each and balance in cash.
   a) Show calculation of purchase consideration and Prepare Realisation A/c.
   b) Pass journal entries in the books of the firm

   (Hint. PC Rs. 2,24,000, Realisation Loss Rs. 1,62,000)

11. Agarkar, Bhandarkar and Charankar carried on business in partnership sharing profits and losses in the ratio of 3:2:1.

Balance Sheet as on 31st March 2017

Liabilities	₹	Assets	₹
Capital Accounts		Machinery	3,25,000
Agarkar	7,50,000	Motor Car	90,000
Bhandarkar	5,00,000	Furniture	30,000
Charankar	3,00,000	Stock	9,00,000
Current Accounts-		Debtors	2,60,000
Agarkar	1,46,250	Bank	4,30,000
Charankar	1,03,750	Current A/c	
Agarkar's Loan	2,00,000	Bhandarkar	1,05,000
Creditors	1,40,000		
	21,40,000		**21,40,000**

They decided to convert their business into a private limited company - ABC Pvt. Ltd.

The Debtors were all good and were taken over by Agarkar, who has also agreed to pay the creditors. The company took over the machinery at its book value, stock at an agreed value of ₹ 8,30,000, Furniture ₹ 22,500 and Motor Car ₹ 80,000.

Goodwill is valued at one year purchase of three year's average profit and bank balance. The profits earned by the firm in the past three years were-

2013-14 - ₹ 2,20,000, 2014-15 - ₹ 2,10,000, 2015-16 - ₹ 1,70,000.

The company agreed to discharge Agarkar's loan by issue of 1,500 10% cumulative preference shares of ₹100 each as fully paid and a cash payment of ₹ 50,000. The balance of purchase consideration was to be discharged by the issue of equity shares of ₹100 each and balance in cash.

You are required to

a) Show calculation of purchase consideration and prepare Realisation A/c in the books of the firm.

b) Prepare ABC Pvt. Ltd. A/c, Bank A/c and Shares A/c

(Hint. PC Rs. 16,87,500, Realisation Profit Rs. 1,12,500)

12. John and Peter were partners sharing profits and losses in the ratio of 4:3. They agreed to dissolve the firm and to form a new company namely Jupiter Co. Ltd., as and from 1st April 2017, under the terms mentioned below. Their balance sheet on the date of conversion was

Balance Sheet as on 31st March 2017

Liabilities	₹	Assets		₹
Capitals-		Fixed Assets	1,400,000	
John	5,60,000	Less- Depreciation	4,50,000	9,50,000
Peter	3,50,000	Joint Life Policy		63,000
Reserve Fund	2,10,000	Stock		2,70,000
Bank Loan	1,00,000	Debtors	1,60,000	
Sundry Creditors	2,06,000	Less R.D.D.	10,000	1,50,000
Bills Payables	42,000	Bank balance		35,000
	14,68,000			**14,68,000**

1) The company took fixed assets at ₹ 9,80,000/- and goodwill at ₹ 84,000/- in exchange of 10,000 shares of ₹100 each and balance amount by cheque.

2) Joint life policy was surrendered for ₹ 50,000/-

3) Stock was distributed between the partners

4) Debtors were realised ₹ 1,50,000/-

5) All the liabilities were paid at book value.

   a) Show calculation of Purchase Price and prepare Realisation A/c,

   b) Prepare Partner's Capital A/c and Bank A/c.

   (Hint. PC Rs. 9,16,000, Realisation Profit Rs. 66,000)

13. Ajay, Sanjay and Vijay were partners sharing profits and losses as Ajay 3/5, Sanjay 1/5 and Vijay 1/5 respectively. They decided to dissolve the firm and to form a private company with the name SAV Ltd. to take over the business of the firm on the following terms:

The balance sheet of the firm on 31st March, 2017 was as under:

The assets are transferred to new firm as: Plant and Machinery ₹ 650000; Stock ₹ 220000; and Debtors after deducting discount of 10%. All other assets are taken at their book values. The new company also valued the goodwill at ₹ 250000. The bank balance is not taken over by the new co.

The liabilities of the firm are to be transferred to new company at book values. Purchase consideration is discharged in the form of equity shares of ₹ 100 each.

SAV Co. Ltd. has also issued 5,000 shares of ₹ 100 each for getting working capital.

Balance Sheet as on 31st March 2017

Liabilities	₹	Assets	₹
Capitals-		Plant and Machinery	6,00,000
Ajay	6,00,000	Building	1,50,000
Sanjay	2,50,000	Furniture	50,000
Vijay	1,50,000	Stock	2,00,000

Creditors	1,50,000	Debtors	1,00,000
Bank Loan	1,00,000	Bank	1,50,000
	12,50,000		**12,50,000**

You are required to - open Realisation Account and SAV Co. Ltd. A/c prepare Partners' Capital A/c and Bank A/c

(Hint. Realisation Profit Rs. 3,10,000)

14. A,B,and C are equal partners of A/s ABC and Co. The Balance sheet of the firm as at 31st March 2017 was as follows:

Balance Sheet as on 31st March 2017

Liabilities	₹	Assets	₹
Capitals- A	5,00,000	Land	5,00,000
B	10,00,000	Plant and Machinery	20,00,000
Loan from Bank	50,00,000	Buildings	7,00,000
Creditors	10,00,000	Stock	30,00,000
		Debtors	10,00,000
		C's Capital A/c	3,00,000
	75,00,000		**75,00,000**

On that date it is decided to convert the partnership into a limited company on the following terms:

(a) Land to be valued at ₹15,00,000

(b) Plant and Machinery to be valued at ₹ 25,00,000

(c) Building is to be depreciated by ₹ 2,00,000.

(d) Stock is valued at 10% less.

(e) A reserve for doubtful debts to be made at 10% of the debtors.

(f) A discount of 6% would be earned on creditors when paid out

(g) The new company will issue 12,000 equity shares of ₹100 each at ₹125 and the balance payable is to be discharged by issue of 8% debenture of ₹1,000 each.

(h) Shares are distributed between A and B only in their capital ratio. Remaining balance of capital accounts is settled by giving debentures.

1. Show calculation of purchase price and prepare Realisation A/c

2. Prepare Partner's Capital A/c and New Co. Ltd. A/c

(Hint. PC Rs. 21,60,000, Realisation Profit Rs. 9,60,000)

15. Priya and Supriya are in partnership sharing profits and losses as to 2/3 and 1/3 respectively. Their Balance sheet at 31st March 2017 on which date they have agreed to convert their business into a private limited company as in the name P S Pvt. Ltd.

Balance Sheet as on 31st March 2017

Liabilities	₹	Assets	₹
Creditors	3,00,000	Plant	50,000
Mortgage Loan	1,00,000	Freehold premises	1,60,000
Capitals- Priya 2,00,000		Stock	1,60,000
Supriya 1,00,000	3,00,000	Debtors	2,60,000
		Bank	70,000
	7,00,000		**7,00,000**

The company took over the assets and liabilities with the exception of Mortgage Loan which was paid by the firm. The purchase price being ₹ 6,00,000 payable as to ₹1,20,000 by cheque, ₹2,40,000 in debentures and the balance in equity shares of company.

Prepare Realisation A/c, Partners' Capital A/c, P S Pvt. Ltd A/c and Bank A/c

16. A, B, and C carry business in partnership sharing profits and losses 1/2, 3/8 and 1/8 respectively. On 31st March, 2017 they agreed to sell their business to CAB Limited Company. Their position on that date was as follow:

Balance Sheet as on 31st March 2017

Liabilities	₹	Assets	₹
A's Capital	2,04,000	Freehold Property	1,80,000
B's Capital	1,49,000	Machinery	1,20,000
C's Capital	1,03,000	Book Debts	1,50,000
General Reserve	24,000	Stock	1,30,000
Loan from bank	40,000	Cash	20,000
Sundry Creditors	80,000		
	6,00,000		**6,00,000**

The company took the following assets at the valuation shown below.

Freehold property ₹ 2,20,000, Machinery ₹ 1,10,000, Book Debts ₹1,40,000, Stock ₹ 1,20,000 and Goodwill ₹ 40,000

The company also agreed to pay creditors which were agreed at ₹ 77,000. The company paid ₹ 3,30,000 in fully paid shares of ₹ 100 each and the balance in cash. The firm repaid the bank loan and incurred realisation expenses amounted to ₹ 5,000.

Calculate Purchase Conideration and prepare Realisation A/c

Prepare Partners' Capital A/c, CAB Ltd A/c and Cash A/c

(Hint. PC Rs. 5,53,000, Realisation Profit Rs. 48,000)

2.7 Reference for Further Study

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Unit-3

Branch Accounts

Structure of Unit :

3.0 Objectives:

Following are the main objects of keeping the branch accounts.

- To ascertain the correct trading results and progress of each branch.
- To know the financial position of branches on a particular date.
- To estimate the cash and goods requirements of the different branches and to make necessary arrangement.
- To compute the remuneration of managers of branches; if based on branch profits.

- To take corrective measures to improve the working of the branches running in losses.
- To evaluate the performance and exercise the control over the working of various branches.

3.1 Introduction

In order to increase the sales by intensive coverage of extensive markets, some business organizations open their own shops in different parts of the market. These shops are called branches and the parent office is known as head office. The branches may undertake manufacturing, trading and several other activities. In India, Banks, Insurance Companies & several other business organizations have a network of their branches throughout the nation and in different parts of the country.

3.2 Presentation of Subject Matter

3.2.1 Definitions

Some important definitions of branch are as follows:

1. "Branch is a section of a business segregated physically from the main section"- William Pickles
2. "Branch is a department conducted at a distance". – L.C. Cropper

3.2.2 Need For Branch Accounting:

Though a branch is typically located at some distance from the H.O. It carries on all activities under the direction and control of H.O. which may need variety of information from time to time about the functioning of each branch. This becomes possible only if the branches keep proper books of account. Thus, the main reasons of keeping branch accounts can be summarized as follows:

1) To ascertain the profitability of each branch separately for a particular accounting period.
2) To ascertain the financial position of each branch separately at the end of the accounting period.

3) To evaluate the progress and performance of each branch.

4) To incorporate the profit or loss made by the branch and its assets & liabilities in the firms final account.

5) To estimate requirement of stock & cash for each branch

6) To ascertain the amount of commission payable to the manager, if that is based on profit.

7) To assess the prospects for expansion of business in each branches &

8) To meet audit requirement.

3.2.3 Dependent Branches:

When the policies and administration of a branch are totally controlled by the Head Office (H.O.) who also maintains its accounts, the branches is called dependent branch.

The branches not keeping full system of accounting are also called dependent branches.

Features:

1. They receive goods form Head Office & sells goods to its customers. They are not allowed to purchases the goods in the open market, except with the permission of the H.O.
2. They sells goods either cash or credit as per the instruction of H.O.
3. Goods are supplied by the H.O. to such branches either at cost or at invoice price.
4. All major expenses of the branch are paid by the H.O. The branch Manager is allowed to incur only petty expenses like cartage, postage etc out of the petty cash provided to him for which he is required to maintain a simple petty cash book.
5. The amount received form cash sales & debtors is remitted to the H.O. daily or deposited in the account of H.O. in some local bank.
6. Such branches do not keep complete account books. They simply maintain record of sales & prepare debtors account, if necessary. They also requires to

maintain stock register & furnish weekly or monthly statements giving complete information about stock position.

7. The branch either calculates its own profit nor it maintains complete set of accounts. Branch profit is calculated by H.O.

3.2.4 Accounting for Dependent Branches:

The accounting system adopted by H.O. for a branch depends upon the size of a branch & the degree of control to be exercised by the H.O. There are three main methods of accounting for branch transactions.

1) **Debtors systems:** This system of accounting is suitable for the small size branches. Under this system a Branch Account is opened for each branch in the H.O. Ledger. All transactions relating to that branch are recorded in this account. The branch Account is prepared in such a way that it discloses the profit or loss of the branch.

2) **Final Account System:** Under this system the H.O. prepare a Trading & Profit & Loss Account in order to find out profit or loss of each branch and a Branch account to find out the amount due to or due form, that branch. In these cases, the Branch Account simply act as a personal account.

3) **Stock & Debtor System:** Under this system, the H.O. does not open any Branch. Account for each branch it prepares a Branch Stock Account, Branch Expenses Account, Branch Adjustment Account & Goods sent to Branch Account in order to find out the profit or loss of each branch.

3.2.5 Debtors System:

As stated earlier under debtors system, the H.O. simply opens a Branch account for each branch in which it records all transactions relating to the branch. Under this method, at the beginning of the year the Branch Account is debited with the opening balances of assets such as stock, debtors, petty cash, furniture, prepaid expenses, accrued income etc, lying with the branch. Similarly it is credited with the opening liabilities of the Branch such as Creditors, Outstanding Expenses, Rent, Salaries etc.

The Branch Account then debited with amount of goods sent to branch & amounts remitted to meet various expense such as Rent, Salaries etc. The Branch Account is credited with the returns of Goods by the branch & receipt from debtors

& cash sales. At the end of the year Branch Account is debited with the closing values of sides represents profit or loss for the branch for a particular period.

Head office sends goods to a branch either at "Cost Price" or at selling price (also called Invoice Price) Accordingly there are two methods of preparing the Branch Account a) Cost Price Method and b) Invoice Price Method.

a) Cost Price Method:

When goods are invoice at cost, the following journal entries are passed in the books of the H.O. to records various transactions relating to the branch.

Journal Entries (In the Books of H.O.)

1. For opening balances of assets at the Branch

Branch A/C	Dr	XX	
To (Individual) Branch Assets A/C			XX

(Being the opening bal of assets)

Note: - opening stock bal. at cost.

2. For Opening balances of Liabilities at the Branch

(Individual) Branch Liabilities A/C	Dr	XX	
To Branch A/C			XX

(Being the opening bal. of liabilities)

3. For Goods sent to Branch

Goods sent to Branch A/C	Dr	XX	
To Branch Account			XX

(Being goods return by the branch)

4. For returns of goods by branch to H.O.

Goods sent to Branch A/C	Dr	XX	
To Branch Account			XX

(Being goods return by the branch)

5. For Amount received from Branch for expenses

Branch A/C	Dr	X	
To Bank A/C			X
(Being cheque sent to branch for exps.)			

6. For Amount received from Branch

Cash / Bank A/C		XX	
To Branch A/C			XX
(Being cash/cheques received from branch)			

7. For Closing goods sent to branch A/C

Goods sent to branch A/C	Dr	XX	
To Purchases/Trading A/C			XX
(Being balance transferred to trading A/C)			

8. For Closing balances of assets at Branch

(Individual) Branch Assets A/C	Dr	XX	
To Branch A/C			XX
(Being closing balances of assets b/d)			

9. For closing balances of liabilities at the Branch

Branch A/C	Dr	XX	
To (Individual) Liabilities A/C			XX
(Being closing balances of liabilities b/d)			

10. For credit sales

No Entry

11. For Normal loss

No Entry

12. For Abnormal Loss

a) Abnormal loss A/C	Dr	X	(Total)
To Branch A/C			X
b) General P/L A/C	Dr	X	(Loss)
Insurance Claim A/C	Dr	X	(Claim)
To Abnormal loss A/C			XX(Total)

13. Bad debts, Discount allowed to debtors

No Entry

14. For Depreciation on Assets

No Entry

15. Branch Expenses paid by the branch

No Entry

16. For transferring profit or loss of the Branch

a) If Profit

Branch A/C	Dr	X	
To General P/L A/C			X

(Being branch profit transferred to Gen. P/L A/C)

b) If Loss

General P/L A/C	Dr	X	
To Branch A/C			X

(Being branch loss transferred to Gen. P/L A/C)

Note: 1) The closing balances of branch assets & liabilities are shown in the balance Sheet of the head office (H.O.)

2) Following items are to be ignored while preparing Branch Account under this method.

a. Credit sales, sales returns, bad debts, discount allowed etc.

(Reasons- All these, items relating to Debtors A/C for calculating closing debtors balance all these items have already been taken in to account therefore these items are to be ignored for the preparation of Branch A/C)

b. Depreciation on fixed Assets.

(Reasons- The branch account is debited with the opening balance of fixed assets & credited with the closing balances of fixed assets after deducting depreciation. Depreciation is automatically accounted for & it should not be shown in the Branch A/c separately.

c. Petty Cash Expenses paid by the Branch:

The branch account is debited with the opening petty cash balance & the amount of petty cash sent by the H.O. & credited with the closing petty cash balance. For calculating closing petty cash all expenses paid by the branch are taken in to consideraly. Therefore, it should be ignored for preparing of Branch A/c

d. Shortage or surplus of stock:

At the time of calculating closing balance of Branch Stock Shortage/ Surplus is taken in to consideration. Therefore, it should be ignored for preparing of Branch A/C

e. Profit or loss on sale of fixed asset:

If an asset is sold for cash the Branch A/C is credited with the remittance. If it is sold on credit the Branch Account will be credited with the Debtors for sale of assets. The profit or loss on sale of asset is already included in the remittance / debtors figure. Therefore at the time of preparing Branch A/C P/L on sale of asset should not be shown separately.

f. Purchases by Branch:

The Branch Account is debited with the amount of remittance from H.O. Therefore any direct purchases by branch should not be shown separately in the Branch A/C.

The Branch Account will appear as given below:

In the Books of Head Office (H.O.)

Dr. **Branch Account** Cr.

