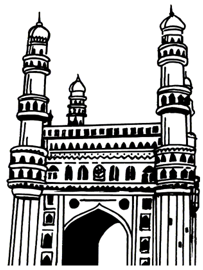
**Rahul's** 4

*Topper's Voice*

**AS PER CBCS SYLLABUS**



# B.Com.

## I Year II Sem

***All Universities in Telangana***

**Latest 2021-22 Edition**

# FINANCIAL ACCOUNTING-II

- **Study Manual**
- **Solved Problems**
- **Short Answers**
- **Choose the Correct Answers**
- **Fill in the blanks**
- **Solved Previous Question Papers**
- **Solved Model Papers**

**` .189/-**

**- by -**

**WELL EXPERIENCED LECTURER**

***Rahul Publications***™

**Hyderabad. Ph : 66550071, 9391018098**

# B.Com.

## I Year II Sem

*All Universities in Telangana*

# FINANCIAL ACCOUNTING-II

*Inspite of many efforts taken to present this book without errors, some errors might have crept in. Therefore we do not take any legal responsibility for such errors and omissions. However, if they are brought to our notice, they will be corrected in the next edition.*



***Price ` 189-00***

***Sole Distributors :*** ☎ : **66550071, Cell : 9391018098**

VASU BOOK CENTRE

**Shop No. 3, Beside Gokul Chat, Koti, Hyderabad.**

**Maternity Hospital Opp. Lane, Narayan Naik Complex, Koti, Hyderabad.**

**Near Andhra Bank, Subway, Sultan Bazar, Koti, Hyderabad -195.**

CONTENTS

# FINANCIAL ACCOUNTING-II

## STUDY MANUAL



## SOLVED PREVIOUS QUESTION PAPERS



## SOLVED MODEL PAPERS

# SYLLABUS

UNIT - I

**BILLS OF EXCHANGE**

Bills of Exchange - Definition- Distinction between Promissory note and Bills of exchange-Accounting treatment of Trade bills: Books of Drawer and Acceptor- Honour and Dishonour of Bills- Renewal of bills- Retiring of bills under rebate- Accommodation bills.(Including problems)

UNIT - II

**CONSIGNMENT ACCOUNTS**

Consignment – Meaning – Features– Proforma invoice - Account sales – Del crederecommission-Accounting treatment in the books of the consignor and the consignee - Valuation of consignment stock –Treatment of Normal and abnormal Loss - Invoice of goods at a price higher than the cost price. (Including problems)

UNIT - III

**JOINT VENTURE ACCOUNTS**

Joint Venture – Meaning –Features-Difference between Joint Venture and Consignment-Accounting Procedure-Methods of Keeping Records for Joint Venture Accounts-Method of Recording in co-ventures books-Separate Set of Books Method- Joint Bank Account-Memorandum Joint Venture Account (Including problems)

UNIT - IV

**ACCOUNTS FROM INCOMPLETE RECORDS**

Single Entry System – Meaning -Features–Difference between Single Entry and Double Entry systems -Defects in Single Entry System - Books and accounts maintained - Ascertainment of Profit - Statement of Affairs and Conversion method (Including problems)

UNIT - V

**ACCOUNTING FOR NON-PROFIT ORGANIZATIONS**

Non- Profit Organziation – Meaning – Features – Receipts and Payments Account – Income and Expenditure Account – Balance Sheet(Including problems)

## -: *About the Subject* :-

**Financial Accounting** is a vast subject. It is divided into two parts (i.e., Financial Accounting-I and Financial Accounting-II) in B.Com course. The subject Financial Accounting-II covers bills of exchange and other business accounting methods.

The important topics covered in Financial Accounting-II are,

- Bills of Exchange.
- Consignment Accounts.
- Joint Venture Accounts.
- Accounts from Incomplete Records.
- Accounting for Non-Profit Organizations.

The main objective behind introducing the subject 'Financial Accounting-II' in B.Com course is to make students acquire both theoretical and practical knowledge of the above mentioned topics.

## -: *About the Book* :-

The book entitled **'Financial Accounting-II'** is designed for B.Com I-Year II-Semester students. The content provided in the book is strictly as per the latest (2016-17) syllabus prescribed by Osmania University.

Every concept is explained in a simple manner with sufficient number of examples so as to facilitate better understanding and easy learning in a shorter span of time. Keeping in view the examination pattern of B.Com students, this book provides the following features,

- Frequently Asked Questions and Important Questions are included to help students prepare for Internal and External Assessment.
- Previous university question papers are included in the units matching with the old syllabus.
- Every unit is structured into two main sections viz. Short Questions & Essay Questions with solutions along with Learning Objectives and Introduction.
- List of Important Definitions and Formulae are given.
- Two Model Papers are provided in order to help students understand the paper pattern in the end examination.

## -: Important Definitions & Formulae :-

### UNIT - I

1. According to Sec. 5 an instrument which is in written form and which includes an unconditional order signed by the maker directing a particular individual to pay a specific amount only to or to order a particular individual or to the bearer of instrument is termed as bill of exchange. It mainly includes three parties, the drawer, the drawee and the payee.

   The 'drawer' is an individual who orders to pay or is the one who creates the bill.

   The 'drawee' is an individual who is directed to pay and when the drawee accepts the bill, he is known as an acceptor. The 'payee' is an individual to whom the payment is to be made.

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

3. Section 4 of the Negotiable Instruments Act 1881 states that "A promissory note is an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking, signed by the maker to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument".

4. Discount = Face value of bill × Interest rate × $\frac{\text{Unexpired days of bill}}{365}$

5. When payment of bill amount is made on maturity then it is said as honoured bill.

6. A bill is said to be dishonoured when holder presents it for payment and drawee fails to make the payment.

7. Renewal of bill takes place if after accepting a bill drawee has some fear relating to honouring of bill on due date is possible or not then, he request drawer to cancel original bill and draw a fresh bill of future date.

8. Retiring of a bill takes place by stopping the circulation of bill of exchange, if it is paid before due date.

9. Accommodation bills are drawn and accepted without any consideration just to give financial support to one or both the parties. Accommodation bills are also referred as 'Kite Bill'.

### UNIT - II

1. Consignment refers to a process wherein a trader sends the goods to another trader within the same country or in different country for storing or selling on the basis of certain percentage of commission at the risk of the sender himself.

2. Sale of goods Act 1930, defines sales as, the process where the property in goods is transferred from the seller to buyer, such contract is called as 'sale'.

3. The loss which takes place due to natural reasons like evaporation, drying, breaking in bulk and so on are referred as 'normal losses'.

4. Closing stock or Unsold stock = $\frac{\text{Value of goods consigned}}{\text{Actual quantity received by consignee}}$ × Quantity of unsold stock or closing.

5. Value of goods consigned = Value of goods sent on consignment + Consignor's expenses

6. Actual quality received by consignee = Quality sent by consignee - Normal loss quantity

7. Unsold quantity = Quantity received by consignee – Quantity of goods sold.

**UNIT - III**

1. Joint venture is an agreement between two or more parties joining together for some business purpose on a temporary basis.

2. Joint bank account is same as that of the cash book. This account is especially opened for the joint venture purpose. Parties to a joint venture uses the joint bank account combinedly.

3. Coventurer's accounts refers to personal accounts of co-venturers. In this accounts, amount contributed by the co- venturers, goods supplied or the expenses incurred by the co-venturer are being recorded on credit side, whereas on the debit side, goods and sale proceeds taken over by the co-venturers are being recorded.

4. Memorandum joint venture account is a personal account by nature. Only those transactions which are carried out by the party are recorded in the account rather than transactions undertaken by other parties (co-venturers).

**UNIT - IV**

1. According to Kohler, "It is a system of book-keeping in which as a rule only records of cash and personal accounts are maintained, it is always incomplete double entry, varying with circumstances".

2. William Pickels defined double entry system as a system which seeks to record every transaction in money or money's worth in its double aspect.

3. Statement of Affairs refers to that statement which shows all the transactions related to various assets and liabilities.

4. In order to ascertain gross profit and net profit it is important to transfer single entry records into double entry records. The accounting procedure for converting single entry into double entry is known as "conversion method".

## UNIT - V

1. Non-profit organization/entities are those organisations which do not have profit-motive. They mainly aims at offering recreation facilities, motivating co-operative methods of living, promoting art, culture, education and for other charitable and social purposes.
2. The ‘Receipts & payments account’ refers to an asset account (or real account) which shows of transactions of a cash book in categorized manner.
3. An income and expenditure account is a final account same as profit & loss account. It shows revenue incomes, revenue expenses and losses for the present accounting period with the surplus or deficit which will be transferred to capital fund while closing the account.
4. Capital fund is a general fund which is same as capital account of trading concerns.
5. Subscriptions are the major source of income which are recurring in nature. It is a form of revenue income, so it must be shown on credit side of income and expenditure account.
6. A balance sheet is a statement comprising of assets and liabilities of an organisation on a specific date.

# Contents

## UNIT - V

# UNIT I

**Bills of Exchange :**

Bills of Exchange - Definition- Distinction between Promissory note and Bills of exchange-Accounting treatment of Trade bills: Books of Drawer and Acceptor- Honour and Dishonour of Bills- Renewal of bills- Retiring of bills under rebate- Accommodation bills.

## 1.1 Bills of Exchange - Introduction

**Q1. Define bills of exchange? and its features.**

*Ans :*

A bill of exchange comes from an open credit arrangement where the creditor gets the documentary evidence of the amount owing and also the terms of payment. The buyer must pay the amount shown on the bill of exchange at the specified date. There cannot be any argument by the buyer about the conditions existing outside of what appear in the document. Therefore, a bill of exchange can be defined as a legal evidence of debt (an acknowledgment of debt), and which fixes the date of payment. If the buyer has some claim over the seller (e.g., quantity received less than ordered or defective goods having been delivered, etc.) the former may sue the latter for relief. But this suit has nothing to do with the question of a payment of the bill of exchange. Therefore, the benefit of a bill of exchange to the seller is that it is an evidences of a debt, whereas a trade debt may prove that money is owing.

The working of a bill of exchange can be explained with the following example :

A sells goods to B for Rs. 1,000 on credit. In order to acknowledge the debt that exists between them, A (the creditor) writes out a bill of exchange and sends it to B (the debtor). The language of the bill of exchange is such that it requires B to pay Rs. 1,000 to A at a fixed or determinable future time (i.e., defining specific terms of payment). After receiving the bill, B (the debtor) signs his name across the face of the bill (may be with the word 'accepted'). Thereafter, B returns the bill to A and becomes liable to make payment for the bill. In future, if B has any claim over A for the goods purchased by hi, that will have no bearing with this unconditional promise to pay.

It should be noted that a bill of exchange can also be drawn to another person where a loan is provided.

**Definition**

Section 5 of The Negotiable Instruments Act defines a bill of exchange as under :

"A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument".

Therefore, the distinguishing features of a bill of exchange are :

(i) It must be in writing;

(ii) It must be signed by the maker;

(iii) It must be an unconditional order to pay;

(iv) The maker must direct a certain person to pay a certain sum of money.

### 1.1.1 Parties to a Bill of Exchange

**Q2. Who are the parties in bills of exchanges?**

*Ans :*

There are three parties to a bill of exchange:

1. **Drawer** :Is the maker of the bill of exchange. A seller/creditor who is entitled to receive money from the debtor can draw a bill of exchange upon the buyer/debtor. The drawer after writing the bill of exchange has to sign it as maker of the bill of exchange.

**(2)** **Drawee**:Is the person upon whom the bill of exchange is drawn. Drawee is the purchaser or debtor of the goods upon whom the bill of exchange is drawn.

**(3)** **Payee:** Is the person to whom the payment is to be made. The drawer of the bill himself will be the payee if he keeps the bill with him till the date of its payment. The payee may change in the following situations:

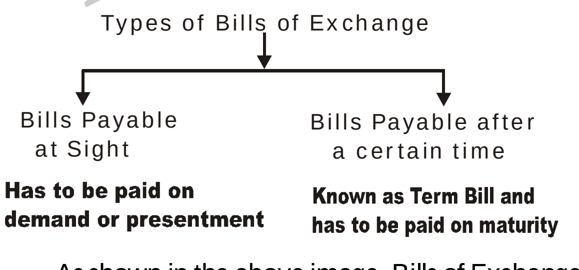
(a) In case the drawer has got the bill discounted, the person who has discounted the bill will become the payee

(b) In case the bill is endorsed in favor of a creditor of the drawer, the creditor will become the payee.

### 1.1.2 Types of a Bills of Exchange

**Q3. Explain the types of bills of exchange?**

*Ans :*




As shown in the above image, Bills of Exchange are normally of two types :

1. **Bills of Exchange Payable at Sight :**These types of bills are payable on demand and the drawee has to pay the amount when the bills is presented to him for payment.

2. **Bills of Exchange Payable after a Certain Period of Time :**These bills become payable after a certain period of time. In the example we took above, the bills was payable after two months and so it will fall in this category. Theses types of bills are also called Term Bills.

**Date of Maturity / Due date of a bill of Exchange**

The date on which the amount of a bill becomes payable is called its due date or maturity date. The following points must be kept in mind in relation to the due date or maturity date:

1. A Bill 'Payable at Sight' becomes due immediately when it is presented for payment.

2. Three days of Grace are added to the date on which the term of the bill ends. This is a done as a custom. Three days of grace are not available for a bill payable on demand.

   In the example taken above, the date on which the bill was drawn is 6th October, 2017 and the tenure is 2 months. So the due date would be 6th December, 2017 + 3 days of grace which comes to 9th December, 2017.

3. When the tenure of the bill is mentioned in days, the calculation of due date must be made on the basis of days.

4. When the tenure of the bill is mentioned in months, the calculation of the due date should be made monthwise ignoring the actual number of days in a month.

   So a bill drawn on 1st January for 3 months will mature on 1st April + 3 days of grace i.e on 4th April. Please note that here we are ignoring the actual number of days in the month and counting 1st Jan to 1st Feb as one month and so on.

5. If the due date turns out to be a public holiday, the due date shall be considered to be the preceding day. However if the preceding day is also a public holiday then the working day preceding the previous day would be considered the day of maturity.

6. After Date & After Sight: Go to the above image of the bill of exchange and notice the words "Two months after date". The words after date mean

that the bill will mature after two months from the date on which the bill is drawn.

In case the bill mentions the words "after sight" instead of "after date" then the period (i.e tenure) oithe bill shall be counted from the date on which the bill was accepted by the drawee.

**Q4. Explain the advantages of bills of exchange?**

*Ans :*

**Advantages of Bill of Exchange** The bills of exchange as instruments of credit are used frequently in business because of the following advantages:

- **Framework for relationships**: A bill of exchange represents a device, which provides a framework for enabling the credit transaction between the seller/ creditor and buyer/debtor on an agreed basis.
- **Certainty of terms and conditions**: The creditor knows the time when he would receive the money so also debtor is fully aware of the date by which he has to pay the money. This is due to the fact that terms and conditions of the relationships between debtor and creditor such as amount required to be paid; date of payment; interest to be paid, if any, place of payment are clearly mentioned in the bill of exchange.
- **Convenient means of credit:** A bill of exchange enables the buyer to buy the goods on credit and pay after the period of credit. However, the seller of goods even after extension of credit can get payment immediately either by discounting the bill with the bank or by endorsing it in favour of a third party.
- **Conclusive proof**: The bill of exchange is a legal evidence of a credit transaction implying thereby that during the course of trade buyer has obtained credit from the seller of the goods, therefore, he is liable to pay to the seller. In the event of refusal of making the payment, the law requires the creditor to obtain a certificate from the Notary to make it a conclusive evidence of the happening.
- **Easy transferability**: A debt can be settled by transferring a bill of exchange through endorsement and delivery.

## 1.2 Promissory Note

**Q5. Define promissory note? Explain the features of promissory note.**

*Ans :*

**Promissory Note**

According to the Negotiable Instruments Act 1881, a promissory note is defined as an instrument in writing (not being a bank note or a currency note), containing an unconditional undertaking signed by the maker, to pay a certain sum of money only to or to the order of a certain person, or to the bearer of the instrument. However, according to the Reserve Bank of India Act, a promissory note payable to bearer is illegal. Therefore, a promissory note cannot be made payable to the bearer.

This definition suggests that when a person gives a promise in writing to pay a certain sum of money unconditionally to a certain person or according to his order the document is called is a promissory note. Following features of a promissory note emerge out of the above definition:

- It must be in writing
- It must contain an unconditional promise to pay.
- The sum payable must be certain.
- It must be signed by the maker.
- The maker must sign it.
- It must be payable to a certain person.
- It should be properly stamped. A promissory note does not require any acceptance because the maker of the promissory note himself promises to make the payment.

**Q6. Explain the parties of a promissory note?**

*Ans :*

**Parties to a Promissory Note**

There are two parties to a promissory note.

- **Maker or Drawer** is the person who makes or draws the promissory note to pay a certain amount as specified in the promissory note. He is also called the promisor.
- **Drawee or Payee** is the person in whose favor the promissory note is drawn. He is called the promise

## 1.3 Distinction between Promissory Note and Bills of Exchange

**Q7. How promissory note differs from bills of exchange.**

*Ans :*

| Basis for Comparison | Bills of Exchange | Promissory Note |
|---|---|---|
| Meaning | Bill of Exchange is an instrument in writing showing the indebtedness of a buyer towards the seller of goods. | A promissory note is a written promise made by the debtor to pay a certain sum of money to the creditor at a future specified date. |
| Defined in | Section 5 of Negotiable Instrument Act, 1881. | Section 4 of Negotiable Instrument Act, 1881. |
| Parties | Three parties, i.e. drawer, drawee and payee. | Two parties, i.e. drawer and payee. |
| Drawn by | Creditor | Debtor |
| Liability of Maker | Secondary and conditional | Secondary and conditional |
| Can maker and payee be the same person? | Yes | No |
| Copies | Bill can be drawn in copies. | Promissory Note cannot be drawn in copies. |
| Dishonor | Notice is necessary to be given to all the parties involved. | Notice is not necessary to be given to the maker. |

**Q8. Explain briefly about bills receivable book and bills payable book .**

*Ans :*

**Bills Receivable Book and Bills Payable Book**

'For any organization, where a number of bills are drawn and/or accepted, those are recorded in special subsidiary books – particulars of all bills receivable in Bills Receivable Book and particulars of the bills payable in Bills Payable Book.

At regular intervals, the amount of the various bills are added together and posted to their relevant accounts in the main ledger. The total of Bills Receivable Book is posted to the debit side of the Bills Receivable Account and the total of Bills Payable Book is posted to the credit side of Bills Payable Account. In respect of each Bill Receivable, the Customer's Account, i.e. the drawee from whom it is received, is credited in the Ledger. Usual Formats of Bills Receivable Book and Bills Payable Book are given below:

**Bills Receivable Book**

| Sl. No. | Bill No. | Name of the acceptor | From whom received | Date of Bill | Term | Date of Maturity | Amount Rs. | Mow dealt with |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |

**Bills Payable Book**

| Sl. No. | Bill No. | Name of the Drawer | Payee | Date of Bill | Term | Date of Maturity | Amount Rs. | Mow dealt with |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |

**Illustration 1**

**Record the following transactions in the Bills Receivable and Bills Payable Books of a trader: -**

**2015 Jan. 1 Received from Hari Kumar an acceptance of 2 months for Rs 1,000.**

**5 Our acceptance to Ram Prasad at 3 months for Rs 4,000.**

**15 Received from Benigopal an acceptance for 4 months for Rs 2,000.**

**18 Discounted Hari Kumar's acceptance for Rs 980.**

**19 Received from Rajagopal an acceptance for 2 months for Rs 6,000.**

**20 Our acceptance to Jadav at 2 months for Rs 1,500.**

**21 Renewed our acceptance to Ram Prasad by paying him cash Rs 2,000 and accepted a fresh bill of Rs 2,100 at 4 months Rs 100 being interest charged.**

**22 Benigopal's acceptance endorsed in favour of Rahaman in full settlement of a debt of Rs 2,250.**

**Solution :**

**Bills Receivable Book**

| Sl. No. | Bill No. | Name of the acceptor | From whom received | Date of Bill | Term | Date of Maturity | Amount Rs. | Mow dealt with |
|---|---|---|---|---|---|---|---|---|
| 1. | | Hari Kumar | Hari Kumar | 1.1.15 | 2 | 4.3.15 | 1,000 | Discounted |
| 2. | | Benigopal | Benigopal | 15.1.15 | 4 | 1 8.5.15 | 2,000 | Endorsed |
| 3. | | Rajagopal | Rajagopal | 19.1.15 | 2 | 22.3.15 | 6,000 | |

**Bills Payable Book**

| Sl. No. | Bill No. | Date of Bill | Name of the Drawer | Payee | Term (Months) | Date of Maturity | Amount Rs. | Remarks |
|---|---|---|---|---|---|---|---|---|
| 1. | | 5.1.15 | Ramprasad | Ramprasad | 3 | 8.4.15 | 4,000 | Renewed |
| 2. | | 20.1.15 | Jadav | Jadav | 2 | 23.3.15 | 1,500 | |
| 3. | | 21.1.15 | Ramprasad | Ramprasad | 4 | 24.5.15 | 2,100 | |

**Illustration 2**

**On 1.4.2015 A draws a bill on B for Rs 9,000 for 3 months. B accepts the bill and returns it to A. Pass Journal entries in the books of A in each of the following circumstances, assume that the bill is honoured on the due date:**

**(i) A retains the bill till the due date**

**(ii) A discounts the bill for Rs 8,750.**

**(iii) A endorses the bill in favour of C.**

**(iv) A sends the bill to the bank for collection.**

**Solution :**

**In the books of A Journal**

| Date | Particulars | | L.F. | Dr Rs. | Cr Rs. |
|---|---|---|---|---|---|
| 2015 | Bills Receivable A/c | Dr. | | 9,000 | |
| April 1 | To B A/c | | | | 9,000 |
| | (Being a bill drawn on B for 3 months) | | | | |
| | **(i) When the Bill is retained** | | | | |
| July 4 | Cash A/c | Dr. | | 9,000 | |
| | To Bills Receivable A/c | | | | 9,000 |
| | (Being the bill honoured ai maturity) | | | | |
| | **(ii) When the Bill is discounted** | | | | |
| April 1 | Bank A/c | Dr. | | 8,750 | |
| | Discount on Bills A/c | Dr. | | 250 | |
| | To Bills Receivable A/c | | | | 9,000 |
| | (Being the bill discounted with the banker (or Rs 8,750) | | | | |
| April 1 | **(iii) When the Bill is endorsed** | | | | |
| | C A/c | Dr. | | 9,000 | |
| | To Bills Receivable A/c | | | | 9,000 |
| | (Being the bill previously drawn on B - now endorsed in favour of C) | | | | |
| | **(iv) When the Bill is sent to-the banker for collection** | | | | |
| April 1 | Bills for collection A/c | Dr. | | 9,000 | |
| | To Bills Receivable A/c | | | | 9,000 |
| | (Being the bill sent to the banker for collection) | | | | |
| July 4 | Bank A/c | Dr | | 9,000 | |
| | To Bills for collection A/c | | | | 9,000 |
| | (Being the amount realised by bank at maturity) | | | | |

## 1.4 Due Date of a Bill of Exchange

**Q9. What is due date of a bills of exchange? Explain.**

*Ans :*

The due date of a bill of exchange is the date when the amount of the bill is payable by the drawee. It is also called the maturity date.

A bill of exchange payable at sight becomes due immediately after the bill is presented for payment because it is payable on demand.

A bill of exchange payable at a pre-determinable time in the future, i.e., term bill, becomes due on the expiry of the period of the bill. The time after which the term bill is to be paid is said to be the tenor of the bill. But it is customary to allow three days of grace to the drawee to pay the amount in the case of a term bill. These days are known as days of grace. Therefore, while calculating the due date of a bill, in its period, for which it is drawn, three more days are added. For example, a bill is drawn on 1.1.1986 for 3 months. The due date of the bill is 4.4.1986.

**Calculation of Due Date**

| | |
|---|---|
| Date of Drawing of Bill | 1.1.1986 |
| Period / Tenor (month) | 3 |
| | 1.4.1986 |
| Days of Grace | 3 |
| Due Date / Maturity Date | 4.4.1986 |



A bill payable can be: (a) a certain period after date\ or (b) a certain period after sight. When the bill contains a direction to "pay three months after date", three months have to be counted from the date of drawing of the bill. But, when the bill contains a direction to "pay three months after sight", three months have to be counted from the date of acceptance of the bill.

**While calculating the due date of a bill, the following points should be noted**

1. When the period of the bill is stated in days, the calculation of the due date will be in days (which includes the date of payment but excludes the date of transaction).
2. When the period of the bill is stated in months, the calculation will be made in terms of calender months, ignoring the number of days in a month, for example, if a bill is drawn on 15th January, 2015 for 3 months, the due date of the bill is 18th April, 2015.
3. If the due date falls on a day which is a public holiday, the due date shall be the preceding business day, and, if the preceding day is also a public holiday, it will fall due on the day preceding the previous day. For example, if the due date of a bill is 26th January (Republic Day), it falls due on 25th January if 25th January is also a public holiday, it will fall due on 24th January (provided 24th January is not a public holiday).

## 1.5 Accounting Treatment of Trade Bills : Books of Drawer and Acceptor

**Q10. Explain about accounting treatment of bills?**

*Ans :*

**1. When a bill is drawn and accepted**

Journal entry in the books of Drawer :

Bills Receivable Account Dr.

To Acceptor's Account

Journal entry in the books of Acceptor

Drawer's AccountDr.

To Bills Payable Account

**2. When the bill is honoured on the due date**

Journal entry in the books of Drawer

Cash / Bank Account Dr.

To Bills Receivable Account

Journal Entry in the books of Acceptor

Bills Payable Account Dr.

To Cash / Bank Account

**3. When the drawer endorses the bill to his creditor**

In the books of Drawer :

Endorsee's Account Dr.

To Bills Receivable Account

**4. When the drawer of the bill gets it discounted with Bank**

In the books of Drawer :

Bank Account Dr (with actual amount received)

Discount Account Dr. (with discount allowed)

To Bills Receivable A/c (with the amount of bill)

**5. When the drawer sends the bill to Bank for collection**

(i) When the bill is sent for collection

Bill sent to bank for-collection A/c Dr.

To Bills Receivable A/c

(ii) When the bill is actually collected

Bank Account Dr.

To Bill sent to bank for collection A/c

**Note**: When the bill is endorsed or discounted or sent to bank for collection, there will not be any entry in the books of acceptor as he is not affected by such acts.

## 1.6 Honour and Dishonour of Bills

**Q11. What does it mean of Honours and dishonour of Bills? Explain.**

*Ans :*

When the acceptor fails to make the payment on the due date, the bill is said to be dishonoured. When the bill is dishonoured on the due date, the holder of the bill can get such fact noted on the bill by a notary public to prove the fact of dishonour by the acceptor. For doing this the notary public will charge some fees known as noting charges.

Journal Entries in the books of Drawer in case of dishonour of a bill

**(i) When bill is retained till the due date and dishonoured.**

| | | |
|---|---|---|
| Acceptor's A/c. | Dr. | (with the amount of the bill and noting charges) |
| To Bills Receivable A/c | | (with the amount of the bill) |
| To Cash A/c. | | (with the amount paid towards noting charges) |

**(ii) When the bill endorsed in favour of creditor is dishonoured.**

| | | |
|---|---|---|
| Acceptor's A/c. | Dr. | (with the amount of bill |
| To Creditor's A/c. | | and noting charges, if any) |

**(iii) When the bill discounted with bank is dishonoured.**

| | | |
|---|---|---|
| Acceptor's A/c. | Dr. | (with the amount of bill |
| To Bank A/c. | | and noting charge, if any) |

**(iv) When the bill sent to the bank for collection is dishonoured.**

| | | |
|---|---|---|
| Acceptor's A/c. | Dr. | (with the amount of bill + noting charges) |
| To Bills sent to bank | | (with the amount of the bill) |
| To Bank A/c | | (with noting charges) |

**(v) In the Books of Acceptor**

In all the cases the acceptor makes same entry i.e.

| | | |
|---|---|---|
| Bills Payable A/c. | Dr. | (with the amount of bill) |
| Noting Charges A/c. | Dr. | (with the amount of noting charges) |
| To Drawer's A/c | | (with the amount of bill and noting charges) |

## 1.7 Renewal of Bills

**Q12. What is renewal of bills? Explain.**

*Ans :*

When the drawee of the bill, after accepting it, has some apprehension in his mind that he may not be able to honour the bill on the due date, may request the drawer of the bill to cancel the original bill and to draw a fresh bill on him for a further period of time. **This is called renewal of a bill.** In such a case, the drawee of a bill becomes liable to pay interest to the drawer for the extended period. The amount of the new bill will include the amount of the interest less the part payment made by the drawee, if any, while requesting the drawer to renew the bill.

When a bill is renewed, the following entries are required to the passed in the books of the drawer and the drawee.

| Particulars | Drawer's Books | Drawee's Books |
|---|---|---|
| (1) Entry cancelling the original bill | Drawee A/c Dr.<br>To Bills Receivable A/c | Bills Payable A/c Dr.<br>To Drawer A/c |
| (2) Entry for interest for the new period | Drawee A/c Dr.<br>To Interest A/c | Interest A/c Dr.<br>To Drawer A/c |
| (3) Entry for part payment | Cash / Bank A/c Dr.<br>To Drawee A/c | Drawer A/c Dr.<br>To Bank A/c |
| (4) Entry for the new bill | Bills Receivable A/c Dr.<br>To Drawee | Drawer A/c Dr.<br>To Bills Payable A/c |

**Illustration 3**

**Shyam sold goods to Ram for Rs. 20,000 on 1.1.2015. On the same date Shyam drew upon Ram a bill for the amount of bill at 2 months and Ram accepted the same. On 4th January 2015. Shyam discounted the bill at his bank @ 12% p.a. On the due date Ram told Shyam that he was not in a position to pay the full amount and requested Shyam to accept Rs. 10,000 in cash and to draw a fresh bill for the remaining amount for 2 months together with interest at 15% p.a. Shyam agreed. The second bill was duly met. Give entries to record the above transactions in the books of Shyam and Ram.**

**Sol :**

**In the books of Shyam**

**Journal**

| Date | Particulars | | L.F. | Dr Rs. | Cr Rs. |
|---|---|---|---|---|---|
| 2015 | Ram A/c | Dr. | | 20,000 | |
| Jan. 1 | To Sales A/c | | | | 20,000 |
| | (Being goods sold to Ram on credit) | | | | |
| Jan. 1 | Bills Receivable A/c | Dr. | | 20,000 | |
| | To Ram A/c | | | | 20,000 |
| | (Being bill drawn on Ram for 2 months) | | | | |
| Jan. 4 | Bank A/c | Dr. | | 19,600 | |
| | Discount on Bills A/c | Dr. | | 400 | |
| | To Bills Receivable A/c | | | | 20,000 |
| | (Being the bill discounted with the banker @ 12% p.a.) | | | | |
| Mar. 4 | Ram A/c | Dr. | | 20,000 | |
| | To Bank A/c | | | | 20,000 |
| | (Being the bill previously discounted with the banker, now cancelled for renewal) | | | | |

| | | | | |
|---|---|---|---|---|
| Mar. 4 | Ram A/c Dr.<br>To Interest A/c<br>(Being the interest charged to Ram on account of the bill to be drawn @ 15% p.a. for 2 months) | | 250 | <br>250 |
| Mar. 4 | Bank A/c Dr.<br>Bills Receivable A/c Dr.<br>To Ram A/c<br>(Being the part payment of Rs. 10,000 received and a fresh bill drawn on Ram for the balance plus interest) | | 10,000<br>10,250 | <br><br>20,250 |
| May 7 | Bank A/c Dr.<br>To Bills Receivable A/c<br>(Being the second bill honoured at maturity) | | 10,250 | <br>10,250 |

**In the books of Ram**

**Journal**

| Date | Particulars | L.F. | Dr Rs. | Cr Rs. |
|---|---|---|---|---|
| 2015<br>Jan. 1 | Purchases A/c Dr.<br>To Shyam A/c<br>(Being goods purchased on credit) | | 20,000 | <br>20,000 |
| Jan. 1 | Shyam A/c Dr.<br>To Bills Payable A/c<br>(Being the bill accepted for 2 months) | | 20,000 | <br>20,000 |
| Mar. 4 | Bills Payable A/c Dr.<br>To Shyam A/c<br>(Being the bill dishonoured) | | 20,000 | <br>20,000 |
| Mar. 4 | Shyam A/c Dr.<br>To Bank A/c<br>(Being part payment to Shyam) | | 10,000 | <br>10,000 |
| Mar. 4 | Interest A/c Dr.<br>To Shyam A/c<br>(Being interest payable to Shyam) | | 250 | <br>250 |
| Mar. 4 | Shyam A/c Dr.<br>To Bills Payable A/c<br>(Being a new bill accepted for 2 months for the balance plus interest @ 15%) | | 10,250 | <br>10,250 |
| May 7 | Bills Payable A/c Dr.<br>To Bank A/c<br>(Being the bill honoured at maturity) | | 10,250 | <br>10,250 |

## 1.8 Retiring of Bills under Rebate

**Q13. What is retiring of bills?**

*Ans :*

This is the other side of the renewal of a bill. When the drawee of a bill desires to make payment even before the due date of the bill and the drawer welcomes it, it is called **retiring a bill.** Simply, retiring a bill means that the drawee makes the payment before the due date. In such a case, the drawer is to allow some discount because what he was to receive after some time in the future, he receives immediately. The discount is an expense for the drawer and gain for the drawee.

| **Drawer's Book** | | **Drawee's Book** | |
|---|---|---|---|
| Bank A/c | Dr. | Bill Payable A/c | Dr. |
| Discount Allowed A/c | Dr. | To Bank A/c | |
| To Bills Receivable A/c | | To Discount Received A/c | |
| (Being the bill retired before the due date) | | (Being the bill retired by us before maturity) | |

**Illustration 4**

**On January 1, 2015 Saju accepted a bill, drawn on him by Rinku for Rs. 5,000 payable 4 months after sight, against his dues. Having surplus funds, Saju paid off the bill on 4th Feb. and was allowed a rebate of 6% p.a. Show Journal entries in the books of Saju and Rinku to record these transactions.**

**Sol :**

**In the books of Saju Journal**

| Date | Particulars | | L.F. | Dr Rs. | Cr Rs. |
|---|---|---|---|---|---|
| 2012 Jan. 1 | Rinku A/c | Dr. | | 5,000 | |
| | To Bills Payable A/c | | | | 5,000 |
| | (Being the bill accepted for four months) | | | | |
| Feb. 4 | Bills Payable A/c | Dr. | | 5,000 | |
| | To Bank A/c | | | | 4,925 |
| | To Discount Received A/c | | | | 75 |
| | (Being the bill retired before maturity and discount received @ 6% p.a.) | | | | |

**In the books of Rinku Journal**

| Date | Particulars | | L.F. | Dr Rs. | Cr Rs. |
|---|---|---|---|---|---|
| 2012 Jan. 1 | Bills Receivable A/c | Dr. | | 5,000 | |
| | To Saju A/c | | | | 5,000 |
| | (Being the bill drawn on Saju for four months) | | | | |
| Feb. 4 | Bank A/c | Dr. | | 4,925 | |
| | Discount Allowed A/c | Dr. | | 75 | |
| | To Bills Receivable A/c | | | | 5,000 |
| | (Being the bill retired and discount allowed @ 6% p.a.) | | | | |

**Note :** The due date of the bill is 4.5.1987. But the drawee made payment on 4.2.2015.

Therefore, he has been allowed a discount for 3 months @ 6% p.a. which is calculated as under :

$$\frac{\text{Rs. } 5{,}000 \times 6 \times 3}{100 \times 12} = \text{Rs. } 75.$$

## 1.9 Accommodation Bills

**Q14. What is accommodation bills? Explain.**

*Ans :*

Sometimes, for the purpose of arranging temporary financial accommodation, bills are drawn, accepted and endorsed without any consideration. These types of bills are called 'Accommodation Bills'.