Dt.	Particulars	Rs.	Dt.	Particulars	Rs.
	To Opening Bals.			**By Opening Bals.**	
	Stock	X		Creditors	X
	Debtors	X		Outstanding Exps	X
	Petty Cash	X		**By Bank**	XX
	Furniture	X		Cash Sales	
	Prepaid Expenses	X		Collection from Debtors	
	To Goods Sent to Branch A/C	X		**By Goods Sent to Branch A/C**	X
	To Bank A/C			(Return by Branch)	
	Rent Rates	X		**By closing balances**	
	Salaries	X		Stock	X
	Petty Cash (Remittance)	X		Debtors	
	(For Exps Payment made by H.O.)			Petty cash	X
	To Closing balances			Furniture	X
	Creditors	X		Prepaid Expenses	X
	Outstanding Exps	X		**By loss if any**	X
	To Profit	X		Transferred to Gen. P/L A/C	
	(Transferred to Gen. P/L A/C)				
		XXX			XXX

b) Invoice Price Method:

The goods may invoiced to branches at a price higher than the cost (termed as invoice price). This is done primarily to have an effective control over stock with branches & kept the margine of profit secret from the branch manager. The invoice price may be equal to sales price or nearer to sale price. In such a situation all entries relating to goods are made in Branch account at Invoice Price and necessary adjustments for loading)Differences between I.P. & C.P.) are recorded at the end by passing the following additional journal entries.

1) Adjustment of Loading on opening stock

Stock Reserve A/C	Dr.	X	
To Branch A/C			X (with loading Amt)

2) Adjustment of loading on Goods Sent to Branch A/C

Goods sent to Branch A/C	Dr.	X	
To Branch A/C			X (with loading Amt)

3) Adjustment of loading on Goods Returned to H.O.

Branch A/C	Dr.	X	
To Goods Sent to Branch A/C			X (with loading Amt)

4) Adjustment of Loading on closing stock

Branch A/C	Dr.	X	
To Stock Reserve A/C			X (with loading Amt)

At the time of doing adjustment of loading proper care should be taken. Normally percentage of loading is given on cost price & in the question invoice price is given & not the cost price. Some time percentage is given on invoice price which information is given on cost price.

The following procedure is given to calculate the amount of loading easily.

A) If the percentage is to be calculated on cost price & I.P. is given.

% or fraction on C.P.	=% or fraction on I.P.
20% = 20/100 = 1/5	=20/100+20 =1/6
25% = 25/100 = 1/4	=25/100+25 =1/5
33.33% = 33.33/100 = 1/3	=33.33/100+33.33 =1/4
50% = 50/100 = 1/2	=50/100+50 =1/3

B) If the percentage is to be calculated on I.P. & C.P. is given

% or fraction on I.P.	=% or fraction on C.P.
20% = 20/100 = 1/5	=20/100-20 =1/4
25% = 25/100 = 1/4	=25/100-25 =1/3
33.33% = 33.33/100 = 1/3	=33.33/100-33.33 =1/2
50% = 50/100 = 1/2	=50/100-50 =1 or 100 %

Note: The method of preparing of Branch A/C is the same as in the case of cost price method excepting that all entries relating to the Goods are made at invoice price & proper adjustments for loading are made at the end for accounting period by additional entries.

Illustration : 1) Hira Co. Ltd. Invoices goods to Kolhapur Branch at cost. Branch sells goods on credit as well cash basis. Prepare Branch Account Branch Debtors Account and Branch Petty Cash Account for the year ended 31-03-1998.

	1-4-97	**31-3-98**
Stock	62,500	72,500
Debtors	1,22,500	----
Petty Cash	750	----
Goods supplied to Branch		2,27,000
Goods returned by Branch		3,000
Cash remitted to branch for		
Rent		6,000
Salary		22,500
Petty Cash		5,000
Cash Sales		1,64,000
Total Sales		4,06,500
Petty Cash expenses at Branch		4,150
Bad debts		2,000
Goods returned from Customer		11,500
Discount allowed to Customer		7,500
Cash received form Customer		1,63,000

Solution :

In the books of H.O.

Dr **Branch A/C** Cr

Particular	**Rs**	**Particular**	**Rs**
To Op Bal. on asset		By goods return to H.O	3,000
Stock	62,500	By bank A/C	
Debtors	1,22,500	Cash Sales 1,64,000	
petty Cash	750	Cash received	
To goods sent to (branch)	2,27,000	From debtors 1,63,000	3,27,000
To bank A/C (exp)		By Cl. Bal. On. asset	
Rent - 6,000		Stock	72,500
Salary - 22,500		Debtors	1,81,000
Petty Cash - 5,000	33,500	Petty Cash	1,600
To Net Profit			
(Balancing figures)	1,38,850		
	5,85,100		**5,85,100**

Dr **Branch Debtors A/C** Cr

Particular	**Rs**	**Particular**	**Rs**
To balance b/d	1,22,500	By Cash received from	
To Credit Sales	2,42,500	Debtors	1,63,000
(4,06,500 – 1,64,000)		By bad debts	2,000
		By goods return from	
		Customer (R.I.)	11,500
		By discount allowed.	7,500
		By balance c/d	1,81,000
		(Balancing figure)	
	3,65,000		**3,65,000**

Dr **Branch Petty Cash A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To balance b/d	750	By Exp.	4,150
To Remitt	5,000	By balance c/d	1,600
	5,750		**5,750**

Illustration : 2) From the following particulars relating to Bangalore Branch of M/s. Akash Traders, Poona, Prepare the branch account in the books of head office to ascertain profit.

	1-4-07	**31-3-08**
	Rs.	Rs.
Debtors	12,000	16,000
Stock	10,000	9,000
Petty Cash	100	200
Transaction during the year were :		
Goods sent to branch during 2007-08		30,000
Cash Sent to branch During 2007-08		
For Salary and Wages		6,000
For Rent, Rent, Rates etc.		2,000
For Petty Cash		900
Goods returned by branch during 2007-08		1,800
Cash remitted by branch during 2007-08		
Received for Cash Sales		16,000
Received from Debtors		28,000
Credit Sales during 2007-08		34,000
Discount Allowed to Debtors		800
Bad Debts written off		500
Goods returned by Debtors		700

Solution :

In the books of H.O.

Dr **Branch A/c** Cr

Particular	Rs	Particular	Rs
To op. bal – on asset		By goods return branch	1,800
Debtors	12,000	By bank A/C	
Stock	10,000	Cash Sales 16,000	
Petty cash	100	Received from	
To goods sent to branch	30,000	Debtors 28,000	44,000
To bank A/C		By Closing balance on asset	
Salary & wages	6,000	Debtors	16,000
Rent, Rates	2,000	Stock	9,000
Petty Cash	900	Petty cash	200
To Net profit	10,000		
(Balancing figures)			
	71,000		**71,000**

Illustration : 3) K. Ltd. Pune has a Branch at Belgaum. Goods are invoiced to branch at 20% on sales. Prepare the Branch Account, Branch Debtors Account and give the journal entries necessary for head Office to adjust the Branch Account for arriving at the net profit or loss made by Belgaum Branch. The following is the summary of transactions at this branch for the year 2007-08

		Rs.
Stock on 1.4.2007 (invoice price)		30,000
Branch Debtors on 1.4.2007		18,000
Petty Cash on 1.4.2007		800
Goods Sent to Branch (at invoice price)		60,000
Goods Returned By Branch		2,000
Goods Returned by Customers		480
Cash Sales		1,00,000

Credit Sales		60,000
Cash received from debtors		60,000
Discount allowed to customers		60
Petty expenses incurred by branch		1,400
Expenses paid by Head Office		
Rent	2,400	
Salary	4,800	
Printing & Stationery	600	
Petty Cash	1,200	9,000
Balance on 31.3.2008 :		
Stock (Invoice Price)		28,000
Provision for Doubtful Debts		200

Solution :

Dr **Branch Debtors A/c** Cr

Particular	Rs	Particular	Rs
To balance	18,000	By discount allowed	60
To credit sales	60,000	By Return inward	480
		By Cash received debts	60,000
		By balance c/d	17,460
	78,000		**78,000**

Dr **Branch A/c** Cr

Particular	Rs	Particular	Rs
To opening Balance		By goods return branch	2,000
Stock	30,000	By bank A/C	
Debtors	18,000	Cash sales - 1,00,000	
Petty cash	800	Cash received – 60,000	
To goods sent to branch	1,60,000	Debtors	1,60,000
To bank A/c		By closing balance of	

Rent	2,400	assets	
Salary	4,800	Stock	28,000
Printing & Stationery	600	Debtors	17,460
Petty Cash	1,200	Petty cash	600
R.D.D	200	By stock reserve	6,000
To. Stock Reserve	5,600	(loading Opening assets)	
(loading)		By goods sent to branch	32,000
To goods return to branch	400	(loading)	
(loading)			
To net profit	22,060		
balancing figures			
	2,46,060		**2,46,060**

Journal Entries

	Particular	L.F debit	Credit
1	Branch A/C Dr.	48,800	
	To Stock		30,000
	To debtors		18,000
	To Petty cash		800
	(Being opening asset transfer to branch a/c)		
2	Branch A/C Dr.	1,60,000	
	To goods sent to branch		1,60,000
	(Being goods sent to branch)		
3	Branch A/C Dr.	9,200	
	To bank A/C		9,200
	(Being expenses paid by offices)		
4	Bank A/C Dr.	1,60,000	
	To branch A/C		1,60,000
	(Being cash sales & collection from debtor)		

5	Goods return to branch A/C Dr. To branch A/C (Being goods return to H.O.)	2,000	 2,000
6	Asset A/C Dr. To branch A/C (Being asset transfer on branch a/c)	46,060	 46,060
7	Stock Reserve A/C Dr. To branch A/C (Being Loading on. op. Stock transfer on branch a/c)	6,000	 6,000
8	Goods sent on branch Dr. To branch A/C (Being loading on good sent to branch transfer)	32,000	 32,000
9	Branch A/C Dr. To Stock Reserve (Being loading on cl. Stock transfer to branch a/c)	5,600	 5,600
10	Branch A/C Dr. To good return H.O. A/C (Being Loading on goods return to H.O transfer to branch A/C)	400	 400
11	Branch A/C Dr. To profit & loss A/C (Being Net Profit transfer to P & L A/C)	22,060	 22,060

Illustration : 4) India Traders of Nasik has a branch at Pune. To which goods are supplied by Head Office at 25% on cost price. Branch remits all cash received to the Head Office and all expenses, except petty cash expenses of the Branch are paid by the Head Office by cheques. Prepare Pune Branch Account in the books of India Traders at Nasik, taking into consideration the following information for the year ended 31st March, 2008

Particulars		Amt.
Stock at Branch on 1.4.2007		1,00,00
Branch Debtors on 1.4.2007		10,000
Petty Cash at Branch on 1.4.2007		100
Goods sent to Branch		2,00,000
Cash Sales		50,000
Credit Sales		2,50,000
Cash received from debtors		1,90,000
Goods returned by debtors		2,000
Discount allowed to customers		6,000
Bad Debts written off		4,000
Cheques sent to Branch for expenses :		
Salaries	8,000	
Rent	2,400	
Advertisement	1,200	11,600
Bills receivable from debtors		4,000
Petty Expenses incurred by the Branch		950
Cash sent to Branch for petty expenses		1,000
Stock at Branch on 31.3.2008		57,600

Also prepare Memorandum Debtor Account and Petty Cash Account

Solution :

In the books of India Traders Nashik

Dr **Branch Petty Cash A/c** Cr

Particular	Rs	Particular	Rs
To balance b/d	100	By petty expenses (in)	950
To Cash sent to branch	1,000	By balance c/d (balancing figure)	150
	1,100		**1,100**

Dr **Branch Debtors A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To balance b/d	10,000	By cash received debtor	1,90,000
To credit sales	2,50,000	By Return inward	2,000
		By discount allowed	6,000
		By bad debts	4,000
		By bills Receivable	
		From debtors	4,000
		By balance c/d	54,000
	2,60,000		**2,60,000**

Dr **Pune Branch A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To Opening balance on		By bank A/c	
asset		Cash sales 50,000	
Stock	1,00,000	Cash received from	
Debtors	10,000	debtors 1,90,000	2,40,000
Petty cash	100	By closing balance on asset	
To goods sent to branch A/c	2,00,000	Stock	57,600
To bank A/c		Debtors	54,000
Salaries	8,000	Petty cash	150
Rent	2,400	By stock reserve	20,000
Advertisement	1,200	(loading op. stock)	
To Cash sent to branch	1,000	By goods sent to branch	40,000
For petty expenses		(loading)	
To stock reserve	11,520		
(loading cl. stock)			
To net profit			
(Balancing figures)	77,530		
	4,11,750		**4,11,750**

Illustration : 5) Shetkari Sangh, Kolhapur invoices goods to its branch at Solapur at cost plus 60% of the cost. Following are the particulars regarding Solapur Branch transactions during the year ended 31 st December 1997.

		Rs.
Stock at Branch at invoice price (1-1-1997)		16,000
Branch Debtors (1-1-1997)		8,000
Petty cash at branch (1-1-1997)		125
Goods sent to Branch at invoice price		1,60,000
Goods returned by the branch		16,000
Goods returned by customers		2,000
Total sales at Branch		1,10,000
Cash sales		40,000
Cash remitted to Head – Office		1,00,000
Discount allowed to Debtors		4,000
Cash sent to Branch for		
Salary Rs.	2,800	
Rent	2,200	
Insurance	1,200	
(Up to 31-3-98)		
Petty Cash	500	6,700
Stock at Branch at invoice price (31-12-97)		20,000
Petty Cash at Branch		50

Ascertain the Profit or loss made by the Solapur Branch by preparing Branch A/C and Branch Debtors A/C.

Solution :

Dr **Branch Petty Cash A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To balance b/d	125	By petty cash at branch	50
To cash sent to branch	500	By balance c/d	575
	625		**625**

Dr **Branch Debtors A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To balance b/d	8,000	By Return Inward	2,000
To credit sales	70,000	By Cash received form	
		Debtors	60,000
		By discount allowed	4,000
		By balance c/d	12,000
		(balancing figure)	
	78,000		**78,000**

Dr **Solapur Branch A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To Opening Balance assets		By goods return by lorar	16,000
Stock	16,000	By bank A/C	
Debtors	8,000	Cash sales 40,000	
Petty cash	125	Cash received 60,000	
To goods sent to branch	1,60,000	Debtors	1,00,000
To bank A/C (exp)		By cl. stock assets	
Salary	2,800	Stock	20,000
Rent	2,200	Debtors	12,000

Insurance	1,200	Petty cash	575
Petty cash	500	By stock reserve	
To stock reserve		(Loading op. stock)	6,000
(Loading cl. stock)	7,500	By goods sent to branch	
To goods relearn to bran		(Loading)	60,000
(loading)	6,000	By prepaid insurance	300
To net profit			
(Balancing figure)	10,550		
	2,14,875		**2,14,875**

Illustration : 6) Vishal Enterprises Pune has its branch at Sangli, goods are consigned to the Sangli branch at cost. The branch is given a standing instruction to send all cash daily to H.O. All expenses are paid by Head office petty expenses which are met by the Branch Manager. From the following particulars, prepare Sangli Branch Account in the books of Vishal Enterprises, Pune.

	Rs.
Stock on (1-4-2004)	10,000
Sundry Debtors on (1-4-2004)	20,000
Cash in hand (1-4-2004)	1,000
Office furniture (1-4-2004)	12,000
Prepaid Expenses (1-4-2004)	500
Outstanding electricity charges (1-4-2004)	2,680
Goods sent to Branch	60,000
Goods returned to H.O	3,600
Goods returned by Debtors	2,400
Cash received from Debtors	34,000
Cash sales	36,000
Credit sales	42,000
Discount allowed to debtors	2,000

Expenses paid by H. O.	11,400
Petty expenses incurred	800
Stock on 31-3-2005	12,000
Prepaid expenses on 31-03-2005	300
Outstanding electricity charges on 31-3-2005	2,880
Depreciation is to be provided on Branch Furniture at 15% p.a.	

Solution :

In the Books of Vishal Enterprises Pune

Dr **Branch Debtors A/c** Cr

Particular	Rs	Particular	Rs
To balance b/d	20,000	By Return inward	2,400
To Credit Sales	42,000	By Cash received from Debtors	34,000
		By discount allowed	2,000
		By balance c/d	23,600
	62,000		62,000

Dr **Branch Petty Cash A/c** Cr

Particular	Rs	Particular	Rs
To balance b/d	1,000	By petty expenses	800
		By balance c/d	200
	1,000		1,000

Dr **Sangli Branch A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To Opening Balance of asset		By O/S electricity charges	2,680
Stock	10,000		
Sundry debtors	20,000	By bank A/C	
Cash in hand	1,000	Cash Sales 36,000	
Furniture	12,000	Cash received 34,000	70,000
To goods sent to branch	60,000	By Goods return to H.O	3,600
To bank A/C (exp)		By closing balance of asset	
Expenses paid by H.O	11,400		
To outstanding electricity		Stock	12,000
Charges 31-3-2005	2,880	Prepaid expresses	300
To prepaid exp 1-4-2004	500	Petty cash	200
To net profit		Debtors	23,600
(Balancing figures)	4,800	Furniture (12000-1800)	10,200
	1,22,580		1,22,580

Illustration : 7) India Traders of Nasik has a branch at Pune. Goods are invoiced to the branch at 25% on cost. Branch has been instructed to all cash daily to the H.O. All expenses are paid by the H.O. except petty expenses which are met by branch manager. From the following particulars prepare Branch Account and Branch Debtors Account in the books of India Traders ltd. The details of transactions for the year ended 31 st March 2003 were as under.

		Rs.
Stock on 1-4-02 (Invoice price)		42,000
Sundry debtors as on 1-4-02		18,000
Cash in hand as on 1-4-02		800
Office furniture on 1-4-02		4,000
Goods invoiced to branch (Invoice price)		1,00,000
Goods returned to Head office		2,400

Goods returned by debtors		1,000
Cash received from debtors		62,000
Cash sales		1,00,000
Credit sales		64,000
Discount allowed to debtors		1,200
Expenses paid by the H.O.		
Rent	2,400	
Salary	4,800	15,200
Printing and stationery	8,000	
Petty expenses paid by Branch Manager		600

Depreciation is to be provided on branch furniture at 10% p.a. Stock on 31-3-2003 at invoice price Rs. 30,000.