Ordinary bills are drawn for some consideration—known as "Trade Bill". In other words, when one party has to receive money from the other party, the former party draws the bill and the latter accepts it. But accommodation bills are those which are drawn and accepted without any consideration. Here, the idea is to help one or both the parties financially. Since the bills are drawn without any consideration, they are also termed as ***'Kite Bills'***. As no consideration is involved, accommodation bills are not legally enforceable Though accommodation bills are not bills from a legal point of view, yet they are in practice no way different from an ordinary bill.

What actually happens in the case of an accommodation bill is that one party draws the bill and the other party accepts it. Then, the drawing party gets it discounted from the bank and receives ready cash of which he is in need. The money received is either wholly utilized by the drawer, or by both, the drawer and the acceptor Before the due date approaches, the required sum of money is sent to the acceptor in order to make him able to honour the bill and the bill is honoured by the acceptor on the due date. Thus, although there is no legal liability, there exists a strong moral understanding between the parties concerned.

## 1.10 DISTINCTIONS BETWEEN TRADE BILLS AND ACCOMMODATION BILLS

**Q15. What is the difference between trade bills and accommodation bills.**

*Ans :*

| Trade Bills | Accommodation Bills |
|---|---|
| 1. These bills are drawn and accepted for some consideration, i.e., for trade purposes. | 1. These bills are drawn and accepted without any consideration. |
| 2. These bills are acknowledgments of the debts. | 2. These bills are not the acknowledgments of the debts. |
| 3. These bills may or may not be discounted with the bank. | 3. These bills are always discounted with the bank. |
| 4. The loss by way of discounting charges is to be borne by the drawer because the drawee is no way benefitted. | 4. The loss by way of discounting charges is to be shared by the drawer and the drawee in the same ratio they share the proceeds. |
| 5. The drawer can resort to legal action when the bill is dishonoured. | 5. Legal action cannot be resorted when the bill is dishonoured. |

Entries in the case of accommodation bills are the same as those discussed above. Accommodation bills are generally drawn and accepted for three different purposes as under:

When the bill is drawn and accepted only for the accommodation of the drawer When a person is in need of funds, he draws a bill on a friend who accepts the bill to oblige the drawer. The understanding between them is that the drawer will place the acceptor in funds well in time so as to enable him to pay off the bill when it is presented for payment. The drawer can, then discount the bill with the bank and obtain the needed funds to meet his aim with the temporary finance. When the bill is about to fall due for payment, the drawer gives the amount of the bill to the acceptor who meets the bill on presentation by the bank.

When the bill is drawn and accepted for the accommodation of both the drawer and the drawee. When two persons are in need of funds, one of the parties draws a bill or the other. Here, after the bill being discounted with the banker, the realized cash is shared by the drawer and the drawee in an agreed proportion. The understanding is that the loss by way of discounting charges is also to be shared in the same ratio in which they share the proceeds. Before the due date of the bill, the drawer sends his share of the proceeds to the drawee. The drawee then arranges his share of the proceeds and meets the bill on the due date.

Another way of accommodating both the parties who are in the need of funds is that they draw on each other a bill for similar amounts. Both the parties discount their respective bills with the bankers and at maturity, pay off their acceptances.

When several bills are drawn and accepted for the accommodation of more than two parties Here, each party draws one or more bills on the others. The bills are then discounted by the respective parties. The total net proceeds of the bills is then shared by the parties in an agreed ratio - the total discounting charges are also shared by them in the same proportion. Before the due date, in order to enable each party to honour his bill, the required amount is remitted by the others - with the help of which (along with their own share), they honour the accepted bills.

**Illustration 5**

**A approached his friend B for a loan of Rs 5,000 and the latter, being unable to find the money, agreed to accept a bill drawn on him at 3 months for accommodation. In due course, the bill was drawn, accepted and discounted with the banker. The bank rate of discounting the customer's bill was 6% p.a. On the due date, A remits the required amount to B and the bill was duly met. Pass the Journal entries in the books of both the parties.**

**Solution :**

**In the books of A**

**Journal**

| Date | Particulars | | L.F. | Dr Rs | Cr Rs |
|---|---|---|---|---|---|
| | Bills Receivable A/c | Dr. | | 5,000 | |
| | To B A/c | | | | 5,000 |
| | (Being bill drawn on B for 3 months for own accommodation) | | | | |
| | Bank A/c | Dr. | | | 4,925 |
| | Discount on Bills A/c | Dr. | | | 75 |
| | To Bills Receivable A/c | | | | 5,000 |
| | (Being the bill discounted with the banker @ 6% p.a) | | | | |
| | B A/c | Dr. | | | 5,000 |
| | To Cash A/c | | | | 5,000 |
| | (Being the required amount remitted to B) | | | | |

**In the books of B**

**Journal**

| Date | Particulars | L.F. | Dr Rs | Cr Rs |
|---|---|---|---|---|
| | A A/c Dr. | | 5,000 | |
| | To Bills Payable A/c | | | 5,000 |
| | (Being the acceptance of a bill from A for 3 months for his accommodation) | | | |
| | Cash A/c Dr. | | 5,000 | |
| | To A A/c | | | 5,000 |
| | (Being the required amount received from A) | | | |
| | Bills Payable A/c Dr. | | 5,000 | |
| | To Cash A/c | | | 5,000 |
| | (Being the bill honoured by us at maturity) | | | |

**Illustration 6**

**For the mutual accommodation of Hiru and Biru; Hiru accepts a bill drawn on him by Biru for three months for Rs 3,000 on 1st January, 2015. Biru discounts the bill immediately for Rs 2,700 and remits l/3rd of the proceeds to Hiru. Before the bill becomes due, Biru remits the balance due to Hiru in order to enable him to meet the bill. Hiru meets the bill on the due date.**

Draw up the Journal entries in the books of Hiru and Biru to record the above transactions

**Solution :**

**In the books of Biru**

**Journal**

| Date | Particulars | L.F. | Dr Rs | Cr Rs |
|---|---|---|---|---|
| 2015 | Bills Receivable A/c Dr. | | 3,000 | |
| Jan. 1 | To Hiru A/c | | | 3,000 |
| | (Being the bill drawn on Hiru for 3 months for mutual accommodation) | | | |
| Jan. 1 | Bank A/c Dr | | 2,700 | |
| | Discount on Bills A/c Dr. | | 300 | |
| | To Bills Receivable A/c | | | 3,000 |
| | (Being the bill discounted with the banker (or Rs 2,700) | | | |

| | | | | |
|---|---|---|---|---|
| Jan 7 | Hiru A/c Dr. | | | 1,000 |
| | To Bank A/c | | 900 | |
| | To Discount on Bills A/c | | 100 | |
| | (Being the remittance of 1 /3rd of the proceeds to Hiru and the discounting charges also being shared in the ratio 2:1) | | | |
| April 4 | Hiru A/c Dr. | | 2,000 | |
| | To Bank A/c | | | 2,000 |
| | (Being the remittance of the balance amount to Hiru) | | | |

**In the books of Hiru**

**Journal**

| Date | Particulars | L.F. | Dr Rs. | Cr Rs |
|---|---|---|---|---|
| 2015 | Biru A/c Dr. | | 3,000 | |
| Jan. 1 | To Bills Payable A/c | | | 3,000 |
| | (Being a bill accepted for mutual accommodation) | | | |
| Jan. 1 | Bank A/c Dr | | 900 | |
| | Discount on Bills A/c Dr. | | 100 | |
| | To Biru A/c | | | 1,000 |
| | (Being the receipt of 1/3rd of proceeds remitted by Biru - discounting charges also being shared in the ratio 2:1) | | | |
| April 4 | Bank A/c Dr. | | 2,000 | |
| | To Biru A/c | | | 2,000 |
| | (Being the balance of amount remitted by Biru) | | | |
| April 4 | Bills Payable A/c Dr. | | 3,000 | |
| | To Bank A/c | | | 3,000 |
| | (Being the bill honoured on maturity) | | | |



**Illustration 7**

**For mutual accommodation of A, B and C, they draw and accept the following bills:**

**A draws a bill on B for Rs. 10,000;**

**B draws a bill on C for Rs 20,000;**

**C draws a bill on A for Rs 30,000.**

**All the above bills are discounted at 10% and the proceeds are shared equality. Assuming all the bills are honoured on the due date, pass Journal entries in the books of A, B and C.**

**Solution :**

The aggregate amount of the bills is Rs. 60,000. The bills are discounted at 10%.

Therefore total amount of discount is 10% of Rs 60,000, i.e., Rs 6,000.

Each party will get l/3rd of the total amount of bill less l/3rd of the discounting charges. Therefore, each party will receive Rs 18,000 (Rs 20,000 - Rs 2,000) and will pay Rs 20,000. After discounting the bill, A gets Rs 9,000 (Rs 10,000 - Rs 1,000). Therefore, he is to get Rs 9,000 from C to make his share equal to others. B gets Rs 18,000 (Rs 20,000 - Rs 2,000) – exactly what each party is to get. C gets Rs 27,000 (Rs 30,000 - Rs 3,000) after discounting the bills. When C sends Rs 9,000 to A, his share becomes Rs 18,000 (Rs 27,000 - Rs 9,000) – which is equal to the other parties.

Before the due date, A is to honour a bill of Rs 30,000. To honour the bill, he is to get Rs 10,000 from B, because B is to honour a bill of Rs 10,000, but he has Rs 20,000 with himself. Therefore, the excess of Rs 10.000 will be remitted to A. Lastly, C is having with himself exactly what he requires to honour the bill drawn by B on him.

**In the books of A**

**Journal**

| Date | Particulars | | L.F. | Dr Rs. | Cr Rs |
|---|---|---|---|---|---|
| | Bills Receivable A/c | Dr. | | 10,000 | |
| | To BA/c | | | | 10,000 |
| | (Being a bill drawn up B for mutual accommodation) | | | | |
| | C A/c | Dr. | | 30,000 | |
| | To Bills Payable A/c | | | | 30,000 |
| | (Being the acceptance of a bill from C for mutual accommodation) | | | | |
| | Bank A/c | Dr. | | 9,000 | |
| | Discount on Bills A/c | Dr. | | 1,000 | |
| | To Bills Receivable A/c | | | | 10,000 |
| | (Being the bill discounted with the banker @ 10%) | | | | |
| | Bank A/c | | | 9,000 | |
| | Discount on Bills A/c | Dr | | | 1,000 |
| | To C A/c | | | | 10,000 |
| | (Being the receipt of Rs 9,000 from C to make own share equal to others — discounting charges also equally shared) | | | | |
| | Bank A/c | Dr. | | 10,000 | |
| | To B A/c | | | | 10,000 |
| | (Being the receipt of Rs 10,000 to enable us to honour the bill) | | | | |
| | Bills Payable A/c | Dr. | | 30,000 | |
| | To Bank A/c | | | | 30,000 |
| | (Being the bill honoured at maturity) | | | | |
| | B A/c | Dr. | | 20,000 | |
| | To C A/c | | | | 20,000 |
| | (Being the required adjustment) | | | | |

**In the books of B**

**Journal**

| Date | Particulars | | L.F. | Dr Rs. | Cr Rs |
|---|---|---|---|---|---|
| | Bills Receivable A/c | Dr. | | 20,000 | |
| | To C A/c | | | | 20,000 |
| | (Being a bill drawn on C for mutual accommodation) | | | | |
| | A A/c | Dr | | 10,000 | |
| | To Bills Payable A/c | | | | 10,000 |
| | (Being the acceptance of a bill from A for mutual accommodation) | | | | |
| | Bank A/c | Dr. | | 18,000 | |
| | Discount on Bills A/c | Dr. | | 2,000 | |
| | To Bills Receivable A/c | | | | 20,000 |
| | (Being the bill discounted with the banker@ 10%) | | | | |
| | A A/c | Dr. | | 10,000 | |
| | To Bank A/c | | | | 10,000 |
| | (Being the required amount remitted to A in order to enable him to honour the bill) | | | | |
| | Bills Payable A/c | Dr. | | 10,000 | |
| | To Bank A/c | | | | 10,000 |
| | (Being the bill previously accepted, now honoured) | | | | |
| | C A/c | Dr. | | 20,000 | |
| | To A A/c | | | | 20,000 |
| | (Being the required adjustment) | | | | |

**In the books of C**

**Journal**

| Date | Particulars | | L.F. | Dr Rs | Cr Rs |
|---|---|---|---|---|---|
| | Bills Receivable A/c | Dr. | | 30,000 | |
| | To A A/c | | | | 30,000 |
| | (Being a bill drawn on A for mutual accommodation) | | | | |
| | B A/c | Dr. | | 20,000 | |
| | To Bills Payable A/c 20,000 | | | | |
| | (Being the acceptance of a bill from B for mutual accommodation) | | | | |

| | | | | |
|---|---|---|---|---|
| | Bank A/c Dr. | | 27,000 | |
| | Discount on Bills A/c Dr. | | 3,000 | |
| | To Bills Receivable A/c | | | 30,000 |
| | (Being the bill discounted with the banker @ 10%) | | | |
| | A A/c Dr. | | 10,000 | |
| | To Bank A/c | | | 9,000 |
| | To Discount on Bills A/c | | | 1,000 |
| | (Being the required amount remitted to A to make his share equal to Rs 20,000 - proportionately discounting charges also charged) | | | |
| | Bills Payable A/c Dr | | | 20,000 |
| | To Bank A/c | | | 20,000 |
| | (Being the bill previously accepted, now honoured) | | | |
| | A A/c Dr | | 20,000 | |
| | To B A/c | | | 20,000 |
| | (Being the required adjustment) | | | |

## PROBLEMS ON BILLS OF EXCHANGE

**1. On 1st January 2014 Anil sold goods to Naresh for ` 8,000. Naresh paid 20% cash immediately after deducting cash discount of 2%. For the balance Anil drew a bill payable after 3 months. On the due date the bill is honoured. Pass Journal entries in the books of both the parties.**

**Sol. :**

**In the Books of Anil**

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| | Naresh A/c Dr | | 8,000 | |
| | To Sales A/c | | | 8,000 |
| | (Being goods sold to Naresh) | | | |
| | Cash A/c Dr | | 1,568 | |
| | Discount A/c Dr | | 32 | |
| | Bills Receivable A/c Dr | | 6,400 | |
| | To Naresh A/c | | | 8,000 |
| | (Cash received and Bill drawn on Naresh) | | | |
| | Cash A/c Dr | | 6,400 | |
| | To Bills receivables A/c | | | 6,400 |
| | (Being the bill honoured on the due date) | | | |

### In the Books of Naresh

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| | Purchases A/c Dr | | 8,000 | |
| | To Anil A/c | | | 8,000 |
| | (Being goods purchased from Anil) | | | |
| | Anil A/c Dr | | 8,000 | |
| | To Cash A/c | | | 1,568 |
| | To Discount A/c | | | 32 |
| | To Bills payable A/c | | | 6,400 |
| | (Being the cash paid and bills payable accepted) | | | |
| | Bills payable A/c Dr | | 6,400 | |
| | To Cash A/c | | | 6,400 |
| | (Being the bill honoured on due date) | | | |



**2. Amar draws a bill on Bharat for ` 15,000. Bharat accepts the bill and returns it to to Amar. Amar endorses the bill to Chetan. Chetan endorses the bill to Deepak. Deepak discounts the bill with bank for `14,800. Pass Journal entries in the books of all parties assuming that the bill is honoured on the due date.**

**Sol. :**

### In the Books of Amar

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| | Bills receivable A/c Dr | | 15,000 | |
| | To Bharath A/c | | | 15,000 |
| | (Being the bill drawn on bharath) | | | |
| | Chetan A/c Dr | | 15,000 | |
| | To Bills receivables A/c | | | 15,000 |
| | (Being the bill was endorsed to chetan) | | | |

**In the Books of Bharath**

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| | Amar A/c Dr | | 15,000 | |
| | To Bills payable A/c | | | 15,000 |
| | (Being the bills payable accepted) | | | |
| | Bills Payable A/c Dr | | 15,000 | |
| | To Cash A/c | | | 15,000 |
| | (Being the bill honoured on due date) | | | |

**In the Books of Chetan**

| Date | Particulars | L.F | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| | Bills receivable A/c Dr | | 15,000 | |
| | To Aman A/c | | | 15,000 |
| | (Being the bill drawn on Aman) | | | |
| | Deepak A/c Dr | | 18,000 | |
| | To Bills receivables A/c | | | 15,000 |
| | (Being bill endorsed to deepak) | | | |

**In the Books of Deepak**

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| | Bills receivables A/c Dr | | 15,000 | |
| | To Chetan | | | 15,000 |
| | (Being the bill drawn on chetan) | | | |
| | Bank A/c Dr | | 14,800 | |
| | Discount A/c Dr | | 200 | |
| | To Bills receivable A/c | | | 15,000 |
| | (Being the bill discounted with bank) | | | |

**3. On 1st January, 2015 Mahesh sold goods worth ` 5,000 to Pradeep. On the same date Mahesh purchased goods worth ` 8,000 from Dinesh, Mahesh drew a bill on Pradeep for the amount due payable after 4 months, Mahesh paid ` 3,000 to Dinesh and endorsed, Pradeep's acceptance to him. Dinesh discounted the bill with his bankers for ` 4,850. On the due date the bill is honoured. Pass journal entries in the books of Mahesh, Dinesh & Pradeep.**

**Sol. :**

**In the Books of Mahesh**

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| | Pradeep A/c Dr | | 5,000 | |
| | To Sales A/c | | | 5,000 |
| | (Being goods sold to pradeep) | | | |
| | Purchases A/c Dr | | 8,000 | |
| | To Dinesh A/c | | | 8,000 |
| | (Being the goods purchased from dinesh) | | | |
| | Bills Receivable A/c Dr | | 5,000 | |
| | To Pradeep A/c | | | 5,000 |
| | (Being the bill drawn on pradeep) | | | |
| | Dinesh A/c Dr | | 8,000 | |
| | To Bills receivable A/c | | | 5,000 |
| | To Cash A/c | | | 3,000 |
| | (Being the cash paid and bill endorsed to dinesh) | | | |

**In the Books of Pradeep**

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| | Purchases A/c Dr | | 5,000 | |
| | To Mahesh A/c | | | 5,000 |
| | (Being the goods purchased from mahesh) | | | |
| | Mahesh A/c Dr | | 5,000 | |
| | To Bills payable A/c | | | 5,000 |
| | (Being the bill accepted) | | | |
| | Bills payable A/c Dr | | 5,000 | |
| | To Cash A/c | | | 5,000 |
| | (Being the bill honoured on due date) | | | |

**In the Books of Dinesh**

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| | Mahesh A/c Dr | | 8,000 | |
| | To Sales A/c | | | 8,000 |
| | (Being the goods sold to mahesh) | | | |
| | Cash A/c Dr | | 3,000 | |
| | Bills receivable A/c Dr | | 5,000 | |
| | To Mahesh A/c | | | 8,000 |
| | (Being the cash received and bill drawn on mahesh) | | | |
| | Bank A/c Dr | | 4,850 | |
| | Discount A/c Dr | | 150 | |
| | To Bills Receivable A/c | | | 5,000 |
| | (Being the bill disounted with bank) | | | |

**4. Suresh owed ` 25,500 to Raj on 1st March 2014. He accepted a bill for ` 25,000 payable after one month, Raj allowed him discount of `500. Raj endorsed the bill to Hemanth in settlement of his debt for ` 26,000. Hemanth discounted the bill with his bank for ` 24,800, the bill was honoured on the due date. Pass Journal entries in the books of all the parties.**

**Sol. :**

**In the Books of Raj**

| Date | Particulars | L.F. | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| | Bills receivable A/c Dr | | 25,000 | |
| | Discount A/c Dr | | 500 | |
| | To Suresh A/c | | | 25,500 |
| | (Being the bill drawn on suresh along with discounts) | | | |
| | Hemanth A/c Dr | | 26,000 | |
| | To Bills Receivables A/c | | | 25,000 |
| | To Discount A/c | | | 500 |
| | (Being the endorsed to hemanth to view of full and final settlement) | | | |

### In the Books of Suresh

| Date | Particulars | L.F. | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| | Raj A/c Dr | | 25,500 | |
| | To Bills Payable A/c | | | 25,000 |
| | To Discount A/c | | | 500 |
| | (Being the bill accepted along with discounts) | | | |
| | Bills Payable A/c Dr | | 25,000 | |
| | To Cash A/c | | | 25,000 |
| | (Being the bill honoured on due date) | | | |

### In the Books of Hemanth

| Date | Particulars | L.F. | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| | Bills receivable A/c Dr | | 25,000 | |
| | Discount A/c Dr | | 500 | |
| | To Raj A/c | | | 25,500 |
| | (Being the bill drawn on Raj along with discount) | | | |
| | Bank A/c Dr | | 24,800 | |
| | Discount A/c Dr | | 200 | |
| | To Bill Receivable A/c | | | 25,000 |
| | (Being the bill discounted on due date) | | | |



**5. Aayush draws on Pratham three bills of for ` 6,000, ` 5,000 and ` 4,000 respectively for goods sold to Pratham. These bills were for one month, 2 months and 3 month respectively. The first bill was endorsed to his creditor Adarsh, the second bill was discounted with bank for ` 4,900 and the third bill was sent to the bank for collection. On the due dates all the bills were duly met by Pratham. Pass journal entries in the books of Aayush, Pratham and Adarsh.**

**Ans :**

### In the Books of Ayush

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| | Bills Receivables A/c Dr | | 15,000 | |
| | To Prathan A/c | | | 15,000 |
| | (Being the bills drawn on prathan) | | | |
| | (6000+5000+4000) | | | |

| | | | | |
|---|---|---|---|---|
| | Adarsh A/c Dr | | 6,000 | |
| | To Bills receivable A/c | | | 6,000 |
| | (Being the bill endorsed to adarsh) | | | |
| | Bank A/c Dr | | 4,900 | |
| | Discount A/c Dr | | 100 | |
| | To Bills receivable A/c | | | 5,000 |
| | (Being the bill discounted wtih bank) | | | |
| | Bill sent to Bank for Collection A/c Dr | | 4,000 | |
| | To Bill receivable A/c | | | 4,000 |
| | (Being the bill sent for collection) | | | |
| | Bank A/c Dr | | 4,000 | |
| | To Bill sent to Bank for collection A/c | | | 4,000 |
| | (Being bill amount collected by bank on due date) | | | |

**In the Books of Pratham**

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| | Ayush A/c Dr | | 15,000 | |
| | To Bills Payable A/c | | | 15,000 |
| | (Being the bills payable accepted) | | | |
| | Bills Payable A/c Dr | | 6,000 | |
| | To Cash A/c | | | 6,000 |
| | (Being the bill honoured) | | | |
| | Bills payable A/c Dr | | 5,000 | |
| | To Cash A/c | | | 5,000 |
| | (Being the bill honoured) | | | |
| | Bills payable A/c Dr | | 4,000 | |
| | To Cash A/c | | | 4,000 |
| | (Being the bill honoured) | | | |

**In the Books of Adarsh**

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| | Bills Receivables A/c Dr | | 6,000 | |
| | To Aayush A/c | | | 6,000 |
| | (Being the bill drawn on ayush) | | | |
| | Cash A/c Dr | | 6,000 | |
| | To Bills receivables A/c | | | 6,000 |
| | (Being the bill honoured) | | | |

**6. A bill for ` 9,000 is drawn by Ramakant on Satish and accepted by the latter payable at Central Bank. The bill is honoured on the due date. Give Journal entries in the books of Ramakant in the following cases.**

**1) The bill is retained till the due date**

**2) The bill is endorsed in favour of Suresh**

**3) The bill is discounted with bank for ` 8,900**

**4) The bill is sent to the bank for collection.**

**Sol. :**

**In the Books of Ramakanth**

| Date | Particulars | L.F. | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| | Bills receivables A/c Dr | | 9,000 | |
| | To Satish A/c | | | 9,000 |
| | (Billing the bill drawn on satish) | | | |
| | Cash A/c Dr | | 9,000 | |
| | To Bills receivables A/c Dr | | | 9,000 |
| | (Being the bill accepted on due date) | | | |
| | Suresh A/c Dr | | 9,000 | |
| | To Bills receivables A/c Dr | | | 9,000 |
| | (Being the bill drawn on favour of suresh) | | | |
| | (i) Bill Sent to Bank for collection A/c Dr | | 9,000 | |
| | To Bills receivables A/c | | | 9,000 |
| | (Being the bill sent for collection) | | | |
| | (ii) Bank A/c Dr | | 9,000 | |
| | To Bill sent to Bank for collection A/c | | | 9,000 |
| | (Being the bill collected by Bank on the due date) | | | |

**7. A bill of exchange for ` 1,000 is drawn by Ram & Co. on Shyam & Co. and accepted by the latter payable at Andhra Bank. Show the journal entries in the books of account of Ram & Co. under each of the following circumstances:**

**a) If they retained the bill till the due date and realised on maturity**

**b) If they got it discounted with their bankers for ` 980.**

**c) If they endorse it over to their creditors Balram & Co. in full settlement of their dues of ` 1,050.**

**d) If they sent te bill to the bank for collection.**

**Ans :**

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

| Date | Particulars | L.F. | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| | (i) Bills receivable A/c Dr | | 1,000 | |
| | To Shyam & Co | | | 1,000 |
| | (Being the bill drawn on shyam) | | | |
| | (i) Cash A/c Dr | | 1,000 | |
| | To Bills receivables A/c | | | 1,000 |
| | (Being the bill accepted on due date) | | | |
| | (i) Bank A/c Dr | | 980 | |
| | Discount A/c Dr | | 20 | |
| | To Bills receivable A/c | | | 1,000 |
| | (Being the bill discounted with banker) | | | |
| | Balaram A/c Dr | | 1,050 | |
| | To Bills receivable A/c | | | 1,000 |
| | To Discount A/c | | | 50 |
| | (Being the bill drawn on balaram along with discount) | | | |
| | (i) Bill sent for collection to Bank A/c Dr | | 1,000 | |
| | To Bills receivable A/c | | | 1,000 |
| | (Being the bill sent for collection to Bank) | | | |
| | (ii) Bank A/c Dr | | 1,000 | |
| | To Bill sent for collection to Bank A/c | | | 1,000 |
| | (Being the bill amount collected by Bank) | | | |

**8. 1st January Mohan drew three bills worth ` 2,400 on his debtor Suresh - First bill was for ` 700 of one month second bill was for ` 800 of two months and the third bill for ` 900 of four months. Suresh- accepted all the three bills. On 4th January Mohan endorsed the first bill to his creditor Ramesh in full settlement of his account for ` 710. The second bill was discounted for ` 792. The third bill was retained by him till the date of maturity. On the date of maturity the first bill was paid but the second bill was dishonoured, noting charges amounted to `10.**

**Mohan drew a fourth bill for ` 825 including ` 15 for interest for three months. Suresh accepted. On the date of maturity the third and fourth bills were honoured. Pass the necessary entries in the books of Mohan, Suresh and Ramesh.**

**Sol. :**

**In the Books of Mohan**

| Date | Particulars | L.F. | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| Jan 7th | Bills Receivable A/c Dr | | 2,400 | |
| | To Suresh A/c | | | 2,400 |
| | (Being the bill drawn on Suresh) | | | |
| Jan 4th | Ramesh A/c DR | | 710 | |
| | To Bills receivables A/c Dr | | | 700 |
| | To Discount A/c | | | 10 |
| | (Being the bill endorsed to ramesh for full and final settlement of A/c) | | | |
| Jan 4th | Bank A/c Dr | | 792 | |
| | Disocunt A/c Dr | | 8 | |
| | To Bills Receivable A/c | | | 800 |
| | (Being the bill discounted) | | | |
| March 4th | Suresh A/c Dr | | 810 | |
| | To Bank A/c | | | 810 |
| | (Being the bill dishonoured, along with noting charges) | | | |
| March 4th | Suresh A/c Dr | | 15 | |
| | To Interest A/c | | | 15 |
| | (Being interest charged on suresh bill) | | | |
| March 4th | Bills receivable A/c Dr | | 825 | |
| | To Suresh A/c | | | 825 |
| | (Being the bill drawn suresh) | | | |
| April 4th | Cash A/c Dr | | 900 | |
| | To Bills receivable A/c Dr | | | 900 |
| | (Being the bill accepted on due date) | | | |
| June 7th | Cash A/c Dr | | 825 | |
| | To Bills Receivable A/c | | | 825 |
| | (Being the bill accepted on due date) | | | |

**In the Books of Suresh**

| Date | Particulars | L.F. | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| Jan 7th | Mohan A/c Dr | | 2,400 | |
| | To Bills Payable A/c | | | 2,400 |
| | (Being the bill accepted) | | | |
| Feb 4th | Bills payable A/c Dr | | 700 | |
| | To Cash A/c | | | 700 |
| | (Being the bill accepted on due date) | | | |
| March 4th | Bills payable A/c Dr | | 800 | |
| | To Noting Charges | | 10 | |
| | To Mohan | | | 810 |
| | (Being the bill dishonourdd and accepted noting charge Rs. 10 paid) | | | |
| March 4th | Interest A/c Dr | | 15 | |
| | To Mohan A/c | | | 15 |
| | (Being the Interest charged by Mohan) | | | |
| March 4th | Mohan A/c Dr | | 825 | |
| | To Bills payable A/c | | | 825 |
| | (Being the new bill accepted) | | | |
| April 4th | Bills payable A/c Dr | | 900 | |
| | To Cash A/c | | | 900 |
| | (Being the bill honoured on due date) | | | |
| June 7th | Bills payable A/c Dr | | 825 | |
| | To Cash A/c | | | 825 |
| | (Being the bill honoured on due date) | | | |



**9. On 1st July A sells goods to B for ` 10,000 and drew three bills on him. The first for ` 2,000 for one month, the second for ` 3,000 for 2 months and the third for ` 5,000 for three months. B accepts and returns these bills to A**

**The first bill is retained by A till the date of maturity. The second bill is endorsed by A to his creditor C on 3rd July and third bill is sent to bank for collection on 4th July. On maturity all bills were dishonoured and noting charges paid were ` 10, and T 20 respectively. Give journal entries in the books of A, B and C.**