Solution :

Dr **Branch Debtors A/c** Cr

Particular	Rs	Particular	Rs
To balance b/d	18,000	By Return inward	1,000
To credit sale	64,000	By cash received from Debtors	62,000
		By discount allowed	1,200
		By balance c/d	17,800
	82,000		**82,000**

Dr **Branch Petty Cash** Cr

Particular	Rs	Particular	Rs
To balance b/d	800	By petty exp to branch	600
		By balance c/d	200
	800		**800**

Dr	Branch A/c		Cr
Particular	**Rs**	**Particular**	**Rs**
To opening balance on asset		By goods returned H.O	2,400
Stock	42,000	By bank A/C	
Debtors	18,000	Cash sales 100000	
Cash in band	800	Cash received 62000	
Office furniture	4,000	From debtors	1,62,000
To goods in voiced branch	1,00,000	By cl. Bal on asset	
To bank A/C (exp)		Stock	30,000
Rent	2,400	Debtors	17,800
Salary	4,800	Petty Cash	200
Printing & Stationery	8,000	Furniture	
To stock Reserve		(4,000-400)	3,600
(Loading cl. stock)	6,000	By stock Reserve	
To goods return H.O.		(Loading op stock)	8,400
(Loading)	480	By goods sent to branch	
		(Loading)	32,000
To Net profit	69,920		
(balancing figure)			
	2,56,400		**2,56,400**

3.2.6 Final Account System

The profit or loss of a dependent branch can also be worked out by preparing a Memorandum Branch Trading & Profit & Loss Account. This account is prepared o the basis of cost of goods sent to branch (Not the Invoice Price) Apart from the Branch Trading & Profit & Loss Account, the H.O. also maintain the Branch Account. (In the nature of personal account) which shows only the mutual transactions between the H.O. & the Branch. The balance of Branch Account represent the net assets of the branch.

Important Note : At the time of preparing Branch Trading & Profit & Loss A/c, items relating to Debtors like credit sales, sales return, Bad debts are given then Debtors Account must be prepared. If credit side of debtors A/C shorts the difference should be treated as discount allowed to debtors & this must be shown in the debit side of P/L A/c.

Illustration : 8) From the following particulars relating to Patna Branch for the year ending 31st March, 1990 prepare Branch Account and also the Trading and Profit & Loss Account.

Particulars	Amount Rs.
Stock at Branch 1st April, 1989	58,900
Branch Debtors 1st April, 1989	14,700
Petty Cash at Branch 1st April, 1989	720
Goods sent to Branch during the year	3,29,400
Cash sales during the year	3,15,800
Credit sales during the year	1,40,400
Cash received from debtors	1,37,900
Cash sent to Branch for expenses	
Rent	12,000
Salaries	36,000
Petty Cash	7,000
Stock at branch 31st March, 1990	55,400
Petty cash at Branch 31st March, 1990	730
Goods returned by Branch	1,800

Solution :

Dr **Branch Debtors A/c** Cr

Particular	Rs	Particular	Rs
To balance b/d	14,700	By Cash received from	
To credit sales	1,40,400	Debtors	1,37,900
		By balance c/d	17,200
	1,55,100		**1,55,100**

Dr **Branch Petty Cash** Cr

Particular	Rs	Particular	Rs
To balance b/d	720	By branch exp	6,990
To H.O. sent petty cash	7,000	(Balancing figure)	
		By balance C/d	730
	7,720		**7,720**

Dr **Branch A/c** Cr

Particular	Rs	Particular	Rs
To opening balance on asset		By bank A/C	
Stock	58,900	Cash Sales 3,15,800	
Debtors	14,700	Cash received 1,37,900	4,53,700
Petty cash	720	By goods return from branch	1,800
To goods sent to branch	3,29,400		
To bank A/C (exp)		By cl. Bal. on asset	55,400
Rent	12,000	Stock	730
Salaries	36,000	Petty cash	17,200
Petty Cash	7,000	Debtors	
To Net Profit	70,110		
	5,28,830		**5,28,830**

Dr **Branch trading profit and loss A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To opening stock	58,900	By sales cash 3,15,800	4,56,200
To goods sent to branch	3,29,400	Credit 1,40,400	
		By goods return to H.O	1,800
To gross profit	1,25,100	By closing stock	55,400
	5,13,400		5,13,400
To salary	36,000	By Gross profit	1,25,100
To rent	12,000		
To petty cash exp	6,990		
To net profit	70,110		
	1,25,100		**1,25,100**

Illustration : 9) Jackson Co. Ltd. Sholapur invoices goods to its Nagpur Branch at 20% above cost. The branch sells the goods on cash as well as on credit and remits all cash received to the branch. All the expenses of branch are met by Head office. From the following information relating to branch prepare the Branch Account and Branch Trading & Profit and Loss Account and ascertain the branch profit.

Stock on 1-1-2007 (At invoice price)		24,000
Stock on 31-12-2007 (At invoice price)		36,000
Debtors on 1-1-2007		10,000
Debtors on 31-12-2007		12,000
Cash Sales remitted to Head Office		43,000
Cash Collected from Debtors and remitted to Head office		80,000
Expenses paid by Head Office for :		1,20,000
Salary	18,000	
Rent & Rates	4,000	
Stationery	600	

Petty Cash	200	22,800
Goods returned by Branch to Head Office (at invoice price)		4,800
Petty Cash on 1-1-2007		600
Petty Cash on 31-12-2007		200
Credit Sales		84,000
Discount Allowed to Customers		1,500
Bad Debts		500

Solution :

Dr **Branch Debtors A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To balancing b/d	10,000	By Cash Collected debtors	80,000
To credit sales	84,000	By discount allowed	1,500
		By bad debts	500
		By balancing c/d	12,000
	94,000		**94,000**

Dr **Branch Petty Cash A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To balancing b/d	600	By petty exp on branch (balancing figure)	600
To petty exp to H.O	200	By Balancing c/d	200
	800		**800**

Dr **Branch A/c** Cr

Particular	Rs	Particular	Rs
To Opening balance on asset		By bank A/c	
Stock	24,000	Cash sales 43,000	
Debtors	10,000	Cash Collected 80,000	1,23,000
Petty cash	600	By goods return by branch	4,800
To goods sent to branch a/c	1,20,000	By cl. bal on	
To bank A/C (exp)		Stock	36,000
Salary	18,000	debtors	12,000
Rent & Rales	4,000	Petty cash	200
Stationery	600	By stock	
Petty Cash	200	Reserve	4,000
To stock Reserve		(Loading op stock)	
(Loading cl. stock)	6,000	By goods sent to branch	
To goods return to branch	800	(Loading)	20,000
To Net profit	15,800		
	2,00,000		**2,00,000**

Dr **Branch Trading A/c and profit & Loss A/c** Cr

Particular	Rs	Particular	Rs
To openings stock	20,000	By goods return H.O.	4,000
To goods sent to branch	1,00,000	By Cash Sales 43,000	
		By credit sale 84,000	1,27,000
To grass profit	41,000	By closing stock	30,000
	1,61,000		1,61,000
To discount allowed	1,500		
To bad debts	500	By gross profit	41,000
To salary	18,000		
To rent & Rates	4,000		
To stationary	600		
To petty exp on branch	600		
To Net profit	15,800		
	41,000		**41,000**

Illustration : 10) Anderson Bros. Madras, has a branch at Calcutta. All goods required for sale at Calcutta are supplied form Madras at cost plus 25% and all cash received at the Branch is banked daily in the Head office Account opened in a Bank at Calcutta.

From the following particulars give the Branch Account, Branch Debtors Account, Branch Trading & Profit & Loss Account.

	Rs.
Stock (1-1-2000)	7,900
Debtors (1-1-2000)	11,300
Petty Cash (1-1-2000)	90
Returns Inward	400
Goods Invoiced to Branch	25,000
Returns Goods to Head Office	1,000
Bad Debts	100
Cash Sales	1,400
Branch expenses paid by Head Office	
Rent	1,400
Salary	1,500
Sundries	700
Allowances Given	450
Petty Cash Expenses at Branch	240
Total Sales	34,900
Remittance to Branch for Petty Cash	280
Stock (31-12-2000)	8,400
Debtors (31-12-2000)	19,510

Solution :

Dr **Branch Debtors A/c** Cr

Particular	Rs	Particular	Rs
To balance b/d	11,300	By Return Inwards	400
To credit sale	33,500	By bad debts	100
		By allowance given	450
		By balancing c/d	19,510
		By cash received form Debtors (balancing figures)	24,340
	44,800		**44,800**

Dr **Branch Petty Cash A/c** Cr

Particular	Rs	Particular	Rs
To balance b/d	90	By petty Cash exp. at branch	240
To petty exp to H.O.	280		
		By balance c/d (balancing figure)	130
	370		**370**

Dr **Branch A/c** Cr

Particular	Rs	Particular	Rs
To opening balance on assets		By goods relearn H.O	1000
Stock	7,900	By bank A/C	
Debtors	11,300	Cash sales 1,400	
Petty Cash	90	Cash received from	25,740
To Goods sent to branch	25,000	debtors 24,340	
To Bank A/C (exp)		By Closing balance on assets	
Rent	1,400	Stock	8,400
Salary	1,500	Debtors	19,510

Sundry exp	700	Petty cash	130
To petty exp for branch H.O	280	By stock reserve	1,580
To stock Reserve		(Loading op stock)	
(Loading cl. stock)	1,680	By goods sent to bra	5,000
To goods return H.O	200	(Loading)	
(Loading)			
To Net profit	11,310		
(balancing figure)			
	61,360		**61,360**

Dr **Trading A/c and profit & loss A/c** Cr

Particular	Rs	Particular	Rs
To opening Stock	6,320	By goods return H.O	800
To goods Sent to Branch	20,000	By Cash Sales 1,400	
		Credit Sale 33,500	
To Gross profit	15,700	34,900	
(Balancing figure)		Less return 400	34,500
		By Closing Stock	6,720
	42,020		42,020
To bad debts	100	By Gross Profit	15,700
To Rent Salary sundry exp.	3,600		
To Allowances given	450		
To petty Cash exp at branch	240		
To Net Profit	11,310		
(Balancing Figure)			
	15,700		15,700

Illustration : 11) A trading firm in Kolhapur has a Branch at Solapur to which goods are sent at cost plus 25% Solapur Branch keeps its own sales ledger and transmits all cash received to H.O. All expenses are paid form the Head Office. The transactions for the Branch were as follows.

	Amount Rs.
Stock on 01-04-2000	22,000
Debtors on 01-04-2000	2,200
Petty cash on 01-04-2000	200
Cash sales	5,300
Goods sent to Branch	40,000
Collections from Debtors	42,000
Goods returned to H.O.	600
Bad – debts	600
Allowances	500
Returns Inwards	1,000
Cheques sent to Branch:-	3,400
Rent 1,200	
Wages 400	
Salary 1,800	
Stock on 31-03-2001	26,000
Debtors on 31-036-2001	2,000

Prepare Branch Account and Branch trading and Profit & Loss Account for the Year ended 31-03-2001.

Solution :

Dr **Branch Debtors A/c** Cr

Particular	Rs	Particular	Rs
To balance b/d	2,200	By collection debtors	42,000
To credit sales		By bad-debts	600
(balancing figure)	43,900	By allowances	500
		By return Inward	1,000
		By balance c/d	2,000
	46,100		**46,100**

Dr **Branch A/c** Cr

Particular	Rs	Particular	Rs
To. Opening asset		By bank A/C	
Stock	22,000	Cash sales 5,300	
Debtors	2,200	Collection de 42,000	47,300
Petty cash	200	By goods return H.O.	600
To good as sent to branch	40,000	By Cl. asses	
To bank A/C (exp)		Stock	26,000
Rent	1,200	Debtors	2,000
Wages	400	Petty cash	200
Salary	1,800	By stock Reserve	4,400
		(op stock loading)	
By stock reserve	5,200	By goods sent to branch (Loading)	8,000
(Loading Cl. Stock)			
By goods return H.O	120		
Net profit	15,380		
(Balancing figure)			
	88,500		**88,500**

Dr **Branch Trading A/c and profit & loss A/c** Cr

Particular	Rs	Particular	Rs
To opening stock	17,600	By Cash Sales 5,300	
To goods sent to branch	32,000	Credit sale 43,900	
To wages	400	(-) Return inward 1,000	48,200
		By goods return H.O	480
To gross profit c/d	19,480	By closing stock	20,800
(Balancing figures)			
	69,480		69,480
To bad debts	600	By gross profit	19,480
To allowances	500		

To Rent	1,200		
To salary	1,800		
To net profit	15,380		
(Balancing figure)			
	19,480		**19,480**

Illustration : 12) The Head Office has a branch at Nagpur. Goods are sent by the H.O. to the Branch at selling price which is cost plus 25%. All the expenses of the Branch are paid by the Head Office. All cash collected by the branch is remitted to the Head Office.

From the following prepare Branch Trading and Profit & Loss A/c in the books of the Head Office. Also give a Branch A/c at it would appear in the Head Office.

Head Office		Rs.
Debtors on 1st Jan. 1997		12,000
Debtors on 31st Dec. 1997		14,000
Inventory at invoice Price on 1-1-1997		16,000
Inventory at invoice Price 31-12-1997		17,000
Cash Sales during the year		60,000
Total cash remitted to Head Office		1,27,000
Goods sent to Branch at invoice Price		1,40,000
Goods returned to Head Office		5,000
Cash Sent to Branch for –		
Rent	4,000	
Salaries	6,000	10,000
Discount allowed to debtors		1,500
Bad Debts written off		1,000
Spoilage of Goods		2,000
Returned Goods by Debtors to Branch		500

Solution :

Dr **Branch Debtors A/c** Cr

Particular	Rs	Particular	Rs
To balance b/d	12,000	By cash received from debtors	67,000
To credit sales	72,000	By discount allowed	1,500
		By bad debtors	1,000
		By return inward	500
		By balance c/d	14,000
	84,000		**84,000**

Dr **Branch A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To Op. bal. on asset		By bank a/c	
stock	16,000	Cash sales 60,000	
debtors	12,000	Cash received <u>67,000</u>	
To goods sent to branch	1,40,000	From debtor	1,27,000
To bank a/c (exp) paid		By goods return to H.O.	5,000
Rent	4,000	By cl. bal. on asset	
Salaries	6,000	Stock	17,000
		Debtors	14,000
To goods stock reserve		By stock reserve	
(Loading)	3,400	(Op. loading)	3,200
To goods return H.O.		By goods return H.O.	
Loading	1,000	(Loading)	28,000
To Net Profit	11,800		
	1,94,200		**1,94,200**

Dr **Branch Trading A/c & Profit and Loss A/c** Cr

Particular	Rs	Particular	Rs
To Op. stock	12,800	By sales	
To goods sent to branch	1,12,000	Cash 60,000	
		Credit 72,000	
To Gross profit c/d	25,900	1,32,000	
		(-) Return 500	1,31,500
		By closing stock	13,600
		By goods return H.O.	4,000
		By spoilage goods	1,600
		(2000-400) (loading)	
	1,50,700		**1,50,700**

Particular	Rs	Particular	Rs
To rent	4,000	By Gross profit b/d	25,900
To salaries	6,000		
To discount allowed	1,500		
To bad debts	1,000		
To spoilage of goods	1,600		
To Net profit c/d	11,800		
	25,900		**25,900**

3.2.7 Stock and Debtors Method:

Stock and Debtors System is generally used when the goods are sent to the branch at an "Invoice Price" & the size of the branch is large. Under this system, the H.O. does not open and Branch A/C in its book. It maintain a few control accounts for recording various branch transactions. These accounts usually are

1) Branch stock A/C
2) Goods sent to Branch A/C
3) Branch Debtors A/C

4) Branch Adjustment A/C

5) Branch Expenses A/C

6) Branch Profit & Loss A/C

Note: This system is used only when goods are invoiced at selling price / invoice price.

1) Branch Stock A/C: This is most important account which helps the H.O. in controlling the branch stock. It shows all branch transactions relating to goods. It is a real account. The transactions which increase the Branch Stock balance are recorded on the debit side of Branch A/C. the transactions which decrease the branch stock balance are recorded on credit side of Branch Stock account. This account is always prepared at Invoice Price. The closing balance of stock will be recorded on the credit side of the account. Normally this should be tally both the side. However, after recording the closing balance of stock, if Branch Stock A/C does not tally, it may mean some unnoticed shortage or leakage or even it may be surplus in stock. Thus, the invoice price of such shortage or surplus will have to be recorded in Branch Stock Account (Shortage on the Credit Side & if Surplus on the debit side of Branch Stock A/C). The loading in shortage or surpluses will be transferred to Branch Adjustment Account & cost price will be transferred to P/L A/C. If there is no P/L A/C, then the full amt of shortage or Surplus (IP) will be transferred to Branch Adjustment A/C.

Note: While preparing Branch Stock Account, you will show the actual stock with the Branch, as the balance in this account. And then the total of both side do not tally, you will show the difference as shortage or surplus as the case may be.

2) Goods Sent to Branch Account: This Account prepared in the same manner as in the case of branches to which the goods are sent at Invoice Price.

3) Branch Debtors A/C: This is a personal account. It shows all transactions relating to branch debtors. The opening balance & credit sales are shown on its debit side & cash received from debtors, sales returns, bad debts, discount allowed on the credit side. The balance of this account represents the closing debtors of the branch.

4) Branch Adjustment Account: This account is like a trading account of the branch. It is prepared to ascertained the gross profit or gross loss made at the branch. In this account the difference between the invoice price & cost price will be adjusted.

In other words, the loading on branch opening stock, goods sent to branch, returns by the branch, closing stock & shortage or surplus. The balance of this account reflect the gross profit or gross loss which is transferred to Branch P/L A/C.

If there is no separate P/L A/C, the expenses of branch will be transferred (Debited) to this account only & the profit or loss shown by this account will be transferred to General P/L A/C.

5) **Branch Expenses A/C:** This account will be debited for all expenses relating to the branch. For example Discount allowed, bad debts, depreciation on branch assets, salaries, rent, rates, advertisement, petty expenses etc. The balance of this account will be transferred to the branch P/L A/C or Branch adjustment account, if Branch P/L A/C is not opened.

6) **Branch P/L A/C:** This account is prepared to ascertained the net profit or net loss made at the branch. It is debited with the branch expenses account & loss on account of shortage (cost of such shortage). In the case of branch stock account reveals some surplus, the amount equal to the cost of such surplus will be shown on credit side of this account. After transferring the balance from Branch Adjustment Account, it will reveal either or loss which will be transferred to the General P/L A/C.

Journal Entries

The following journal entries are passed in the Head Office books for opening the above accounts relating to the various branch transactions.

1. When goods are sent to branch (At IP)

Branch Stock A/C Dr.	X	
To Goods sent to Branch A/C		X

2. When goods are returned by the branch to H.O. (at IP)

Goods sent to Branch A/C Dr.	X	
To Branch Stock A/C		X

3. For Cash sent to Branch for Expenses

Branch Expenses A/C Dr.	X	
To Cash / Bank A/C		X

4. **For Cash sent to Branch for Petty Expenses**

Branch Petty Cash A/C Dr.	X	
To Cash / Bank A/C		X

5. **For Cash Sales made by the Branch**

Cash/Bank A/C Dr.	X	
To Branch Stock A/C		X

6. **For Credit Sales made by the Branch**

Branch Debtors A/C Dr.	X	
To Branch Stock A/C		X

7. **For Cash received from Debtors**

Bank A/C Dr.	X	
To Branch Debtors A/C		X

8. **For Sales Return**

Branch Expenses A/C Dr.	X	
To Branch Debtors A/C		X

9. **For Discount Allowed, Bad debts etc**

Branch Expenses A/C Dr.	X	
To Branch Debtors A/C		X

10. **For Shortage of stock**

Branch Adjustment A/C Dr.	X (With Amt of	
Branch P/L A/C Dr.	X Loading cost price)	
To Branch Stock A/C		X (Total IP)

11. **For Surplus of Stock**

Branch Stock A/C Dr. (At IP)

To branch Adjustment A/C (At Loading)

To Branch P/L A/C (At cost)

OR (If P/L A/C is not opened)

Branch Stock A/C Dr. X (IP)

To Branch Adjustment A/C X (IP)

12. For Closing Branch Expenses account

Branch P/L A/C Dr.

To Branch Expenses A/C

13. For Adjusting loading on opening stock

Stock Reserve A/C Dr.

To Branch Adjustment A/C

14. For adjusting of loading on closing stock

Branch Adjustment A/C Dr. X

To Stock Reserve A/C X

15. For Adjustment of Loading on Goods sent to branch

Goods sent to Branch A/C Dr. X

To Branch Adjustment A/C

16. For adjusting of loading on Goods Return by Branch

Branch Adjustment A/C Dr. X

To Goods sent to Branch A/C X

17. For Balance in Goods sent to Branch A/C

Goods sent to Branch A/C Dr. X

To Trading A/C X

18. For Transfer of balance of Branch Adjustment A/C to Branch P/L A/C

a) For Gross Profit

Branch Adjustment A/C Dr. X

To Branch P/L A/C X

b) For Gross Loss

Branch P/L A/C Dr.	X	
To Branch Adjustment A/C		X

19. For Transfer of balance of Branch P/L A/C

a) For Net Profit

Branch P/L A/C Dr.	X	
To General P/L A/C		X

b) For Net loss

General P/L A/C Dr.	X	
To Branch P/L A/C		X

Note: The opening balance of branch debtors, branch stock & Branch Petty Cash will be recorded first in respective account as "To balance b/d".

Illustration : 13) Bhagawan Traders of Poona has a branch at Kolhapur. Goods are sent by head office to Branch at cost +20%. All expenses of the branch are paid through Head office Cash collected by branch are daily deposited to the credit of the Head office account in local bank.

From the following particulars for the year ended 31st Dec. 1994 show Branch profit using stock & debtors system.

Stock on 1-1-1994 at invoice price	12,000
Debtors as on 1-1-1994	6,000
Stock on 31-12-1994 at invoice price	11,400
Debtors on 31-12-1994	7,200
Goods sent to branch at invoice price	78,000
Goods Return to Head office at invoice price	6,000
Cash Sales during the year	54,000
Credit Sales during the year	20,000
Goods Returned by customer	2,000

Cash Received from customers	16,000
Salaries	6,000
Rent	2,000
Discount Allowed	500
Bad debts	300
(Pilferage) on 31-12-94	600

Solution :

Dr **Branch Stock A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To opening balance stock	12,000	By goods return to H.O.	6,000
To goods sent to branch	78,000	By bank A/C	
To branch debtors A/C		(Cash Sales)	54,000
(Return Inward)	2,000	By branch debtors A/C	
		(Credit Sales)	20,000
		By pilferage	600
		By closing stock	11,400
	92,000		**92,000**

Dr **Branch Debtors A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To balance b/d	6,000	By Return inward	2,000
To credit sales		By cash received from	
	20,000	Debtors	16,000
		By discount allowed	500
		By bad debts	300
		By balance c/d	7,200
	26,000		**26,000**

Dr **Branch Adjustment A/c** Cr

Particular	Rs	Particular	Rs
To stock reserve		By stock Reserve	2,000
(Loading cl. stock)	1,900	(Loading op Stock)	13,000
To goods return to H.O.	1,000	By goods sent to branch	
(Loading)		(Loading)	
To pilferage (Loading)	100		
To gross profit	12,000		
(balancing figure)			
	15,000		**15,000**

Dr **Branch expenses A/c** Cr

Particular	Rs	Particular	Rs
To branch exp on H.O			
Salaries 6,000		By profit & Loss A/c	8,800
Rent 2,000	8,000		
To branch debtors A/c			
Discount allowed 500			
Bad debts 300	800		
	8,800		**8,800**

Dr **Branch P & L A/c** Cr

Particular	Rs	Particular	Rs
To pilferage (600-100)	500	By Gross profit	12,000
(less - loading)			
To branch exp A/C			
(Profit & Loss)	8,800		
To Net profit			
(balancing figure)	2,700		
	12,000		**12,000**

Illustration : 14) Shri Tushar has a retail branch at Kolhapur, goods are sent by Tushar (H.O.) to the branch marked at selling price which is cost plus 25%. All the expenses of the branch are paid by H.O. All cash collected by the branch is deposited to the credit of H.O.

From the following particulars of the branch, prepare Branch Stock Account, Br. Adjustment A/c, Br. Debtors A/c Br. Expenses A/c, Br. P&L A/c, and goods sent to Br. A/c in the books of Head office.

Debtors on 1-1-2002	12,000
Debtors on 31-12-2002	14,000
Inventory with branch at (I.P.) on	
1 -1-2002	16,000
31-12-2002	17,000
Cash sales during the year	60,000
Total amount deposited in H.O. A/c during the year	1,27,000
Return of goods to H.O. at I.P.	5,000
Salaries paid	6,000
Rent paid	4,000
Discount allowed to customers	2,000
Bad debts written off	1,000
Goods sent to branch at I.P.	1,40,000

Solution :

Dr **Branch Stock A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To op. stock at branch	16,000	By bank A/C	
To goods sent to branch	1,40,000	(cash sales)	60,000
		By goods return to H.O.	5,000
		By branch debtor A/C	
		(balancing figure)	72,000
		By shortage	2,000
		(balancing figure)	
		By closing stock	17,000
	1,56,000		**1,56,000**

Dr **Branch Debtors A/c** Cr

Particular	Rs	Particular	Rs
To balance b/d	12,000	By cash received from	
		Debtors	67,000
To credit sales	72,000	By discount allowed	2,000
(balancing figures)		By bad debts	1,000
		By balance c/d	14,000
	84,000		**84,000**

Dr **Branch Adjustment A/c** Cr

Particular	Rs	Particular	Rs
To stock reserve		By stock reserve	
(loading cl. stock)	3,400	(Loading op stock)	3,200
To goods return to H.O.		By goods sent to branch	
(Loading)	1,000	(Loading)	28,000
To shortage	400		
To Gross profit	26,400		
	31,200		**31,200**

Dr **Branch Expenses A/c** Cr

Particular	Rs	Particular	Rs
To branch exp on H.O.			
Salaries 6,000		By profit & loss A/C	13,000
Rent 4,000	10,000		
To branch debtors A/C			
Discount all 2,000			
Bad debts 1,000	3,000		
	13,000		**13,000**

Dr **Branch Profit & Loss A/c** Cr

Particular	Rs	Particular	Rs
To shortage	1,600	By Gross profit	26,400
To branch exp A/C	13,000		
To net profit	11,800		
(balancing figure)			
	26,400		**26,400**

Dr **Goods Sent to. Branch A/c** Cr

Particular	Rs	Particular	Rs
To goods return to H.O.	5,000	By goods sent to branch	1,40,000
To trading A/C	1,35,000		
	1,40,000		**1,40,000**

Illustration : 15) Arvind agencies opened a branch in Bangalore on 1st April, 2004. Goods were invoiced at selling price which was at cost plus 25%. From the following particulars relating to the year ended on 31st March 2005, prepare various accounts under "Stock and Debtors System."

Particulars			**Rs.**
Goods sent to Branch			3,00,000
Sales – Cash			1,00,000
Credit			1,40,000
Goods returned by customers			3,000
Cash received from customers			80,000
Discount allowed			1,000
Cash remitted to Branch for :			
	Rent and Rates	1,500	
	Salaries	6,000	
	Sundry expenses	1,000	8,500

Defective goods written off	1,000
Goods returned by branch	12,000
Stock on 31st March, 2005	50,000
All Cash received by branch is remitted to Head Office.	

Solution :

Dr **Branch Stock A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To goods sent to branch	3,00,000	By bank A/c	
To branch debtors A/C	3,000	Cash Sales &	1,00,000
(Return Inward)		By branch debtors A/C	
		(Credit Sales)	1,40,000
		By goods return by H.O.	12,000
		By defective goods	1,000
		By closing stock	50,000
	3,03,000		**3,03,000**

Dr **Branch Debtor A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To balance b/d		By branch stock A/C	3,000
To credit sales	1,40,000	(Return Inward)	
		By Cash received form	
		Debtors	80,000
		By discount allowed	1,000
		By balance c/d	56,000
		(balancing figure)	
	1,40,000		**1,40,000**

Dr **Branch Adjustment A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To defective goods (loading)	200	By goods sent to branch	60,000
To goods return cn. H.O.		(Loading)	
(Loading)	2,400		
To stock Reserve			
(Loading cl. Stock)	10,000		
To Gross profit	47,400		
	60,000		**60,000**

Dr **Branch Expenses A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To branch debtors A/C	1,000	By P & L A/C	9,500
(discount allowed)		(transfer)	
To branch exp. on H.O.			
Rent & Rates 1,500			
Salaries 6,000	8,500		
S. expenses 1,000			
	9,500		**9,500**

Illustration : 16) M/s Kolhapur Traders has a branch at Poona. The goods are invoiced to the branch at cost plus 50%. From the following particulars prepare Branch Stock A/c, Branch Debtors A/c, Branch Expenses A/c. Branch Adjustment A/c and Branch Profit and Loss A/c in the books of Head Office.

	Rs.
Stock on 1-1-2004 (at invoice price)	12,000
Debtors on -2004	6,000
Goods sent to branch (at invoice price)	60,000
Cash sales	21,400
Credit sales	34,000
Cash received from debtors	29,200
Discount allowed to debtors	600

Bad debts	200
Goods returned from debtors	2,000
Goods returned by branch to Head office (invoice price)	3,000
Cheques sent to branch for	
Salary - 4,000	
Rent - 2,000	
Sundry Expenses - 600	6,600
Stock on 31-12-2004 (at invoice price)	15,000
The difference in stock represents shortage.	

Solution :

Dr **Branch Stock A/c** Cr

Particular	Rs	Particular	Rs
To opening bala. Stock	12,000	By bank A/C	21,400
To. Goods sent to branch	60,000	(Cash sales)	
To branch Debtors A/C	2,000	By branch Debtors A/C	34,000
(Return Inward)		(Credit sales)	
		By goods related by H.O.	3,000
		By Closing Stock.	15,000
		By Shortage	600
	74,000		**74,000**

Dr **Branch Debtors A/c** Cr

Particular	Rs	Particular	Rs
To balance b/d	6,000	By cash received from	29,200
To credit sales	34,000	Debtors	
		By discount allowed	600
		By bad debts	200
		By Branch Stock A/c	2,000
		(return inward)	
		By balance c/d	8,000
		(balancing figure)	
	40,000		**40,000**

Dr **Branch Adjustment A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To goods return to H.O. (loading)	1,000	By stock Reserve (Loading op stock)	4,000
To stock Reserve (Loading cl stock)	5,000	By goods sent branch	20,000
To shortage (Loading)	200		
To gross profit	17,800		
	24,000		**24,000**

Dr **Branch Expenses A/c** Cr

Particular		**Rs**	**Particular**	**Rs**
To branch debtor A/c			By P & L A/c (balance) transfer	7,400
Discount all	600			
Bad debt	200	800		
To branch exp. on H.O.				
Salary	4,000			
Rent	2,000			
Exp.	600	6,600		
		7,400		**7,400**

Dr **Branch Profit & loss A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To shortage	400	By branch adj. A/C	
To branch exp A/C	7,400	By Gross profit	17,800
To Net profit	10,000		
	17,800		**17,800**

Illustration : 17) M/s Ganesh Traders. Sangli has a branch at Miraj. The goods are invoiced to the branch so as to show a profit of 30% on Invoice price and selling goods only at invoice price. Following are the transaction relating to the branch.

	Rs.
Stock on 1 – 4 – 2007 (Invoice Price)	6,000
Debtors on 1 – 4 – 2007	3,100
Goods sent to branch (at Invoice Price)	17,500
Goods returned by branch (Invoice Price)	500
Credit sales made	10,500
Cash sales	10,000
Goods returned by Customers	300
Cash form debtors	9,500
Discount allowed to debtors	150
Allowances to debtors	100
Bad debts	300
Cheques sent to Branch for :	
Salaries	1,650
Rent and rates	1,000
Shortage of goods at the Branch	200
You are requested to prepare : 1) Branch Stock A/c 2) Branch Debtors A/c 3) Branch Expenses A/c 4) Branch Adjustment A/c	

Solution :

Dr **Branch Stock A/c** Cr

Particular	Rs	Particular	Rs
To. Op. stock of branch	6,000	By goods return by. H.O.	500
To goods sent to branch	17,500	By shortage of goods	200
To branch debtors A/C		By branch debtors A/C	10,500

(Return Inward)	300	(Credits sales)	
		By bank A/C	10,000
		(Cash sales)	
		By closing Stock	2,600
	23,800		**23,800**

Dr **Branch Debtors A/c** Cr

Particular	Rs	Particular	Rs
To balance b/d	3,100	By Return Inward	300
To credit sales	10,500	By cash received	
		Debtors	9,500
		By discount allowed	150
		By allowances	100
		By bad debts	300
		By balance c/d	3,250
	13,600		**13,600**

Dr **Branch Adjustment A/c** Cr

Particular	Rs	Particular	Rs
To goods return H.O.	150	By stock reserve	1,800
To shortage	60	(loading op stock)	
To stock reserve	780	By goods sent to branch	5,250
(loading cl. stock)			
To Gross profit	6,060		
	7,050		**7,050**

Dr **Branch Expenses A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To branch debtors A/c		By P & L A/c	3,200
Discount allowed 150		(transfer)	
allowance 100			
bad debts 300	550		
To branch exp. on H.O.			
Salaries	1,650		
Rent	1,000		
	3,200		**3,200**

Dr **Branch Profit & loss A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To shortage	140	By branch Adj. A/c	6,060
To branch exp A/c	3,200	Gross profit	
To Net profit	2,720		
(balancing figure)			
	6,060		**6,060**

Illustration : 18) India Stores Ltd. Bombay has a branch at Kolhapur. Goods are invoiced to the branch so as to show a profit of 20% on Invoice price under the instructions of selling goods only at invoice price following are the particulars relating to the Branch.