**Sol. :**

**In the Books of A**

| Date | Particulars | L.F. | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| | B A/c Dr | | 10,000 | |
| | To Sales A/c | | | 10,000 |
| | (Being goods sold to B) | | | |
| | Bills Receivable A/c Dr | | 10,000 | |
| | To B A/c | | | 10,000 |
| | (Being the bill drawn on B) | | | |
| | C A/c Dr | | 3,000 | |
| | To Bills Receivable A/c | | | 3,000 |
| | (Being the bill endorsed to C) | | | |
| | Bill sent to Bank for collection A/c Dr | | 5,000 | |
| | To Bills receivable A/c | | | 5,000 |
| | (Being the bill sent for collection) | | | |
| | B A/c Dr | | 1,010 | |
| | To Bills receivable A/c | | | 1,000 |
| | To Noting Charges A/c | | | 10 |
| | (Being the bill dishonoured and noting charges Rs. 10 accepted) | | | |
| | B A/c Dr | | 3,015 | |
| | To C A/c | | | 3,015 |
| | (Being the bill returned to B) | | | |
| | B A/c Dr | | 5,020 | |
| | To Bill sent for collection to Bank A/c | | | 5,000 |
| | To Noting Charges A/c | | | 20 |
| | (Being the bill dishonoured and notin charges Rs. 20/- accepted) | | | |

**In the Books of B**

| Date | Particulars | | L.F. | Debit Rs. | Credit Rs. |
|---|---|---|---|---|---|
| | Purchases A/c | Dr | | 10,000 | |
| | To A A/c | | | | 10,000 |
| | (Being goods purchased from A) | | | | |
| | A A/c | Dr | | 10,000 | |
| | To Bills Payable A/c | | | | 10,000 |
| | (Being the bills drawn on by A, accepted amount (5000+3000+2000)) | | | | |
| | Bills payable A/c | Dr | | 2,000 | |
| | Noting Charges A/c | Dr | | 10 | |
| | To A A/c | | | | 2,010 |
| | (Being the bill dishnoured and acepted noting charges Rs. 10/-) | | | | |
| | Bills Payable A/c | Dr | | 5,000 | |
| | Noting Charges A/c | Dr | | 20 | |
| | To A A/c | | | | 5,020 |
| | (Being the bill dishonoured and accepted noting charges Rs. 20) | | | | |
| | Bills payable A/c | Dr | | 3,000 | |
| | Noting charges A/c | Dr | | 15 | |
| | To A A/c | | | | 3,015 |
| | (Being the bill dishonoured and accepted noting charges) | | | | |

**10. P draws a bill on Q for ` 600. Q accepts the same. P endorses the bill to R and R to T. T discounts the bill for ` 575. On the due date the bill is dishonoured. Show the journal entries in the books of all the parties.**

**Sol. :**

**In the Books of P**

| Date | Particulars | L.F. | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| | Bills Receivable A/c Dr | | 600 | |
| | To Q A/c | | | 600 |
| | (Being the bill drawn on Q) | | | |
| | R A/c Dr | | 600 | |
| | To Bills Receivable A/c | | | 600 |
| | (Being the bill endorsed to R) | | | |
| | Q A/c Dr | | 600 | |
| | To R A/c | | | 600 |
| | (Being the bill returned to Q) | | | |

**In the Books of Q**

| Date | Particulars | L.F. | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| | P A/c Dr | | 600 | |
| | To Bills Payable A/c | | | 600 |
| | (Being the bill drawn on P) | | | |
| | Bills Payable A/c Dr | | 600 | |
| | To P A/c | | | 600 |
| | (Being the bill accepted) | | | |

**In the Books of R**

| Date | Particulars | L.F. | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| | Bills Receivable A/c Dr | | 600 | |
| | To P A/c | | | 600 |
| | (Being the bill drawn by P, accepted) | | | |
| | T A/c Dr | | 600 | |
| | To Bills Receivable A/c | | | 600 |
| | (Being the bill endorsed to T) | | | |
| | P A/c Dr | | 600 | |
| | To T A/c | | | 600 |
| | (Being the bill dishnoured and returned) | | | |

**In the Books of T**

| Date | Particulars | | LF | Debit Rs. | Credit Rs. |
|---|---|---|---|---|---|
| | Bills Receivable A/c | Dr | | 600 | |
| | To R A/c | | | | 600 |
| | (Being the bill drawn on R) | | | | |
| | Bank A/c | Dr | | 575 | |
| | Discount A/c | Dr | | | 25 |
| | To Bills Receivable A/c | | | 600 | |
| | (Being the bill discounted) | | | | |
| | R A/c | Dr | | 600 | |
| | To Bank A/c | | | | 600 |
| | (Being the bill returned to R) | | | | |

**11. Vishwanath draws a bill on Jaganath for ` 1,400 for 4 months, which is accepted by Jaganath. Vishwanath discounts the same for ` 1,393. On maturity, Jaganath fails to hanour the bill and requests Vishwanath to draw a new bill for 4 months for the original amount of the bill plus interest at 5% p.a. plus discounting charges. Vishwanath agrees to the proposal. Make journal entries in the books of Vishwanath & Jaganath.**

**Sol. :**

**In the Books of Vishwanath**

| Date | Particulars | | LF | Debit Rs. | Credit Rs. |
|---|---|---|---|---|---|
| | Bills Receivable A/c | Dr | | 1,400 | |
| | To Jaganath A/c | | | | 1,400 |
| | (Being the bill drawn on jaganath) | | | | |
| | Bank A/c | Dr | | 1,393 | |
| | Discount A/c | Dr | | 7 | |
| | To Bills receivable A/c | | | | 1,400 |
| | (Being the bill discounted) | | | | |
| | Jaganth A/c Dr | | | 1,400 | |
| | To Bank A/c | | | | 1,400 |
| | (Being the bill dishonoured and returned to jagannath) | | | | |
| | Jaganath A/c | Dr | | 30 | |
| | To Discount A/c | | | 7 | |
| | To Interest A/c | | | | 23 |
| | (Being the discount, Interest charged to jaganath) | | | | |
| | Bills receivables A/c | Dr | | 1430 | |
| | To Jaganath A/c | | | | 1430 |
| | (Being the new bill drawn on jagannath) | | | | |

**In the Books of Jaganath**

| Date | Particulars | | LF | Debit Rs. | Credit Rs. |
|---|---|---|---|---|---|
| | Vishwanath A/c | Dr | | 1,400 | |
| | To Bils payable A/c | | | | 1,400 |
| | (Being the bill accepted) | | | | |
| | Bills payable A/c | Dr | | 1,400 | |
| | To Vishwanath A/c | | | | 1,400 |
| | (Being the bill discounted) | | | | |
| | Interest A/c | Dr | | 23 | |
| | Discount A/c Cr | | | 7 | |
| | To Vishwanath A/c | | | | 30 |
| | (Being the Interest and Discount accepted) | | | | |
| | Vishwanath A/c | Dr | | 1,430 | |
| | To Bills payable A/c Cr | | | | 1,430 |
| | (Being the new bill accepted) | | | | |

**12. A sold goods for X 4,000 to B on 1st July and on the same day drew a bill on B at three months for the amount. B accepted the bill and returned it to A, who discounted it on 4th August with his bank at 12 percent per annum. The acceptance was dishonoured on the due date and the bank paid ` 40 as noting charges. On 10th October, B accepted a new bill for ` 4,080 payable after two months. On 1st December, B was declared insolvent and his estate paid a first and final dividend of 50 paise in the rupee on 31st December.**

**Pass journal entries to record these transactions in the books of A and show how B's Account will appear in A's Ledger.**

**Sol. :**

**In the Books of A**

| Date | Particulars | | LF | Debit Rs. | Credit Rs. |
|---|---|---|---|---|---|
| | B A/c | Dr | | 4,000 | |
| | To Sales A/c | | | | 4,000 |
| | (Being goods sold to B) | | | | |
| | Bills Receivable A/c | Dr | | 4,000 | |
| | To B A/c | | | | 4,000 |
| | (Being the bill drawn on B) | | | | |
| | Bank A/c | Dr | | 3,880 | |
| | Discount A/c | Dr | | 120 | |
| | To Bills Receivable A/c) | | | | 4,000 |
| | (Being the bill discounted with Bank) | | | | |

| | | | | |
|---|---|---|---|---|
| | B A/c Dr | | 4,040 | |
| | To Bank A/c | | | 4,040 |
| | (Being the bill dishonoured) | | | |
| | B A/c Dr | | 40 | |
| | To Noting charges A/c | | 40 | |
| | (Being the noting charges charged to B A/c) | | | |
| | Bills Receivable A/c Dr | | 4,080 | |
| | To B A/c | | 4,080 | |
| | (Being the new bill drawn) | | | |
| | B A/c Dr | | | 4,080 |
| | To Bills receivables A/c | | 4,080 | |
| | (Being the bill accepted) | | | |
| | Cash A/c Dr | | 2,040 | |
| | Bad Debts Dr | | 2,040 | |
| | To B A/c | | | 4,080 |
| | (Being the bad debts occured due to insolvent and cash received) | | | |



**Dr** **B A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Sales | 4,000 | By Bills Receivable | 4,000 |
| To Bank | 4,040 | By Bills Receivable | 4,080 |
| To Nothing charges | 40 | By Cash | 2,040 |
| To Bills receivables | 4,080 | By Bad debts | 2,040 |
| | 12,160 | | 12,160 |

**13. B owes C a sum of ` 600. On 1st January he gives a Promissory Note for the amount for 3 months to C who gets is discounted with his bankers for ` 590. On the due date the bill is dishonoured, the bank paying ` 5 as Noting Charges. B then pays ` 200 in a cash and accepts a bill of exchange drawn on him for the balance together with ` 10 as interest. The bill is for 2 months and on the due date it is again dishonoured, C paying X 5 as noting charges. Pass journal entries in the books of B and C.**

**Sol. :**

**In the Books of C**

| Date | Particulars | LF | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| | Bills receivables A/c Dr | | 600 | |
| | To B A/c | | | 600 |
| | (Being the bill is drawn on B) | | | |
| | Bank A/c Dr | | 590 | |
| | Discount A/c Dr | | 10 | |
| | To Bills Receivables A/c | | | 600 |
| | (Being bill is discounted with bank) | | | |
| | B A/c Dr | | 605 | |
| | To Bank A/c | | | 605 |
| | (Being the bill dishonoured and noting charges received) | | | |
| | Cash A/c Dr | | 200 | |
| | To B A/c | | | 200 |
| | (Being the cash received from B) | | | |
| | B A/c Dr | | 10 | |
| | To Interest A/c Cr | | | 10 |
| | (Being the interest is accepted by B) | | | |
| | B A/c Dr | | 415 | |
| | To Bills receivable A/c | | 410 | |
| | To Noting Charges A/c | | | 5 |
| | (Being the bill dishonoured and noting charges paid to B) | | | |
| | B A/c Dr | | 420 | |
| | To Bills receivable A/c | | 415 | |
| | To Noting charges A/c | | | 5 |
| | (Being the bill dishnoured and noting paid by B) | | | |

**In the Books of B**

| Date | Particulars | | LF | Debit Rs. | Credit Rs. |
|---|---|---|---|---|---|
| | C A/c | Dr | | 600 | |
| | To Bills payable A/c | | | | 600 |
| | (Being the bill accepted) | | | | |
| | Bills payable A/c | Dr | | 600 | |
| | Noting charges A/c | Dr | | 5 | |
| | To C A/c | | | | 605 |
| | (Being the bill dishonoured and noting charges paid) | | | | |
| | C A/c | Dr | | 200 | |
| | To Cash A/c | | | | 200 |
| | (Being the part of amount received) | | | | |
| | Interest A/c | Dr | | 10 | |
| | To C A/c | | | | 10 |
| | (Being the Interest is accepted for extended period) | | | | |
| | C A/c | Dr | | 415 | |
| | To Bills payable A/c Cr | | | | 415 |
| | (Being the new bill accepted) | | | | |
| | Bills payable A/c | Dr | | 415 | |
| | Noting Charges A/c | Dr | | 5 | |
| | To C A/c | | | | 420 |
| | (Being the bill dishonoured and noting charges paid) | | | | |



**14. Balram purchased goods worth ` 4,800 on 1st April, from Raghuram and on the same date accepted a bill payable after 2 months. Three days later, Raghuram endorsed the bill to Sitaram in payment of his debt. On maturity, the bill was dishonoured by Balaram and Sitaram got it noted for ` 30. Ten days later Raghuram settled the account of Sitaram by paying him ` 2000 in cash. Fifteen days after the dishonour of the bill Balram paid ` 2,800 to Raghuram and requested him to draw another bill for the balance, plus ` 50 towards interest payable after two months. Raghuram accepted the proposal and drew the bill on Balram which was accepted by him. Before the maturity of the second bill, Balram became bankrupt and only 50 paise in a rupee was received from his estate in full settlement of his debt.**

**Record the above transactions in the journals of Balram, Raghuram and Sitaram.**

**Sol. :**

**In the Books of B**

| Date | Particulars | LF | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| | Balaram A/c Dr | | 4,800 | |
| | To Sales A/c | | | 4,800 |
| | (Being goods sold to Balaram or on credit) | | | |
| | Bills Receivable A/c Dr | | 4,800 | |
| | To Balaram A/c Cr | | | 4,800 |
| | (Being the bill drawn on Balarm and accepted) | | | |
| | Sitaram A/c Dr | | 4,800 | |
| | To Bills Receivable A/c | | | 4,800 |
| | (Being the bill is endorsed to sitaram) | | | |
| | Balaram A/c Dr | | 4,830 | |
| | To Sitaram A/c | | | 4,830 |
| | (Being the bill dishonoured and along with moting charges) | | | |
| | Sitaram A/c Dr | | 4,830 | |
| | To Cash A/c | | | 4,830 |
| | (Being the amount paid and settled a/c) | | | |
| | Cash A/c Dr | | 2,800 | |
| | To Balaram A/c | | | 4,800 |
| | (Being the cash received from Balaram against partial payment of bill) | | | |
| | Balaram A/c Dr | | 50 | |
| | To Interest A/c | | | 50 |
| | (Being the interest to be payable by balaram) | | | |
| | Bills receivable A/c Dr | | 2,080 | |
| | To Balaram A/c | | | 2,080 |
| | (Being the new bill draw along with interest) | | | |
| | Balaram A/c Dr | | 2,080 | |
| | To Bills Receivable A/c | | | 2,080 |
| | (Being the bill is retained till the due date) | | | |
| | Cash A/c Dr | | 1,040 | |
| | Bad debts A/c | | 1,040 | |
| | To Balaram A/c | | | 2,080 |
| | (Being Balaram become Insolvent cash received and bad debts are realised) | | | |

**In the Books of Balaram**

| S.No. | Particulars | | LF | Debit Rs. | Credit Rs. |
|---|---|---|---|---|---|
| | Purchases A/c | Dr | | 4,800 | |
| | To Raghuram A/c | | | | 4,800 |
| | (Being goods purchased on credit) | | | | |
| | Raghuram A/c | Dr | | 4,800 | |
| | To Bills payable A/c | | | | 4,800 |
| | (Being the bill is accepted) | | | | |
| | Bills payable A/c | Dr | | 4,800 | |
| | Noting charges A/c | Dr | | 30 | |
| | To Raghuram A/c | | | | 4,830 |
| | (Being the bill is endorsed to sitaram) | | | | |
| | Raghuram A/c | Dr | | 2,800 | |
| | To Cash A/c | | | | 2,800 |
| | (Being the cash paid to Raghuram on agianst bills payable) | | | | |
| | Interest A/c | Dr | | 50 | |
| | To Raghuram A/c | | | | 50 |
| | (Being the agreed to pay interest on balance of payment) | | | | |
| | Raghuram A/c | Dr | | 2,800 | |
| | To Bills payable A/c | | | | 2,080 |
| | (Being the bill accepted) | | | | |
| | Bills payable A/c | Dr | | 2,080 | |
| | To Raghuram A/c | | | | 2,080 |
| | (Being the dishonour of bill due to insolvency) | | | | |
| | Raghuram A/c | Dr | | 2,080 | |
| | To Cash A/c | Dr | | 1,040 | |
| | To Unpaid A/c | | | | 1,040 |
| | (Being the partial amount realised and balance transferred to unpaid a/c) | | | | |

**15. Aashirwad draws on Aakarshak a Bill of exchange for 3 months for Rs. 10,000 which Aakarshak accepts on January 01, 2015. Aashirwad endorses the bill in favour of Aakarti. Before maturity Aakarshak approaches Aashirwad with the request that the bill be renewed for a further period of 3 months at 18 per cent per annum interest. Aashirwad pays the sum to Aakriti on the due date and agrees to the proposal of Aakarshak. Record journal entries in the books of Aashirwad, assuming that the second bill is duly met.**

**Sol. :**

**Book of Ashirwad**

**Journal**

| Date | Particulars | LF | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| 2015 | | | | |
| Jan. 01 | Bills Receivable A/c Dr | | 10,000 | 10,000 |
| | To Aakarshak's A/c | | | |
| | (The Bill of exchange received from Aakarshak) | | | |
| Jan.01 | Aakarai's A/c Dr | | 10,000 | |
| | To Bills Receivable A/c | | | 10,000 |
| | (The bill of exchange received from Aakarshak, endorsed to Aakarati) | | | |
| Apr. 04 | Aakarshak's A/c Dr | | 10,000 | |
| | To Aakarati's A/c | | | 10,000 |
| | (Cancellation of the bill of exchange received from Aakarshak now with Aakarati) | | | |
| Apr. 04 | Aakarati's A/c Dr | | 10,000 | |
| | To Bank A/c | | | 10,000 |
| | (Payment of the amount due to Aakarati) | | | |
| Apr. 04 | Aakarshak's A/c Dr | | 450 | |
| | To Interest A/c | | | 450 |
| | (Interest due from Aakarshak on Rs. 10,000 for 3 months at 18% p. a.) | | | |

**16. Ankit owes Nikita a sum of Rs.6,000. On April 01, 2015 Ankit gives a promissory note for the amount for 3 months to Nikita who gets it discounted with her bankers for Rs.5,760. on the due date the bill is dishonoured, the bank paid Rs.15 as noting charges. Ankit then pays Rs.2,000 in cash and accepts a bill of exchange drawn on him for the balance together with Rs. 100 as interest. This bill of exchange is for 2 months and on the due date the bill is again dishonoured, Nikita paid Rs.15 as noting charges.**

**Draft the journal entries to be recorded in Nikita's books.**

**Sol. :**

**Books of Nikita**

**Journal**

| Date | Particulars | LF | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| 2016 | | | | |
| Apr. 01 | Bills Receivable A/c Dr | | 6,000 | |
| | To Ankit's A/c | | | 6000 |
| | (Ankit's promissory note received in settlement of his account) | | | |
| Apr. 01 | Bank A/c Dr | | 5,760 | |
| | Discount A/c Dr | | 240 | 6000 |
| | To Bills Receivable A/c | | | |
| | (Ankit's Promissory note discounted for Rs.5,760) | | | |
| July 04 | Ankit A/c Dr | | 6,015 | |
| | To Bank A/c | | | 6,015 |
| | (The promissory note dishonoured by Ankit the amount of the bill and the noting charges recoverable from Ankit and payable to bank) | | | |
| July 04 | Cash A/c Dr | | 2,000 | |
| | To Ankit's A/c | | | 2,000 |
| | (The amount received from Ankit) | | | |
| July 04 | Ankit's A/c Dr | | 100 | |
| | To Interest A/c | | | 100 |
| | (Interest due from Ankit for the second bill) | | | |

**17. On May 2015 Mohit sends his promissory note of Rs. 6000 for 3 months to Rohit. Rohit gets it discounted with his bankers at 18 percent per annum on May 04. On the due date the bill is dishonoured, the bank paying Rs.10 as noting charges. Rohit agrees to accept Rs.2,130 in cash (including Rs. 130 for noting charges and interest) and another promissory note for Rs.4,000 at 2 months. On the due date, Mohit approaches Rohit again and asks for renewal of the bill for a further period of 3 months. Rohit agrees to the request, provided Mohit pays Rs.200 as interest in cash. This last bill is paid on maturity.**

**Draft journal entries in the books of Mohit and Rohit.**

**Sol. :**

**Books of Mohit**

**Journal**

| Date | Particulars | LF | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| 2015 | | | | |
| May 01 | Rohit's A/c Dr | | 6,000 | |
| | To Bills Payable A/c | | | 6,000 |
| | (The amount of the promissory note sent to Rohit) | | | |
| Aug.04 | Bills Payable A/c Dr | | 6,000 | |
| | Noting charges A/c Dr | | 10 | |
| | To Rohit's A/c | | | 6,000 |
| | (The dishonour of the promissory note and Rs.10 being payable as noting charges to Rohit) | | | |
| Aug. 04 | Interest A/c Dr | | 120 | |
| | To Rohit's A/c | | | 120 |
| | (Interest due to Rohit from part renewal of the promissory) | | | |

# Exercise Problems

1. Y purchases goods from X for ` 10,000 on 1st January, 2012. He pays ` 5,000 in cash and sends his acceptance to X for the balance. The acceptance is for three months. On the due date, the bill is duly met. Pass journal entries in the books of the two parties.

2. Ram owed ` 25,000 to Ali on 1st July, 2012. Ram satisfied this balance by sending his promissory note payable three months after date. On the due date, the bill was dishonoured. Ali paid ` 10 as noting charges. Pass journal entries in the books of the two parties and give ledger accounts.

3. Rao purchased goods worth ` 30,000 from Krishna on 1st October, 2012. He pays ` 10,000 immediately in cash and sends his acceptance at three months to Krishna for the balance payable at the Bank of India Ltd, New Delhi. Krishna gets the bill discounted at six per cent per annum. On the due date, the bill was met. Give journal entries in the books of the two parties.

   Suppose, further, the bill was dishonoured and the noting charges were ` 30. What difference would this make to the entries passed by you already ?

4. E owes ` 20,000 to Q. He gives him three acceptances, one for ` 6,000 at two months, second for ` 9,000 at three months and the third for ` 5,000 at four months. Q endorses the first bill in favour of his creditor R and gets the second bill discounted with his banker at 8% per annum. He retains the third bill. On the date of maturity, all the three bills are dishonoured. The noting charges in each case were ` 25. Give journal entries in the books of E and Q.

5. Black owes ` 7,500 to White. He sends his acceptance to White payable after three months at the Punjab National Bank, Delhi. On the due date, Black requests White to renew the bill for another two months. White agrees to his request provided interest is added at 6% per annum. To this, Black is agreeable. Record these transactions in the journal and ledger of both the parties.

6. On January 1, 2012, Sood owed ` 6,000 to Ghosh. This debt was discharged by a ‘promissory note payable after three months. On the due date, Sood requested Ghosh to accept ` 2,000 in cash and a new bill at three months for the balance together with interest at 9 per cent per annum. Ghosh agreed to this arrangement. On July 7, Sood dishonoured the second acceptance. Journalise the transactions in the books of both Sood and Ghosh.

7. Merchant sold goods worth ` 24,000 to Trader on 1st October, 2012. Trader discharged this debt as follows :

   (a) by a cheque for ` 6,000,

   (b) by a bill accepted by Bhalla for Rs 8,000 (payable on 15th November, 2012), and

   (c) by his own acceptance at three months for the balance.

   Bhalla’s bill was dishonoured and noting charges of ` 50 had to be paid. But Trader’s own acceptance was duly met. Trader issued his own acceptance at three months in favour of Merchant for the amount due.in respect of Bhalla’s bill together with ` 160 as interest. Trader retired this bill one month before the due date and received ` 40 as discount. Record these transactions in the books of Merchant and Trader.

# Short Question and Answers

**1. Define bills of exchange?**

*Ans :*

A bill of exchange comes from an open credit arrangement where the creditor gets the documentary evidence of the amount owing and also the terms of payment. The buyer must pay the amount shown on the bill of exchange at the specified date. There cannot be any argument by the buyer about the conditions existing outside of what appear in the document. Therefore, a bill of exchange can be defined as a legal evidence of debt (an acknowledgment of debt), and which fixes the date of payment. If the buyer has some claim over the seller (e.g., quantity received less than ordered or defective goods having been delivered, etc.) the former may sue the latter for relief. But this suit has nothing to do with the question of a payment of the bill of exchange. Therefore, the benefit of a bill of exchange to the seller is that it is an evidences of a debt, whereas a trade debt may prove that money is owing.

The working of a bill of exchange can be explained with the following example :

A sells goods to B for Rs. 1,000 on credit. In order to acknowledge the debt that exists between them, A (the creditor) writes out a bill of exchange and sends it to B (the debtor). The language of the bill of exchange is such that it requires B to pay Rs. 1,000 to A at a fixed or determinable future time (i.e., defining specific terms of payment). After receiving the bill, B (the debtor) signs his name across the face of the bill (may be with the word 'accepted'). Thereafter, B returns the bill to A and becomes liable to make payment for the bill. In future, if B has any claim over A for the goods purchased by hi, that will have no bearing with this unconditional promise to pay.

It should be noted that a bill of exchange can also be drawn to another person where a loan is provided.

**Definition**

Section 5 of The Negotiable Instruments Act defines a bill of exchange as under :

"A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument".

**2. Who are the parties in bills of exchanges?**

*Ans :*

There are three parties to a bill of exchange:

1. **Drawer** :Is the maker of the bill of exchange. A seller/creditor who is entitled to receive money from the debtor can draw a bill of exchange upon the buyer/debtor. The drawer after writing the bill of exchange has to sign it as maker of the bill of exchange.

(2) **Drawee**:Is the person upon whom the bill of exchange is drawn. Drawee is the purchaser or debtor of the goods upon whom the bill of exchange is drawn.

(3) **Payee:** Is the person to whom the payment is to be made. The drawer of the bill himself will be the payee if he keeps the bill with him till the date of its payment. The payee may change in the following situations:

  (a) In case the drawer has got the bill discounted, the person who has discounted the bill will become the payee

  (b) In case the bill is endorsed in favor of a creditor of the drawer, the creditor will become the payee.

**3. Define promissory note?**

*Ans :*

According to the Negotiable Instruments Act 1881, a promissory note is defined as an instrument in writing (not being a bank note or a currency note), containing an unconditional undertaking signed by the maker, to pay a certain sum of money only to or to the order of a certain person, or to the bearer of the instrument. However, according to the Reserve Bank of India Act, a promissory note payable to bearer is illegal. Therefore, a promissory note cannot be made payable to the bearer.

This definition suggests that when a person gives a promise in writing to pay a certain sum of money unconditionally to a certain person or according to his order the document is called is a promissory note. Following features of a promissory note emerge out of the above definition:

- It must be in writing
- It must contain an unconditional promise to pay.
- The sum payable must be certain.
- It must be signed by the maker.
- The maker must sign it.
- It must be payable to a certain person.
- It should be properly stamped. A promissory note does not require any acceptance because the maker of the promissory note himself promises to make the payment.

**4. Renewal of bills?**

*Ans :*

When the drawee of the bill, after accepting it, has some apprehension in his mind that he may not be able to honour the bill on the due date, may request the drawer of the bill to cancel the original bill and to draw a fresh bill on him for a further period of time. This is called renewal of a bill. In such a case, the drawee of a bill becomes liable to pay interest to the drawer for the extended period. The amount of the new bill will include the amount of the interest less the part payment made by the drawee, if any, while requesting the drawer to renew the bill.

**5. What is retiring bills?**

*Ans :*

This is the other side of the renewal of a bill. When the drawee of a bill desires to make payment even before the due date of the bill and the drawer welcomes it, it is called **retiring a bill.** Simply, retiring a bill means that the drawee makes the payment before the due date. In such a case, the drawer is to allow some discount because what he was to receive after some time in the future, he receives immediately. The discount is an expense for the drawer and gain for the drawee.

**6. What is accommodation bills?**

*Ans :*

Sometimes, for the purpose of arranging temporary financial accommodation, bills are drawn, accepted and endorsed without any consideration. These types of bills are called 'Accommodation Bills'.

Ordinary bills are drawn for some consideration— known as "Trade Bill". In other words, when one party has to receive money from the other party, the former party draws the bill and the latter accepts it. But accommodation bills are those which are drawn and accepted without any consideration. Here, the idea is to help one or both the parties financially. Since the bills are drawn without any consideration, they are also termed as ***'Kite Bills'***. As no consideration is involved, accommodation bills are not legally enforceable Though accommodation bills are not bills from a legal point of view, yet they are in practice no way different from an ordinary bill.

What actually happens in the case of an accommodation bill is that one party draws the bill and the other party accepts it. Then, the drawing party gets it discounted from the bank and receives ready cash of which he is in need. The money received is either wholly utilized by the drawer, or by both, the drawer and the acceptor Before the due date approaches, the required sum of money is sent to the acceptor in order to make him able to honour the bill and the bill is honoured by the acceptor on the due date. Thus, although there is no legal liability, there exists a strong moral understanding between the parties concerned.

**7. What is the difference between trade bills and accommodation bills.**

*Ans :*

| Trade Bills | Accommodation Bills |
|---|---|
| 1. These bills are drawn and accepted for some consideration, i.e., for trade purposes. | 1. These bills are drawn and accepted without any consideration. |
| 2. These bills are acknowledgments of the debts. | 2. These bills are not the acknowledgments of the debts. |
| 3. These bills may or may not be discounted with the bank. | 3. These bills are always discounted with the bank. |
| 4. The loss by way of discounting charges is to be borne by the drawer because the drawee is no way benefitted. | 4. The loss by way of discounting charges is to be shared by the drawer and the drawee in the same ratio they share the proceeds. |
| 5. The drawer can resort to legal action when the bill is dishonoured. | 5. Legal action cannot be resorted when the bill is dishonoured. |

**8. What is due date of a bills of exchange?**

*Ans :*

The due date of a bill of exchange is the date when the amount of the bill is payable by the drawee. It is also called the maturity date.

A bill of exchange payable at sight becomes due immediately after the bill is presented for payment because it is payable on demand.

A bill of exchange payable at a pre-determinable time in the future, i.e., term bill, becomes due on the expiry of the period of the bill. The time after which the term bill is to be paid is said to be the tenor of the bill. But it is customary to allow three days of grace to the drawee to pay the amount in the case of a term bill. These days are known as days of grace.

**9. Explain the advantages of bills of exchange?**

*Ans :*

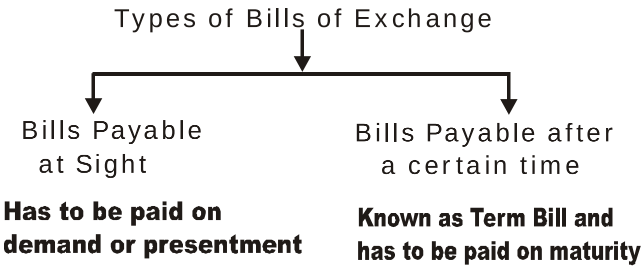
- **Framework for relationships**: A bill of exchange represents a device, which provides a framework for enabling the credit transaction between the seller/ creditor and buyer/debtor on an agreed basis.
- **Certainty of terms and conditions**: The creditor knows the time when he would receive the money so also debtor is fully aware of the date by which he has to pay the money. This is due to the fact that terms and conditions of the relationships between debtor and creditor such as amount required to be paid; date of payment; interest to be paid, if any, place of payment are clearly mentioned in the bill of exchange.
- **Convenient means of credit:** A bill of exchange enables the buyer to buy the goods on credit and pay after the period of credit. However, the seller of goods even after extension of credit can get payment immediately either by discounting the bill with the bank or by endorsing it in favour of a third party.
- **Conclusive proof**: The bill of exchange is a legal evidence of a credit transaction implying thereby that during the course of trade buyer has obtained credit from the seller of the goods, therefore, he is liable to

pay to the seller. In the event of refusal of making the payment, the law requires the creditor to obtain a certificate from the Notary to make it a conclusive evidence of the happening.

- **Easy transferability**: A debt can be settled by transferring a bill of exchange through endorsement and delivery.

**10. Explain the types of bills of exchange?**

*Ans :*




As shown in the above image, Bills of Exchange are normally of two types :

1. **Bills of Exchange Payable at Sight :**These types of bills are payable on demand and the drawee has to pay the amount when the bills is presented to him for payment.

2. **Bills of Exchange Payable after a Certain Period of Time :**These bills become payable after a certain period of time. In the example we took above, the bills was payable after two months and so it will fall in this category. Theses types of bills are also called Term Bills.

# Choose the Correct Answer

1. A Bill of Exchange has parties : [ c ]
   (a) 2 (b) 4
   (c) 3 (d) 6

2. The party which is ordered to pay the amount of bill of exchange is called : [ c ]
   (a) Drawer (b) Drawee
   (c) Payee (d) None of these

3. The party which is entitled to receive the payment of bill of exchange is known as : [ a ]
   (a) Drawer (b) Drawee
   (c) Payee (d) None of these

4. Due date of a bill of exchange drawn on 30th January, 2011 for one month will be : [ b ]
   (a) 29 Feb. (b) 3 Mar.
   (c) 4 Mar. (d) 5 Mar.