Particulars	**Amount**
1. Balance on 1st Arpil 2002	
Stock (at invoice price)	30,000
Branch Debtors.	10,000
Petty Cash at the Branch	50
2. Transactions during the year, 2000-03	

Goods invoiced to Branch		3,25,000
Cash Sales at the Branch		10,000
Credit Sales at the Branch		1,00,000
Credit Sales at the Branch		1,75,000
Goods pilfered (Stolen in small quantities) at Invoice Price		2,000
Goods lost in fire at invoice price		5,000
Received from Insurance Company Against loss by fire		3,000
Discount & Allowances made to Customers		2,000
Bad Debts		500
Goods Returned by Debtors		2,000
Goods transferred to Sangli Branch on H.O. advice		15,000
Cash sent to branch for:	**Rs.**	
Rent & Taxes	4,000	
Salaries & Wages	6,000	
Petty Cash	400	
Insurance	2,600	13,000
3. Balances on 31^{st} March, 1993		
Stock at the Branch		
Debtors		14,000
Petty Cash		35

Goods worth Rs. 15,000 (included above) sent by Kolhapur branch to Sangli branch were in transit on 31^{st} March, 2003

Find out branch Profit or Loss by

Preparing:

(i) Branch Stock Account, (i) Branch Debtors Account, (iii) Branch Expenses Account, (iv) Branch Petty Cash Account (v) Branch Adjustment Account and (vi) Branch Profit & Loss A/c

Solution :

Dr **Branch Stock A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To balance b/d	30,000	By goods return by branch	1,000
To goods sent to branch	3,25,000	By bank A/c	10,000
To branch debtors A/c	2,000	(Cash sales)	
(Return Inward)		By branch debtors A/c	
		(Credit Sales)	17,500
		By goods pilfered	2,000
		By goods lose in fire	
		By received 5,000	
		Insurance From	2,000
		company 3,000	
		By goods transferred	15,000
		By Sangli branch H.O.	3,000
		By Received from Insurance	
		Company	
		By closing Stock	50,000
		(Balancing in figure)	
	3,57,000		**3,57,000**

Dr **Branch Debtors A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To balance b/d	10,000	By discount allowed	2,000
To credit sales	1,75,000	By bad debts	500
		By return inward	2,000
		By cash received	
		From debtors	16,650
		(bal in figure)	
		By balancing c/d	14,000
	1,85,000		**1,85,000**

Dr **Branch Adjustment A/c** Cr

Particular	Rs	Particular	Rs
To goods return by branch	2,000	By stock reserve	6,000
To pilfered (loading)	400	(loading op stock)	
To loss by fire	400	By goods sent to Branch	65,000
(loading)			
To goods transfer	3,000		
(Loading)			
To stock reserve	10,000		
(Loading cl. Stock)			
To grass profit	55,200		
	71,000		**71,000**

Dr **Branch Petty Cash A/c** Cr

Particular	Rs	Particular	Rs
To balance b/d	50	By petty exp for	
To petty cash exp	400	Branch A/c	415
On. H.O.		(balancing figure)	
		By balance c/d	35
	450		**450**

Dr **Branch Expenses A/c** Cr

Particular	Rs	Particular	Rs
To branch debtors A/C		By profit & loss A/C	15,915
Discount allowed 2,000		(transfer)	
Bad debt 500	2,500		
To petty exp at branch	415		
To branch exp H.O.			
Rent tax 4,000			
Salary & wag 6,000			
Petty Cash 400			
Insurance 2,600	13,000		
	15,915		**15,915**

Dr **Profit & Loss A/c** Cr

Particular	**Rs**	**Particular**	**Rs**
To pilfered (2,000 - 400)	1,600	By Gross profit	55,200
To loss by fire	1,600		
To branch exp A/C	15,915		
To Net profit (balancing figure)	36,085		
	55,200		**55,200**

Check Your Progress

A) Fill in the blanks

1) The branch expenses paid by the H.O. are ……………to the Branch A/C
2) The balance in Goods sent to Branch A/C is transferred to ………….A/C
3) Loading is the ………….between cost price & invoice price
4) If the cost price is Rs. 100 & the invoice price is cost plus 20% on invoice price, the invoice price is Rs………..
5) The closing balance of Branch Account under the Final Account System represent…………… at the branch
6) Under stock and Debtor System, all figure in Branch Stock Account are recorded at…………………. Price.
7) Under the stock and Debtor System, Bad debts are credited to Branch Debtors A/C & Debited to ……………..Account.
8) ……………. Branch receives the goods form H.O., also purchases the goods from out side parties
9) Under Independent Branch, the H.O. A/C in the books of Branch is ………. With cash sent to the H.O. & goods returned to the H.O.
10) Under Independent Branch, the H.O. A/C maintained by the branch is the nature of …………….. Account.

3.3 Summary :

The branches are classified in three types-

1. **Dependent Branches**
2. **Independent Branches**

The policies and administration of a branch are totally controlled by the Head office (H.O) and who maintains it's books of accounts these branches are called as dependent branches.

The accounting system of dependent branches based on size of a branch and degree of control to be exercised by the H.O. There are three main methods of accounting under Dependent branches.

1. **Debtors system** – This system of accounting is suitable for the small size branches.
2. **Final account system** – Under this system the H.O. prepares a trading and profit and loss account.
3. **Stock and Debtors system** – This system of accounting is applied by those branches whose turnover is sufficiently large. Instead of preparing only branch account in the books of Head Office, The head office prepare branch stock Account, Branch adjustment Account, Branch Debtors Account, Branch expenses Account, Branch Petty cash account, Goods sent to branch Account and branch profit and loss Account etc.

3.4 Terms to remember:

Debtors System: A system of accounting for transactions of branch by opening Branch Account which also helps to ascertain branch profit or loss.

Final Account System:A system of accounting for transaction of a branch under which branch profit or loss is ascertained by preparing Memorandum Branch Trading & P/L A/C

Branch Adjustment Account: An Account prepared under stock & debtor system for ascertaining the gross profit or gross loss made by a branch.

Stock & Debtors System:A system of accounting for transactions of a branch without opening a Branch Account. Under the system, branch profit or loss is ascertained through Branch Adjustment A/C

General Profit & Loss A/C: Profit or loss A/C of H.O. which shows profit or loss of the business unit as whole

Cash in Transit: Cash remitted by branch to H.O. but not received by H.O. by the end of accounting year or vice-versa.

Goods in transit: Goods send by H.O. to branch but not received by branch by the end of the accounting year or vice-versa.

Inter – branch transactions: The transactions between two or more branches under the same H.O.

Abridged Incorporation: A short cut method of incorporating the branch balances in H.O. Books

Loading: Difference between the cost price & price at which goods are invoiced to the branch.

3.5 Answers to Check Your Progress:

1) Debited
2) Trading
3) Difference
4) Rs. 120
5) Net Asset
6) Invoice Price
7) Branch Expenses A/C
8) Independent
9) Debited
10) Personal

3.6 Exercises:

Short Answer Question:

1) What do you mean by a branch
2) What are thi objectives of keeping branch account?
3) What object is served in invoicing goods to branch at invoice price?
4) What is Stock & Debtors System?
5) What do you mean by dependent branch?
6) What do you mean by cash in transit?

7) Neha Co. Ltd. invoices goods to Kolhapur Branch at cost. Branch sells goods on credit as well cash basis. Prepare Branch Account in the Books of Head Office 31.03.2011

Particulars	Rs.
Stock 01.04.2010	62,500
Debtors 01.04.2010	1,22,500
Petty Cash 01.04.2010	750
Stock 31.03.2011	72,500
Goods supplied to Branch	2,27,000
Goods returned by Branch	3,000
Cash remitted to Branch for	
Rent	6,000
Salary	22,500
Petty Cash	5,000
Cash sales	1,64,000
Total sales	4,06,500
Petty Cash expenses at Branch	4,150
Bad debts	2,000
Goods returned from customer	11,500
Discount allowed to customer	7,500
Cash received from customer	1,63,000

(Branch A/C Profit Rs. 1,38,850)

8) The Modern Trading Company of Solapur, has a branch at Kolhapur. Goods are sent to branch at cost plus 20%. All cash received is deposited in to the Head Office account in local branch & the necessary advice is sent to H. O. The H. O. sends cheques for branch expenses.

From the following particulars draw up the Branch Account in the H. O. books.

Particulars	Rs.
Stock at branch on 01.01.2012	36,000
Stock at branch on 31.12.2012	45,600
Goods sent to branch	1,44,000
Goods return to H. O.	8,400
Cash sales for the year	78,000
Credit sales for the year	50,400
Return from customers	2,400
Cash received from customers	40,000
Discount to customers	1,000
Bad debts	1,000
Sundry debtors on 01.01.2012	12,000
Sundry debtors on 31.12.2012	18,000
Salaries & wages	8,000
Rent & rates	3,000

(Branch A/C Profit Rs. 8,000)

9) Mr. Chitale Trading Co. Sangli has a branch at Pune. The goods are invoiced to the branch at cost plus 50%. From the following prepare Pune branch account in the books of Chitale Trading Co.

Particulars	Rs.
Stock on 01.04.2012 (at invoice price)	1,50,000
Debtors on 01.04.2012	75,000
Goods sent to branch (at invoice price)	7,50,000
Cash sales	2,67,500
Credit sales	4,25,000
Cash received from debtors	3,65,000
Discount allowed to debtors & bad debts	10,000
Goods returned from debtors	25,000

Goods returned by branch to H. O.	37,500
Cheques sent to branch for Salary	50,000
Rent	25,000
Other expenses	7,500
Stock on 31.03.2013 (at invoice price)	1,87,500
Debtors on 31.03.2013	1,00,000
Shortage of stock	7,500

(Branch A/C Profit Rs. 1,20,000)

10) Hira Stores Ltd. with its Head Office at Sangli invoiced goods to its branch at Poona at 20% less than the list price. The list price is cost plus 100% (Profit). Following are the particulars relating to the branch for the year ended 31st December 2012.

Particulars		**Rs.**
Stock at branch (on 01.01.2012 at invoice price)		32,000
Branch Debtors (on 01.01.2012)		16,000
Petty cash at branch (on 01.01.2012)		250
Goods sent to branch at invoice price		3,20,000
Goods returned by the branch		32,000
Goods returned by Debtors		4,000
Total sales made by the branch		2,20,000
Cash sale made by the branch		80,000
Total cash remitted to H. O.		2,00,000
Discount & allowances made to Debtors		8,000
Cash sent by the H. O. for:		
Salaries	5,600	
Rent	4,400	
Insurance (for 12 months upto 31.03.2013)	2,400	
Petty cash	1,000	13,400
Stock at branch (on 31st December 2012 at invoice price)		40,000
Petty expenses at the branch		1,150

Ascertain the profit or loss made by the branch by preparing the branch account in the books of H. O.

(Branch A/C Profit Rs. 20,050)

11) A Head Office in Mumbai supplies goods to its branch at Nagpur at 20% profit on sales. Branch remits all cash daily to H. O. all expenses at branch except petty expenses are paid by H. O. Charge depreciation on furniture 10%.

Particulars	**Rs.**
Stock on 01.01.2011	45,000
Sundry debtors on 01.01.2011	27,000
Petty cash on 01.01.2011	1,200
Furniture on 01.01.2011	3,600
Goods invoiced to branch	2,40,000
Goods returned by branch	3,000
Goods returned by customers	1,440
Cash received from debtors	90,000
Total sales (including cash Rs. 1,50,000)	2,40,000
Discount allowed	600
Bad debts	300
Cash sent to branch for:	
Rent	3,000
Salary	7,800
Advertisement	900
Petty expenses paid by branch	8,400
Pilferage of goods at branch at invoice price	3,000
Stock on 31.12.2011 at invoice price	39,000

From the above information prepare Branch A/c in the Books of H. O.

(Branch A/C Profit Rs. 25,200)

12) Anil Enterprises, Nagpur has its branch at Latur, goods are consigned to the Latur branch at cost. The branch is given a standing instruction to send all cash daily to H. O. all expenses are paid by H. O. petty expenses which are met by the branch manager. From the following particulars, prepare Latur branch account in the books of Anil Enterprises Nagpur.

Particulars	**Rs.**
Stock on 01.04.2010	15,000
Sundry Debtors on 01.04.2010	30,000
Cash in hand 01.04.2010	1,500
Office furniture 01.04.2010	18,000
Prepaid expenses 01.04.2010	750
Outstanding electricity charges 01.04.2010	4,020
Goods sent to branch	90,000
Goods returned to H. O.	5,400
Goods returned by Debtors	3,600
Cash received from Debtors	51,000
Cash sales	54,000
Credit sales	63,000
Discount allowed to Debtors	3,000
Expenses paid by H. O.	17,100
Petty expenses incurred	1,200
Stock on 31.03.2011	18,000
Prepaid expenses on 31.03.2011	450
Outstanding electricity charges on 31.03.2011	4,320

Depreciation is to be provided on branch furniture at 15% p.a.

(Branch A/C Profit Rs.9,900)

13) From the following particulars relating to Poona Branch for the year ending 31st March 2010.

Particulars	**Rs.**
Stock at Branch 1st April 2009	58,900
Branch Debtors 1st April 2009	14,700
Petty Cash at Branch 1st April 2009	720
Goods sent to Branch during the year	3,29,400
Cash sales during the year	3,15,800
Credit sales during the year	1,40,400
Cash received from debtors	1,37,900
<u>Cash sent to Branch for expenses</u>	
Rent	12,000
Salaries	36,000
Petty Cash	7,000
Stock at Branch 31st March 2010	55,400
Petty Cash at Branch 31st March 2010	730
Goods returned by Branch	1,800

From the above information prepare

A) Branch Trading and Profit and Loss Account **(Net Profit Rs.70,110)**

B) Branch A/c in the books of Head Office. **(Profit Rs.70,110)**

14) From the following particulars relating to Sangli Branch of M/s. Vijay Traders, Satara.

Particulars	**Rs.**
Debtors 01.04.2011	60,000
Stock 01.04.2011	50,000
Petty Cash 01.04.2011	500
Debtors 31.03.2012	80,000
Stock 31.03.2012	45,000
Petty Cash 31.03.2012	1,000

Transactions during the year were:	
Goods sent to branch during 2011.12	1,50,000
Cash sent to branch during 2011.12	
For salary & Wages	30,000
For Rent, Rates etc.	10,000
For Petty Cash	4,500
Goods returned by branch during 2011.12	9,000
Cash remitted by branch during 2011.12	
Received for cash sales	80,000
Received from Debtors	1,40,000
Credit sales during 2011.12	17,000
Discount allowed to Debtors	4,000
Bad debts written off	2,500
Goods returned by Debtors	3,500

From the above information prepare

A) Branch Trading and Profit and Loss Account **(Net profit Rs.50,000)**

B) Branch A/c in the books of Head Office. **(Profit Rs.50,000)**

15) Bharat Co. Ltd. invoices goods to Delhi Branch at cost. The branch sells goods on credit as well as for cash. From the following information relation to the Branch for the year ended 31.03.2013

Particulars	**Rs.**
Stock 01.04.2012	1,25,000
Stock 31.03.2013	1,45,000
Debtors 01.04.2012	2,45,000
Petty Cash 01.04.2012	1,500
Goods supplied to branch	4,54,000
Goods returned by branch	6,000
Cash remitted to branch for:	
Rent	12,000
Salary	45,000

Petty cash	10,000
Cash sales	3,28,000
Total sales	8,13,000
Cash received from customers	3,26,000
Discount allowed to customers	15,000
Bad Debts	4,000
Goods returned from customers	23,000
Petty cash expenses at branch	8,300

From the above information prepare

A) Branch Trading and Profit and Loss Account **(Net Profit Rs.2,77,700)**

B) Branch A/c in the books of Head Office. **(Profit Rs.2,77,700)**

16) The Head Office has a branch at Nagpur goods are sent by the H. O. to the branch at selling price which is cost plus 25% all the expenses of the branch are paid by the Head Office. All cash collected by the branch is remitted to the H. O.

Particulars		**Rs.**
Debtors on 1st January 2010		18,000
Debtors on 31st December 2010		21,000
Inventory at invoice price on 01.01.2010		24,000
Inventory at invoice price on 31.12.2010		25,500
Cash sales during the year		90,000
Total cash remitted to H. O.		1,90,000
Goods sent to branch at invoice price		2,10,000
Goods returned to H. O.		7,500
<u>Cash sent to branch for:</u>		
Rent	6,000	
Salaries	<u>9,000</u>	15,000
Discount allowed to debtors		2,250

Bad debts written off		1,500
Spoilage of goods		3,000
Returned goods by debtors to branch		750

From the above information prepare

A) Branch Trading and Profit and Loss Account **(Net Proft Rs. 17,200)**

B) Branch A/c in the books of Head Office. **(Profit Rs. 17,200)**

17) Rohan Co. Ltd. Delhi invoices goods to its Mumbai branch at 20% above cost. The branch sells the goods on cash as well as on credit & remits all cash received to the branch. All the expenses of branch are met by Head Office. From the following information relating to branch as on 31.12.2011.

Particulars		**Rs.**
Stock on 01.01.2011 (invoice price)		48,000
Stock on 31.12.2011 (invoice price)		72,000
Debtors on 01.01.2011		20,000
Debtors on 31.12.2011		24,000
Cash sales remitted to H. O.		86,000
Cash collected from debtors & remitted to H. O.		1,60,000
Goods sent to branch (invoice price)		2,40,000
Expenses paid by H. O. for:		
Salary	36,000	
Rent & Rates	8,000	
Stationary	1,200	
Petty cash	400	45,600
Goods returned by branch to H. O. (invoice price)		9,600
Petty cash on 01.01.2011		1,200
Petty cash on 31.12.2011		400
Credit sales		1,68,000
Discount allowed to customers		3,000
Bad Debts		1,000

Prepare branch account under stock and debtors system.

(Profit Rs.31,600)

18) Bajaj Traders of Poona has a branch at Mumbai to which goods are supplied by Head Office at 25% on cost price. Branch remits all cash received to the Head Office and all expenses, except petty cash expenses of the Brach are paid by the Head Office by cheques taking into consideration the following information for the year ended 31st March 2013.

Particulars		**Rs.**
Stock at branch on 01.04.2012		75,000
Branch Debtors on 01.04.2012		7,500
Petty cash at branch on 01.04.2012		750
Goods sent to branch		1,25,000
Cash sales		40,000
Credit sales		1,75,000
Cash received from debtors		1,25,000
Goods returned by debtors		1,500
Discount allowed to customers		4,500
Bad Debts written off		2,800
Cheques sent to branch for expenses:		
Salaries	6,000	
Rent	1,800	
Advertisement	900	8,700
Bills receivable from debtors		3,000
Petty expenses incurred by the branch		6,500
Cash sent to branch for petty expenses		800
Stock at branch on 31.03.2013		42,000

Prepare branch account under stock and debtors system.

(Profit Rs. 64,600)

19) Patel Bro. Poona has a branch at Delhi all goods required for sale at Delhi are supplied from Poona at cost plus 25% and all cash received at the branch is banked daily in the Head Office account opened in a bank at Delhi.

Particulars	**Rs.**
Stock 01.01.2011	15,800
Debtors 01.01.2011	22,600
Petty cash 01.01.2011	180
Returns inward	800
Goods invoiced to branch	50,000
Returns goods to H. O.	2,000
Bad debts	200
Cash sales	2,800
Branch expenses paid by H. O.	
Rent	2,800
Salary	3,000
Sundries	1,400
Allowance given	900
Petty cash expenses at branch	480
Total sales	69,800
Remittance to branch for petty cash	560
Stock 31.12.2011	16,800
Debtors 31.12.2011	39,000

Prepare branch account under stock and debtors system.