5. When noting charges are paid by the bank at the time of dishonour of bill, the Drawee credits : [ c ]
   (a) Cash A/c (b) Drawer's A/c
   (c) B/R A/c (d) Drawee A/c

6. While calculating the due date of the bill, how many days are added to the period of the bill : [ b ]
   (a) 4 days (b) 3 days
   (c) 5 days (d) Neither of these

7. X draws a bill on Y for Rs. 3,000. X endorsed this bill to Z. Y will pay the bill amount to : [ b ]
   (a) X (b) Z
   (c) To himself (d) None of these

8. Fees paid in cash to Notary Pubilc is charged by : [ c ]
   (a) Drawer (b) Drawee
   (c) Holder of the bill (d) None of these

9. The promissory note should be signed by : [ d ]
   (a) Drawer (b) Drawee
   (c) Payee (d) Promiser

10. If the due date is a public holiday, what will be the due date of the bill : [ a ]
    (a) Folllowing day (b) Preceding day
    (c) The same day only (d) One month later

# *Fill in the blanks*

1. A bill of exchange is a ________ instrument.
2. The person who draws or makes the bill is called ________.
3. The person who accepts the bill is called ________.
4. The date on which bill becomes due for payment is called ________.
5. On the due date, if bill amount is failed to pay, it is called ________.
6. If billis extended on the request if the drawer due to unable to honour is called ________ of bill.
7. Making the payment before the due date of maturity is known as ________ a bill.
8. No. of parties involved in bills of exchange ________.
9. No. of parties involved in bills of promissory note ________.
10. Normally allowable additional days after due date is called ________ period.



## ANSWERS

1. Negotiable
2. Drawer
3. drawee
4. due date
5. dishonoured
6. Renewal
7. Retiring
8. 3
9. 2
10. Grace

| UNIT II | **Consignment Accounts :** Consignment – Meaning – Features– Proforma invoice - Account sales – Del crederecommission- Accounting treatment in the books of the consignor and the consignee - Valuation of consignment stock –Treatment of Normal and abnormal Loss - Invoice of goods at a price higher than the cost price. |
|---|---|

## 2.1 Meaning of Consignment

**Q1. What is consignment? Explain?**

*Ans :*

To consign means to send. In Accounting, the term "consignment account" relates to accounts dealing with a situation where one person (or firm) sends goods to another person (or firm) on the basis that the goods will be sold on behalf of and at the risk of the former. The following should be noted carefully:

(i) The party which sends the goods (consignor) is called principal.

(ii) The party to whom goods are sent (consignee) is called agent.

(iii) The ownership of the goods, i.e., the property in the goods, remains with the consignor or the principal - the agent does not become their owner even though they are in his possession. On sale, of course, the buyer will become the owner.

(iv) The principal does not send an invoice to the agent. He sends only a proforma invoice, a statement that looks like an invoice but is really not one. The object of the proforma invoice is only to convey information to the agent regarding particulars of the goods sent.

(v) Usually, the agent recovers from the principal all expenses incurred by him on the consignment. This however can be changed by agreement between the two parties.

(vi) It is also usual for the agent to give an advance to the principal in the form of cash or a bill of exchange. It is adjusted against the sale proceeds of the goods.

(vii) For his work the agent receives a commission, calculated on the basis of gross sale. For ordinary commission the agent is not responsible for any bad debt that may arise. If the agent is to be made responsible for bad debts, he is to be paid a commission called del- credere commission. It is calculated on total sales, not merely on credit sales until and unless agreed.

(viii) Periodically, the agent sends to the principal a statement called Account Sales. It sets out the sales made by the agent, the expenses incurred on behalf of the principal, the commission earned by the agent and the balance due to the principal.

(ix) Firms usually like to ascertain the profit or loss on each consignment or consignments to each agent.

Consignment Account relates to accounts dealing with such business where one person sends goods to another person on the basis that such goods will be sold on behalf of and at the risk of the former.

**Q2. Explain need for Consignment?**

*Ans :*

Now-a-days it is quite common that manufacturers or wholesale dealers despatch goods to their agents at home and abroad to increase their sales. The knowledge of the agent of the local conditions where he resides proves useful in increasing the sales. Moreover, it is very expensive for the manufacturer to sell the goods directly either in the home market or in the foreign market. Therefore, different agents are appointed for different places.

## 2.2 Distinction between Consignment and Sale

**Q3. How consignment differ with sale? Explain**

*Ans :*

| S.No. | Consignment | Sale |
|---|---|---|
| 1 | Ownership of the goods rests with the consignor till the time they are sold by the consignee, no matter the goods are transferred to the consignee. | The ownership of the goods transfers with the transfer of goods from the seller to the buyer. |
| 2 | The consignee can return the unsold goods to the consignor. | Goods sold are the property of the buyer and can be returned only if the seller agrees. |
| 3 | Consignor bears the loss of goods held with the consignee. | It is the buyer who will bear the loss if any, after the delivery of goods. |
| 4 | The relationship between the consignor and the consignee is that of a principal and agent. | The relationship between the seller and the buyer is that of a creditor and a debtor. |
| 5 | Expenses done by the consignee to receive the goods and to keep it safely is borne by the consignor. | Expenses incurred by the buyer are to be borne by the buyer itself after the delivery of goods. |



## 2.3 Features-Consignment

**Q4. What are the features of consignment ?**

*Ans :*

**Features of Consignment**

The following are the salient features of consignment:

1. **Objects:** Goods are forwarded by the consignor to the consignee with an objective of sale at a profit.
2. **Ownership:** In consignment, the consignee does not buy the goods. He merely undertakes to sell them on behalf of the consignor. Hence, the ownership in the goods remains with consignor till it is sold by the consignee.
3. **Relationship:** The relationship between the consignor and the consignee is that of a principal and an agent, and not of a debtor and creditor. An agent becomes in debited for amounts realized on behalf of the principal.
4. **Risk:** The consignor should bear all the risks connected with the goods until it is sold.
5. **Expenses:** As consignment is not a sale, whatever the consignee does is on behalf of the consignor. Thus, the consignor should reimburse all legitimate expenses incurred by the consignee for selling and receiving the goods.

6. **Stock of goods:** Any stock remaining unsold with the consignee belongs to the consignor.
7. **Commission:** The consignee agrees to sell the goods for an agreed rate of commission. He is therefore, allowed to deduct his commission due from the sale proceeds.
8. **Possession:** The goods will be in the possession of the consignee until it is sold on behalf of the consignor.
9. **Repossession:** The consignor can repossess the goods from the consignee at any time.
10. **Profit or loss:** Since the consignee acts on behalf of the consignor, the profit or loss on sale of goods belongs to the consignor A.Ajanthan Joint Venture & Consignment Accounts But if goods remain unsold, the consignee will send them back to the Consignor and the Consignor will pay the Consignee all the expenses he has incurred in keeping the goods in safety and in attempting to push the goods in the market.

**Q5. Explain the expenses of consignments?**

*Ans :*

**Expenses on Consignment**

**(i) Non-recurring expenses:** The expenses which do not arise repeatedly for a particularconsignment are called non-recurring expenses. Non-recurring expenses are incurred for bringing goods to the godown of the consignee. Such expenses are generally incurred on the consignment as a whole. The non-recurring expenses are incurred partly by the consignor and partly by the consignee. The consignor usually incurs expenses, such as packing, cartage, loading charges, freight, etc., on sending the goods to the consignee. But the consignee usually incurs expenses, such as dock dues, customs duty, clearing charges, etc., on receiving the goods from the consignor.

**(ii) Recurring expenses:** The indirect expenses incurred repeatedly on the same consignment are called recurring expenses. Recurring expenses are incurred after the goods have reached the consignee's place or godown. Advertising, discount on bills, commission on collection of cheques, travelling expenses of salesman, bad debts, etc., are some examples of recurring expenses incurred by the consignor. On the other hand, godown rent, godown insurance, sales promotion, etc., are the examples of recurring expenses incurred by the consignee.

## 2.4 Proforma Invoice

**Q6. What is performance invoice.**

*Ans :*

The consignor sends goods to the consignee and incurs certain expenses in sending the goods to the consignee. Generally consignor receives advance against the goods from the consignee. Such goods can be sent by the consignor either at cost price or at invoice price for which the consignor will prepare a ***proforma invoice.*** Such invoice is exactly like invoice in appearance without being actually the invoice but it does not make the consignee responsible to pay the amount mentioned therein. It is in the nature of memorandum and is not a debit note so it is unlike a regular invoice. The consignee will incur some expenses for taking the delivery of goods and bringing these to the shop.

## 2.5 Account Sales

**Q7. What is account sales? Explain?**

*Ans :*

After receiving goods, the consignee tries to sell them a the best possible price. It should be noted that mere receipt of the goods does not make the consignee a debtor of the consignor. He becomes indebted to the consignor when he sells the goods and realizes the money. The consignee may have to spend some money in respect of the consignment such as unloading charges, godown rent etc., for which he is entitled to be reimbursed. It is the duty of the consignee to remit the proceeds of sales after deducting his expenses in respect of the consignment and his own commission, to the consignor. The details of sale proceeds, expenses and commission are contained in an accompany statement known as "Account sales".

After receiving goods, the consignee tries to sell them at the best possible price. **It should be noted that mere receipt of the goods does not make the consignee a debtor of the consignor.** He becomes indebted to the consignor when he sells the goods and realizes the money. The consignee may have to spend some money in respect of the consignment such as unloading charges, godown rent etc., for which he is entitled to be reimbursed. It is the duty of the consignee to remit the proceeds of sales after deducting his expenses in respect of the consignment and his own commission, to the consignor. The details of sale proceeds, expenses and commission are contained in an accompanying statement known as **"Account Sales."**

An **Account sales** is a statement which is periodically rendered by the consignee showing the details about the goods sold, price relaised, his own commission, and the expenses incurred in connection with the sale.

**Proforma of Account Sales**

| | | |
|---|---|---|
| **x & Co** **Address of the company** | | |
| **Date :** | | |
| **Account Sales of x & co. sold by order and for account of y & Co.** | | |
| Gross Proceeds | Rs. | Rs. |
| No. of units @Rs xxx each | xxxx | |
| | xxxx | xxxx |
| **Less:** Charges | | |
| Unloading charges | xxxx | |
| Storage & Insurance | xxxx | |
| Commission @ 10% on Rs xxxx | xxxx | xxxx |
| Net proceeds | | xxxxx |
| Bank draft enclosed, Rs xxxx ( ....... only) | | |
| E. & 0. E (Signed) Arun & Co Calcutta | | |

## 2.6 Difference Between Invoice and Account Sales

**Q8. What is the difference between invoice and account sales? Explain.**

*Ans :*

**Difference between Invoice and Account Sales**

| | Account Sales | | Invoice |
|---|---|---|---|
| (i) | Prepared by the consignee | (i) | Prepared by the seller |
| (ii) | All expenses and commission are deducted in amount sales | (ii) | Invoice, expenses are added but discount and commission are deducted |
| (iii) | All expenses incurred by the consignee are borne by the consignor | (iii) | After sale, expenses are paid by the buyer. |
| (iv) | The relationship between two parties remains principal and agent | (iv) | The relationship between two parties is that of debtor and creditor |

## 2.7 Accounting Treatment in the Books of the Consignor and the Consignee

**Q9. What are the books / Accounts maintained by consignor and consignee? Explain.**

*Ans :*

The primary objective for preparing the Consignment Account is to ascertain the profit or loss on each consignment separately. For that, the consignor prepares one Consignment Account for each consignment. This special account is always named with either the consignee or the place, for example "Consignment to Arun & Co Account" or "Consignment to Calcutta Account" - just to distinguish one consignment from another.

Consignment account is a Nominal Account. In fact, it is a combined Trading and Profit & Loss Account related solely to the consignment. This account is debited with: (i) opening stock on consignment (if any); (ii) cost of goods sent on consignment; (iii) expenses incurred by the consignor, such as freight, insurance for sending goods; (iv) expenses incurred by the consignee such as unloading charges, godown rent etc. and (v) consignee's commission on sales. This account is credited with: (i) gross sales proceeds; and (ii) closing stock (if any). The balance of this account represents profit or loss which is transferred to "Profit & Loss on Consignment Account". At the year end, the balance of the Profit & Loss on Consignment Account is transferred to the General Profit and Loss Account.

The secondary objective of the consignor is to ascertain the amount due from the consignee. For this purpose he opens one personal account of the consignee. The consignee account is debited with gross sales proceeds and credited with:

(i) Advance made by him (if any);

(ii) Expenses incurred by him in respect of consignment; and

(iii) His Own commission on sales. The balance shows the amount due from the consignee.

**Accounting Treatment in the Books of the Consignor : Cost Price Method**

1) When goods are sent to the consignee

Consignment to Account Dr.

To Goods Sent on Consignment Account

(Being the cost of goods consigned to the consignee)

It may be noted that Consignee's Account is not to be debited with the goods consigned as no sale takes place when the goods are sent on consignment.

2) Entry for Consignor's Expenses

Consignment to Account Dr.

To Cash Account

(Being expenses incurred on the consignment of goods to the consignee)

3) Bills Receivable or Bank Account Dr.

To Consignee's Account

(Being a bill or bank draft received from the consignee as an advance against the goods consigned).

If the bill is discounted by the consignor, the formal entry will be

Bank A/c Dr.

Discount A/c Dr.

To Bills Receivable A/c

**Note :** Discount on bill discounted will not be a charge to Consignment Account

4) Consignment to Account Dr.

To Consignee's Account

(Being expenses incurred by the consignee in connection with the goods consigned to him)

5) Entry for Sales by the Consignee

Consignee's Account Dr.

To Consignment to Account

(Being the gross sale proceeds as per Account Sales)

6) Entry for Consignee's Commission

Consignment to Account Dr.

To Consignee's Account

(Being commission on sale of goods sent on consignment payable to the consignee)

7) Entry for the Remittance from the Consignee in Settlement of Account

Bank Account or Bills Receivable Account Dr.

To Consignee's Account

(Being amount due from the consignee received)

8) Entry for Profit or Loss on Consignment.

i) If there is a profit on consignment :

Consignment to Account

To Profit and Loss Account

(Being profit on consignment transferred)

ii) If there is a loss on consignment :

Profit and Loss Account Dr.

To Consignment to Account

(Being loss on consignment transferred to Profit and Loss Account)

9) Entity for Close of Goods sent on Consignment Account.

Goods Sent on Consignment Account Dr.

To Trading Account or Purchases Account

**Accounting Treatment in the Books of the Consignee**

1) Entry on Receipt of Goods by the Consignee. The consignee need not make any entry on receipt of goods from the consignor because the receipt of goods does not amount to a purchase of goods. Any how, the consignee is liable to account for the goods he has received from the consignor, so he keeps record of the receipt of the goods in Inwards Consignment Book which is only a memorandum book and not a financial book.

2) Entry for Expenses incurred by the Consignee

Consignor's Account Dr.

To Cash Account

(Being expenses incurred on goods received on consignment basis)

Consignor's Account is debited because expenses are incurred by the consignee on behalf of the consignor.

3) Advance (if any) given by the Consignee to the Consignor

Consignor's Account Dr.

To Bills Payable Account or Bank Account

(Being advance given to the consignor against goods received from him)

4) Entry for Sales by the Consignee

Cash Account Dr.

or Debtor's Account (If sold on credit) Dr.

To Consignor's Account

(Being goods sold on account of the consignor)

Consignor's Account has been credited because the amount of sales belongs to him.

5) Entry for Commission on Sales

Consignor's Account Dr.

To Commission Account

(Being commission earned on sale of goods received on consignment)

6) Entry for Bad Debts

i) If the consignee does not get delcredere commission :

Consignor's Account Dr.

To Debtor's Account

(Being bad debts on account of sales of goods received on consignment debited to Consignor's Account)

ii) When the consignee gets delcredere commission :

Bad Debts Account Dr.

To Debtor's Account

(Being bad debts on account of sale of goods received on consignment treated as personal loss of the consignee because of getting del credere commission).

Bad Debts Account will ultimately be closed by transferring to Profit and Loss Account. Some accountants prefer transfer of bad debts to Commission Account and then net balance of commission is transferred to Profit and Loss Account.

7) Entry for Remittance sent to the Consignor in Final Settlement of his Account

Consignor's Account Dr.

To Bills Payable or Bank Account

(Being payment of the balance due to the consignor)

## 2.8 Delcredere Commission

**Q10. What is delcredere commission?**

*Ans :*

When goods are sold by the consignee on credit there is a possibility that the amount may not be realisable by the consignee from the consignment debtors. The consignee in order to increase the commission may sell the goods on credit without any responsibility for collection of debts. In order to check this tendency the consignor gives the consignee the *Del Credere Commission.* It is a commission which is paid by the consignor to the consignee for taking additional risks of recovery of debts on account of sales made on credit by the consignee on behalf of the consignor. It is generally calculated on gross sales unless given in the question to be calculated on credit sales. If a consignor allows del credere commission to the consignee then bad debts will be borne by the consignee. Moreover, it will also make the consignee careful on choosing customers for credit sales.

**Over-riding Commission**

Sometimes an extra commission (calculated on sales) is given by the consignor to the consignee for working hard to push a new line of product in the market. Whether the consignor or the consignee will bear the bad debts loss will depend upon the fact whether credere commission is given to the consignee or not.

**Remember**

1) The consignor will bear the bad debts loss if no del credere commission is given to the consignee.

2) The consignee will bear the bad debts loss if del credere commission is given to him.

Del credere Commission is an additional commission paid to a consignee who guarantees the payment case of credit sale. Where consignee gets del credere commission, he indemnifies the consignor for all debts. To the consignor, it is a form of credit insurance. Like ordinary commission, del credere commission is also paid, generally, at a predetermined percentage of the Gross Sales Proceeds. However, there be a separate agreement between the parties for calculation of the del credere commission.

Accounting Entries for Credit Sales where No Del credere commission is given

**In the books of the consignor**

1. For Credit Sales

   Consignment Debtors A/c Dr.

   To Consignment to.. A/c

   (Being goods sold on credit)

2. For Collections from Debtors

   Bank or Cash A/c Dr. (collected by consignor)

   Consignee A/c Dr. (collected by consignee)

   To Consignment Debtors A/c

   (Being cash collected from Debtors)

3. For Bad Debts

   Bad Debts A/c Dr.

   To Consignment Debtors A/c

   (Being bad debt written-off)

4. For Closing Bad Debts Account

   Consignment to... A/c Dr.

   To Bad Debts A/c -

   (Being the bad debt transferred to Consignment A/c);

**In the books of the Consignee**

1. For credit sales No Entry
2. For Collections from Debtors

Cash or Bank A/c Dr.

To Consignor A/c

(Being cash collected from consignment debtors)

3. For Bad Debts No Entry

Accounting Entries for Credit Sales where **del credere commission is given**

**In the books of the consignor**

1. For Credit Sales

Consignee A/c Dr.

To Consignment to... A/c

(Being goods sold on credit by consignee)

2. For Bad Debts No Entry
3. For Commission (Ordinary + del credere)

Consignment to... A/c Dr.

To Consignee A/c

(Being commission charged by consignee)

**In the books of the Consignee**

1. For Credit Sales

Consignment Debtors A/c Dr.

To Consignor A/c

(Being goods sold on credit)

2. For Collections from Debtors

Bank A/c Dr.

To Consignment Debtors A/c

(Being cash collected from consignment Debtors)

3. For Bad Debts

Bad Debts A/c Dr.

To Consignment Debtors A/c

(Being the bad debt written-off)

4. For Closing Bad Debts

Bad debts arising out of credit sale on consignment are adjusted against the commission received. The net balance of the commission received account is transferred to the Profit and Loss Account at the year end.

(i) Commission Received A/c Dr.

To Bad Debts A/c

(Being bad debts adjusted against commission received)

(ii) Commission Received A/c Dr.

To Profit and Loss A/c

(Being commission transferred to Profit and Loss Account)

**Illustration 1**

a) **On 1st November, 2010, C of Calcutta sends goods costing Rs 1,00,000 to D of Delhi on consignment basis. C paid Rs 5,000 as railway freight and Rs 2,000 as insurance.**

**On 31st December, 2010, an Account Sales was received from D disclosing that the entire quantity of goods were sold for Rs 1,50,000 — out of which, Rs 30,000 was sold on credit. A customer who purchased goods for Rs 5,000 failed to pay and the debt proved bad. All other debts were collected by D in full. As per agreement, D is allowed a commission @ 10% on sales. D sends the amount due to C by a cheque.**

**Prepare necessary Ledger accounts in the books of C and D.**

b) **Will your answer be different, if in the above Illustration, the consignee is given a del credere commission of 5% on sales (in addition to ordinary commission) — other things remaining the same?**

**Solution (a) :**

**In the books of C**

**Dr Consignment to D Account Cr**

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| 2010 | To Goods Sent on Consignment A/c | | 1,00,000 | 2010 | By D A/c (Cash Sales) | | 1,20,000 |
| Nov.1 | To Cash A/c | | | Dec.31 | By Consignment Debtors A/c (Credit Sales) | | 30,000 |
| | Railway Freight | | 5,000 | | | | |
| | Insurance | | 2,000 | | | | |
| | To D A/c (Commission @ 10%) | | 15,000 | | | | |
| | To Consignment Debtors A/c (Bad Debtors) | | 5,000 | | | | |
| | To Profit & Loss on Consignment A/c | | 23,000 | | | | |
| | | | 1,50,000 | | | | 1,50,000 |



**Dr D Account Cr**

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| 2010 | To Consignment to D A/c | | 1,20,000 | 2010 | By Consignment to D A/c | | 15,000 |
| Dec.31 | To Consignment Debtors A/c | | 25,000 | Dec.31 | By Bank A/c (Bal. due) | | 1,30,000 |
| | | | 1,45,000 | | | | 1,45,000 |

**Dr Consignment Debtors Account Cr**

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| 2010 | To Consignment to D A/c | | 30,000 | 2010 | By D A/c (Cash Collected) | | 25,000 |
| Dec 31 | | | Dec 31 | | By Consignment to D A/c (Bad Debt) | | 5,000 |
| | | | 30,000 | | | | 30,000 |

**Dr Goods Sent on Consignment Account Cr**

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| 2010 | To Particulars A/c | | 1,00,000 | 2010 | By Consignment to D A/c | | 1,00,000 |
| Dec.31 | To Purchace / Trading A/c | | 1,00,000 | Nov.1 | | | 1,00,000 |

### In the Books of D

Dr **C Account** Cr

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| 2010 | To Commission Received A/c | | 15,000 | 2010 | By Bank A/c (Cash sales) | | 1,20,000 |
| Dec.31 | To Bank A/c (Bal. due) | | 1,30,000 | Dec.31 | By Bank A/c (collection from debtors) | | 25,000 |
| | | | 1,45,000 | | | | 1,45,000 |

Dr **Commission Received Account** Cr

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| 31.12.10 | To Profit & Loss A/c | | 15,000 | 31.12.10 | By C A/c | | 15,000 |
| | | | 15,000 | | | | 15,000 |

**Solution (b)**

### In the books of C

Dr **Consignment to D Account** Cr

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| 2010 | To Goods on Consignment A/c | | 1,00,000 | 2010 | By D A/c (Sales) | | 1,50,000 |
| Nov.1 | To Cash A/c | | | | | | |
| | Railway Freight | | 5,000 | | | | |
| | Insurance | | 2,000 | | | | |
| Dec.31 | To D A/c | | | | | | |
| | Ordinary commission | | 15,000 | | | | |
| | Del-Credere commission | | 7,500 | | | | |
| | To Profit & Loss on Consignment A/c | | 20,500 | | | | |
| | | | 1,50,000 | | | | 1,50,000 |

Dr **D Account** Cr

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| 2010 | To Consignment to D A/c | | 1,50,000 | 2010 | By Consignment to D A/c | | |
| Dec.31 | | | | Dec.31 | Ordinary Commission | | 15,000 |
| | | | | | Del-Credere commission | | 7,500 |
| | | | | | By Bank A/c | | 1,27,500 |
| | | | 1,50,000 | | | | 1,50,000 |

Dr **Goods Sent on Consignment Account** Cr

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| 2010 | To Purchases A/c | | 1,00,000 | 2010 | By Consignment to D A/c | | 1,00,000 |
| | | | 1,00,000 | | | | 1,00,000 |

**In the Books of D**

**Dr C Account Cr**

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| 2010 | To Commission Received A/c | | | 2010 | By Bank A/c (Cash Sales) | | 1,20,000 |
| Dec.31 | Ordinary commission | | 15,000 | Dec.31 | By Consignment Debtors A/c | | 30,000 |
| | Del-credere commission | | 7,500 | | | | |
| | To Bank A/c | | 1,27,500 | | | | |
| | | | 1,50,000 | | | | 1,50,000 |

**Dr Consignment Debtors Account Cr**

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| 2010 | To C A/c | | 30,000 | 2010 | By Bank A/c (Collection) | | 25,000 |
| Dec.31 | | | | | By Commission received A/c (bad debts) | | 5,000 |
| | | | 30,000 | | | | 30,000 |

**Dr Commission Received Account Cr**

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| 2010 | To Consignment Debtors A/c | | 5,000 | 2010 | By C A/c | | 22,500 |
| Dec.31 | To Profit & Loss A/c | | 17,500 | Dec.31 | | | |
| | | | 22,500 | | | | 22,500 |

**Illustration 2**

**(Where Del-credere commission is given and bad debt occurs). Ram & Co., Kolkata, sent 50 cases of hair oil valued at Rs. 200 each, to Krishna of Kakinada, for sale on consignment basis. They paid freight and insurance Rs. 200. Each case contained 40 bottles. When Krishna received the consignment, he found two cases damaged and he salvaged 40 bottles out of them.**

**Krishna, whose terms of commission were 5% normal commission and 1% Del Credere, sold 1,300 bottles at Rs. 8 each partly on credit and partly for cash. One customer who had lifted 100 bottles paid only for 75 bottles and the balance has become a bad debt.**

**Ram & Co., have decided to treat the damage in transit as an abnormal loss to be separately written of in their Profit and Loss Account**

**Show, in the books of Ram and Co.;**

**a) Consignment A/c ; and**

**b) Krishna's A/c, showing the amount due from him.**

**Solution :**

**Dr In the Books of Ram & Co. Consignment Account Cr**

| Particular | LF | Amt Rs. | Particular | | LF | Amt Rs. |
|---|---|---|---|---|---|---|
| To Goods Sent on Consignment A/c | | 10,000 | By Krishna's A/c | | | 10,400 |
| To Bank (Freight & Insurance) | | 200 | By Abnormal Loss | | | |
| To Krishna's A/c (Commission) | | 624 | Cost of one case | 200 | | |
| To Profit transferred to P & L A/c | | 3,146 | Add : Proportionate expenses | 4 | | 204 |
| | | | By Consignment Stock A/c (1) | | | 3,366 |
| | | 13,970 | | | | 13,970 |

Dr **Krishna's Account** Cr

| Particulars | LF | Amt Rs. | Particulars | LF | Amt Rs. |
|---|---|---|---|---|---|
| To Consignment A/c | | 10,400 | By Consignment A/c | | 624 |
| | | | By Balance c/d | | 9,776 |
| | | 10,400 | | | 10,400 |

**Working Note :**

**1) Calculation of the value of stock**

No. of bottles consigned

(50 Cases × 40 bottles each) 2,000

Less : Sold and damaged (1300 + 40) 1,340

660

Cost of 660 bottles @ `.5.10 (including 10 paise freight) 3,366

## 2.9 Valuation of Consignment Stock

**Q11. What is the procedure for valuation of closing stock?**

*Ans :*

It is not necessary that all consignments should be completed during the accounting year. There may be certain consignments which are incomplete when the consignor's accounting year comes to an end. Under such situation, the consignee will be required to submit an Account Sales stating sales, expenses and commission upto the last date of the accounting year. After receiving the Account Sales, the unsold stock with the consignee aid be valued. The stock so valued should be credited to the Consignment Account The entry is :

Stock on Consignment A/c Dr.

To Consignment to... A/c

(Being the value of stock of incomplete consignment)

In the Balance Sheet, this stock is shown as an asset. In the next accounting year, this stock is transferred Consignment Account. The following entry is passed:

Consignment to.... A/c Dr.

To Stock on Consignment A/c

(Being the opening stock on consignment brought into account)

**Valuation of Unsold Stock**

Now, we discuss the principles and procedures for valuation of consignment stock. We know that stock should be valued at cost or market price, whichever is lower. This, principle applies to consignment stock as well. The main problem are to ascertain "cost price and "market price." "Cost" includes all expenditure incurred in bringing the goods to a saleable condition and all expenses incurred for sending goods upto the consignee's place.

These include freight, carriage, export or import duties, insurance on goods sent, loading and unloading charges, etc. It should be noted that the expenses may be incurred by the consignor or by the consignee- which is immaterial. All the above expenditures incurred after the goods have reached consignee's place should be ignored for the valuation of stock on consignment. These include godown rent, carriage on sales, establishment expenses, insurance for godown or any other selling expenses :

In the examination, the following format should be followed for valuation of consignment stock :

**Valuation of Closing Stock**

| **Particulars** | | **Rs.** | **Rs.** |
|---|---|---|---|
| **Cost price of goods sent** | | | ...... |
| Add : | Consignor's Expenses | ...... | |
| | Freight | ...... | |
| | Carriage | ...... | |
| | Loading & Unloading charges | ...... | |
| | Insurance on goods sent | ...... | |
| | Export & Import duties | ...... | |
| | Dock dues etc. | ...... | ...... |
| Add : | Consignee's Expenses | ...... | |
| | Cartage | ...... | |
| | Landing charges | ...... | |
| | Unloading Expenses | ...... | |
| Total Cost | | | ...... |

The cost of unsold goods $= \frac{\text{Total cost}}{\text{Total quantity}} \times$ unsold quantity

**Valuation of Closing Stock**

| **Particulars** | | **Rs.** | **Rs.** |
|---|---|---|---|
| **Cost price of goods unsold** | | | ...... |
| Add : | Proportionate non recurring expenses by : | ..... | |
| | Consignor | ..... | |
| | Consignee | ..... | ...... |

At the end of the accounting year, if some part of the goods are still in transit, the expenses of the consignee are generally not taken into consideration for the valuation of stock in transit.

Here, "Market Price" means Net Realizable Value (NRV). Applying the concept of conservation possible other expenses to be incurred in selling those goods are to be provided for, which will in the amount of commission payable to the consignee.

After computing the "Cost Price" and "Market Price" in the above manner, the smaller one should taken as the value of stock on consignment. In the examination problem, if there is no indication regarding market price, we should assume that market price is more than the cost price and valuation should be accordingly.

**Illustration 3**

**On 30th September, 2012, Dey's Medical of Calcutta sends 500 cases of medicine costing Rs 1,000 per case to Medicine Corner of Delhi on consignment basis. Dey's Medical incurred the following expenses: packing expense @ Rs 20 per case (paid in cash); insurance premium Rs 2,000 (paid by cheque); freight Rs 10,000 (paid in cash); forward agent's expenses Rs 1,000 (due).**

**On 31st December, 2012, Medicine Corner forwards an Account Sales to Dey's Medical showing that 200 cases have been sold @ Rs 1,250 per case while 250 cases were sold @ Rs 1,200 per case and the 50 cases remained unsold. Medicine Corner paid the following expenses: cartage Rs 2,000; unloading Rs 1,000 and Rs 2,000 as godown rent Account' Sales accompanying an account payee cheque for Rs 4,00,000.**

**Under the agreement Medicine Corner was to receive 5% commission on sales.**

**You are required to show: (i) Consignment to Delhi Account; (ii) Medicine Corner Account; (iii) Stock on Consignment Account; and (iv) Goods sent on Consignment Account in the Ledger of Dey's Medical & Balance Sheet.**

**Solution :**

**In the books of Dey's Medical**

**Dr Consignment to Delhi Account Cr**

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| 2012 | To Goods Sent on Consignment A/c | | 5,00,000 | 2012 | By Medicine Corner A/c | | |
| Sept.30 | To Cash A/c | | | Dec.31 | 200 @ Rs. 1,250 | | 2,50,000 |
| | Packing | | 10,000 | | 250 @ Rs. 1,200 | | 3,00,000 |
| | Freight | | 10,000 | | By Stock on Consignment A/c (Note 1) | | 52,600 |
| | To Bank A/c | | | | | | |
| | Insurance premium | | 2,000 | | | | |
| | To Creditors for Expenses A/c | | | | | | |
| | Forwarding Agent's expenses | | 1,000 | | | | |
| Dec.21 | medicine Corner A/c | | | | | | |
| | Cartage | | 2,000 | | | | |
| | Unloading | | 1,000 | | | | |
| | Godown Rent | | 2,000 | | | | |
| | Commission | | 27,500 | | | | |
| | To Profit & Loss on Consignment A/c | | 47,100 | | | | |
| | | | 6,02,600 | | | | 6,02,600 |

**Dr Medicine Corner Account Cr**

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| Dec. 31 | To Consignment Delhi A/c | | 5,50,000 | Dec. 31 | By Bank A/c | | 4,00,000 |
| | | | | | By Consignment to Delhi A/c | | 32,500 |
| | | | | | By Balance c/d | | 1,17,500 |
| | | | 5,50,000 | | | | 5,50,000 |

**Dr Stock on Consignment Account Cr**

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| Dec.31 | To Consignment to Delhi A/c | | 52,600 | Dec. 31 | By Balance c/d | | 52,600 |
| | | | 52,600 | | | | 52,600 |

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

| Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |
|---|---|---|---|---|---|---|---|
| Dec.31 | To Trading A/c | | 5,00,000 | Sept. 30 | By Consignee to Delhi A/c | | 5,00,000 |
| | | | 5,00,000 | | | | 5,00,000 |

**Working Notes :**

| Particulars | Rs | Rs |
|---|---|---|
| **1) Valuation of Closing Stock** | | |
| Cost price : 500 cases @ Rs. 1,000 per case | | 5,00,000 |
| **Consignor's Expenses** | | |
| Packing | 10,000 | |
| Freights | 10,000 | |
| Insurance | 2,000 | |
| Forwarding Agents Expenses | 1,000 | 23,000 |
| **Consignee's Expenses** | | |
| Cartage | 2,000 | |
| Unloading | 1,000 | 3,000 |
| **Total Cost :** | | 5,26,000 |

Value of unsold stock = $\frac{\text{Rs. } 5{,}26{,}000}{500} \times 50$ = Rs. 52,600.