(Profit Rs. 22,620)

20) Hind Ltd. Solapur has a Branch at Kolhapur. Goods are invoiced to branch at 20% on sales. The branch has been instructed to send all cash to the Head Office daily and all its expenses are paid by the Head Office. The following is the summary of transactions at this branch for the year 2011.12

Particulars		**Rs.**
Stock on 01.04.2011 (invoice price)		3,00,000
Branch Debtors on 01.04.2011		1,80,000
Petty cash on 01.04.2011		8,000
Goods sent to branch (at invoice price)		16,00,000
Goods returned by branch		20,000
Goods returned by customers		4,800
Cash received from customers		6,00,000
Cash sales		10,00,000
Credit sales		6,00,000
Discount allowed to customers		600
Petty expenses incurred by branch		14,000
Expenses paid by H. O.		
Rent	24,000	
Salary	48,000	
Printing & Stationary	6,000	
Petty cash	12,000	90,000
Balance on 31.03.2012		
Stock (invoice price)		2,80,000
Provision for Doubtful Debts		2,000

Prepare branch account under stock and debtors system.

(Profit Rs. 2,32,200)

3.7 Reference to Further Study:

1) Introduction to accounting S.N. Maeshwari, Vikas Publishing House, New Delhi.

2) Advanced accounts – Shukla M.C. & T. S. Garewal 'S' Chand and Co. Pvt. Ltd. New Delhi

3) Modern accountancy volume II Tata Mcgrew Hill Publishing Co. Ltd, New Delhi.

4) Mukherjee A, Hajif M. , Modern accountancy, New Delhi.

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Unit-4

Computerized Accounting System

Structure of Unit

4.0 Objectives:

After studying you will understand-

- Meaning, Definition, Advantages of Computerised Accounting
- Comparision between Manual Accounting & Computerised Accounting
- Accounting software-Tally, versions and features of tally
- Preparation of vouchers, steps, selection, types with examples.
- Altering, deleting of vouchers, Feeding of data & Generating of reports.

4.1 Introduction:

Accounting is the language of business. It may be 'Manual' or 'Computerized'. This means either 'Man; or 'Machine'. But in the corporate world, there is a need of 'Man with Machine' which increases efficiency, knowledge and skills in accounting. Today, an electronic device such as computer has made a drastic change in the business world. The man has physically and mentally limitations. Due to this, Manual accounting system is replaced to Electronic based Accounting System, which is termed as Computer Accounting System. It is very easy to apply the computer accounting system due to the varied characteristics and benefits in the business. The innovations in accounting packages or software's like Tally ERP helps in preparation of accounting records like day record, vouchers, financial statements to know the financial position of any business and various reports. It also analyses the accounting data with ratio, cash flow and funds flow techniques.

4.2. Presentation of Subject Matter

4.2.1 Meaning and Definition of Computerized Accounting

The Transaction Processing System (TPS) is the first and prime stage in computerized accounting. The main object of TPS is to record, process, validate and store transactions of the business for further process.

TPS involves the following steps in processing a transaction:

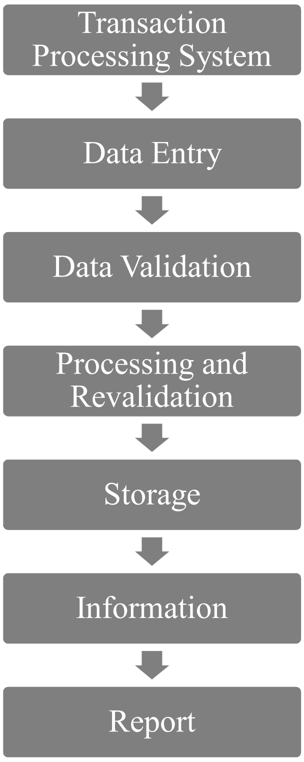


Figure 4.2.1- Transaction processing system

A Computer Accounting System is the modernization of manual accounting with an electronic device.

A Computerised Accounting System is an accounting information system so as to process the financial data transactions and events as per Generally Accepted Accounting Principles (GAAP) to generate reports as per the need of users.

The Computerized Accounting has two basic important essentials:

1. Accounting framework: The set of accounting principles, coding and grouping of accounts or structure is a pre-condition of accounting framework.

2. Operating procedure: Though it is a database oriented application, it operates the system for storing and processing the data.

Computerized Accounting refers to the accounting system that uses three accounting software's viz. ready –to-use, customized and/or tailored to maintain a record of financial transactions and generate financial statements for analysis with a specific tool or technique.

4.2.2.Comparison of Manual Accounting and Computerised Accounting:

Sr. No	Points	Manual Accounting	Computerised Accounting
1	Identification of transaction/accounts	It is the basic function of Manual accounting is to understand the transaction and identify the accounts involved in it. It helps the user to apply the principles of accounting.	As manual accounting system, computer accounting system has also the same function.
2	Recording Data	In manual accounting, Journal is the prime book of original entry of accounting transaction. The data is recorded in Journal Book.	An user has to enter the data with the help of vouchers into a database system. The computer captures/records the data using input device.
3.	Classification of accounts	The recorded entry in journal, further classify into subsidiary ledgers.	The stored data can be converted and processed by device and generates the necessary reports in

			the form of ledgers.
4.	Data Processing/ Summarising	It summarises journal, ledger accounts and balances of each account is to be taken gross trial balance and prepared final net trial balance.	The data is processed and update the balances of ledger accounts and prepares the report of trial balance.
5.	Adjusting Entries	Adjusting entries are to be made to rectify the errors of principle, commission, omission etc. due to lack of knowledge of accountant.	The principle errors may be made by the accountant due to his sufficient knowledge of accounting. These errors can be only rectified in computerized accounting.
6.	Financial statements and Management reports	On the basis of trial balance, financial statements, required management reports are to be prepared.	Computer program operations provide reports of financial statements and specialized MIS reports.
7	Closing of books	On the basis of closing balances of accounts and by making reverse journal entries, an accountant does the preparation for the next accounting period.	There is no need of accountant to do this all. The database system of computer accounting provides closing and opening balances on certain dates of accounting period.
8	Audit Trail	It is easy to find out a source of document of journalizing and ledger postings for audit trail.	It is difficult due to data storage and hidden manipulated arithmetic data.

9	Cost of Reports	The cost of preparation management reports than financial statements is quite high.	It provides management reports in the form of ratios, funds flow /cash flow statement, budges to make a decision at low cost.

4.2.3 Advantages of Computerized Accounting:

As compared to the manual accounting system, computer accounting system provides the benefits of speed and accuracy in work. The following are the main advantages of computer accounting system:

1. Save in time and increase efficiency:

Due to high speed, computer performs a task of accounting very fast. As a result, it saves time and increase an efficiency of business.

2. High storage Capacity:

The computer has a high storage capacity of accounting data. it can be stored in hard disk, compact disc, digital video disc, DVD or magnetic tape. Therefore, there is no need to maintain various books**.**

Storage device	Data Capacity
Hard Disc	100 GB
Compact Disc	700 Megabytes
DVD	4700 Mb or 4.7GB

3. Numerous Transactions:

The Speed and accuracy is the prime feature of computer accounting system. Due to this, the system has a large capacity to do the numerous transactions.

4. Less Paper Work:

There is a need of maintaining various books or registers e.g journals, ledgers, subsidiary books to keep the record of business. But computer accounting system has a large capacity of storage the accounting data; hence it reduces and saves the paper work.

5. Accuracy/correctness:

Computer accounting software tally helps in maintaining accuracy in accounting. Once the voucher entry is correctly recorded, it prepares the other statements of accounts with accuracy.

6. Reduce Accounting Errors:

The accounting softwares are ready and updated on the basis of accounting principles and process. It is very well computerized. It does the financial, cost and tax/ GST accounting of any business properly. As a result, it helps in reduction of accounting errors.

7. Reliable and Secured:

The computer accounting system provides reliable data and high security to data and information. It maintains secrecy in the business.

8. Reduce Cost:

In Multinational companies or large scale organizations, there is a need of more manpower for data entry of vouchers or accounting work. But due to computer accounting system, it is possible to reduce the excess cost on work.

9. Multiple users:

In multinational Companies or large scale business organizations, many users can use the accounting information and data at the same time. e.g authorities in Banks, institutions, sales/purchase managers in companies etc. can access the accounting information whenever they required.

10. Quick information and reporting:

Due to computer accounting system, it is very easy to access data and information as per the need of business quickly. A user/ businessman can get quick information about day record of transactions, financial statements, management reports for decision making etc.

Check Your Progress –I

Fill in the Blanks:

1. The -------------------- is the first and prime stage in computerized accounting.
2. The computer accounting system provides ------------ data
3. Computer accounting software --------- helps in maintaining accuracy in accounting.
4. The ------------- and --------- is the prime feature of computer accounting system.
5. ---------------- is a database oriented application; it operates the system for storing and processing the data.

4.2.4 Accounting Softwares:

Accounting Software is the set of accounting programmes that consists of accounting calculations. The software provides the instructions gradually to the computer to do the work efficiently. It converts the Raw accounting data i.e. unprocessed data into processed facts. There are various accounting software's which are easily available in the market. but in India, mostly Tally and Tatas E-x are used very effectively. The business organizations have different options of softwares/packages such as Electronic spread-sheet, pre-packaged accounting software, ERP package, FACT wings, Munimaji, Chequemate etc. There are three types of accounting software which is mainly based on types of computer software i.e. System software and Application software. As The Transaction Processing System (TPS), the computer accounting activity is also follow to record, process, validate and store transactions of the business for getting final report. With the consideration of this view the accounting package/software is classified into three types-

1. Ready to use
2. Customized
3. Tailored

1. Ready to use:

This accounting software is used by very small and traditional units of business. As the size of business, the transactions are also low. The business is generally carried out by a single person. Therefore, Ready to use software is suitable to the business as the low price also. The owner or accountant of the business can easily learn and adopt the software. The accountant or the owner of the business should aware about the secrecy, security and misappropriations as it is less safer.

2. Customized:

Generally Customized software's are used by the large and medium size business organizations. It facilitates to link with other information system. As per the need, feasibility and specifications of the organizations, the customized accounting software is to be developed. In case of the designing process and testing if the organization is satisfied, it can be implemented in the business. The cost of installation is high as its features like number of users, secrecy, security etc. it the training is provided to the employees, the cost of training may be high.

3. Tailored

The Tailored accounting software is installed in large business organizations. The number of users are more and geographically scattered at various locations. Therefore there is a need of special training to the user of this software. As the installation cost is relatively high, it provides high security and secrecy. It fulfills the specific needs of the users.

4.2.4.1 Introduction to Tally:

Tally Solutions Pvt. Ltd is an Indian Multinational Co, having its head quarter in Banglore, Karnataka was founded in 1988 by Shyam Sundar Goenka and his son Bharat Goenka. Today there are more than 1 million customers using tally software.

The business transactions are changing fast in the world. The need of speedy work in time at low cost is the requirement of every business organization. Tally is the most popular, powerful and accepted accounting software for identifying, recording, classifying, summarising the business transactions. It helps in analyzing with management tools and techniques for making top level decisions. Tally provides quick results to the management.

Tally provides complete solution to the problems of inventory management, invoicing, purchase order discounting, stock valuation etc.

The following are the improved softwares of Tally from 1980s:

4.2.4.2 Different Versions of Tally:

Version	Establish in	Functions
Tally 3.0	**1990**	Basic Accounting for small business organisations
Tally 3.12	**1991**	basics of accounting
Tally 4:	**1992**	DOS based accounting
Tally 4.5	**1994**	Financial accounting, classification ,reports
Tally 5	**1996**	inventory modules structure invoicing and integrating accounting and inventory records.
Tally 5.4	**1996**	capacity of importing of data, able to convert earlier data formats into the current data format.
Tally 6.3	**2001**	an extension of enterprise systems
Tally 7.2	**2005**	an integrated enterprise system, provides various types of taxes such as TDS, VAT & TCS along with Service Tax modules
Tally 8.1	**2006**	Multi languages, supports 10 languages.
Tally 9	**2006**	supports 13 languages, including foreign ones and also includes Payroll, POS (Point of Sales).
Tally ERP 9	**2009**	Complete business solution
Tally ERP 9	**2015**	Taxation and compliance feature
Tally ERP 9with GST	**2017**	updated GST compliance software

4.2.4.3 Important features of Tally:

Following are the most important characteristics or features of Tally:

1. Tally provides simple and lucid accounting language of business.
2. An user enables to do business accounting with tally very easily.
3. It is user friendly software which provides simple/easy accounting knowledge and skill to the beginners in computer accounting.
4. Tally provides codeless accounting system, therefore there is no need of recalling the codes.
5. Tally is a complete business solution, provides options for interest and tax calculation, Inventory, Bank Reconciliation Statement etc.
6. Tally Presents quick results/output such as financial statement, ratios, funds flow and cash flow statements as per the requirements.
7. It provides periodic or monthly data for budgeting process.
8. In case of Inventory, Tally has options of only accounting, only inventory or accounting with inventory.
9. Tally is business oriented software make easy accounting. it is used by industry, trade and commerce to reduce the burden of work.
10. Tally is flexible and customized software.
11. It facilitates a high back up and restoring capacity.
12. Tally is used worldwide business (foreign exchange) transactions; it maintains and provides multiple currency options.
13. An user can do the multitask of various business organizations at the same time/simultaneously.
14. Tally facilitates operating system such as Windows, OS/2, Apple Macintosh etc.
15. In case of data tampering, Tally provides high security against it.
16. Due to Tally accounting, management can understand the financial position quickly to take future action.

17. Tally helps in decision making through analysis of accounting data with ratios, cash flow, funds flow and budgeting techniques.
18. Tally has also remote access and commands over data security, tally.net and server etc.
19. Tally provides distinct features of current accounting system and Goods and Service Tax (GST).

Check Your Progress –II

Fill in the blanks:

1. -------------------- is the set of accounting programmes that consists of accounting calculations.
2. Tally Solutions Pvt. Ltd is an------------ Multinational Company.
3. ------------ is an integrated enterprise system, provides various types of taxes such as TDS, VAT & TCS along with Service Tax modules.
4. **--------------**accounting software is used by very small and traditional units of business.
5. The ------------accounting software is installed in large business organizations.

4.2.5 Preparation of Vouchers:

4.2. 5.1 Vouchers:

Voucher is an original and valid document in every business. It is a proof or an evidence of the recorded entry in the books of accounts. The some of the examples of vouchers- Counter-foil, pay in slip, sales and purchase invoices, cash memos, Bank in slip etc.

Vouchers have a vital place in computer accounting. it is not possible to enter the data without vouchers. In case of manual accounting, every transaction is recorded in journal, but it is recorded with the help of vouchers only in computer accounting. Such a data entry is known as 'Voucher Entry'

4.2.5.2. Steps in entering vouchers

The following are the steps in entering vouchers in Tally ERP 9:

1. To know the valid source of document and type of transaction.
2. To understand the accounts involved.
3. Select type of transaction and press function key from F4 to F10 accordingly.
4. Enter the date or change in date (F2).
5. Enter the number of vouchers, if not automatic numbered.
6. In case of Credit sales or credit purchases, enter reference number.
7. Open ledger accounts if it is not already opened or created. Press ALT + C
8. Enter the amount of given transactions and also one can use calculator by pressing ALT + C
9. To show Dr or Cr by showing words To and By. To means Credit, By means Debit.
10. Verify the total of debit and credit balance of various accounts. Tally provides total of both.
11. Enter the narration for the transactions.
12. Enter the adjustable amount if receipts from debtors and payment to creditors.
15. Lastly, voucher is entered, Press Enter key or Y/N and save.

4.2.5.3. How to enter Voucher Entry in Computer Accounting:

1. Select a Company- Gateway of Tally.
2. Gateway of Tally- Accounting Vouchers.
3. F2- to update the date.
4. F4- Contra (Cash with Bank)
5. F5- Payment (Cash/Bank)
6. F6- Receipts (Cash /Bank)
7. F7-Journal Entry-provisions, rectification and adjustment.
8. F8 –Cash and Credit sales of goods
9. Ctrl+F8 – Credit Note

10. F9- Purchases
11. Ctrl+F9- Debit Note
12. F10 Memo (Suspense Transaction)

4.2.5.4. Selection of Accounting Vouchers:

Before data entry for vouchers, Accounting vouchers is selected from Gateway of Tally as shown below:

4.2.5.5. Types of Vouchers:

There are various types of transactions in a day carried out by the business organizations. The various types of vouchers are provided by Tally. These vouchers are according to the nature of transactions in the business. Tally provides the following vouchers with their shortcut function keys:

Sr.No	Type of Voucher	Function key
1.	Contra Voucher (Cash with Bank)	F4
2	Payment Voucher (Cash/Bank)	F5
3	Receipt Voucher (Cash /Bank)	F6

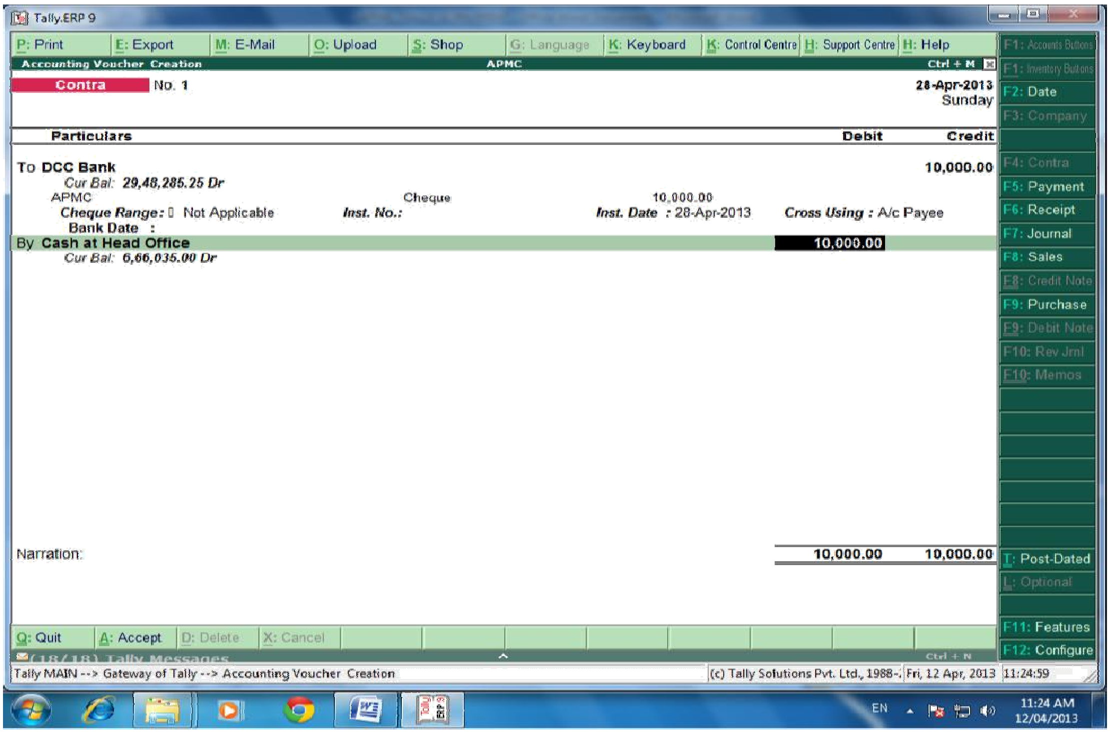
4	Journal Voucher	F7
5	Sales Voucher	F8
6	Credit Note	Ctrl + F8
7	Purchase Voucher	F9
8	Debit Note	Ctrl +F9

1. Contra Voucher (F4):

When the transaction is of cash and bank transaction, the contra voucher is to be prepared. It is necessary to press F4 function key to select contra voucher.

For example: If cash deposited into bank and cash is withdrawn from the bank. The deposits may be in saving, current or cash credit account. Similarly, if the amount is transferred from a bank current/saving account to cash credit loan account, the contra voucher is prepared.

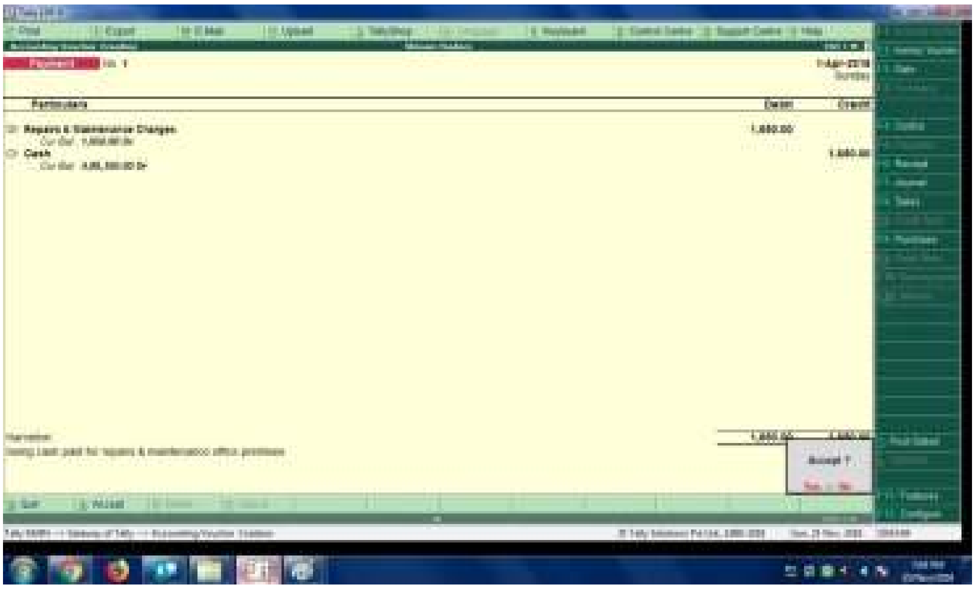
1. Amount withdraw from Bank



2. Amount/cash deposited into bank:

2. Payment Voucher (F5):

It records all transactions of payment or expenses in cash and by bank. It does not include contra type transactions. We have to use function key F5 for payment voucher. The examples of payment vouchers are-purchase of goods/fixed assets, repayment of loan/deposits, payment to suppliers or creditors, payment of interest, dividend, commission etc.

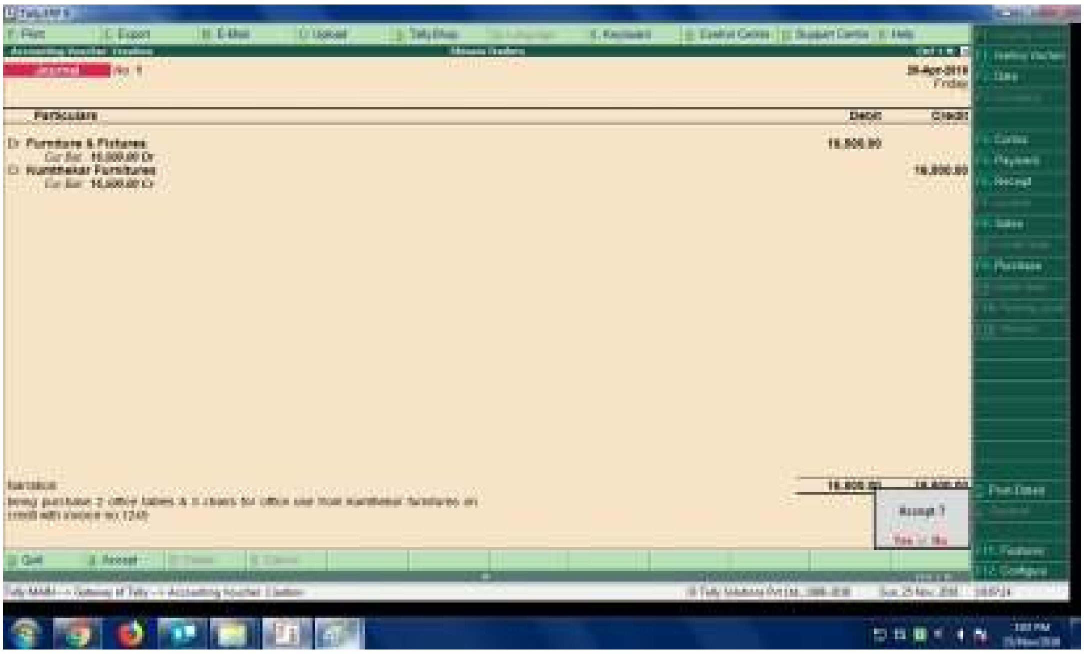


3. Receipt Vouchers (F6):

The Receipt vouchers record all receipts or incomes in cash and by bank. It never includes contra type transactions. We have to use function key F6 for receipt voucher. It includes revenue recipts and capital receipts. The examples of receipt vouchers are- sale of goods/fixed assets, loan received from bank/deposits received in advance, refund received, income received income from collection from debtors, recovery of loan, Receipt of interest, dividend, commission etc.

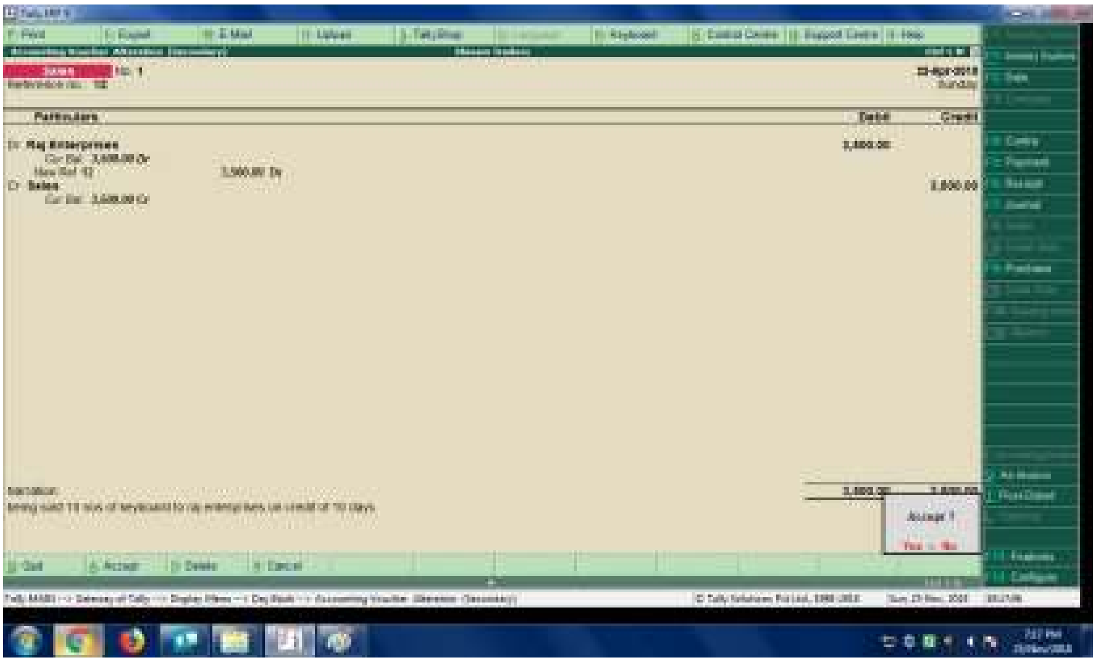
4. Journal Voucher (F7):

In computer accounting, F7 is the function key used to operate this voucher. It involves all non-cash items of transactions i.e. receipt and payment in cash. Such entries are stored in subsidiary book known as Journal Proper. The examples of this voucher are- Provisions for reserve/ depreciation liabilities, outstanding /unpaid expenses or incomes, transfer of profit to capital accounts, rectification of errors or wrong entries and some of the final account adjusting entries.



5. Sales Voucher (F8):

A User can press F8 to select the sales voucher from tally. It includes the sale of goods and services either for cash or credit. Tally 7.2 software and other improved versions are recoding both cash and credit sales of goods and services.

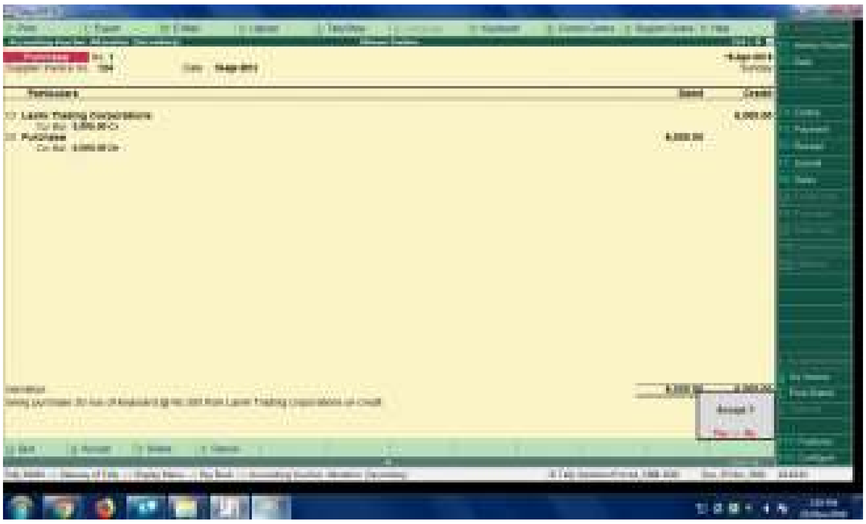


6. **Credit Note (Ctrl +F8):**

A User can press Ctrl+F8 to select the credit note. It is specifically given when a buyer returns goods i.e. sales return to the seller out of the sold goods to him or the credit is given in respect of the difference between the rates of supplied good or due to discount/rebate, this voucher is used.

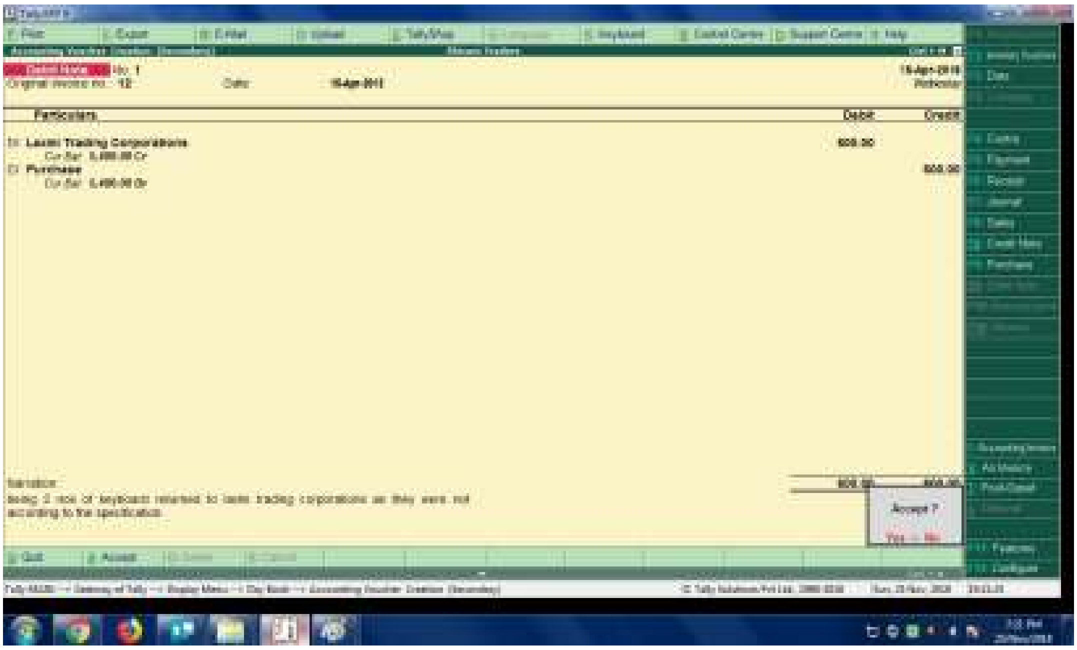
7. **Purchase Voucher (F9):**

Purchase voucher is opened with the function key F9. It records cash as well as credit purchases of goods and services.



8. Debit Note (Ctrl +F9):

A User can press Ctrl+F9 to select the Debit note. It is generally given in case of goods and services are returned by the creditor i.e. Purchase return or debit is given to creditors in respect of the difference between the rates of goods, a debit note is issued. Therefore this entry is passed and displayed through debit note register.



We can understand the types of vouchers in simple way as given below:

Sr. No	Type of Voucher	Practical Entry	Debit (Rs)	Credit (Rs)
1.	Contra Voucher (Cash with Bank)	**Cash withdrawn from Bank** Cr. Bank A/c Dr. Cash A/c **Cash Deposited into Bank** Dr. Cash A/c Cr. Bank A.c	....	 ....
2	Payment Voucher (Cash/Bank)	Dr. Ledger A/c (Payment, Expenses) Cr. Cash/ Bank A/c	....	 ....

3	Receipt Voucher (Cash /Bank)	*Cr. Ledger A/c (Income received) Dr. Cash/ Bank A/c Note- *in case of Contra vouchers Cr. first, then Dr.	....	....
4	Journal Voucher	For Example Dr. Depriciation A/c Cr. Fixed Asset A/c	....	....
5	Sales Voucher	Dr. Cash/Party Name Cr. Sales A/c	....	....
6	Credit Note	Dr. Return Inward A/c Cr. Party Name(customer)	....	....
7	Purchase Voucher	Dr.Purchase A/c Cr. Cash A/c/Party Name	....	....
8	Debit Note	Dr. Party Name (Supplier) Cr. Return Outward A/c	....	....

4.2.5.6. Illustration for Preparation of Vouchers:

Prepare vouchers in the books of Atharv and Co. R.K.Nagar, Kolhapur

March, 2019	Transactions
1.	Atharv started business with cash Rs. 10,00,000.
2	Rs.2,50,000 deposited in Bank of Maharashtra.
5.	Goods worth Rs. 3,00,000 purchased from M/S. Shambhavi & Co.
16.	Sold goods of Rs. 2,50,000 to Mr. Nibhish
19.	Cash purchases of Rs. 2,00,000 .

21.	Mr. Nibhish returned goods worth Rs. 50, 000.
23	Commission payable to Mr.Samarjeet Rs.20,000.
27.	Withdrew Rs. 25,000 for domestic purpose
30.	Returned goods to M/S. Shambhavi & Co. worth Rs. 25,000 as defective.
30.	Sold goods to Ms. Manjushri for Rs. 35,000 and received a cheque no.12345 of Bank of India.