## 2.10 Treatment of Normal Loss

**Q12. What does it mean of loss? Explain types of losses and accounting procedure?**

*Ans :*

**Loss of Goods on Consignment**

It is possible that a portion of the consignment stock may be stolen or otherwise lost (may be in transit or in the consignee's godown). The consignor will have to bear the loss, but not the consignee. There may also be some inevitable normal losses. In accounting for consignment, losses are classified as normal and abnormal. Therefore, in the books of the consignor, accounting treatment for normal and abnormal losses are different.

**1. Accounting for normal losses**

Normal losses are inevitable or unavoidable. These may arise due to natural causes like breaking in bulk, oration, leakage, drying, etc. No effort can prevent these losses.

Normal loss is treated by ignoring the loss. It means that the value of remaining stock absorbs this loss. Therefore, when there is some normal loss, the value of the remaining goods are artificially inflated to cover the normal loss. For example, a consignment of 100 units costing @ Re 0.95 is sent Due to normal loss, the consignee receives 95 units. The value of stock will become Re. 1 per unit (instead of the actual price of Re. 0.95 per unit).

Therefore, when there is no stock remaining unsold, there will be no treatment for normal loss. But where there is some stock remaining unsold, the value of the stock on consignment will be ascertained by applying the following formula:

$$\frac{\text{Value of the goods received by the consignee}}{\text{Net quantity received (after normal loss) by the consignee (in units)}} \times \text{Unsold goods (in units)}$$

## 2. Accounting for abnormal losses

Abnormal losses in consignment may arise owing to different reasons such as, theft, fire etc. Again, these may occur either in transit or at the consignee's place. Abnormal losses should be distinguished from normal losses. Normal loss is unavoidable but abnormal loss can be avoided. To ascertain the true profit on consignment, abnormal losses are eliminated from the Consignment Account. Therefore, abnormal losses should be charged to the General Profit And Loss Account and Consignment Account should be given due credit for the value of goods lost abnormally. Abnormal losses can be dealt with in two different ways as under:

**Method I**

a) When the goods are not insured:

Profit and Loss A/c Dr.
 To Consignment A/c
(Being the value of goods abnormally lost charged to Profit and Loss A/c)

b) When the goods are fully insured:

Insurance Claim A/c Dr.
 To Consignment A/c
(Being the claim admitted fully by the insurance company)

c) When the value of goods lost is more than the amount admitted by the insurance company :

Insurance Claim A/c Dr. (claim admitted)
Profit and Loss A/c Dr. (claim not admitted)
 To Consignment A/c (value of goods lost)
(Being the value of goods not covered by insurance claim, charged to Profit and Loss Account).

**Method II**

Under this method, the whole amount of abnormal loss is transferred to a special account called Abnormal Loss Account by passing the following entry :

Abnormal Loss A/c Dr.
 To Consignment A/c
(Being the value of abnormal loss transferred to Abnormal Loss A/c)

Now, for closing the Abnormal Loss Account, the following entries are made according to situations

a) When the goods are not insured :

Profit and Loss A/c Dr.
 To Abnormal Loss A/c
(Being the abnormal loss written-off)

b) When the goods are fully insured :

Insurance Claim A/c Dr.
 To Abnormal Loss A/c
(Being the insurance claim admitted by the insurance company).

c) When the value of goods lost is more than the amount admitted by the insurance company :

Insurance Claim A/c Dr.
Profit and Loss A/c Dr.
 To Abnormal Loss A/c
(Being the value of goods lost not covered by insurance claim, charged to Profit and Loss Account)

The following entry is to be passed under both methods, when the actual claim is received from the ins company :

Bank A/c Dr.

To Insurance Claim A/c

(Being the insurance claim received)

**Valuation of Abnormal Loss**

| Particulars | Rs. | Rs. |
|---|---|---|
| Cost price of goods sent | | ***** |
| Add : Nonrecurring expenses upto the point of loss (consignor's + consignee's) | | |
| **Total Cost just before loss** | | |

Value of a abnormal loss = $\frac{\text{Total cost}}{\text{Total Quantity}} \times$ Quantity lost

When there is normal loss of goods.

**Illustration 4**

**On 1st January, 2013, Bharat Coal Company Ltd. consigned to Karan of Karnool 1,000 tons of coal, the pit cost of the coal being `. 100 per ton. The company had paid `. 10,000 towards freight and insurance.**

**Karan took delivery of the goods consigned on 10th January, 2013 and immediately accepted a bill drawn on him for ` 50,000 for 2 months. On 31st March (when the company accounts are closed) the consignee reported that :**

**i) There was a shortage of 50 tons on the whole consignment due to loading and unloading of the coal.**

**ii) 800 tons were sold at `. 130 per ton.**

**iii) He had incurred the following expenses :**

**Godown rent `. 500, insurance `. 500 and selling expenses `. 1,000.**

**Karan is entitled to a commission of 4% on the sale proceeds.**

**Show the necessary accounts in the books of Bharat Coal Company Ltd. assuming that had remitted the balance due by bank draft on 31st March, 2013.**

**Solution :**

**Bharat Coal Company Ltd.'s Books**

**Dr Consignment Account Cr**

| Date | Particulars | LF | Amt ` | Date | Particulars | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| Jan. 1 | To Goods Sent on Consignment A/c | | 1,00,000 | March.31 | By Karan's A/c (Sales) | | 1,04,000 |
| " 1 | To Bank A/c (Expenses) | | 10,000 | " 31 | By Consignment Stock A/c (1) | | 17,368 |
| Mar.31 | To Karan's A/c (Expenses) | | 2,000 | | | | |
| Mar.31 | To Karan's A/c (Commission) | | 4,160 | | | | |
| Mar.31 | To Profit transferred to P & L A/c | | 5,208 | | | | |
| | | | 1,21,368 | | | | 1,21,368 |

**Dr Goods Sent on Consignment Account Cr**

| Date | Particulars | LF | Amt ` | Date | Particulars | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| Mar.31 | To Trading A/c | | 1,00,000 | Jan.1 | By Consignment A/c | | 1,00,000 |

**Dr Karan's Account Cr**

| Date | Particular | LF | Amt ` | Date | Particular | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| Mar.31 | To Consignment A/c | | 1,04,000 | Jan.10 | By Bills Receivable A/c | | 50,000 |
| | | | | Mar.31 | By Consignment A/c (Expenses) | | 2,000 |
| | | | | Mar.31 | By Consignment A/c (Commission) | | 4,160 |
| | | | | Mar.31 | By Bank A/c | | 47,840 |
| | | | 1,04,000 | | | | 1,04,000 |

**Dr Bills Receivable Account Cr**

| Date | Particular | LF | Amt ` | Date | Particular | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| Jan.10 | To Karan's A/c | | 50,000 | Mar.31 | By Bank A/c | | 50,000 |

**Dr Consignment Stock Account Cr**

| Date | Particular | LF | Amt ` | Date | Particular | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| Mar.31 | To Consignment A/c | | 17,368 | Mar.31 | By Balance c/d | | 17,368 |
| Apr.1 | To Balance b/d | | 17,368 | | | | 17,368 |

**Working Notes :**

**1) Valuation of Stock on Consignment**

| | ` |
|---|---|
| Cost of 1,000 tonnes of coal @ `.100 per tone | 1,00,000 |
| Add : Freight and Insurance | 10,000 |
| | 1,10,000 |

` 1,10,000 is the value of 950 tonnes of coal (quantity of coal sent - quantity of normal loss i.e., 1,000 tonnes - 50 tonnes).

Therefore, value of unsold stock of 150 tonnes (950 tonnes- 800 tonnes quantity of coal sold) is ` 17,368 $\left(\text{i.e., } \frac{\text{`}1{,}10{,}000}{950} \times 150\right)$.

**When there is abnormal loss of goods**

**Illustration 5**

**B whose accounting year ends on 31st May 2013, consigned 200 bags of sugar, each bag costing ` 300 to M of Mumbai on 1st April, 2013. He had paid ` 1,000 towards freight and insurance, 30 bags were damaged in transit and on 31st May, 2013 the consignor has received ` 2,000 on account of the damaged bags from the Insurance Company.**

**M took delivery of the goods on 10th April, 2013 and immediately accepted a bill drawn on him for ` 40,000 for 60 days. On 31st May, 2013, the consignee reported that :**

**i) 140 bags were sold at ` 350b per bag ;**

**ii) The damaged bags were sold at ` 110 per bag ; and**

**iii) He had incurred the following expenses :**

**Goods rent ` 1,400; clearing charges ` 1,700 and carriage outwards ` 600.**

**He is entitled to a commission of 10% on the sale proceeds of all goods sold.**

**Assuming that M remits the balance of bank draft on 31st May, 2013. Prepare Ledger Accounts in the books of B. Also assume that no portion of the expenses incurred by the consignee is attributable to the damaged bags.**

**Solution :**

**Dr Consignment Account Cr**

| Date | Particulars | LF | Amt ` | Date | Particulars | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| April 1 | To Goods Sent on Consignment A/c | | 60,000 | | By Accidental Loss A/c (1) | | 9,150 |
| April 1 | To Bank A/c (Expenses) | | 1,000 | May 31 | By (Sales) | | 49,000 |
| April 1 | To M (Expenses) | | 3,700 | May 31 | By Consignment Stock A/c (2) | | 9,450 |
| May 31 | To M (10% Commission on ` 49,000 sale of goods) | | 4,900 | | By Loss on Consignment transferred to Profit and Loss A/c | | 2,000 |
| | | | 69,600 | | | | 69,600 |

**Dr Accidental Loss Account Cr**

| Date | Particulars | LF | Amt ` | Date | Particulars | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | 2013 | | | | |
| 2013 | To Consignment to A/c | | 9,150 | May 30 | By Bank A/c (Amount received from Insurance Co.) | | 2,000 |
| May 31 | To M (10% Commission on ` 3,300 sale) | | 330 | May 31 | By M (Sale of 30 bags @ ` 110 per bag) | | 3,300 |
| | | | | May 31 | By Abnormal Loss transferred to Profit & Loss A/c | | 4,180 |
| | | | 9,480 | | | | 9,480 |

**Dr M's Account Cr**

| Date | Particulars | LF | Amt ` | Date | Particulars | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| Mar.31 | To Consignment A/c | | 49,000 | April 10 | By Bills Receivable A/c | | 40,000 |
| May 31 | To Accidental Loss A/c | | 3,300 | May 31 | By Consignment A/c | | 3,700 |
| | | | | May 31 | By Consignment A/c | | 4,900 |
| | | | | May 31 | By Accidental Loss A/c | | 330 |
| | | | | May 31 | By Bank A/c | | 3,370 |
| | | | 52,300 | | | | 52,300 |

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

| Date | Particulars | LF | Amt ` | Date | Particulars | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| May 31 | To Trading A/c | | 60,000 | April 1 | By Consignment A/c | | 60,000 |

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

| Date | Particulars | LF | Amt ` | Date | Particulars | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| April 10 | To M | | 40,000 | May 31 | By Balance c/d | | 40,000 |
| June 1 | To Balance b/d | | 40,000 | | | | |

**Dr** **Consignment Stock Account** **Cr**

| Date | Particulars | LF | Amt ` | Date | Particulars | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| May 31 | To Consignment A/c | | 9,450 | May 31 | By Balance c/d | | 9,450 |
| June 1 | To Balance b/d | | 9,450 | | | | |



**Working Notes :**

| Particulars | | | Rs |
|---|---|---|---|
| **1) Valuation of Goods Destroyed by Fire** | | | |
| Cost of 30 bags @ ` 300 per bag | | | 9,000 |
| Add : Proportionate freight and insurance charges $\frac{`.1000 \times 30 \text{ bags}}{200 \text{ bags}}$ | | | 150 |
| | | | 9,150 |
| **2) Valuation of Consignment Stock** | | | |
| No. of bags consigned | | 200 | |
| Less : No. of bags damaged | 30 | | |
| No. of goods bags sold | 140 | 170 | |
| No. of bags in stock | | 30 | |
| Cost of 30 bags @ ` 300 per bag | | | 9,000 |
| Add : Proportionate non-recurring expenses | | | |
| Freight and Insurance $\left(\frac{`.1000 \times 30}{200}\right)$ | | | 150 |
| Clearing Charges on 30 bags $\left(\frac{`.1700}{170} \times 30\right)$ | | | 300 |
| | | | 9,450 |

### 2.10.1 Difference between Normal and Abnormal Loss

**Q13. Differentiate between the normal loss and abnormal loss.**

*Ans :*

Following are the main distinctions between normal loss and abnormal loss :

| Basis of Distinction | Normal Loss | Abnormal Loss |
|---|---|---|
| 1. Value of Loss | It is an unavoidable loss. | It is an avoidable loss. |
| 2. Cause of Loss | It is caused due to inherent nature of goods, e.g., evaporation, normal leakage or spoilage. | It is caused by abnormal reasons such as fire, theft, abnormal spoilage, etc. |
| 3. Treatment in Cost | It is treated as a part of the cost. | It is not treated as part of the cost. |
| 4. Calculation of Value | The value of such loss is not calculated separately. | The value of such loss is calculated separately like the value of unsold stock. |
| 5. Treatment in Accounts | No treatment in accounts except its value is adjusted by increasing the cost per unit. | The value of such loss is credited to Consignment Account in order to calculate the normal profit or loss on consignment. |
| 6. Journal Entry | No journal entry is passed in accounts for such loss. | A separate journal entry is passed in accounts by debiting Abnormal Loss Account and crediting Consignment Account. |
| 7. Realisation Damaged Goods | Generally there is no realisation from damaged goods in case of this loss. | The amount realised from damaged from goods is credited to Abnormal Loss Account. The balance In Abnormal Loss Account is transferred to Profit & Loss Account. |



**Normal and Abnormal Losses Simultaneously**

In some cases it may be possible that both losses ***i.e.,*** normal and abnormal losses, are given in the question. While preparing consignment account normal loss is ignored. The valuation of abnormal loss is done on the same basis as has already been discussed. But while calculating the value of stock, the following procedure is to be followed :

(i) First of all deduct the quantity of normal loss from the total quantity without deducting anything from the total cost.

(ii) Then deduct the quantity as well as value of abnormal loss (without deducting anything received or receivable from the insurance company) from the rest of the quantity and cost as arrived at in ((‘) above.

(iii) Calculate the average value per unit by dividing the residual amount by the residual quantity.

(iv) Multiply with the units of unsold stock lying in the hands of the consignee by average cost of a unit as calculated in *(iii)* above. This will give the value of consignment stock which is to be shown on the credit side of the consignment account.

**Illustration 6**

**Oswal Mills, Ludhiana consigned 5,000 kgs. of Vanaspati Ghee to Vijay Dealers of Chandigarh. Each kg. ghee costs ` 8. Oswal Mills paid ` 50 as carriage, ` 250 as freight and ` 200 as insurance in transit. During transit 500 kgs. were accidentally destroyed for which the insurance company paid directly to the consignors ` 2,500 in full settlement of the claim.**

**After three months from the date of the consignment of the goods to Chandigarh, Vijay Dealers reported that 3,500 kgs. of ghee was sold @ ` 9.50 per kg. and expenses being : on godown rent, ` 500 and on salesman salary, ` 750. Vijay Dealers are entitled to a 5% commission on sales. Vijay Dealers, also reported a loss of 20 kg. due to leakage. Prepare the necessary accounts in the books of both the parties.**

**Solution :**

**In the Books of Oswal Mills, Ludhiana**

**Dr CONSIGNMENT TO CHANDIGARH ACCOUNT Cr**

| Particulars | LF | Amt `. | Particulars | LF | Amt `. |
|---|---|---|---|---|---|
| To Goods Sent on Consignment A/c | | 40,000 | By Bank (Insurance Claim) | | 2,500 |
| To Cash A/c (Expenses) | | 500 | By Profit & Loss A/c | | |
| To Vijay Dealers (Expenses) | | 1,250 | (Abnormal loss) (1) | | 1,550 |
| To Vijay Dealers | | | By Vijay Dealers (Sales) | | 33,250 |
| (5% commission on sales ` 33,250) | | 1,663 | By Consignment Stock A/c (2) | | 7,973 |
| To Profit on Consignment | | | | | |
| transferred to Profit and Loss A/c | | 1,860 | | | |
| | | 45,273 | | | 45,273 |



**Dr Vijay Dealers Cr**

| Particulars | LF | Amt `. | Particulars | LF | Amt `. |
|---|---|---|---|---|---|
| To Consignment to Chandigarh A/c | | 33,250 | By Consignment to Chandigarh A/c | | 1,250 |
| | | | By Consignment to Chandigarh A/c | | 1,663 |
| | | | By Balance c/d | | 30,337 |
| | | 33,250 | | | 33,250 |

**Dr Goods Sent on Consignment Account Cr**

| Particulars | LF | Amt `. | Particulars | LF | Amt `. |
|---|---|---|---|---|---|
| To Consignment to Chandigarh A/c | | 40,000 | By Consignment to Chandigarh A/c | | 40,000 |
| | | 40,000 | | | 40,000 |

**Dr Consignment Stock Account Cr**

| Particulars | LF | Amt `. | Particulars | LF | Amt `. |
|---|---|---|---|---|---|
| To Consignment to Chandigarh A/c | | 7,973 | By Balance c/d | | 7,973 |
| To Balance b/d | | 7,973 | | | 7,973 |

**In the Books of Vijay Dealers**

**Dr** **Oswal Mills** **Cr**

| Particulars | LF | Amt `. | Particulars | LF | Amt `. |
|---|---|---|---|---|---|
| To Cash A/c | | 1,250 | By Cash A/c (Sales) | | 33,250 |
| To Commission A/c | | 1,663 | | | |
| To Balance c/d | | 30,337 | | | |
| | | 33,250 | | | 33,250 |
| | | | By Balance b/d | | 30,337 |

**Dr** **Commission Account** **Dr**

| Particulars | LF | Amt `. | Particulars | LF | Amt `. |
|---|---|---|---|---|---|
| To Profit & Loss A/c (Transfer) | | 1,663 | By Oswal Mills | | 1,663 |

**Working Notes :**

**1) Valuation of Vanaspati Ghee Accidentally Destroyed**

| Particulars | Amt | Amt |
|---|---|---|
| Cost of 5,000 kgs. @ ` 8 per kg. | | 40,000 |
| Add : **Expenses** | | |
| Carriage | 50 | |
| Freight | 250 | 500 |
| Insurance in Transit | 200 | |
| Total cost of 5,000 kgs. | | 40,500 |
| Therefore, cost of 500 kgs, accidentally destroyed $\left(\frac{`.40,500 \times 500}{5,000}\right)$ | | 4,050 |
| Cost of remaining 4,500 kgs. 4500 × 8 | | 36,450 |
| Value of goods accidentally destroyed | | 4,050 |
| Less : Amount recovered from Insurance Company | | 2,500 |
| Abnormal Loss | | 1,550 |

| Particulars | Amt | Amt |
|---|---|---|
| **2) Value of Stock on Consignment** | Quantity ` | Cost |
| Total cost of goods consigned | 5,000 kgs. | |
| Less : Abnormal Loss | 500 kgs | |
| | 4,500 kgs. | |
| | 20 kgs. | – |
| Less : Normal Loss | 4,480 kgs. | – |
| Less : Sale proceedings | 3500 kgs. | |
| Value of Stock = $\frac{\text{Unsold Stock}}{\text{Remaining Stock}} \times$ Value of Remaining Stock | 980 kgs | |
| $= \frac{980}{4,480} \times$ `. 36,450 = ` 7,973. | | |

## 2.11 Invoice of Goods at a Price Higher than the Cost Price

**Q14. What is invoice price method? Explain.**

*Ans :*

**Invoice Price Method**

Sometimes, the consignor may prefer to send goods to the consignee at a higher price than the cost price and, accordingly, prepares the "Proforma Invoice" by adding some profit on cost or on sales. For example, C of Calcutta consigned 100 cases of goods to D of Delhi on 1st January, 1990. The cost per case is Rs. 500. The Proforma Invoice was made to show a 20% profit on cost.

Here, Proforma Invoice will be prepared @ Rs. 600 (Rs 500 + 20% of 500) per case and the Consignment Account will be debited with Rs. 60,000 though the actual cost of goods is Rs. 50,000.

The goods are charged to consignee not at cost but at higher price with a view

i) to keep the profit on consignment secret;

ii) to give incentive to the consignee to realize the highest possible price; and

iii) to make him charge a uniform price.

The method of preparation of accounts are the same as in the cost price method, except for a few adjustments which are explained below. Journal Entries are as under :

1. For sending goods to the consignee

   Consignment to .... A/c Dr.

   To Goods Sent on Consignment A/c

   (Invoice value of goods sent)

   (Being goods sent on consignment..)

2. For payment of expenses by the consignor

   Consignment to... A/c Dr.

   To Cash/Bank A/c (If paid)

   To Creditors for Expenses A/c (If unpaid)

   (Being expenses incurred for sending goods to consignee)

3. For receipts of advance from the consignee

   (a) When payment is received in cash or bank draft

   Cash or Bank A/c Dr.

   To Consignee A/c

   (Being advance received from consignee)

   (b) When a bill is accepted by the consignee

   Bills Receivable A/c Dr.

   To Consignee A/c

   (Being a bill drawn on consignee for... months)

4. For Abnormal Loss

   Abnormal Loss A/c Dr.

   To Consignment to... A/c

   (Being invoice price of goods lost)

5. For closing Abnormal Loss. Account

| | |
|---|---|
| Insurance Claim A/c | Dr. [claim admitted] |
| Consignment A/c | Dr. [loading on goods lost] |
| Profit and Loss A/c | Dr. [balance] |
| To Abnormal Loss A/c | |

6. When Account Sales is received from the consignee

Immediately after receiving the Account Sales, the consignor will pass the following entries :

(a) For sale of goods by the consignee

| | |
|---|---|
| Consignee A/c | Dr. (Gross sales Proceeds) |
| To Consignment to... A/c | |

(b) For expenses incurred by the consignee

| | |
|---|---|
| Consignment to... A/c | Dr. |
| To Consignee A/c | |

(Being expenses incurred by the consignee in respect of the consignment)

(c) For commission of the Consignee

| | |
|---|---|
| Consignment to ... A/c | Dr. |
| To Consignee A/c | |

(Being commission charged by the Consignee)

(d) For receiving remittance from the consignee

| | |
|---|---|
| Bank A/c | Dr. |
| To Consignee A/c | |

(Being the remittance received from the consignee along with the Account Sales)

7. For bringing down the value of goods sent to its cost

| | |
|---|---|
| Goods sent on Consignment A/c | Dr. |
| (Difference between Invoice value and cost) | |
| To Consignment to... A/c | |

(Being loading on goods sent adjusted)

8. For stock on consignment

| | |
|---|---|
| Stock on Consignment A/c | Dr. |
| To Consignment to... A/c | (Proportionate Invoice value plus proportionate |
| (Being value of goods unsold at invoice price) | non recurring expenses) |

9. For adjusting value of Closing Stock

   Consignment to... A/c Dr. (Total loading / Total qty x Unsold qty)

   To Stock Reserve A/c

   (Being loading op unsold goods adjusted)

10. The profit should be calculated in the usual manner

    (a) For profit on consignment

    Consignment to... A/c Dr.

    To Profit and Loss on Consignment A/c

    (Being the profit on consignment transferred)

    (b) For loss on consignment

    Profit and Loss on Consignment A/c Dr.

    To Consignment ... A/c

    (Being loss on consignment transferred)

11. The balance of the "Goods sent on Consignment Account" should be transferred to Trading Account (If the consignor is a manufacturer) or to a Purchases Account (if the consignor is a trader).

12. The balance of the "Stock on Consignment Account" and "Stock Reserve Account" should be carried down on the respective side of the account. In the Balance Sheet Stock on Consignment Account should be shown on the assets side and Stock Reserve should be shown on the assets side and Stock Reserve should be shown by way of deduction from stock on consignment.

**Balance Sheet as at .....**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| | | Stock on Consignment | ..... |
| | | Less : Stock Reserve | ..... |

13. At the beginning of the next accounting year, the balance of the Stock on Consignment Account will be transferred to the debit side of the Consignment Account and the Stock Reserve will be transferred to the credit side of the Consignment Account.

**Illustration 7**

**Swastik Ltd. forwarded on 1st January, 2013,100 bicycles to Narinder & Co. of Delhi to be sold on behalf of Swastik Ltd. The cost of one bicycle was ` 250, but the invoice price was ` 300. Swastik Ltd. incurred ` 1,000 on freight and insurance and received ` 10,000 as advance from Narinder & Co. Narinder & Co. paid ` 500 as octroi and carriage, ` 400 as rent and ` 300 as insurance and by 30th June, 2013 had disposed of 80 bicycles for ` 25,000: Narinder & Co. is entitled to commission on sale at 5 per cent on proforma invoice price and 25% of any surplus price realised. Narinder and Co. remitted the amount due from them by a bank draft.**

**You are required to write up the ledger accounts in the books of both the parties.**

**Dr Consignment to Delhi Account Cr**

| Date | Particulars | LF | Amt ` | Date | Particulars | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | 2013 | | | | |
| Jan. 1 | To Goods Sent on Consignment A/c | | 30,000 | June 30 | By Narinder & Co. (Sales) | | 25,000 |
| " 1 | To Bank (Expenses) | | 1,000 | " 30 | By Consignment Stock A/c | | 6,300 |
| June 30 | To Narinder & Co. (Expenses) | | 1,200 | " 30 | By Goods Sent on Consignment A/c | | 5,000 |
| June 30 | To Narinder & Co. (Commission) | | 1,450 | | | | |
| " 30 | To Consignment Stock Suspense A/c | | 1,000 | | | | |
| June 30 | To Profit on consignment transferred to P & L A/c | | 1,650 | | | | |
| | | | 36,300 | | | | 36,300 |

**Dr Narinder & Co. Cr**

| Date | Particulars | LF | Amt ` | Date | Particulars | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| June 30 | To Consignment to Delhi A/c | | 25,000 | Jan. 1 | By Bank A/c | | 10,000 |
| | | | | June 30 | By Consignment to Delhi A/c | | 1,200 |
| | | | | " 30 | By Consignment to Delhi A/c | | 1,450 |
| | | | | " 30 | By Bank A/c | | 12,350 |
| | | | 25,000 | | | | 25,000 |



**Dr Goods Sent on Consignment Account Cr**

| Date | Particulars | LF | Amt ` | Date | Particulars | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| June 30 | To Consignment to Delhi A/c | | 5,000 | Jan. 1 | By Consignment to Delhi A/c | | 30,000 |
| " 30 | To Trading A/c | | 25,000 | | | | |
| | | | 30,000 | | | | 30,000 |

**Dr Consignment Stock Account Cr**

| Date | Particulars | LF | Amt ` | Date | Particulars | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| June 30 | To Consignment to Delhi A/c | | 6,300 | Jan. 30 | By Balance c/d | | 6,300 |
| July 1 | To Balance b/d | | 6,300 | | | | 6,300 |

**Dr Consignment Stock Suspense Account Cr**

| Date | Particulars | LF | Amt ` | Date | Particulars | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| June 30 | To Balance c/d | | 1,000 | June 30 | By Consignment to Delhi A/c | | 1,000 |
| | | | 1,000 | July 1 | By Balance b/d | | 1,000 |

### In the Books of Narinder & Co.
### Journal Entries

| Date | Particulars | | LF | Dabit | Cretit |
|---|---|---|---|---|---|
| 2013 | | | | | |
| Jan. 1 | Swastik Ltd. | Dr. | | 10,000 | |
| | To Bank Account | | | | 10,000 |
| | (Being advance given on receipt of 100 bicycles to be sold on consignment basis) | | | | |
| Jan. 1 | Swastik Ltd. | Dr. | | 1,200 | |
| | To Bank Account | | | | 1,200 |
| | (Being expenses paid on goods on consignment) | | | | |
| ? | Bank Account | Dr. | | 25,000 | |
| | To Swastik Ltd. | | | | 25,000 |
| | (Being goods sold on the account of Swastik Ltd.) | | | | |
| June 30 | Swastik Ltd. | Dr. | | 1,450 | |
| | To Commission Account | | | | 1,450 |
| | (Being Commission due on sale proceeds) | | | | |
| June 30 | Swastik Ltd. | Dr. | | 12,350 | |
| | To Bank Account | | | | 12,350 |
| | (Being amount due on consignment remitted to Swastik Ltd.) | | | | |

**Dr** **Swastik Ltd.** **Cr**

| Date | Particulars | LF | Amt ` | Date | Particulars | LF | Amt ` |
|---|---|---|---|---|---|---|---|
| 2013 | | | | 2013 | | | |
| Jan. 1 | To Bank Account | | 10,000 | Jun-30 | By Bank Account | | 25,000 |
| Jan. 1 | To Bank Account | | 1,200 | | | | |
| June 30 | To Commission Account | | 1,450 | | | | |
| " 30 | To Bank Account | | 12,350 | | | | |
| | | | 25,000 | | | | 25,000 |

## PROBLEMS

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

**Sol. :**

**Consignment A/c**

**Journal Entries in the Books of Ram & Co.,**

| Date | Particulars | | LF | Debit Rs. | Credit Rs. |
|---|---|---|---|---|---|
| | Consignment A/c | Dr. | | 10,000 | |
| | To Goods sent on consignment a/c | | | | 10,000 |
| | (Being the goods sent on consignment) | | | | |
| | Consignment A/c | Dr | | | 500 |
| | To Cash A/c | | | 500 | |
| | (Being expenses incurred) | | | | |
| | Nathan A/c | Dr | | 24,000 | |
| | To Consignment A/c | | | | 24,000 |
| | (Being the sales made by Nathan) | | | | |
| | Consignment A/c | Dr | | 200 | |
| | To Nathan A/c | | | | 200 |
| | (Being the expenses incurred by Nathan) | | | | |
| | Consignment A/c | Dr | | 960 | |
| | To Nathan A/c | | | | 960 |
| | (Being commission paid to Nathan) | | | | |
| | Consignment A/c | Dr | | 12,340 | |
| | To P & L A/c | | | | 12,340 |
| | (Being profit generated and transferred to P&L a/c) | | | | |
| | Cash A/c | Dr | | 22,840 | |
| | To Nathan A/c | | | | 22,840 |
| | (Being the cash received from Nathan in full settlement of A/c) | | | | |

**Journal Entries in the Books of Nathan**

| Date | Particulars | LF | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| | Consignment A/c Dr. | | 24,000 | |
| | To Ram & Co. A/c | | | 24,000 |
| | (Being the sales made) | | | |
| | Ram & Co., A/c Dr | | 200 | |
| | To Cash A/c | | | 200 |
| | (Being the expenses incurred) | | | |
| | Ram & Co., A/c Dr | | 960 | |
| | To Commission A/c | | | 960 |
| | (Being commission received) | | | |
| | Ram & Co., A/c Dr | | 22,840 | |
| | To Cash A/c | | | 22,840 |
| | (Being amount sent for full and final settlement of a/c) | | | |

**2. i) The firm of S.C & Co. of Delhi consigned to Premier & Co. Rangoon 50 cases of piece goods valued at ` 350 each.**

**ii) The cosignors paid freight and insurance thereon ` 1,800**

**iii) They received an advance from Premier & Co. ` 8,000**

**iv) Received an Account Sales from Premier & Co. giving particulars as under: Gross Proceeds ` 28,000, expenses of warehousing, carriage, dock dues etc, incurred by them amounted to ` 900 and their commission to ` 1,000.**

**v) Received bank demand draft for the balance due by them on consignment. From the above particulars, prepare necessary ledger accounts in the books of the consignors and those of the consignee's.**

**Sol. :**

**In the Books of S.C & Co.,**

**Dr Rangoon Consignment A/c Cr**

| Particulars | LF | Rs. | Particulars | LF | Rs. |
|---|---|---|---|---|---|
| To Goods sent on consignment A/c | | 17,500 | By Premier Co A/c - Sales | | 28,000 |
| To Bank A/c - expenses | | 1,800 | | | |
| To Premier & Co., A/c - expenses | | 900 | | | |
| To Premier & Co., A/c - commission | | 1,000 | | | |
| To P & L A/c | | 6,800 | | | |
| | | 28,000 | | | 28,000 |

**Dr** **Premier & Co., A/c** **Cr**

| Particulars | LF | Rs. | Particulars | LF | Rs. |
|---|---|---|---|---|---|
| To Consignment A/c | | 28,000 | By Bank A/c - Advance | | 8,000 |
| | | | By Consignement A/c - Expenses | | 900 |
| | | | By Consignment A/c - Commission | | 1,000 |
| | | | By Bank A/c | | 18,100 |
| | | 28,000 | | | 28,000 |

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

**Dr** **S.C. & Co., A.c**

| Particulars | LF | Rs. | Particulars | LF | Rs. |
|---|---|---|---|---|---|
| To Bank A/c - Advance | | 8,000 | By Bank A/c | | 28,000 |
| To Bank A/c - Expenses | | 900 | | | |
| To Commission A/c | | 1,000 | | | |
| To Bank A/c | | 18,100 | | | |
| | | 28,100 | | | 28,100 |

**3. A of Ahmedabad sent 50 cases of goods to B of Bombay at ` 200 per case. Expenses on consignment incurred by the consignor amounted to ` 300. B worked as as Del Credere Agent. His ordinary Commission was 5% and Del Credere Commission $7^1/_2$%. In due course B sent Account sales giving the following information.**

**a) Sale proceeds of 40 cases ` 11,000**

**b) Stock of unsold goods on hand 10 cases.**

**c) Consignee's expenses amounted to `120**

**d) Consignee charged commission at agreed rates.**

**e) A bank draft for ` 8,000 was sent by B along with the account sales. Show the necessary accounts in the books of A.**

**Sol. :**

**In the Books of A**

**Dr** **Bombay Consignment A/c** **Cr**

| Particulars | LF | Rs. | Particulars | LF | Rs. |
|---|---|---|---|---|---|
| To Goods sent on consignment A/c | | 10,000 | By B A/c - Sales | | 11,000 |
| To Bank A/c - expenses | | 300 | By Consignment A/c - Stock | | 2,060 |
| To B A/c - expenses | | 120 | | | |
| To B A/c - commission 550 | | | | | |
| Delcredere commission 825 | | 1,375 | | | |
| To P & L A/c | | 1,265 | | | |
| | | 13,060 | | | 13,060 |

| Dr | | B A/c | | | Cr |
|---|---|---|---|---|---|
| **Particulars** | **LF** | **Rs.** | **Particulars** | **LF** | **Rs.** |
| To Consignment A/c | | 11,000 | By Consignment A/c - expenses | | 120 |
| | | | By Consignment A/c - commission | | 1,375 |
| | | | By Bank A/c | | 8,000 |
| | | | By Balance | | 1,505 |
| | | 11,000 | | | 11,000 |

**4. On 1$^{st}$ July 2013 P& Co. sends 300 cases of medicines to Ravi on consignment basis. The cost of each case was ` 1,000 P & Co. incurred the following expenses on the consignment ` 750 on railway freight and ` 450 on insurance.**

**200 cases were sold by Ravi uniformly at ` 2000 per case. Out of these 10 cases were sold to a party on credit and this transaction ultimately proved bad. The expenses of Ravi amounted to ` 1,200. He sent an account sales on 31$^{st}$ December 2013 which revealed that he charged 5% as ordinary commission and 10% as Del Credere Commission. He sent a bank draft for ` 90,000.**

**You are required to prepare Consignment Account. Ravi's Account, and Goods Sent on Consignment Account, in the books of P& Co.,**

**Sol. :**

**In the Books of P & Co.,**

| Dr | | Consignment A/c | | | Cr |
|---|---|---|---|---|---|
| **Particulars** | **LF** | **Rs.** | **Particulars** | **LF** | **Rs.** |
| To Goods sent on consignment A/c | | 3,00,000 | By Ravi A/c - sales | | 4,00,000 |
| To Bank A/c - exp. (freight & Insurance) | | 1,200 | By Consignment A/c - stock * | | 1,00,400 |
| To Ravi A/c - expenses | | 1,200 | | | |
| To Ravi A/c - commission | | 60,000 | | | |
| To P & L A/c | | 1,38,000 | | | |
| | | 5,00,400 | | | 5,00,400 |

**Working Notes :**

* Calculation of closing stock

Total Boxes – 300

(–) 200

Balance 100 Boxes

Cost of each boxes = Rs. 1000 = Stock value = 100 × 1000 = Rs. 1,00,000

Add : Non - recurring Expenses = $\frac{1200 \times 100}{300}$ = Rs. 400

Rs. 1,04,400

**Dr Ravi A/c Cr**

| Particulars | LF | Rs. | Particulars | LF | Rs. |
|---|---|---|---|---|---|
| To Consignment A/c - Sales | | 4,00,000 | By Consignment A/c - expenses | | 1,200 |
| | | | By Consignment A/c - commission | | 60,000 |
| | | | By Bank A/c | | 90,000 |
| | | | By Balance | | 2,48,800 |
| | | 4,00,000 | | | 4,00,000 |

**5. Usha Limited sent 100 sewing machines on consignment basis to Varun. The cost of each machine was Rs. 300, but the consignor prepared the proforma invoice at 25% above the cost. The company spent ` 800 on packing.**

**While taking delivery of the machines, Varun had to spend ` 950 as freight, octroi and cartage. By the end of the year Varun sold 80 Machines @ ` 410 per machine. He paid ` 1,100 as godown rent. He was entitled to a commission of 5% on sales. Prepare consignment account and Varun's account.**

**Sol. :**

**In the Books of Usha Limited**

**Dr Consignment A/c Cr**

| Particulars | LF | Rs. | Particulars | LF | Rs. |
|---|---|---|---|---|---|
| To Goods sent on consignment A/c | | 37,500 | By Varun A/c - Sales | | 32,800 |
| To Cash A/c - expenses | | 800 | By Stock Reserve A/c | | 7,500 |
| To Varun A/c - expenses | | 950 | By Stock A/c | | 7,850 |
| To Varun A/c - Rent | | 1,100 | | | |
| To Varun A/c - Commission | | 1,640 | | | |
| To Stock A/c reserve | | 1,500 | | | |
| To Profit A/c | | 4,660 | | | |
| | | 48,150 | | | 48,150 |

**Dr Ravi A/c Cr**

| Particulars | LF | Rs. | Particulars | LF | Rs. |
|---|---|---|---|---|---|
| To Consignment A/c - Sales | | 32,800 | By Consignment A/c - expenses | | 950 |
| | | | By Consignment A/c - Rent | | 1,100 |
| | | | By Consignment A/c - Commission | | 1,640 |
| | | | By Balance | | 29,110 |
| | | 32,800 | | | 32,800 |

**6. Narendra Dube of Poona sent 1,000 units of stainless steel vessels to Girija Shankar of Hyderabad to be sold on consignment basis. The terms were that Girija Shanker would get 5% commission plus 2% del credere commission and be reimbursed for expenses incurred.**
**The cost of Narendra Dube was ` 50 per unit. He incurred ` 500 as packing and forwarding charges. On receipt of the consignment Girja Shanker accepted a bill for ` 25,000 payable after three months. Girija Shanker also paid ` 1,200 as freight and cartage and ` 800 as rent and insurance.**
**Girija Shanker sold 900 units at ` 80 per unit. One quarter of the sales were on credit. One customer failed to pay the amount of ` 2,000 due from him. Girija Shanker remitted the necessary amount to Narendra Dube. Give the necessary ledger accounts in the books of both parties.**

**Sol. :**

**In the Books of Narendra Dube**

**Dr** **Consignment A/c** **Cr**

| Particulars | LF | Rs. | Particulars | LF | Rs. |
|---|---|---|---|---|---|
| To Goods Sent on Consignment A/c | | 50,000 | By Girija Shanker A/c - Sales | | 72,000 |
| To Bank A/c - Expenses | | 500 | By Consignment A/c - Stock * | | 5,170 |
| To Girija Shanker A/c - exp.(1200+800) | | ,000 | | | |
| To Girija Shanker A/c - Commission | | 5,040 | | | |
| To P & L A/c | | 19,630 | | | |
| | | 77,170 | | | 77,170 |



**Working Notes :**

* Calculationof closing stock

| | | |
|---|---|---|
| Total units | = | 1000 |
| (–) Sold units | = | 900 |
| Balance | = | 100 |

Cost of each unit = Rs. 50

Stock value = 100 × 50 = 5,000

Add : Non Recurring expenses $\left(= \frac{100 \times 1700}{1000}\right) = \frac{170}{5,170}$

**Dr** **Girija Shankar A/c** **Cr**

| Particulars | LF | Rs. | Particulars | LF | Rs. |
|---|---|---|---|---|---|
| To Consignment A/c | | 72,000 | By Bills receivable A/c | | 25,000 |
| | | | By Consignment A/c - Expenses | | 2,000 |
| | | | By Consignment A/c - Commission | | 5,040 |
| | | | By Bank A/c | | 39,960 |
| | | 72,000 | | | 72,000 |

**7. A consigned to B on 1st January 2013, 500 bales of cotton costing `100 per bale. Freight charges incurred in the consignment were ` 5,000. A drew a bill on B for ` 50,000 payable on 30th June, 2013 which B accepted. The bill was discounted by A with his banker on 31st Januray 2013 at 12% p.a**

**B rendered Account Sales to A on 31st March 2013, showing sales of 300 bales for ` 80,000 and selling expenses of ` 5,000. B's Commission was 10%. On this date B remitted to A net amount due to him. On 31st May, 2013 B sold the balance stock for Rs. 30,000 after incurring expenses of Rs. 4,000. He remitted ` 20,000 to A. The balance being treated as commission earned by him. On 30th June 2013 the bill accepted by B was dishonoured by him and the amount due to the bank was paid off by A along with incidental charges of Rs.200. Pass Journal entries in the books of A.**

**Sol. :**

**In the Books of A**
**Journal Entries**

| Date | Particulars | LF | Debit Rs. | Credit Rs. |
|---|---|---|---|---|
| | Consignment A/c Dr | | 50,000 | |
| | To Goods sent on consignment A/c | | | 50,000 |
| | (Being goods sent on consignment, 500 × 100 each) | | | |
| | Consignment A/c Dr | | 5,000 | |
| | To Bank A/c | | | 5,000 |
| | (Being expenses incurred on consignment) | | | |
| | Bills receivables A/c Dr | | 50,000 | |
| | To B A/c | | | 50,000 |
| | (Being the bill received as an advance) | | | |
| | Bank A/c Dr | | 47,500 | |
| | Discount A/c Dr | | 2,500 | |
| | To Bills receivables A/c | | | 50,000 |
| | (Being the bill discounted) | | | |
| | B A/c Dr | | 80,000 | |
| | To Consignment A/c | | | 80,000 |
| | (Being the sale proceedings) | | | |
| | Consignment A/c Dr | | 5,000 | |
| | To B A/c | | | 5,000 |
| | (Being the expenses incurred) | | | |
| | Consignment A/c Dr | | 8,000 | |
| | To B A/c | | | 8,000 |
| | (Being the commission paid) | | | |

| | | | | |
|---|---|---|---|---|
| Bank A/c Dr | | | 17,000 | |
| To B A/c | | | | 17,000 |
| (Being the balance amount received) | | | | |
| B A/c Dr | | | 30,000 | |
| To Consignment A/c | | | | 30,000 |
| (Being the sales proceedings) | | | | |
| Consignment A/c Dr | | | 4,000 | |
| To B A/c | | | | 4,000 |
| (Being the expenses incurred) | | | | |
| Consignment A/c Dr | | | 6,000 | |
| To B A/c | | | | 6,000 |
| (Being the commission paid) | | | | |
| Bank A/c Dr | | | 20,000 | |
| To B A/c | | | | 20,000 |
| (Being the amount received from B) | | | | |
| Consignment A/c Dr | | | 32,000 | |
| To P & L A/c | | | | 32,000 |
| (Being the profit generated) | | | | |
| B A/c Dr | | | 50,200 | |
| To Bank A/c | | | | 50,200 |
| (Being the bill dishonoured and charged as incidental expenses) | | | | |

**Dr** **Consignment A/c** **Cr**

| Particulars | LF | Rs. | Particulars | LF | Rs. |
|---|---|---|---|---|---|
| To Goods Sent on Consignment A/c | | 50,000 | By B A/c - Sales | | 80,000 |
| To Bank A/c - Expenses | | 5,000 | By B A/c - Sales | | 30,000 |
| To B A/c - expenses | | 5,000 | | | |
| To B A/c - Commission | | 8,000 | | | |
| To B A/c - Expenditure | | 4,000 | | | |
| To B A/c - Commission | | 6,000 | | | |
| To P & L A/c | | 32,000 | | | |
| | | 1,10,000 | | | 1,10,000 |

**Dr B A/c Cr**

| Particulars | LF | Rs. | Particulars | LF | Rs. |
|---|---|---|---|---|---|
| To Consignment A/c - Sales | | 80,000 | By Bills receivables A/c - Advertising | | 50,000 |
| To Consignment A/c - Sales | | 30,000 | By Consignment A/c - Expenses | | 5,000 |
| To Bank A/c - B/R dishonoured | | 50,200 | By Consignment A/c - Commission | | 8,000 |
| | | | By Bank A/c - Payment | | 17,000 |
| | | | By Consignment A/c - Expenses | | 4,000 |
| | | | By Consignment A/c - Commission | | 6,000 |
| | | | By Bank A/c - payment | | 20,000 |
| | | | By Balance c/d | | 50,200 |
| | | 1,60,200 | | | 1,60,200 |

**8. Praksah of Hyderabad consigns to Vijay of Vijayawada 50 cases of goods at a cost of ` 5,000 per case. Prakash incurred the following expenses. Freight ` 4,500, insurance ` 12,500. Vijay paid cartage ` 2,000 and rent ` 2,280 4 cases were destroyed in transit and a sum of ` 15,000 is agreed by the insurance Co., as compensation. Out of 46 cases 36 cases were sold for ` 6,000 each. Vijay is entitled for a commission of 5% on sales and sent the bank draft for full settlement of account. Show consignment account and Vijay account in the books of Prakash.**

**Sol. :**

**In the Books of Prakash**

**Dr Consignment A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Goods sent on consignment A/c | 2,50,000 | By Vijay A/c - Sales | 2,16,000 |
| To Bank A/c - freight | 4,500 | By Consignment A/c - Insurance | 15,000 |
| To Bank A/c - Insurance | 12,500 | By Consignment A/c - Loss | 6,360 |
| To Vijay A/c - Cartage | 2,000 | By Consignment A/c - Closing stock | 53,835 |
| To Vijay A/c - rent | 2,280 | | |
| To Vijay A/c - Commission | 10,800 | | |
| To Profit & Loss A/c | 9,115 | | |
| | 2,91,195 | | 2,91,195 |

**Dr Vijay A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Consignment A/c - Sales | 2,16,000 | By Consignment A/c - Cartage | 2,000 |
| | | By Consignment A/c - Rent | 2,280 |
| | | By Consignment A/c - Commission | 10,880 |
| | | By Bank A/c | 2,00,920 |
| | 2,16,000 | | 2,16,000 |

**9. Mazda & Co. of Bangalore consigned goods to Ram and Bros of Lucknow of the value of \`5,000 and invoiced the same pro forma at 20% above cost. They paid thereon \`120 for freight and cartage and \` 80 for insurance. They drew on Ram & Bros. For X 2,000 as advance against the consignment and sold the bill for \`1,950. They received Account Sales showing that three-fourths of the goods were sold for \` 5,200 and Rama & Bros, expenses amounted to \`175 and their commission to \` 300. The unsold stock was valued at actual cost and a two month's draft was received from Ram and Bros in settlement of account to date. Show the transaction in the books of both the praties.**

**Sol. :**

**In the Books of Mazda**

**Dr Consignment A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Goods sent on consignment A/c | 6,000 | By Ram & Bros A/c - Sales | 5,200 |
| To Bank A/c - expenses | 200 | By Goods sent on consignment A/c | 1,000 |
| To Ram & Bros A/c - expenses | 175 | By Consignment stock A/c | 1,550 |
| To Ram & Bros A/c - commission | 300 | | |
| To Stock reserve | 250 | | |
| To P & L A/c | 825 | | |
| | 7,750 | | 7,750 |

**Dr Ram & Bros A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Consignment A/c - Sales | 5,200 | By Bills receivables A/c - advance | 2,000 |
| | | By Consignment A/c - expenses | 175 |
| | | By Consignment A/c - commission | 300 |
| | | By Bills receivable A/c | 2,725 |
| | 5,200 | | 5,200 |

**In the Books of Ram & Bros**

**Dr Mazda Co. Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bills payable A/c - advance | 2,000 | By Bank A/c | 5,200 |
| To Bank A/c - expenses | 175 | | |
| To Commission A/c | 300 | | |
| To Bills payable A/c | 2,725 | | |
| | 5,200 | | 5,200 |

**10. Krishna of Madras sent some piece goods to Mukherjee of Calcutta to be sold on behalf of Krishna, Mukherjee getting a commission (including Delcredere Commission) of 10% on sales. All expenses were to be borne by Krishna. The invoice value of the goods was ` 30,000 made up as cost plus 20%. Krishna spent ` l,000 on forwarding packing. Mukherjee paid the following.**

| | |
|---|---|
| **Freight and Cartage to godown** | **3,000** |
| **Stores** | **500** |
| **Insurance of godown** | **300** |
| **Miscellaneous** | **200** |

**At the end of three months Mukherjee reported that he had sold 4/5th of the goods for ` 30,000. One customer who had bought on credit, failed to pay ` 800 due from him. Mukherjee settled his account. Prepare important ledger accounts in the books of both the parties.**

**Sol. :**

**In the Books of Krishna**

**Consignment A/c**

Dr Cr

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Goods sent on consignment A/c | 30,000 | By Mukherjee A/c - sales | 30,000 |
| To Bank A/c - expenses | 1,000 | By Consignment stock reserve A/c | 6,800 |
| To Mukherjee A/c - expenses | 3,000 | By Consignment - closing stock A/c | 5,000 |
| To Mukherjee A/c - Stores | 500 | | |
| To Mukherjee A/c - Insurance | 300 | | |
| To Mukherjee A/c - Miscellaneous | 200 | | |
| To Mukherjee A/c - Commission | 3,000 | | |
| To Stock reserve A/c | 1,000 | | |
| To P & L A/c - Profit | 2,800 | | |
| | 41,800 | | 41,800 |

**Mukherjee A/c**

Dr Cr

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Consignment A/c - Sales | 30,000 | By Consignment A/c - expenses | 3,000 |
| | | By Consignment A/c - stores | 500 |
| | | By Consignment A/c - Insurance | 300 |
| | | By Consignment A/c - Miscellaneous | 200 |
| | | By Consignment A/c - Commission | 3,000 |
| | | By Bank A/c | 23,000 |
| | 30,000 | | 30,000 |

**In the Books of Mukherjee**

**Dr** **Krishna A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bank - expenses A/c | 4,000 | By Bank A/c - Sales | 30,000 |
| To Commission A/c | 3,000 | | |
| To Bank A/c | 23,000 | | |
| | 30,000 | | 30,000 |

**11. On $1^{st}$ Januray 2013 Badri of Bombay consigned 100 cases (cost price Rs. 7,500) at a proforma invoice price of 25% profit on Sales to his agent Anil of Allahabad. On the same date Badri paid non-recurring expenses of ` 600. On $10^{th}$ January, Anil took delivery and paid ` 1,200 for octroi and other duties and remitted ` 4,000 as an advance against the consignment. On $31^{st}$ January he sold 80 cases for `10,500. Anil is entitled to 5% commission on gross sales and 10% on the sales price in excess of the invoice price.**

**Give Journal entries and show ledger accounts in the books of both parties.**

**Sol. :**

**In the Books of Badri**

**Dr** **Allahabad Consignment A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Goods sent on consignment (Invoiceprice) A/c | 10,000 | By Anil A/c - Sales | 10,500 |
| To Bank A/c - Expenses | 600 | By Consignment A/c - (Loading) | 2,500 |
| To Anil A/c - Expenses | 1,200 | By Consignment & Closing stock | 2,360 |
| To Anil A/c - Commission | 775 | | |
| To Stock Reserve A/c | 500 | | |
| To P & L A/c - Profit | 2,285 | | |
| | 15,360 | | 15,360 |



**Dr** **Anil A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Consignment A/c - Sales | 10,500 | By Consignment A/c - Expenses | 1,200 |
| | | By Consignment A/c - Commision | 775 |
| | | By Bank A/c - Advance | 4,000 |
| | | By Balance | 4,525 |
| | 10,500 | | 10,500 |

**In the Books of Anil**

**Dr** **Badri** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bank A/c - Advance | 4,000 | By Bank A/c | 10,500 |
| To Bank A/c - Expenses | 1,200 | | |
| To Commission A/c | 775 | | |
| To Balance | 4,525 | | |
| | 10,500 | | 10,500 |

**12. Mallikarjuna sends goods on consignment to Ravindra. The term are that Ravindra will received 10% commission on invoice price (which is cost plus 25%) and 10% of any price realised above the invoice price. Ravindra will meet his expenses himself.**

**Malikaijuna sent goods whose cost was ` 20,000 and spent ` 2,000 on freight and insurance. Ravindra accepted a bill for ` 15,000 immediately on receiving the consignment. His expenses were ` 400 as rent and `200 insurance of godown. Ravindra sold 3/4 of the goods for ` 25,000. Part of the sales were on credit and one customer failed to pay ` 500 due from him. Prepare the necessary ledger accounts in books of Malikarjuna and Ravindra.**

**Hints : (1) Commission payable to Ravindra ` 2,500 (2) Expenses incurred by Ravindra is not to be charged to Consignment Accout as Ravindra has agreed to bear the expenses himself (3) As the Consignee does not get Delcredere Commission, the loss arising due *to insolvency* of the customer is to be borne by Consignor. Consignment Account should be debited and Ravindra's Account credited with ` 500.**



**Sol. :**

**In the Books of Mallikarjuna**

**Dr** **Consignment A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Goods sent on consignment (invoice price) | 25,000 | By Ravindra A/c - Sales | 25,000 |
| To Bank A/c - Expenses | 2,000 | By Consignment A/c - Stock | 6,750 |
| To Ravindra A/c - Commission * | 2,500 | By Goods sent on consignment-Loading | 5,000 |
| To Ravindra A/c - Bad debts | 500 | | |
| To Stock Reserve A/c | 1,250 | | |
| To P & L A/c profit | 5,500 | | |
| | 36,750 | | 36,750 |

| Dr | Ravindra A/c | | Cr |
|---|---|---|---|
| **Particulars** | **Rs.** | **Particulars** | **Rs.** |
| To Consignment A/c - Sales | 25,000 | By Bills Receivable | 15,000 |
| | | By Consignment A/c - Commission* | 2,500 |
| | | By Consignment A/c - bad debts | 500 |
| | | By Balance c/d | 7,000 |

**Working Notes for Commission**

* 3/4th of goods sold at invoice price = 3/4 × 25,000 = 18,750

10% commission on 18,750 $\left(18{,}750 \times \frac{10}{100}\right)$ = 1,875

10% Excess commission on Invoice price

$(25{,}000 - 18{,}750) \times \frac{10}{100}$ = 625

Net profit payable to Ravindra = Rs 2,500

**In the Books of Ravindra**

| Dr | Mallikarjuna A/c | | Cr |
|---|---|---|---|
| **Particulars** | **Rs.** | **Particulars** | **Rs.** |
| To Bills payable A/c - Advance | 15,000 | By Bank A/c | 25,000 |
| To Commission A/c | 2,500 | | |
| To Bad debts A/c | 500 | | |
| To Balance | 7,000 | | |
| | 25,000 | | 25,000 |



**13. Srinivas of Hyderabad purchased 10,000 meters of cloth for ` 2,00,000; 5,000 meters were sent on consignment to Rishikesh at the selling price of ` 30 per meter. The consignors paid ` 6,000 towards freight packing etc. The consignees sold 4,000 meters at ` 40 per meter and incurred ` 2,000 towards Sundry expenses. They are entitled to a commission of 5% on total sale proceeds plus 20% on any surplus price realised over ` 30 per meter.**

**3,000 meters are sold by Srinivas at Hyderabad at ` 30 per meter. Their expenses amounted to ` 5,000 owing to fall in the market value, the stock of cloth in hand is to be valued at 10% less than the cost. Prepare Consignment Account, Consignees Account. Trading and Profit and Loss A/c and in the books of Srinivas.**

**Sol. :**

**In the Books of Srinivas**

**Consignment A/c**

Dr Cr

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Goods sent on consignment | 1,50,000 | By Rishikesh A/c - Sales | 1,60,000 |
| To Bank A/c - Expenses | 6,000 | By Goods sent on consignment (Loading) | 50,000 |
| To Rishikesh A/c - Expenses | 2,000 | By Consignment A/c - Closing stock * | 29,200 |
| To Rishikesh A/c - Commission | 16,000 | | |
| To Stock reserve | 10,000 | | |
| To P & L A/c profit | 55,200 | | |
| | 2,39,200 | | 2,39,200 |

* Calculation of Closing Stock

| | | |
|---|---|---|
| Unsold stock at Invoice price = 1000 × 30 | = | 30,000 |
| Add : Proportionate expenses | | 1,200 |
| | | 31,200 |
| Less : Reduction in cost @ 10% | | 2,000 |
| | | 29,200 |

**Trade & Profit & Loss A/c**

Dr Cr

| Particulars | Rs. | Particulars | | Rs. |
|---|---|---|---|---|
| To Purchases A/c | 2,00,000 | By Sales A/c | | 90,000 |
| | | By Goods sent on consignment a/c | | 1,00,000 |
| To Gross profit | 26,000 | By Closing stock | 40,000 | |
| | | (–) 10% cost | 4,000 | 36,000 |
| | 2,26,000 | | | 2,26,000 |
| To Expenses A/c | 5,000 | By Gross profit | | 26,000 |
| To Net profit | 76,200 | By Consignment A/c | | 55,200 |
| | 81,200 | | | 81,200 |

**Rishikesh A/c**

Dr Cr

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Consignment A/c | 1,60,000 | By Consignment A/c - expenses | 2,000 |
| | | By Commission A/c | 16,000 |
| | | By Balance | 1,42,000 |
| | 1,60,000 | | 1,60,000 |

**14. 500 sewing machines were consigned by Mahesh & Co. Bombay to Dinnu and Co. of Hyderabad, costing Rs. 500 each. Expenses incurred by Mahesh & Co. amounted to ` 5,000. On the way 5 sewing machines were completely damaged due to bad handling, and insurance company admitted the claim to the extent of ` 2,000.**

**Dinnu & Co. took delivery of the remaining sewing machines and incurred non-recurring expenses of ` 9,900 and recurring expenses of ` 2,100. He sold 450 sewing machines at ` 700 each. He is entitled to a Commission of 5% on sales. Prepare Consignment Account, Dinnu & Co. Account in the books of Mahesh & Co. assuming that Dinnu & Co. remitted amount due by them.**

**Sol. :**

**In the Books of Mahesh & Co**

**Dr Consignment A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Goods sent on consignment A/c | 2,50,000 | By Dinnu & Co. A/c - Sales | 3,15,000 |
| To Bank A/c - Expenses | 5,000 | By Abnormal Loss | 2,550 |
| To Dinnu & Co. A/c - Expenses | 12,000 | By Consignment A/c - Closing stock | 23,850 |
| To Dinnu & Co. A/c - Commission | 15,750 | | |
| To P & L A/c Profit | 58,650 | | |
| | 3,41,400 | | 3,41,400 |

**Dr Dinnu & Co. Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Consignment A/c | 3,15,000 | By Consignment A/c - Stock Expenses | 12,000 |
| | | By Consignment A/c - Commission | 15,750 |
| | | By Bank | 2,87,250 |
| | 3,15,000 | | 3,15,000 |

**15. The Ramesh Oil Mills, Bombay consigned 40,000 lbs. of castor oil (in 10 lbs tins)to B.N. Chatteijee, Calcutta. On 1st Arpil 2013. The cost of oil was ` 2 per lb. The consignors paid ` 10,000 as freight and insurance. During transit 50 tins were totally destroyed for which the insurance company paid directly to the consignors ` 900 in full settlement of the claim. B.N. Chatteijee took delivery of the consignment on 10th April and accepted a bill drawn on him by Ramesh Oil Mills for ` 20,000 for three months. On June 30th, 2013. B.N. Chatteijee reported that 35,000 lbs were sold 3per lbs, the expenses were as follows Godown rent ` 400; advertisement ` 2,000; salaries of salesmen ` 4,000. B.N. Chetterjee charged a commission of 3 percent plus 3 percent Delcredere. He sold ` 19,000 worth of oil, the remaining stock to X & Co. who were declared bankrupt after two months and only 50 paisa per rupee was realised from them. Show accounts in the books of both the parties assuming that the consignee paid the amount due by bank draft.**

**Sol. :**

**In the Books of Ramesh Oil Mills**

**Dr Consignment A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Goods sent on consignment | 80,000 | By Chaterjee A/c - Sales | 1,05,000 |
| To Bank A/c - Expenses | 10,000 | By Chaterjee A/c - Sales | 19,000 |
| To Chaterjee A/c - Expenses, | 6,400 | By Abnormal Loss (2) | 1,125 |
| To Chaterjee A/c - Commission (1) | 7,440 | | |
| To P & L A/c - Profit | 21,825 | | |
| | 1,25,125 | | 1,25,125 |

**(1) Calculation of Commision**

| | | |
|---|---|---|
| Sales @ 35,000 lbs × Rs. 3 | = | 1,05,000 |
| Sales | = | 19,000 |
| Total Sales | | 1,24,000 |

Commission $= 1{,}24{,}000 \times \frac{6}{100} = 7{,}440$

**(2) Calculation of Abnormal Loss**

| | | |
|---|---|---|
| Value of stock = 50 × 2 | = | 1000 |
| Add : Proportion of expenses $= \frac{10{,}000 \times 50}{4{,}000}$ | = | 125 |
| | | 1,125 |

**Dr Chaterjee A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Consignment A/c - Sales | 1,05,000 | By Bills receivables A/c | 20,000 |
| To Consignment A/c - Sales | 19,000 | By Consignment A/c - Expenses | 6,400 |
| | | By Consignment A/c - Commission | 7,440 |
| | | By Bank | 90,160 |
| | 1,24,000 | | 1,24,000 |

**In the Books of Chaterjee**

**Dr Ramesh Oil Mills A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bills payable A/c | 20,000 | By Bank A/c | 1,05,000 |
| To Bank A/c - Expenses | 6,400 | By Debtors A/c | 19,000 |
| To Commission A/c | 7,440 | | |
| To Bank A/c | 90,160 | | |
| | 1,24,000 | | 1,24,000 |

**16. Mohan consigned 400 packets of lip-sticks, each packet containing 100 lip-sticks. Cost price of each packet was ` 300. Mohan spent ` 50 per packet as cartage, freight insurance and forwarding commission. One packet was lost on the way and Mohan lodged claim with the Insurance Company and could get only ` 270 as claim on average basis. Consignee took delivery of the rest of packets and spent ` 19,950 as other non-recurring expenses and ` 11,250 as recurring expenses. He sold 370 packets at al rate of ` 6.50 per lip-stick. He was entitled to 2% commission on sales plus 1% del credere commission.**

**You are required to calculate the cost of stock at the end, cost of abnormal loss and profit or loss on consignment.**

**Sol. :**

**Dr** **Consignment A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Goods sent on consignment A/c | 1,20,000 | By Consignee A/c - Sales | 2,40,500 |
| To Bank A/c - Expenses | 20,000 | By Abnormal Loss * | 350 |
| To Consignee A/c - Expenses | 11,250 | By Consignment ** Closing stock | 11,600 |
| To Consignee A/c - Expenses | 19,950 | | |
| To Consignee A/c - Commission | 7,215 | | |
| To P & L A/c (Profit) | 74,035 | | |
| | 2,52,450 | | 2,52,450 |



**1) Calculation of Closing Stock**

| | | | |
|---|---|---|---|
| Total goods sent on consignment | = | 400 | packet |
| (–) Damaged in transit | = | 1 | packet |
| Rest of packets | | 399 | packet |
| (–) Sales | = | 370 | packet |
| | | 29 | packet |
| Cost of 29 packets = 29 × 300 | = | 8,700 | |
| (+)Consignor expenses = 29 × 50 | = | 1,450 | |
| (+)Consignee Non-recurring exp. $\frac{19,950 \times 29}{399}$ | = | 1,450 | |
| Total cost of stock | | 11,600 | |

**2) Calculation of Abnormal Loss**

| | |
|---|---|
| Loss of packets in transit | = 1 |
| Cost of 1 packet | = Rs. 300 |
| Add : Cartage | = Rs. 50 |
| Abnormal Loss | = 350 |

**Dr** **Consignee A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Consignment A/c - Sales | 2,40,500 | By Consignment A/c - Exp.(11,250+19,950) | 31,200 |
| | | By Consignment A/c - Commission | 7,215 |
| | | By Balance | 2,02,085 |
| | 2,40,500 | | 2,40,500 |

# Exercise Problems

1. Dutt sends 100 tape-recorders to Ray to be sold on consignment basis. Dutt spends ` 3,000 on packing, etc. The cost of each set is ` 1,500.

   Ray sends a bank draft to Dutt for ? 1,00,000 as advance. He spends ` 8,000 on freight, ` 2,000 on salesmen's salary and ` 1,500 as rent and insurance.

   Ray sells all the sets at ` 2,000 each. He is entitled to a commission @ 10% on sales. He settles his account. Prepare the account sales and various ledger accounts in the books of both Dutt and Ray.

**Ans : [Profit on Consignment, ` 15,500]**

2. A firm received a consignment of 100 machines from a manufacturer on the following terms :

   (a) The machines to be sold at the best price obtainable above ` 1,500.

   (b) Selling commission to be 15 per cent.

   (c) Any machines unsold at the expiry of three months after receipt to be taken over at ` 1,500 each and the account to be settled on the same date.

   The cost of each machine to the manufacturer was ? 1,200,

   On 1st January, 2012, the goods were received and freight and other expenses of ` 30,000 were paid. On 8th January, 10 machines were sold at ` 1,750 each, on 15th January, 30 machines were sold at the same price and on 15th February, 20 machines were sold at ` 1,600 each.