Solution:

1) Receipt voucher

Accounting Voucher Creation Atharva and Co, R.K.Nagar, Kolhapur Ctrl + M x		
Receipt No. 1	1 March,2019 Friday	
Particulars	Debit Rs	Credit Rs
Cr. Capital A/c Dr. Cash A/c	 10,00,000	10,00,000
	10,00,000	10,00,000
Narration: Commenced business with cash		Accept ? Yes or No

2) Contra Voucher

Accounting Voucher Creation Atharva and Co, R.K.Nagar, Kolhapur Ctrl + M x		
Contra No. 1	2 March, 2019 Saturday	
Particulars	Debit Rs	Credit Rs
Cr. Cash A/C Dr. Bank of Maharashtra A/C	 2,50,000	2,50,000
	2,50,000	2,50,000
Narration: Cash deposited in Bank		Accept ? Yes or No

3) Purchase Voucher

Accounting Voucher Creation Atharva and Co, R.K.Nagar, Kolhapur Ctrl + M x		
5 March, 2019 Purchase No. 1 Tuesday		
Particulars	Debit Rs	Credit Rs
Cr. M/S. Shambhavi & Co A/C		3,00,000
Dr. Purchase A/C	3,00,000	
	3,00,000	3,00,000
Narration: Purchase goods on credit		Accept ? Yes or No

4) Sales Voucher:

Accounting Voucher Creation Atharva and Co, R.K.Nagar, Kolhapur Ctrl + M x		
16 March, 2019 Sales No. 1 Saturday		
Particulars	Debit Rs	Credit Rs
Dr. Mr. Nibhish A/C	2,50,000	
Cr. Sales A/C		2,50,000
	2,50,000	2,50,000
Narration: Sale of goods on credit		Accept ? Yes or No

5) Payment Voucher

Accounting Voucher Creation Atharva and Co, R.K.Nagar, Kolhapur Ctrl + M x		
19 March, 2019 Payment No. 1 Tuesday		
Particulars	Debit Rs	Credit Rs
Dr. Purchase A/C		2,00,000
Cr. Cash A/C	2,00,000	
	2,00,000	2,00,000

Narration: Purchase of goods for cash	Accept ? Yes or No

6) Credit Note

Accounting Voucher Creation Atharva and Co, R.K.Nagar, Kolhapur Ctrl + M x		
Credit Note No. 1	21 March, 2019 Thursday	
Particulars	Debit Rs	Credit Rs
Dr. Return Inward A/C Cr. Mr. Nibhish A/C	50,000	 50,000
	50,000	50,000
Narration: Goods returned by Nibhish		Accept ? Yes or No

7) Journal Proper

Accounting Voucher Creation Atharva and Co, R.K.Nagar, Kolhapur Ctrl + M x		
Journal No. 1	Saturday	23 March, 2019
Particulars	Debit Rs	Credit Rs
Dr. Commission A/C Cr. Outstanding Commission A/C	20,000	 20,000
	20,000	20,000
Narration: Commission payable to Samarjeet of February 2019		Accept ? Yes or No

8) Payment voucher

Accounting Voucher Creation Atharva and Co, R.K.Nagar, Kolhapur Ctrl + M x		
Payment No. 2	27 March, 2019 Wednesday	
Particulars	Debit Rs	Credit Rs
Dr. Drawings A/C Cr. Cash A/C	25,000	 25,000
	25,000	25,000
Narration: Cash withdrawn for domestic purpose		Accept ? Yes or No

9) Debit Note

Accounting Voucher Creation Atharva and Co, R.K.Nagar, Kolhapur Ctrl + M x		
Debit Note No. 1	30 March, 2019 Saturday	
Particulars	Debit Rs	Credit Rs
Dr. M/S. Shambhavi & Co. A/C Cr. Return Outward A/C	 25,000	25,000
	25,000	25,000
Narration: Goods returned as defective		Accept ? Yes or No

10) Receipt Voucher

Accounting Voucher Creation Atharva and Co, R.K.Nagar, Kolhapur Ctrl + M x		
Receipt No. 2	30 March, 2019 Saturday	
Particulars	Debit Rs	Credit Rs
Cr. Cash A/C Dr. Bank of India A/C	 35,000	35,000
	35,000	35,000
Narration: sale of goods and received cheque no.12345		Accept ? Yes or No

4.2.5.7 Altering of a voucher:

To alter means change or modify. The change or edit in one or more data voucher is knowm as altering of a voucher. A user or accountant can correct the voucher if mistaken by him. In manual accounting, it is easy to change if there is any wrong amount, date, or entry made. The errors can be rectified. In computer accounting, some softwares or packages are not offering the facility of altering, but nowadays it is available in the improved packages. So, incorrect vouchers entry can be corrected by making reverse entry.

4.2.5.8 Deleting of a voucher:

If wrong or incorrect vouchers entries are made, it is essential to delete the said vouchers instead of making reverse entries. This facility avoids the unnecessary entries and nullifies the wrong effects.

4.2.6 Feeding of data and generating of various reports:

The volume of data is based on the nature of business organization. Tally is user friendly software, makes easy to the business. The preparation of reports is time consuming in manual accounting while computer accounting provides whenever required by the organizations. Once the raw data i.e. Input is entered to the computer, it is processed and provided output in the form of various reports. The data can be processed in the form of online and off line data processing. Tally is the world wide accepted software is used to generate various books, ledgers, statements and reports.

Before generating any report, statement or subsidiary book, tally displays it on screen. If the user can satisfies with the output, it can be taken in the form of prints. These reports can be stored and saved safely in the computer memory. therefore a business can get the data whenever required.

Tally provides the output which is classified as :

1. Books of Accounts
2. Reports
3. Data

1. **Books of Accounts:**

It involves subsidiary books, registers and ledgers. The subsidiary books are cash book, petty cash book, purchase, return outward, sales, return inward, B/R, B/P, Journal proper, day book.

Debit note, Credit note, sales, purchase and memorandum register as the registers. Similarly, sundry debtors, sundry creditors and general ledgers are generated.

2. **Reports:**

There are two types of reports generated viz. financial statements and Allied reports. In case of financial statements Trial balance, Manufacturing A/c, Trading A/c, Profit and loss A/C, P/L Appropriation A/C and Balance sheet.

Allied reports generate in the form of Age-wise sundry debtors/Creditors, Alteration of data, Bank Reconciliation Statement, Bill-wise O/S debtors/ Creditors, Insertion & Deletion of data, E-returns, tax returns etc.

3. **Data**:

It generates for internal check and control. It may be Bills, Vouchers, Challans, Credit/debit notes, ledgers, invoices etc. The data list can be generated for the purpose of audit.

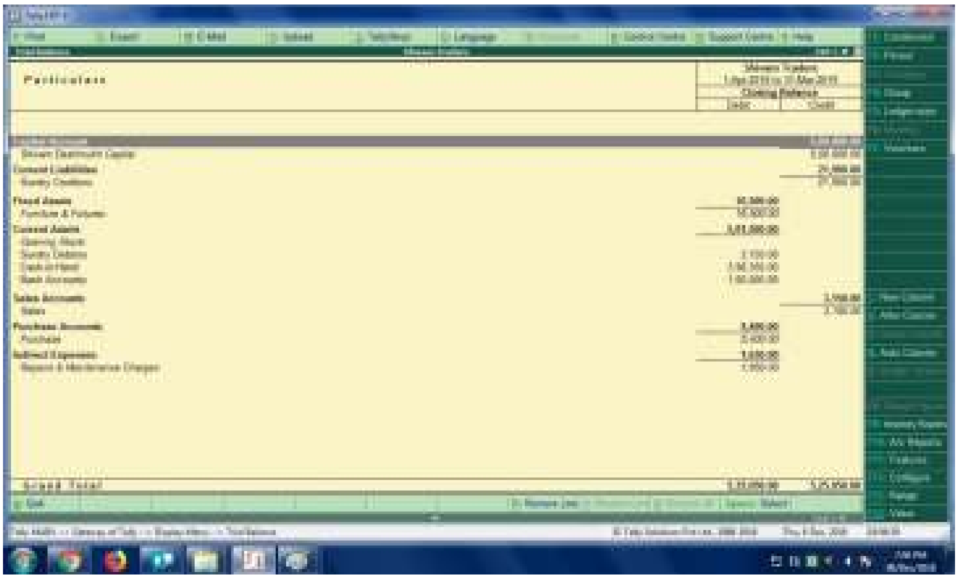
4.2.6.1. Specimen Reports:

The following are the generated reports for the organizations

1. **Trial Balance:**

A trial balance is a statement of debit and credit balances of all ledger accounts or a summary of all ledger balances. It helps to check the transactions are correct, error free and balanced. Trial Balance can be generated on the date of the voucher entry. f Trial Balance can be viewed:

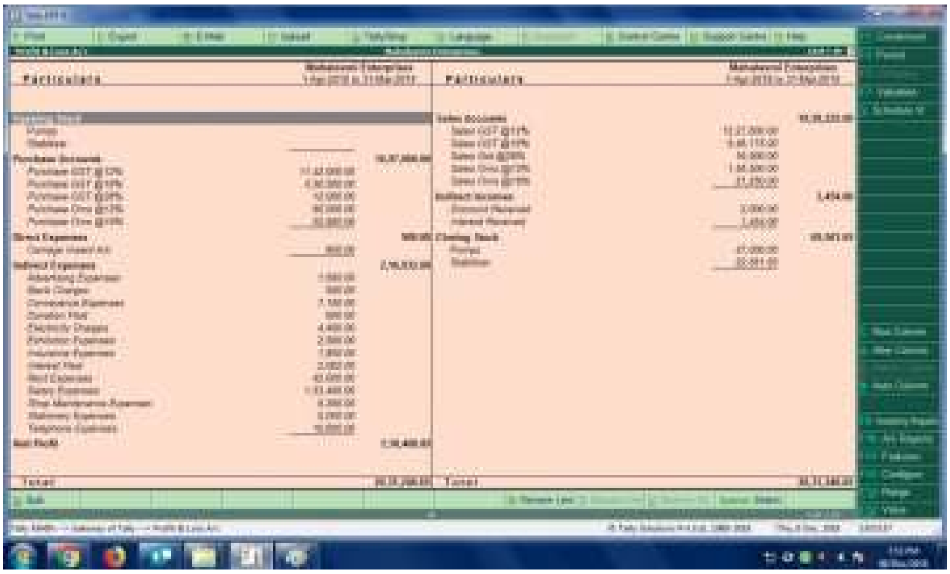
1. Go to **Gateway of Tally** > **Display** > **Trial Balance**
2. Press **F12** to configure the **Trial Balance.**
3. Press **Ctrl+A** to accept.



2. Profit and Loss A/C

Profit and Loss A/C is generated on the date of last entry is to be done. The view of Profit and Loss A/C is as below-

1. Go to **Gateway of Tally** > **Display** > **Profit & Loss A/c** .
2. Click **F1** to view the **Profit & Loss Account.**
3. Press **F2** to change the period.

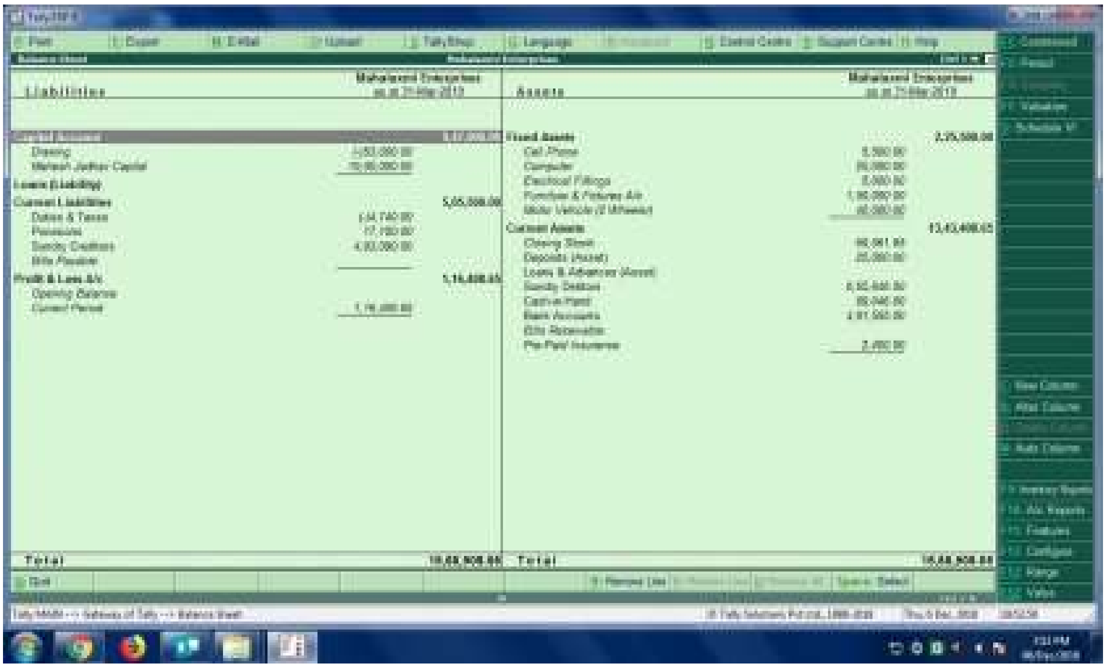


3. Balance Sheet:

A balance sheet is a final statement of accounts which reports a company's financial position. This report indicates the assets and liabilities of a company with its worth. The Balance sheet is based on fundamental accounting equation which is as follows:

Assets = Liabilities + Owner's Equity.

1. Go to **Gateway of Tally** > **Display** > **Balance Sheet**.
2. Press **F12** to configure the **Balance Sheet** .
3. Press **Ctrl+A** to accept.



Check Your Progress-III

Fill in the blank.

1. ------------ is an original and valid document in every business.
2. The change or edit in one or more data voucher is known as -------------- of a

voucher.

3. A User can press ------------- to select the Debit note.
4. Journal Proper involves all --------- of transactions.
5. To enter the date or change in date press ---------.

4.3. Summary:

Today, an electronic device such as computer has made a drastic change in the business world. The man has physically and mentally limitations. Due to this, Manual accounting system is replaced to Electronic based Accounting System, which is termed as Computer Accounting System. The Transaction Processing System (TPS) is the first and prime stage in computerized accounting. The main object of TPS is to record, process, validate and store transactions of the business for further process. The Computerized Accounting has two basic important essentials- Accounting framework and Operating procedure. A Computerised Accounting System is an accounting information system so as to process the financial data transactions and events as per Generally Accepted Accounting Principles (GAAP) to generate reports as per the need of users. Computerised accounting is distinct to Manual accounting. It has multiple advantages.

Accounting Software is the set of accounting programmes that consists of accounting calculations. It converts the Raw accounting data i.e. unprocessed data into processed facts. There are various accounting software's which are easily available in the market. but in India, mostly Tally and Tatas E-x are used very effectively. The business organizations have different options of softwares/packages such as Electronic spread-sheet, pre-packaged accounting software, ERP package, FACT wings, Munimaji, Chequemate etc. Today there are more than 1 million customers using tally software. Tally provides complete solution to the problems of inventory management, invoicing, purchase order discounting, stock valuation etc. Voucher is an original and valid document in every business. The some of the examples of vouchers- Counter-foil, pay in slip, sales and purchase invoices, cash memos, Bank in slip etc. There are various steps in entering the vouchers like purchase, sales, debit note, credit note, payment, receipts and journal proper in Tally ERP 9. One can easily use the function key for selection of voucher. Tally is the world wide accepted software is used to generate various books, ledgers, statements and reports.

4.4 Terms to Remember:

1. **Accounting Software:** A set of accounting programmes
2. **Manual Accounting:** Traditional Methods of Accounting.
3. **Tally ERP 9:** Tally is main product and Enterprise Resource Planning is a Software.

4.5 Answers to Check your progress:

1. **Check your progress-I** : 1 Transaction Processing System 2. reliable 3. tally 4. Speed, accuracy 5. Operating procedure
2. **Check your progress-II**: 1. Accounting Software 2. Indian 3. Tally 7.2 4. Ready to use 5. Tailored
3. **Check your progress-III:** 1. Voucher. 2. altering 3. Ctrl+F9 4. non-cash items 5. F2

4.6 Exercise

1. State the meaning of Computerised Accounting. Explain its essentials.
2. Explain the types of Accounting softwares.
3. What is Tally software? State various versions of Tally used for accounting.
4. What is a Voucher? What are the steps in entering vouchers?
5. Define Computerised Accounting. Distinguish between Computrised Accounting and Manual Accounting.
6. Explain Various advantages of Computerised accounting.
7. Define the term Tally. Explain various important features of Tally.
8. Define Voucher. Explain various vouchers with examples.

9. Write Short Note on:

   a) Essentials of Computerised Accounting
   b) Types of Accounting Softwares
   c) Manual Accounting V/S Computerised Accounting
   d) Types of Vouchers
   e) Steps in entering Voucher
   f) Features of Tally
   g) Feeding of data and generating of various reports

10. Prepare vouchers in the books of Shyam and Co. Mumbai.

January, 2019	Transactions
1.	Shyam started business with cash Rs. 5,00,000.
3.	He deposited Rs.1,00,000 in the Bank of Maharashtra.
5.	He purchased Goods worth Rs. 2,00,000 purchased from M/S. Ganesh & Co. on credit
8.	Further he Sold goods of Rs. 50,000 to Mr. Nilesh
9.	Cash purchases of Rs. 1,50,000 .
15.	Mr. Nilesh returned goods worth Rs. 5, 000.
20.	Salary payable to Mr.Rakesh of Rs. 10,000.
26.	He withdrew Rs. 15,000 for personal use.
28.	Returned goods to M/S. Ganesh & Co. worth Rs. 5,000 as defective.
31.	He Sold goods to Ms. Manju for Rs. 25,000 and received a cheque no.12000 of Bank of Maharashtra.

11. Prepare vouchers in the books of Mahesh and Co. Solapur.

January, 2019	Transactions
1.	Commenced business with cash Rs. 5,00,000 and Furniture of Rs.700000.
3.	Deposited Rs.50,000 in the State Bank of India and withdrew

	Rs.40000 for personal use.
5.	Purchases of Rs. 3,00,000 on credit from Mohan and Co.
8.	Credit Sale of Rs. 100,000 to Mr. Narendra.
9.	Purchased goods of Rs. 1,20,000 for cash .
15.	Mr. Narendra returned goods as defective of Rs. 1, 000.
20.	Wages and Salary of December is payable to Mr. Ram of Rs. 10,000.
26.	He deposited cash Rs.100000 in Bank of India.
28.	Goods Returned of Rs. 5,000 to Mohan and company as defective.

4.7 Reference for further study

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6. Tally Power of Simplycity, USER MANUAL, Voucher Approval Add-on, IT Catalyst Software India Pvt Ltd. Bangalore. May, 2011.
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