   Write up the consignment account and the account of the agent and draw up an account sales.

**Ans : [Loss on consignment, ` 3,300]**

3. On 21st January, 2012, Messrs. A B C & Co. forward to Messrs. X Y Z & Co. on consignment 25 chests of Blue Dye at ` 5,000 per chest, paying ? 1,500 for freight. On 18th March, Messrs. A B C & Co. received an account sales, dated 16th March, 2012 showing that 20 cases had realised ` 1,50,000 gross, and that the following expenses had been incurred :

| | ` |
|---|---|
| Octroi duty | 1,000 |
| Storage and insurance | 300 |
| Delivery charges, etc. | 1,500 |
| Commission, 2 per cent | |
| Del credere commission, 2 per cent | |

   Messrs. XYZ & Co. enclosed a bill at three months for the amount due. You are requested to record the above transactions (i) in Messrs. ABC & Co's, books, and (ii) in Messrs. XYZ & Co's books. Show also the account sales.

**Ans : [Profit on consignment, ` 138,700]**

4. Shri Gopalan from Chennai consigned 1,000 cases of tinned fruit (cost ` 75,000) to Sengupta of Kolkata on 1st October, 2011 charging him a pro-forma invoice to show a profit of 25 per cent on sales. Gopalan paid on the same date ` 7,000 in respect of freight, etc. During the half year ending 31 March 2012, Sengupta incurred expenses of ` 3,000 on godown rent and sold 8,000 cases on consignment for ` 80,000. Sengupta is entitled to 5 per cent commission on sales which is duly charged. Record the entries in the books of Shri Gopalan.

**Ans : [(Adapted C.A. Inter) (Profit, ` 7,400)]**

5. Nissar sent goods to Mumtaz to be sold on consignment basis. The invoice price was ` 24,000 which was 20% above cost. Mumtaz was entitled to a commission of 5% on the invoice price of the goods sold and 15% of any excess price realised. He was to be reimbursed for expenses.

   On receiving the goods, Mumtaz paid ` 920 as freight and ` 500 as godown rent, insurance, etc. He sold 5/8 of the goods for ` 19,000. Part of the sale was on credit and there was a bad debt of ` 600. Mumtaz settled his account.

   Show ledger account in the books of both the parties.

**Ans : [Profit on consignment, ` 3,475]**

6. Tai of Singapore is the agent for sewing machines manufactured by Mehta in Delhi, A machine costs ? 1,500, the invoice price to Tai is ` 2,000. Tai is entitled to a commission of 15% of this plus 40% of the excess realised over ` 2,000; he is also responsible for all expenses incurred by him but not for freight to Singapore or customs duty.

   Mehta despatched 200 machines in January 2012, drawing on Tai for T 2,00,000 at 3 months. Tai accepted the draft. Expenses paid by Tai were :

| | ` |
|---|---|
| Freight | 20,000 |
| Customs duty | 10,000 |
| Storage | 5,000 |
| Insurance | 4,000 |
| Commission on sales @ 8% | |

   At the end of March, 2012, Tai reported that he had sold 150 machines at an average price of ` 2,200. It was agreed then that Tai would take over the remaining machines on his own account at landed cost plus 20%. Prepare the consignment account in the books of Mehta.

**Ans : [Profit on Consignment, ` 42,000]**

7. Murty of Chennai sent some piece-goods to Bose of Kolkata to be sold on behalf of , Bose getting a commission (including del credere commission) of 10% on sales effected by him. All expenses

were to be borne by Murty. The invioce value of the goods was ? 30,000 made up as cost plus 20%. Murty spent ? 500 on forwarding and packing.

Bose paid the following expenses:

| | ` |
|---|---|
| Freight and cartage to godown | 1,600 |
| Storage | 300 |
| Insurance | 200 |
| Miscellaneous | 100 |

At the end of 3 months, Bose reported that he had sold 3/5 of the goods for ` 20,000. He returned 1/5 of the goods to Murty as unsaleable in Kolkata but he was confident of selling the remaining goods. Murty paid ` 350 as freight on the returned goods. One customer, who had bought on credit, failed to pay ` 800 due from him. Ascertain, by preparing relevant accounts, the profit earned or loss suffered by the two parties.

**Ans : [Murty earns ` 370 and Bose earns ` 1,200]**

8. Garments costing ` 72,000 were sent by Teng of Delhi to Smith of New York on consignment basis. Teng spent ` 12,000 on freight, insurance, etc. On receipt of the goods, Smith had to pay $ 1,000 as customs duty, clearing charges. The expenses were immediately reimbursed by Teng. All the goods, except 5% of the stock which were stolen by someone, were sold for $ 3,500. Smith is entitled to a commission of 10% and expenses incurred by him. He remitted the amount due to Teng immediately after the sale was effected. When the goods were sent, the $ was worth ` 50 but when Smith remitted the amount, it was worth ` 48.

Ascertain by preparing proper accounts the profit or loss of Teng on the consignment.

**Ans : [Profit, ` 23,900]**

# Short Question and Answers

**1. What is consignment? Explain?**

*Ans :*

To consign means to send. In Accounting, the term "consignment account" relates to accounts dealing with a situation where one person (or firm) sends goods to another person (or firm) on the basis that the goods will be sold on behalf of and at the risk of the former. The following should be noted carefully:

(i) The party which sends the goods (consignor) is called principal.

(ii) The party to whom goods are sent (consignee) is called agent.

(iii) The ownership of the goods, i.e., the property in the goods, remains with the consignor or the principal - the agent does not become their owner even though they are in his possession. On sale, of course, the buyer will become the owner.

(iv) The principal does not send an invoice to the agent. He sends only a proforma invoice, a statement that looks like an invoice but is really not one. The object of the proforma invoice is only to convey information to the agent regarding particulars of the goods sent.

(v) Usually, the agent recovers from the principal all expenses incurred by him on the consignment. This however can be changed by agreement between the two parties.

(vi) It is also usual for the agent to give an advance to the principal in the form of cash or a bill of exchange. It is adjusted against the sale proceeds of the goods.

(vii) For his work the agent receives a commission, calculated on the basis of gross sale. For ordinary commission the agent is not responsible for any bad debt that may arise. If the agent is to be made responsible for bad debts, he is to be paid a commission called del- credere commission. It is calculated on total sales, not merely on credit sales until and unless agreed.

(viii) Periodically, the agent sends to the principal a statement called Account Sales. It sets out the sales made by the agent, the expenses incurred on behalf of the principal, the commission earned by the agent and the balance due to the principal.

(ix) Firms usually like to ascertain the profit or loss on each consignment or consignments to each agent.

**2. Features of Consignment.**

*Ans :*

1. **Objects:** Goods are forwarded by the consignor to the consignee with an objective of sale at a profit.

2. **Ownership:** In consignment, the consignee does not buy the goods. He merely undertakes to sell them on behalf of the consignor. Hence, the ownership in the goods remains with consignor till it is sold by the consignee.

3. **Relationship:** The relationship between the consignor and the consignee is that of a principal and an agent, and not of a debtor and creditor. An agent becomes in debited for amounts realized on behalf of the principal.

4. **Risk:** The consignor should bear all the risks connected with the goods until it is sold.

5. **Expenses:** As consignment is not a sale, whatever the consignee does is on behalf of the consignor. Thus, the consignor should reimburse all legitimate expenses incurred by the consignee for selling and receiving the goods.

**3. What is performance invoice.**

*Ans :*

The consignor sends goods to the consignee and incurs certain expenses in sending the goods to the consignee. Generally consignor receives advance against the goods from the consignee. Such goods can be sent by the consignor either at cost price or at invoice price for which the consignor will prepare a ***proforma invoice.*** Such invoice is exactly like invoice in appearance without being actually the invoice but it does not make the consignee responsible to pay the amount mentioned therein. It is in the nature of memorandum and is not a debit note so it is unlike a regular invoice. The consignee will incur some expenses for taking the delivery of goods and bringing these to the shop.

**4. What is account sales? Explain?**

*Ans :*

After receiving goods, the consignee tries to sell them a the best possible price. It should be noted that mere receipt of the goods does not make the consignee a debtor of the consignor. He becomes indebted to the consignor when he sells the goods and realizes the money. The consignee may have to spend some money in respect of the consignment such as unloading charges, godown rent etc., for which he is entitled to be reimbursed. It is the duty of the consignee to remit the proceeds of sales after deducting his expenses in respect of the consignment and his own commission, to the consignor. The details of sale proceeds, expenses and commission are contained in an accompany statement known as “Account sales”.

After receiving goods, the consignee tries to sell them at the best possible price. **It should be noted that mere receipt of the goods does not make the consignee a debtor of the consignor.** He becomes indebted to the consignor when he sells the goods and realizes the money. The consignee may have to spend some money in respect of the consignment such as unloading charges, godown rent etc., for which he is entitled to be reimbursed. It is the duty of the consignee to remit the proceeds of sales after deducting his expenses in respect of the consignment and his own commission, to the consignor. The details of sale proceeds, expenses and commission are contained in an accompanying statement known as **“Account Sales.”**

**5. What is delcredere commission?**

*Ans :*

When goods are sold by the consignee on credit there is a possibility that the amount may not be realisable by the consignee from the consignment debtors. The consignee in order to increase the commission may sell the goods on credit without any responsibility for collection of debts. In order to check this tendency the consignor gives the consignee the *Del Credere Commission.* It is a commission which is paid by the consignor to the consignee for taking additional risks of recovery of debts on account of sales made on credit by the consignee on behalf of the consignor. It is generally calculated on gross sales unless given in the question to be calculated on credit sales. If a consignor allows del credere commission to the consignee then bad debts will be borne by the consignee. Moreover, it will also make the consignee careful on choosing customers for credit sales.

**6. Differentiate between the normal loss and abnormal loss.**

*Ans :*

| Basis of Distinction | Normal Loss | Abnormal Loss |
|---|---|---|
| 1. Value of Loss | It is an unavoidable loss. | It is an avoidable loss. |
| 2. Cause of Loss | It is caused due to inherent nature of goods, e.g., evaporation, normal leakage or spoilage. | It is caused by abnormal reasons such as fire, theft, abnormal spoilage, etc. |
| 3. Treatment in Cost | It is treated as a part of the cost. | It is not treated as part of the cost. |
| 4. Calculation of Value | The value of such loss is not calculated separately. | The value of such loss is calculated separately like the value of unsold stock. |
| 5. Treatment in Accounts | No treatment in accounts except its value is adjusted by increasing the cost per unit. | The value of such loss is credited to Consignment Account in order to calculate the normal profit or loss on consignment. |
| 6. Journal Entry | No journal entry is passed in accounts for such loss. | A separate journal entry is passed in accounts by debiting Abnormal Loss Account and crediting Consignment Account. |
| 7. Realisation Damaged Goods | Generally there is no realisation from damaged goods in case of this loss. | The amount realised from damaged from goods is credited to Abnormal Loss Account. The balance In Abnormal Loss Account is transferred to Profit & Loss Account. |

# Choose the Correct Answer

1. In accounting consignment, signifies [ d ]

   (a) goods forwarded from one place to another

   (b) goods forwarded by a person to another.

   (c) goods despatched by its owner to its agent

   (d) goods despatched by it owner to his agent for the purpose of sale.

2. Goods sent on consignment should be debited by consignor to: [ a ]

   (a) consignment account (b) goods sent on consignment account

   (c) consignors account (d) None of these

3. In the books of consignor the balance of the consignment stock would be shown: [ a ]

   (a) as an asset in the balance sheet

   (b) as liability in the balance sheet

   (c) On the credit side of the trading account

   (d) None of these

4. In the books of consignee, on despatch of goods by the consignor the entry would be: [ c ]

   (a) Consignment account [Dr.]

   To goods sent on consignment account [Cr.]

   (b) consignment account [Dr.]

   To consignor account [Cr.]

   (c) No entry

   (d) None of these

5. In the books of consignee the expenses incurred by him on consignment are debited to: [ c ]

   (a) consignment account (b) cash account

   (c) consignor's account (d) None of these

6. In the books of consignee the sale of goods is credited to: [ a ]

   (a) consignor's account (b) sales account

   (c) consignee's account (d) None of these

7. Consignee becomes a debtor of the consignor when [ c ]

   (a) the goods are dispatched (b) the goods are received

   (c) the goods are sold (d) None of these

8. An account sales is a statement which shows the details about the [ b ]

   (a) goods received (b) goods sold

   (c) goods lying unsold (d) None of these

9. Del credere commission is given when the consignee [ c ]

   (a) sells all the goods on credit (b) gets no ordinary commission

   (c) bears the loss of bad debts. (d) None of these

10. Del Credere commission that is given to the consignee is to cover [ c ]

    (a) normal loss (b) abnormal loss

    (c) loss of bad debts (d) None of these

# *Fill in the blanks*

1. Goods despatched by a manufacturer or wholesaler to an agent for the purpose of sale are called ________________.
2. Abnormal loss is credited to _________ account.
3. Del-Credere commission is normally calculated on _________ sales.
4. The document giving the description of goods and their price sent to the consignee by the consignor is known as _________.
5. Consignment account of the nature of a _________ account.
6. Consignment facilitates _________ without much initial and on-going cost.
7. The detail of sale proceeds, expenses and commission are contained in a statement which is sent by the _________ is known as _________.
8. _________ is an additional commission paid to a consignee for undertaking responsibility of collecting debts and bearing risks of _________ involved in credit sales.
9. Stock on consignment will be valued at _________ or _________ whichever is _________.
10. Consignment account is a _________ account and it is prepared to ascertain the profit or loss on _________ separately.



## ANSWERS

1. Consignment
2. Consignment
3. Total
4. Proforma invoice
5. Normal
6. Expansion
7. Consignee, account sales
8. Del credere commission, bad debts
9. Cost, market price, lower
10. Nominal, each consignment

| UNIT III | **Joint Venture Accounts :** Joint Venture – Meaning –Features-Difference between Joint Venture and Consignment- Accounting Procedure-Methods of Keeping Records for Joint Venture Accounts-Method of Recording in co-ventures books-Separate Set of Books Method- Joint Bank Account-Memorandum Joint Venture Account |
|---|---|

## 3.1 Joint venture - Meaning

**Q1. What is joint venture?**

*Ans :*

A joint venture is a form of partnership which is limited to a particular venture. It may seem to be exactly the same as partnership, with the exception that it is one of a business that is to be terminated. Since the business is to be concluded after completion of the venture, a firm name is not used.

There are many reasons for a joint venture. A joint venture is undertaken when different persons have mutual advantages to tackle a particular business venture together, without doing it separately. For example, an individual may be in a particular advantageous position to buy goods exceptionally cheap, but lacks capital. An associate might agree to provide capital to finance the whole operation. When the respective advantages of the parties are pooled together, the persons can undertake a joint venture for mutual profit.

"A joint venture is usually a temporary partnership without the use of a firm name, limited to carrying out a particular business plan in which the persons concerned agree to contribute capital and to share profits or losses". The parties in a joint venture are known as co venturers and their liability is limited to the adventure concerned for which they agree to contribute capital and share profits or losses.

### 3.1.1 Features

**Q2. What are the features of Joint venture?**

*Ans :*

1. It is a particular partnership.
2. It does not entail a continuing partnership, since termination is certain.
3. The business is dissolved after the venture is terminated.
4. Application of the many accounting concepts are dispensed with such as the going concern concept.
5. Ascertainment of income is relatively simple.
6. All the assets are ultimately received in cash and all liabilities are paid in cash.
7. Profit is the difference between total cash receipts and total cash payments, excluding investment by or payments to the venturers.
8. It does not use firm name.

### 3.1.2 Benefits of Joint Venture

**Q3. What are the benefits of joint venture?**

*Ans :*

Following benefits will be available from joint venture business :

(i) **Sharing of Risk :** The risk in case of joint venture business will be borne by all co-adventurers as profit or loss on joint venture transactions are shared by all co-adventurers in a predetermined ration.

(ii) **Financial Resources :** Adequate financial resources provided by two or more persons will be available to undertake a relatively big projects required more capital.

(iii) **Sufficient Experience:** More people of different skills and experience can come together to undertake costly and profitable projects and execute them efficiently.

## 3.2 Difference between Joint Venture and Consignment

**Q4. What is the difference between joint venture and consignment ?**

*Ans :*

Main differences between a joint venture and a consignment are :

| | Point of Distinction | Joint Venture | Consignment |
|---|---|---|---|
| 1. | Relation | The Relation between parties is that of owners | The Relation between parties is that of the principal and the agent. |
| 2. | Method(s) of keeping accounts | Three are four methods of keeping accounts | It is only method. |
| 3. | Continuity of relationship between parties | It is terminated as soon as the venture is over | It will be there even after one transaction. |
| 4. | Relationship | It is that of co-adventurers | It remains with the consignor though possession of goods passes from the consignor to the consignee. |
| 5. | Profit earned | It belongs to the co-adventurers who are entitled to share profits. | It belongs to the consignor and not to the consignee who get commission only. |
| 6. | Account sales | It is not sent by one co-adventurer to another | It is sent by the consignee to the consignor. |
| 7. | Management | If the co-venturers enjoy full powers to manage the business and contribute funds for the business | If the consignee being an agent has no powers except that he has simply to obey the instructions of his principal. |
| 8. | Finance | The money is contributed by all co-venturers in a certain proportion | all money invested by the consignor. |
| 9. | Risk | The risk is shared between venturers. | The sales are made at consignor's risk. |
| 10. | Scope | wide as it covers many activities besides trade | limited only to trade. |
| 11. | Number of Parties | There are at lest two co-adventurers but may be more than two. | There are usually two parties normally the principal and the agent. |
| 12. | Parties | The parties to a joint venture are called co-adventurers. | The parties to a consignment are called consignor and consignee. |
| 13. | Nature of Business | It may be undertaken for any legal business including sale and purchase of movable goods. | It is concerned only with sale of movable goods. |

## 3.3 Distinction Between Joint Venture and Partnership

**Q5. What is the difference between joint venture and partnership.**

*Ans :*

| | Basis of Distinction | Joint Venture | Partnership |
|---|---|---|---|
| 1. | Name of the Firm | It is carried on without a firm's name. | It is carried on with firm's name. |
| 2. | Co-venturers/Partners | Parties are called co-venturers. | Parties are called partners. |
| 3. | Continuity | Temporary partnership and comes to an end after the completion of a particular venture. | Continuous and does not end after the completion of a particular venture. |
| 4. | Liability | Limited to the adventure concerned for which they agree to contribute capital and share profits or losses. | Unlimited to the extent of their business and private estate |
| 5. | Location of Business | It is generally local. | It may be located at different places. |
| 6. | Position of a Minor admitted | In it, minor is generally | not A minor, can be admitted only for benefits. |
| 7. | Application of the Act | No enactment is applicable | Indian Partnership Act, 1932 is applicable. |
| 8. | No. of Partners/ | No limit in it Members | Limited to 20 in ordinary trade and 10 in banking business. |

## 3.4 Accounting Procedure

**Q6. What are the accounting methods in joint venture ?**

*Ans :*

**Methods of Keeping Records for Joint Venture Accounts**

It is necessary to maintain proper accounts of all transactions of joint venture so that correct profit or loss on joint venture may be ascertained. Following are main methods of recording Joint Venture transactions.

(a) When one of the co-venturers is appointed to manage the joint venture.

(b) When separate set of books are not maintained for recording joint venture transactions.

(c) When separate set of books are kept for the joint venture.

(d) When joint venture transactions are recorded through the Memorandum Joint Venture.

**Method on Recording in co-ventures books**

**(A) When one of the co-venturers is appointed to manage the joint venture**

This method is followed when most of the buying and selling on account of joint venture is managed by one-coventurer. Other co-venturers are only to contribute their share of investment in the joint venture. So, all transactions relating to joint venture are recorded by the co-venturer so appointed in his books as follows :

(i) **On receipt of cash from other co-venturers as their share of investment.**

Cash Account Dr.

To Other Co-venturers' Accounts (with their respective contributions)

(ii) **On purchase of goods**

Joint Venture Account Dr.

To Cash Account (If purchased for cash)

or To Supplier's Account (If purchased on credit)

(iii) **On supplying goods out of his stock**

Joint Venture Account Dr.

To Purchases or Goods Account

(iv) **On goods being supplied by other co-venturers**

Joint Venture Account Dr.

To Other Co-venturers' Accounts

(v) **On expenses incurred on account of joint venture**

Joint Venture Account Dr.

To Cash Account

(vi) **On sale of goods on account of joint venture**

Cash Account Dr.

To Joint Venture Account

(vii) **If the working partner gets commission, the entry is :**

Joint Venture Account Dr.

To Commission Account

(viii) **If unsold stock is taken by the working partner**

Goods Account Dr.

To Joint Venture Account

**If unsold stock is taken by other partners**

Other Co-venturers' Accounts Dr.

To Joint Venture Account

(ix) Joint Venture Account is closed by transferring the balance of the account, either profit or loss to Profit and Loss Account (working partner's share of profit) and other Co-venturers' Accounts (their share of profit or loss).

(a) **In case of a profit the entry is :**

Joint Venture Account Dr.

To Profit and Loss Account To Other Co-venturers' Accounts

(b) **In case of a loss on joint venture, the entry is :**

Profit and Loss Account Dr.

Other Co-venturers' Accounts Dr.

To Joint Venture Account

Thus, we have seen that Joint Venture is a nominal account. It is debited with the cost of goods purchased or supplied out of stock as well as with all expenses and is credited with sales and unsold stock.

(x) **On completion of the joint venture, the amount due to the other co-venturers is ascertained and payment is made to them.** The entry is

Other Co-venturers' Accounts Dr.

To Cash or Bank Account

**Illustration**

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

**Record these transactions in Ram's Journal and also prepare Joint Venture Account and Mohan and Rahim Accounts in Ram's Books.**

**Solution :**

**RAM'S JOURNAL**

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

**Dr JOINT VENTURE ACCOUNT Cr**

| Particulars | | Amt | Particulars | Amt |
|---|---|---|---|---|
| To Bank Account (Purchases), | | 13,000 | By Bank Account (Sales) | 20,800 |
| To Goods Account (Goods supplied) | | 1,000 | By Mohan (Unsold goods taken) | 500 |
| To Rahim (Goods and expenses) | | 1,550 | | |
| To Bank Account (Expenses) | | 250 | | |
| To Commission Account (5%) | | 1,040 | | |
| To Profit on Joint Venture transferred to: | ` | | | |
| Profit & Loss Account | 1,486 | | | |
| Mohan | 1,487 | | | |
| Rahim | 1,487 | 4,460 | | |
| | | 21,300 | | 21,300 |

**Dr MOHAN A/c Cr**

| Particulars | Amt | Particulars | Amt |
|---|---|---|---|
| To Joint Venture Account | 500 | By Bank Account | 5,000 |
| To Bank Account | 5,987 | By Joint Venture Account (Profit) | 1,487 |
| | 6,487 | | 6,487 |

**Dr RAHIM A/c Cr**

| Particulars | Amt | Particulars | Amt |
|---|---|---|---|
| To Bank Account | 8,037 | By Bank Account | 5,000 |
| By Joint Venture Account | 1,550 | | |
| By Joint Venture Account (Profit) | 1,487 | | |
| | 8,037 | | 8,037 |



### 3.4.1 When a separate set of books is not maintained for recording joint venture transactions

**Q7. How accounting treatment will made if separate set of books is not maintained?**

*Ans :*

**Under this method, each co-venturer opens a Joint Venture Account and the personal accounts of other co-venturers. This system of accounting is :**

1. Each co-venturer debits Joint Venture Account with the cost of goods purchased and expenses incurred on account of joint venture. The credit is given to the Bank or to the Creditor’s Account (if goods are purchased on credit and expenses not yet paid.)
2. Each co-venturer also debits the Joint Venture Account and credits the account of other co- venturer with the cost of goods purchased and expenses incurred by the other co-venturer on account of joint venture. It may be remembered that it is possible only if each co-venturer gives information regarding purchase of goods, and expenses incurred by him to the other co-venturer.

3. When goods are sold on account of joint venture. Cash or Purchaser Account is debited and the joint Venture Account is credited with the amount of sale. If the goods are sold by the other co- venturer, the personal account of the other co-venturer is debited with the amount of sale.
4. When any commission is receivable by the co-venturer, Joint Venture Account is debited and Commission Account is credited with the amount of the commission. If the commission is receivable by the other co-venturer, Joint Venture Account is debited and Personal Account of the other co- venturer is credited.
5. Sometimes, remittance is received by one co-venturer by getting the bill discounted accepted by the other co-venturer. This is done when one of the co-venturers makes the investment on account of joint venture. In such a case, loss on account of discounting the bill should be transferred to Joint Venture Account because loss on account of discount is to be borne by all the co-venturers. The entries in this connection are as follows :

| In Drawer's Books | In Acceptor's Books |
|---|---|
| (i) Bills Receivable A/c Dr.<br>To Other Co-venturer<br>(Being acceptance received) | (i) Other Co-venturer Dr.<br>To Bills Payable Account<br>(Being acceptance given) |
| (ii) Bank Account Dr.<br>Discount Account Dr.<br>To Bills Receivable Account<br>(Being bill discounted) | (ii) No entry |
| (iii) Joint Venture Account. Dr.<br>To Discount Account<br>(Being transfer of discount) | (iii) Joint Venture Account Dr.<br>To Other Co-venturer<br>(Being transfer of discount) |

6. If unsold stock is taken by one-coventurer, Goods Account is debited and Joint Venture Account is credited. If unsold goods are taken by the other co-venturer, Personal Account of the other co- venturer is debated and Joint Venture Account is credited.
7. Balance in Joint Venture Account will represent profit or loss and will be shared by all- coventurers in the agreed ratio or in the absence of any agreement equally. If there is a profit, each partner debits Joint Venture Account and credits Profit and Loss Account with his own share and the other Co-Venturers' Accounts with their share of profit. In case of a loss, the entries will be reversed.
8. The balance in the personal account of any co-venturer will show the amount due from or due to him.

**Illustration**

**A and B enter into joint venture sharing profit 3/5ths and 2/5ths. A is to purchase timber in Madhya Pradesh and forward it to B in Delhi. A purchases timber worth ` 10,000 and pays ` 1,000 as expenses. B received the consigned and immediately accepted A's draft for ` 8,000. A gets discounted for ` 7,850. B sold the timber for ` 16,000. He had to spend ` 350 for fire insurance and ` 300 for other expenses. Under the agreement he is entitled to a commission of 5% sales.**

**Give ledger accounts in the books of A and B**

**Solution :**

**Dr IN THE BOOKS OF 'A' JOINT VENTURE ACCOUNT Cr**

| Particulars | | Amt | Particulars | Amt |
|---|---|---|---|---|
| To Bank : (Purchase of timber) | | 10,000 | By B's A/c | |
| To Bank (Expenses) | | 1,000 | (Sales) | 16,000 |
| To Bills Receivable A/c (Discount) | | 150 | To B'sA/c: | |
| Fire Insurance | 350 | | | |
| Expenses | 300 | | | |
| Commission | 800 | 1,450 | | |
| To Profit & Loss A/c | 2,040 | | | |
| To B'sA/c | 1,360 | 3,400 | | |
| | | 16,000 | | 16,000 |

**Dr B's ACCOUNT Cr**

| Particulars | Amt | Particulars | Amt |
|---|---|---|---|
| To Joint Venture A/c | 16,000 | By Bills Receivable A/c | 8,000 |
| | | By Joint Venture A/c | 1,450 |
| | | (Expenses & Commission) | |
| | | By Joint Venture A/c (Profit) | 1,360 |
| | | By Bank A/c | 5,190 |
| | 16,000 | | 16,000 |

**IN THE BOOKS OF B**

**Dr Joint Venture Account Cr**

| Particulars | | Amt | v Particulars | Amt |
|---|---|---|---|---|
| To A's A/c: | | | | |
| Purchase of timber, | | 10,000 | By Bank A/c (Sales) | 16,000 |
| Expenses | | 1,000 | | |
| B/R (Discount) | | 150 | | |
| To Bank: | | | | |
| Fire Insurance | 350 | | | |
| Expenses | 300 | | | |
| | | 650 | | |
| To Commission | | 800 | | |
| To A's A/c (Profit) | 2,040 | | | |
| To P. & L. A/c | 1,360 | 3,400 | | |
| | | 16,000 | | 16,000 |

**A's ACCOUNT**

| Particulars | Amt | Particulars | Amt |
|---|---|---|---|
| To Bills Payable A/c | 8,000 | By Joint Venture A/c | 11,150 |
| To Bank A/c | 5,190 | By Joint Venture A/c (Profit) | 2,040 |
| | 13,190 | | 13,190 |

### 3.4.2 Separate Set of Books Method

**Q8. How accounting treatment will made if separate set of books maintained?**

*Ans :*

**A Separate Set of Books is Kept**

When the size of the venture is large and the duration of the venture is protracted, then a complete separate set of books of account may be maintained under double entry system for recording all joint venture transactions Under this system, the following accounts are commonly maintained in the ledger :

(i) Joint Bank Account

(ii) Co-venturers' Accounts

(iii) Joint Venture Account.

**(i) Joint Bank Account**

For better financial control, a Joint Bank Account is opened specially for the venture. The co-venturers will operate this account jointly. This account is just like a cash book - all cash deposited into the bank are debited and all withdrawals are credited. Generally, capital contribution of the venturers and sale proceeds are deposited in this account. Similarly, all major payments are made from this account. It is finally closed by payment to the co-venturers.

**(ii) Co-venturers' Accounts**

This account records the transactions between the venture and the co-ventur-ers. Since these are the capital accounts of the Co-venturers, they are credited for what they contribute to the venture and debited for any withdrawals from the venture. Co-venturers' contribution towards joint venture in cash in goods and services are credited to these accounts. Goods and sale proceeds taken over by co-venturers are debited to these accounts. The profit or loss on venture is credited or debited respectively in these accounts and ultimately closed off by cash payment from the joint bank.

**(iii) Joint Venture Account**

It is in the nature of a Trading and Profit and Loss Account and it is prepared to ascertain the profit or loss on joint venture. Goods purchased, goods supplied by the co-venturers, expenses incurred etc are debited to this account and sale proceeds, unsold stock etc are credited to it. The final balance represents profit or loss on venture which is transferred to the Co-venturers' Accounts in the profit sharing ratio. It is interesting to note that no separate accounts for purchases, sales and expenses are maintained; all these are directly entered in the Joint Venture Account.

The entries to be recorded in this method are as follows :

1. **When the amount is contributed by the co-venturers.**

Joint Bank Account Dr.

To Personal Account of each Co-venturer

2. **When goods are purchased on account of joint venture.**

Joint Venture Account Dr.

To Joint Bank Account (If purchased on cash)

or To Seller's Account (If purchased on credit)

3. **For expenses incurred on account of joint venture or by individual Co-venturer.**

Joint Venture Account Dr.

To Joint Bank Account

To Personal Account of Co-venturer A/c

4. **When goods are sold on account of joint venture.**

Joint Bank Account Dr. (If sold on cash)

Shares or Debentures A/c Dr. (If received in shares or debentures)

or Purchaser's Account Dr. (If sold dn credit)

To Join Venture Account

5. **When shares or debentures are taken over by a co-adventurer.**

Personal A/c of Co-venturer A/c Dr.

Joint Venture A/c Dr. (for Loss on shares/debentures)

To Shares/Debentures A/c

To Joint Venture A/c (for Profit on shares/debentures)

6. **Joint Venture Account is closed by transferring the balance,**

(i.e., profit or loss) of this account to all co-venturers in their profit or loss sharing ratio.

7. **For payment of the amount due to co-venturers.**

Personal Accounts of the Co-venturers Dr.

To Joint Bank Account

It may be noted that there should be no balance in the Joint Bank Account when all payments due on account of joint venture are made and the amount due to the co-venturers is paid.

**Illustration**

**A and B enter into joint venture. A agrees to bring capital in Cash. Accordingly a Joint Banking Account is opened by A for a sum of ` 80,000. B buys goods worth ` 50,000 as part of his share of capital. Further goods worth ` 1,18,000 were purchased from C paying T 60,000 and balance by a promissory note signed by A and B.**

**The goods were sent to Kolkata for sale. Expenses totalling ` 5,000 were incurred in sending the goods. Part of goods were damaged and a sum of ` 25,000 were recovered from the insurance company. The balance goods were sold for ` 2,20,000.**

**Give journal entries to record the above transactions. Also prepare Joint Venture Account, Joint Bank Account and accounts of A and B assuming that the promissory note was duly honoured.**

**Solution :**

**JOURNAL ENTRIES**

| Date | Particulars | | LF | Debit | Credit |
|---|---|---|---|---|---|
| | Joint Bank Account | Dr. | | 80,000 | |
| | To A A/c | | | | 80,000 |
| | (Being amount contributed by A) | | | | |
| | Joint Venture Account | Dr. | | 50,000 | |
| | To B A/c | | | | 50,000 |
| | (Being goods purchased by B on account of joint venture) | | | | |
| | Joint Venture Account | Dr. | | 1,18,000 | |
| | To C A/c | | | | 1,18,000 |
| | (Being goods purchased from C on account of joint venture) | | | | |
| | C A/c | Dr. | | 1,18,000 | |
| | To Joint Bank Account | | | | 60,000 |
| | To Bills Payable Account | | | | 58,000 |
| | (Being payment made to C) | | | | |
| | Joint Venture Account | Dr. | | 5,000 | |
| | To Joint Bank Account | | | | 5,000 |
| | (Being expenses incurred on account of joint venture) | | | | |
| | Joint Bank Account | Dr. | | 25,000 | |
| | To Joint Venture Account | | | | 25,000 |
| | (Being amount received from the insurance company for part of the goods damaged) | | | | |
| | Joint Bank Account | Dr. | | 2,20,000 | |
| | To Joint Venture Account | | | | 2,20,000 |
| | (Being sales on account of joint venture) | | | | |
| | Bills Payable Account | Dr. | | 58,000 | |
| | To Joint Bank Account | | | | 58,000 |
| | (Being payment of the promissory note on the due date) | | | | |
| | Joint Venture Account | Dr. | | 72,000 | |
| | To A A/c | | | | 36,000 |
| | To B A/c | | | | 36,000 |
| | (Being profit on Joint venture transferred to A & B) | | | | |
| | A A/c | Dr. | | 1,16,000 | |
| | B A/c | Dr. | | 86,000 | |
| | To Joint Bank Account | | | | 2,02,000 |
| | (Being payment made to co-venturers in final settlement of their accounts) | | | | |

**Dr JOINT VENTURE ACCOUNT Cr**

| Particulars | Amt | Particulars | Amt |
|---|---|---|---|
| To B (Goods) A/c | 50,000 | By Joint Bank Account | |
| To C (Goods) A/c | 1,18,000 | By (Insurance Claim) | 25,000 |
| To Joint Bank Account (Expenses) | 5,000 | By Joint Bank Account (Sales) | 2,20,000 |
| Profit on Joint Venture | | | |
| transferred to : | | | |
| A A/c ` 36,000 | | | |
| B A/c ` 36,000 | | | |
| | 72,000 | | |
| | 2,45,000 | | 2,45,000 |

**Dr A A/c Cr**

| Particulars | Amt | Particulars | Amt |
|---|---|---|---|
| To Joint Bank Account | 1,16,000 | By Joint Bank Account | 80,000 |
| | | By Joint Venture Account (Profit) | 36,000 |
| | 1,16,000 | | 1,16,000 |

**Dr B A/c Cr**

| Particulars | Amt | Particulars | Amt |
|---|---|---|---|
| To Joint Bank Account | 86,000 | By Joint Venture Account (Goods) | 50,000 |
| | | By Joint Venture Account (Profit) | 36,000 |
| | 86,000 | | 86,000 |

**Dr JOINT BANK ACCOUNT Cr**

| Particulars | Amt | Particulars | Amt |
|---|---|---|---|
| To A A/c | 80,000 | By C A/c | 60,000 |
| To Joint Venture Account | 25,000 | By Joint Venture Account | 5,000 |
| To Joint Venture Account | 2,20,000 | By Bills Payable Account | 58,000 |
| | | By A A/c | 1,16,000 |
| | | By B A/c | 86,000 |
| | 3,25,000 | | 3,25,000 |

### 3.4.3 Memorandum Joint Venture Account

**Q9. What is memorandum joint venture account.**

*Ans :*

This method is followed when each co-adventurer in a joint venture wants to make a record of joint venture transactions in his books. This method is an alternative of (B) method and operates as follows :

(a) Every co-adventurer will open a personal account called Joint Venture with-(name of the other co-adventurer) Account and the following entries will be recorded in this account.

(i) Joint Venture with - Account Dr.

To Cash or Creditors Account

(Being all payments or liabilities incurred on account of joint venture)

(ii) Cash or Debtors Account Dr.

To Joint Venture with-Account

(Being sales effected by him on account of Joint venture)

(iii) Joint Ver.'ure with - Account

To Goods Account

(Being goods supplied out of stock for joint venture)

(iv) Joint Venture with-Account

To Commission Account

(Being commission payable to us on sales on account of joint venture)

It may be noted that entries relating to joint venture effecting the co-adventurer regarding the joint venture transactions are to be recorded only in his books. Similarly, entries effecting other co- adventurers will be recorded by other co-adventurers in their books.

(b) In addition to the personal accounts as described above, a Memorandum Joint Venture Account is also opened with a view to ascertaining profit or loss on joint venture. To enable the preparation of Memorandum Joint Venture Account, each party sends to the other party a copy of the transactions effected by him. Memorandum Joint Venture Account can be compared with a Profit and Loss Account because all expenses and losses are debited to it. It may be remembered by the students that the items appearing in the personal accounts of all co-adventurers are entered in the Memorandum Joint Venture Account on the same sides (debit or credit) as they appear in the personal accounts. The balance of this Memorandum Joint Venture Account represents profit or loss on joint venture and each co-adventurer will make a record of profit or loss in his books as follows :

(i) Joint Venture with - Account Dr.

To Profit and Loss Account

(Being our share of profit on joint venture)

(ii) Profit and Loss Account

To Joint Venture with-Account

(Being our share of loss on joint venture)

It may be noted that Memorandum Joint Venture Account does not form part of double entry system ; it has been prepared to find out profit or loss on joint venture.

(c) The balance in Joint Venture with - Account will show the amount due to or due from the other co-adventurer.

## PROBLEMS ON JOINT VENTURE

**1. A and B enter into a joint venture to sell a consignment of timber sharing profits and losses equally. A provides timber from his stock at a mutually agreed value of ` 5,000. He pays expenses amounting to ` 250. B incures further expenses on cartage, storage etc, amounting to ` 650 and receives cash for sales ` 3,000. He also takes over goods of the value of ` 1,000 for his use in his own business. At the date of close A takes over the balance of stock in hand which is valued at `. 1,100 Prepare joint venture account and co-venturer's account in the books of A.**

**Sol. :**

**In the Books of A**

**Dr Joint Venture A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Purchases A/c | 5,000 | By B - Sales A/c | 3,000 |
| To Cash A/c | 250 | By B - Stock A/c | 1,000 |
| To B (Expenses) A/c | 650 | By Stock A/c | 1,100 |
| | | By P & L Loss A/c | 800 |
| | 5,900 | | 5,900 |

**Dr B A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Joint Venture A/c | 3,000 | By Joint Venture Expenses A/c | 650 |
| To Joint Venture A/c (Loss) | 400 | By Bank A/c | 3,750 |
| To Joint Venture A/c (Stock) | 1,000 | | |
| | 4,400 | | 4,400 |

**Loss Distribution**

Total Loss Generated = 800

Share of A = 800 × 1/2 = 400

Share of B = 800 × 1/2 = 400

**2. A and B enter into a joint venture, agreeing to share profits and losses in proportion of $4/5^{th}$ and $l/5^{th}$ respectively. A supplies goods to the value of ` 5,000 and incurs expenses amounting to ` 400. B supplies goods to the value of ` 4,000 and his expenses amount to ` 300 B. Sells goods on behalf of the joint venture for ` 12,000 charging commission @ 5% of value realised. The amount due is settled by bank draft.**

**Show the necessary accounts in the books of both the parties.**

**Sol. :**

**In the Books of A**

**Dr — Joint Venture with B A/c — Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Purchases A/c | 5,000 | By B (Sales) A/c | 12,000 |
| To Cash - Expenses A/c | 400 | | |
| To B - (Goods) A/c | 4,000 | | |
| To B - (Expenses) A/c | 300 | | |
| To B - (Commission) A/c | 600 | | |
| To Profit transfer to | | | |
| P & L – A/c 1360 | | | |
| B – A/c 340 | 1,700 | | |
| | 12,000 | | 12,000 |

**Dr — B A/c — Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Joint Venture - (Sales) A/c | 12,000 | By Joint Venture - (Goods) A/c | 4,000 |
| | | By Joint Venture - (Expenses) A/c | 300 |
| | | By Joint Venture - (Commission) A/c | 600 |
| | | By Joint Venture - (Profit) A/c | 340 |
| | | By Bank A/c | 6.760 |
| | 12,000 | | 12,000 |

**In the Books of B**

**Dr — Joint Venture with A A/c — Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Purchases A/c | 5,000 | By B - (Sales) A/c | 12,000 |
| To Cash - (Expenses) A/c | 400 | | |
| To Purchases A/c | 4,000 | | |
| To Expenses A/c 300 | | | |
| To Commission A/c | 600 | | |
| To Profit transfer to | | | |
| A A/c – 1360 | | | |
| P & L A/c – 340 | 1,700 | | |
| | 12,000 | | 12,000 |

**Dr — A A/c — Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bank A/c | 6,760 | By Joint Venture - (Stock) A/c | 5,000 |
| | | By Joint Venture - (Expenses) A/c | 400 |
| | | By Joint Venture - (Profit) A/c | 1,360 |
| | 6,760 | | 6,760 |

**3. A and B enter into joint venture sharing profit 3/5th and 2/5th. A is to purchases timber in Madhya Pradesh and forward it to B in Delhi. A Purchases timber worth ` 10,000 and pays `1,000 as expenses. B received the consignment and immediately accepted A's draft for ` 8,000. A got it discounted for ` 7,850. B sold the timber for `16,000. He had to spend ` 350 for fire insurance and ` 300 for rent. Under the agreement he is entitled to a commission of 5% on sales.**

**Gives journal entries and ledger accounts in the books of A and B.**

**Sol. :**

**In the Books of A**

| Date | Particulars | LF | Debit (Rs.) | Credit (Rs.) |
|---|---|---|---|---|
| | Joint Venture A/c Dr | | 11,000 | |
| | To Bank A/c | | | 11,000 |
| | (Being the goods purchased and expenses incurred) | | | |
| | Bills Receivables A/c Dr | | 8,000 | |
| | To B A/c | | | 8,000 |
| | (Being bill drawn by A on B) | | | |
| | Bank A/c Dr | | 7,850 | |
| | Discount A/c | | 150 | |
| | To Bills receivable A/c | | | 8,000 |
| | (Being bill discounted at Bank) | | | |
| | Joint Venture A/c Dr | | 150 | |
| | To Discount A/c | | | 150 |
| | (Discount charging to joint venture) | | | |
| | B A/c Dr | | 16,000 | |
| | To Joint Venture A/c | | | 16,000 |
| | (Being cash received through sales) | | | |
| | Joint Venture A/c Dr | | 650 | |
| | To B A/c | | | 650 |
| | (Being the expenses incurred by B) | | | |
| | Joint Venture A/c Dr | | 800 | |
| | To B A/c | | | 800 |
| | (Being commission paid to B) | | | |
| | Joint Venture A/c Dr | | 3,400 | |
| | To P & L A/c | | | 2,040 |
| | To B A/c | | | 1,360 |
| | (Being profit transferred to P & L and B A/c) | | | |
| | Bank A/c Dr | | 5,190 | |
| | To B A/c | | | 5,190 |
| | (Being the amount paid by B for final settlement) | | | |

**Ledger A/c**

**Dr** **Joint Venture with B A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bank A/c | | By B - (Sales) A/c | 16,000 |
| Purchases - 10,000 | | | |
| Expenses - 1,000 | 11,000 | | |
| To Discount A/c | 150 | | |
| To B - (Expenses) A/c | 650 | | |
| To B - (Commission) A/c | 800 | | |
| To P & L A/c | | | |
| Profit – 2,040* | | | |
| B – A/c 1,360* | 3,400 | | |
| | 16,000 | | 16,000 |

**Dr** **B A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Joint Venture A/c | 16,000 | By - Bills receivables A/c | 8,000 |
| | | By Joint Venture - (Expenses) A/c | 650 |
| | | By Joint Venture - (Commission) A/c | 800 |
| | | By Joint Venture - (Profit) A/c | 1,360 |
| | | By Bank A/c | 5,190 |
| | 16,000 | | 16,000 |

* Profit distribution between A and B

A share = 3400 × 3/5 = 2040

B share = 3400 × 2/5 = 1,360

**Dr** **In the Books of B** **Cr**

**Joint Venture with A A/c**

| Particulars | | Rs. | Particulars | Rs. |
|---|---|---|---|---|
| To A (purchases) A/c | | 11,000 | By bank - (Sales) A/c | 16,000 |
| To Discount A/c | | 150 | | |
| To Expenses - (Insurance) A/c | | 350 | | |
| To Expenses - (Rent) A/c | | 300 | | |
| To Commission A/c | | 800 | | |
| To A A/c Profit | 2040 | | | |
| To P & L A/c | 1360 | 3,400 | | |
| | | 16,000 | | 16,000 |

**Dr** **A A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bills Payable A/c | 8,000 | By Joint Venture - (purchases) A/c | 11,000 |
| To Bank A/c | 5,190 | By Joint Venture - (discount) A/c | 150 |
| | | By Joint Venture - (Profit) A/c | 2,040 |
| | 13,190 | | 13,190 |

**4. On 1st October 2013 Hiren bought a parcel of precious stones for ` 85,000. He consigned it to Dhireen who agreed to share with him equally the profit and loss in the venture. Hiren paid ` 900 on account of carriage and insurance. He drew on Dhiren at 3 months a bill for ` 40,000 on account, discounting the bill on 4th October 2013 for ` 39,600. Discount is borne by the parties equally.**

**On receipt of the stones on 3rd October, Dhiren paid for insurance ` 300 and ` 800 for cutting and polishing. On 28th February 2013 Dhiren sold the stones for ` 1,05,000, his expenses being ` 900. On 31st March, he sent to Hiren an Account Sales along with a bank draft for the amount due to him.**

**Write up the Accounts as they would appear in the books of Hiren and Dhiren respectively.**

**Sol. :**

**Dr** **In the Books of Hiren** **Cr**

**Joint Venture with Dhiren A/c**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bank A/c | | By Dhiren - (Sales) A/c | 1,05,000 |
| Purchases 85,000 | | | |
| Expenses 900 | 85,900 | | |
| To Discount A/c | 400 | | |
| To Dhiren - (Expenses) A/c | 2,000 | | |
| To P & L A/c – 8,350 | | | |
| Dhiren – 8,350 | 16,700 | | |
| | 1,05,000 | | 1,05,000 |

**Dr** **Dhiren A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Joint Venture - (Sales) A/c | 1,05,000 | By Bills Receivables A/c | 40,000 |
| | | By Joint Venture - (Expenses) A/c | 2,000 |
| | | By Joint Venture - (profit) A/c | 8,350 |
| | | By Bank A/c | 54,650 |
| | 1,05,000 | | 1,05,000 |

**Dr** **In the Books of Dhiren** **Cr**

**Joint Venture with Hiren A/c**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Hiren - (purchases) A/c | 85,000 | By bank - (sales) A/c | 1,05,000 |
| To Hiren - (Expenses) A/c | 900 | | |
| To Hiren - (Discount) A/c | 400 | | |
| To Bank - Expenses A/c | 2,000 | | |
| To P & L A/c - 8,350 | | | |
| Hiren A/c - 8,350 | 16,700 | | |
| | 1,05,000 | | 1,05,000 |

**Dr** **Hiren A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bills Payable A/c | 40,000 | By Joint Venture A/c | |
| To Bank A/c | 54,650 | Purchases – 85,000 | |
| | | Expenses – 900 | 85,900 |
| | | By Joint Venture - (Discount) A/c | 400 |
| | | By Joint Venture - (Profit) A/c | 8,350 |
| | 94,650 | | 94,650 |



**5. Satyam and Shivam entered into a joint venture to purchases and sell timber. Profits and losses were to be shared equally. Satyam financed the venture and Sivam undertook the sales. Sivam is entitled to a commission of 5% on the sale proceeds. Satyam Purchased goods to the value of ` 60,000. He also paid towards freight ` 1,600 and advance ` 1,000 to Sivam to meet the expenses of Joint Venture, Sivam paid for carriage ` 200, Rent ` 400 and sundries ` 100. Sales made by Sivam amounted to ` 74,500.**

**It was agreed that Satyam should receive ` 3,400 as interest on his investments the remaining stock of unsold goods was taken over by Sivam at the agreed valuation ` 2,700.**

**Give journal entries and show Joint Venture Account in the books of Satyam.**

**Sol. :**

**Dr** **In the Books of Satyam** **Cr**

**Joint Venture with Shivam A/c**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bank - (Purchases) A/c | 60,000 | By Dhiren - (Sales) A/c | 74,500 |
| To Bank - (Expenses) A/c | 1,600 | By Shivam - Stock taken over A/c | 2,700 |
| To Shivam - (Expenses) A/c | 700 | | |
| To Shivam - (Commission) A/c | 3,725 | | |
| To Interest A/c | 3,400 | | |
| To Profit and Loss A/c - 3887.50 | | | |
| Shivam A/c - 3887.50 | 7.775 | | |
| | 77,200 | | 77,200 |

**Dr Shivam A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bank - (Advance) A/c | 1,000 | By Joint Venture- (Expenses) A/c | 700 |
| To Joint Venture - (Sales) A/c | 74,500 | By Joint Venture - (Commission) A/c | 3,725 |
| To Joint Venture - (Stocks) A/c | 2,700 | By Joint Venture - (Profit) A/c | 3,887.50 |
| | | By Bank A/c | 69,887.50 |
| | 78,200 | | 78,200 |

**6. A enters into a joint venture with B. The following transactions took place during the course of venture.**

| Particulars | A (`) | B (`) |
|---|---|---|
| **Cash sent by** | **-** | **3,000** |
| **Cash received by** | **3,000** | |
| **Goods purchased by** | **24,000** | **12,000** |
| **Goods supplied from own stock** | **6,000** | **3,000** |
| **Expenses paid by** | **4,380** | **2,190** |
| **Goods sold by** | **42,000** | **12,000** |
| **Unsold stock taken by** | **1,080** | **540** |

**Prepare Joint Venture account and B' s account in the books of A, assuming the final settlement between A&B was made by a cheque.**

**Sol. :**

**Dr In the Books of A Cr**

**Joint Venture with B A/c**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bank - Purchases A/c | 24,000 | By Bank - Sales A/c | 42,000 |
| To B - Purchases A/c | 12,000 | By B - Sales A/c | 12,000 |
| To Stock A/c | 6,000 | By Stock A/c | 1,080 |
| To B - Stock A/c | 3,000 | By B - Stock taken over A/c | 540 |
| To Bank - Expenses A/c | 4,380 | | |
| To B - Expenses A/c | 2,190 | | |
| To P & L – 2,025 | | | |
| Profit B – 2,025 | 4,050 | | |
| | 55,620 | | 55,620 |

**Dr B A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Joint Venture - (Sales) A/c | 12,000 | By Joint Venture - Purchases A/c | 12,000 |
| To Joint Venture - Stock taken over A/c | 540 | By Joint Venture - Stock A/c | 3,000 |
| To Cash A/c | 3,000 | By Joint Venture - Expenses A/c | 2,190 |
| To Bank A/c | 3,675 | By Joint Venture - Profit A/c | 2,025 |
| | 19,215 | | 19,215 |

**7. A and B enter into a joint-venture to ship goods abroad. A sends goods to the value of ` 1,000 pays freight ` 1000 and sundry expense `150. These transactions take place on 1st January 2013. B sends goods valued at ` 750 on February 1st and pays freight and insurance ` 80 and sundry expenses ` 50. B advances to A on March 31st ` 450 on account of the venture. A received account sales and remittance of net proceeds for whole the goods amounting to ` 2,500 on 1st April. Final settlement between A and B is made on 30th April 2013 show these transactions of the venture calculating interest at 5% p.a in months.**

**Sol. :**

**Dr — In the Books of A — Cr**

**Joint Venture with B A/c**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bank - Purchases A/c | 1,000 | By Bank - B A/c | 2,500 |
| To Cash - Expenses A/c | 250 | | |
| To B - purchases A/c | 750 | | |
| To B - Expenses A/c | 130 | | |
| To Interest A/c | 9* | | |
| To Interest - B A/c | 13* | | |
| To Profit & Loss A/c – 174 | | | |
| B – A/c 174 | 348 | | |
| | 2,500 | | 2,500 |

**Dr — B A/c — Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bank A/c | 1,517 | By Bank - A/c | 450 |
| | | By Joint Venture - purchase A/c | 750 |
| | | By Joint Ventrue - Expenses A/c | 130 |
| | | By Joint Venture - Interest A/c | 13 |
| | | By Joint Venture - Profit A/c | 174 |
| | 1,517 | | 1,517 |

**In the Books of B**

**Dr — Joint Ventur with A A/c — Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To A purchases - A/c | 1,000 | By Bank - Sales A/c | 2,500 |
| To A - Expenses - A/c | 250 | | |
| To Purchases - A/c | 750 | | |
| To Expenses - A/c | 130 | | |
| To A - Interest A/c | 9 | | |
| To Interest A/c | 13 | | |
| To P & L A/c - 174 | | | |
| A' A/c - 174 | 348 | | |
| | 2,500 | | 2,500 |

**Dr** **A A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Joint Venture - Sales A/c | 2,500 | By Joint Venture - Expenses A/c | 1,250 |
| To Bank A/c | 450 | By Joint Venture - Interest A/c | 9 |
| | | By Joint Venture - Profit A/c | 174 |
| | | By Bank A/c | 1,517 |
| | 2,950 | | 2,950 |

*** Calculation of Interest**

Total Interest payable to A $= 1250 \times \frac{5}{100} \times \frac{4}{12} = 21$

Less : Interest payable by A $= 250 + 450 \times \frac{5}{100} \times \frac{1}{12} = 12$

Net Interest payable to A $9$

Total Interest payable to B $= 880 \times \frac{5}{100} \times \frac{3}{12} = 11$

(Feb 1st = 750 + 130 = 880)

March 31st Amount paid by B $= 450 \times \frac{5}{100} \times \frac{1}{12} = 2$

$13$

**8. A and B enter into a Joint Venture for guaranting the subscriptions at par of 10,00,000 shares of ` 1/- each in salem Lamps Ltd. They agree to share profits and losses equally. The terms with the company are that A and B have to pay all expenses upto allotment in consideration of the Salem Lamps Ltd, issuing to them 1,50,000 other shares of ` 1/- each fully paid. A introduced cash into business to meet the following expenses.**

| Particulars | ` |
|---|---|
| **Rent** | **3,000** |
| **Solicitor's charges** | **5,000** |
| **B incurred the following expenses** | |
| **Stamp charges and Registration Fees** | **3,000** |
| **Advertising charges** | **2,500** |
| **Printing charges of Memorandum of** | |
| **Association and Articles of Association etc.** | **3,500** |

**The application fell short of the 10,00,000 share by 30,000 shares. A introduced further cash on joint account for these shares. The amount was utilised to subscribe to these shares and paid to the company. The guarantee having been fulfilled. Salem Lamps Ltd. handed over A and B 1,50,000 shares.**

**The partnership sold all the shares. A received the sale proceeds of ` 1,20,000 share amounting to `1,10,000 and B of the remaining 60,000 share amounting to ` 55,000.**

**Prepare a joint venture account and the separate accounts of A and B showing the adjustment of final balance between them.**

**Sol. :**

**Dr Memorandum Joint Venture A/c Cr**

| Particulars | | Rs. | Particulars | Rs. |
|---|---|---|---|---|
| To A A/c | | | By A - Sales A/c | 1,10,000 |
| Rent – | 3,000 | | By B - Sales A/c | 55,000 |
| Solicitor Charges – | 5,000 | 8,000 | | |
| To B A/c | | | | |
| Stamp charges – | 3,000 | | | |
| Advertising – | 2,500 | | | |
| Printing – | 3,500 | 9,000 | | |
| To A - payment for share | | 30,000 | | |
| To Profit Transfer to | | | | |
| A – A/c | 59,000 | | | |
| B – A/c | 59,000 | 1,18,000 | | |
| | | 1,65,000 | | 1,65,000 |

**In the Books of A**

**Dr Joint Ventur with B A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Bank - Expenses A/c | 8,000 | By Cash A/c | 1,10,000 |
| To Payment of shares A/c | 30,000 | | |
| To P & L A/c | 59,000 | | |
| To Cash A/c | 13,000 | | |
| | 1,10,000 | | 1,10,000 |

**In the Books of B**

**Dr Joint Venture with A A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Cash - Expenses A/c | 9,000 | By Sales A/c | 55,000 |
| To P & L A/c | 59,000 | By Cash A/c | 13,000 |
| | 68,000 | | 68,000 |

**9. A, B and C entered into a joint venture and agreed to divide the profits in the ratio of 6:3:1. They purchased by auction They purchased by auction several new machines for ` 50,000. A contributing ` 30,000 B. ` 20,000 and C `10,000 for carrying on the transactions relating to the venture. A joint Bank account was opened They sold all the machines for ` 1,25,000. A spent ` 2,450 and B and C spent ` 1,250 each in connection with the venture.**

**Show the joint venture account and other ledger accounts.**

**Sol. :**

**Dr Joint Venture A/c Cr**

| Particulars | | Rs. | Particulars | Rs. |
|---|---|---|---|---|
| To Joint Bank A/c | | 50,000 | By Joint Bank A/c | 1,25,000 |
| To A – Expenses A/c | | 2,450 | | |
| To B – Expenses A/c | | 1,250 | | |
| To C – Expenses A/c | | 1,250 | | |
| To Profit to | | | | |
| A – A/c | 42,030 * | | | |
| B – A/c | 21,015 * | | | |
| C – A/c | 7,005 * | 70,050 | | |
| | | 1,25,000 | | 1,25,000 |

**Dr Capital A/c Cr**

| Particulars | A Rs. | B. Rs. | C. Rs. | Particulars | A Rs. | B Rs. | C Rs. |
|---|---|---|---|---|---|---|---|
| To Joint Bank A/c | 74,480 | 42,265 | 18,225 | By Joint Bank A/c | 30,000 | 20,000 | 10,000 |
| | | | | By Joint Venture (Expenses) A/c | 2,450 | 1,250 | 1,250 |
| | | | | By Joint Venture (Profit) A/c | 42,030 | 21,015 | 7,005 |
| | 74,480 | 42,265 | 18,225 | | 74,480 | 42,265 | 18,225 |

**Dr Joint Bank A/c Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To A A/c | 30,000 | By Joint Venture A/c | 50,000 |
| To B A/c | 20,000 | By A A/c | 74,480 |
| To C A/c | 10,000 | By B A/c | 42,265 |
| To Joint Venture A/c | 1,25,000 | By C A/c | 18,225 |
| | 1,85,000 | | 1,85,000 |

* Distribution of Profit = A = 70,050 × 6/10 = 42,030

B = 70,050 × 3/10 = 21,015

C = 70,050 × 1/10 = 7,005

**10. A and B doing business separately as building contractors, undertake jointly to construct a building for a newly started joint stock company for a contract price of ` 1,00,000 payable as to ` 80,000 by instalments in cash and ` 20,000 in fully paid shares of the company. A banking account is opened in their joint names. A paying in ` 25,000 and B `15,000. They are to share profits and losses in the proportions of 2/3 and 1/3 respectively. Their transactions were as follows :**

| **Particulars** | **Amt `** |
|---|---|
| **Paid wages** | **30,000** |
| **Bought materials** | **70,000** |
| **Material supplied by A** | **5,000** |
| **Material supplied by B** | **4,000** |
| **Architect's Fees paid by A** | **2,000** |

**The contract was completed and the price (cash and shares) duly received. The joint venture was closed by A taking up all the shares of the company at an agreed valuation of ` 16,000 and B taking up the stock of materials at an agreed valuation of ` 3,000. Show the necessary ledger accounts.**

**Sol. :**

**Dr** **Joint Bank A/c** **Cr**

| **Particulars** | | **Rs.** | **Particulars** | **Rs.** |
|---|---|---|---|---|
| To Joint Bank A/c | | | By Joint Bank A/c | 80,000 |
| Wages – | 30,000 | | | |
| Materials – | 70,000 | 1,00,000 | By Shares A/c | 20,000 |
| | | | By B - Stock A/c | 3,000 |
| To A A/c Materials – | 5,000 | | By Loss Transfer to | |
| Fees – | 2,000 | 7,000 | A – 8,000 | |
| To B - A/c Material – | 4,000 | | B – 4,000 | 12,000 |
| To – Shares (Loss) – | 4,000 | 8,000 | | |
| | | 1,15,000 | | 1,15,000 |

**Dr** **Joint Bank A/c** **Cr**

| **Particulars** | **Rs.** | **Particulars** | **Rs.** |
|---|---|---|---|
| To A – A/c | 25,000 | By Joint Venture - (Material) A/c | 70,000 |
| B – A/c | 15,000 | By Joint Venture - (Wages) A/c | 30,000 |
| To Joint Venture A/c | 80,000 | By A A/c | 8,000 |
| | | By B A/c | 12,000 |
| | 1,20,000 | | 1,20,000 |

**Dr** **Capital A/c** **Cr**

| Particulars | A Rs. | B Rs. | Particulars | A Rs. | B Rs. |
|---|---|---|---|---|---|
| To Share A/c | 16,000 | – | By Joint Bank A/c | 25,000 | 15,000 |
| To Joint Venture – Stock A/c | – | 3,000 | By Joint Venture Materials A/c | 5,000 | 4,000 |
| To Joint Venture – Loss A/c | 8,000 | 4,000 | By Joint Venture Fee A/c | 2,000 | – |
| To Joint Bank A/c | 8,000 | 12,000 | | | |
| | 32,000 | 19,000 | | 32,000 | 19,000 |

**11. Jolly and Happy undertake jointly to construct a building for Hyderabad Insurance Co.Ltd. for contract price of ` 9,00,000 payable as to ` 7,20,000 by installments in cash and `1,80,000 in fully paid shares of the company. A Joint Bank Account is opened in their names, Jolly paying in ` 2,25,000 and Happy ` 1,35,000. They are to share profit or loss in the proportion of 2/3 and 1/3 respectively. Their transactions were as follows.**

| Particulars | ` |
|---|---|
| **Paid wages** | **2,70,000** |
| **Bought materials** | **6,30,000** |
| **Materials supplied by Jolly from his stock** | **45,000** |
| **Materials supplied by Happy from his stock** | **36,000** |
| **Architect's Fees paid by Jolly** | **18,000** |

**The contract was complected and the price dully received. The Joint venture was closed by Jolly taking up all the shares of the company at an agreed valuation of ` 1,44,000 and Happy taking up the stock of materials at an valuation of ` 27,000 Prepare the Joint Venture Account and the accounts of Jolly and Happy showing the final distribution of cash.**

**Sol. :**

**Dr** **Joint Venture A/c** **Cr**

| Particulars | Rs. | Particulars | | Rs. |
|---|---|---|---|---|
| To Joint Bank wages A/c | 2,70,000 | By Joint Bank A/c | | 7,20,000 |
| To Joint Bank - (Material) A/c | 6,30,000 | By Share A/c | | 1,80,000 |
| To Jolly - (Stock) A/c | 45,000 | By Happy - stock A/c | | 27,000 |
| To Happy (Stock) A/c | 36,000 | By Loss transfer to | | |
| To Jolly - (Architecture fees) A/c | 18,000 | Jolly - A/c | 72,000* | |
| To Shares Loss | 36,000 | Happy - A/c | 36,000* | 1,08,000 |
| | 10,35,000 | | | 10,35,000 |

Distribution of Loss : Jolly = 1,08,000 × 2/3 = 72,000

Happy = 1,08,000 × 1/3 = 36,000

Dr **Capital A/c** Cr

| Particulars | Jolly Rs. | Happy Rs. | Particulars | Jolly Rs. | Happy Rs. |
|---|---|---|---|---|---|
| To Shares A/c | 1,44,000 | – | By Joint Bank A/c | 2,25,000 | 1,35,000 |
| To Joint Venture - Loss A/c | 72,000 | 36,000 | By Joint Venture – (Materials) A/c | 45,000 | 36,000 |
| To Joint Venture - Stock A/c | – | 27,000 | By Joint Venture - (Fees) A/c | 18,000 | – |
| To Joint Bank A/c | 72,000 | 1,08,000 | | | |
| | 2,88,000 | 1,71,000 | | 2,88,000 | 1,71,000 |

Dr **Joint Bank A/c** Cr

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Jolly A/c | 2,25,000 | By Joint Venture - Materials A/c | 6,30,000 |
| To Happy A/c | 1,35,000 | By Joint Venture - Wages A/c | 2,70,000 |
| To Joint Venture A/c | 7,20,000 | By Jolly A/c | 72,000 |
| | | By Happy A/c | 1,08,000 |
| | 10,80,000 | | 10,80,000 |

**12. Varma and Manik, both building contractors, undertook a Joint Venture involving the construction of a school building. A Joint Bank Account was opened in which Varma deposited `. 50,000 and Manik deposited ` 25,000. The contract amount was ` 2,50,000. The result of Joint Venture was to be shared as Varma 2/3 and Manik l/3rd. the details of the transactions were as under.**

| Particulars | ` |
|---|---|
| **1. Salaries** | **8,000** |
| **2. Wages paid** | **46,000** |
| **3. Building materials purchased** | **1,10,000** |
| **4. Materials supplied by Varma** | **9,000** |
| **5. Materials supplied by Manik** | **8,000** |
| **6. Archiect's fees** | **7,000** |
| **7. Cartage** | **12,000** |
| **8. Concrete Mixer plant purchased** | **25,000** |

**The Stock of material on complection of the contract valued at ` 11,000 was taken over by Verma. Concrete Mixer plant was sold out for ` 20,000 Mr. Varma was to be paid ` 12,000 per annum against establishment expenses to be charged to the Joint Venture Account. The contract lasted for 8 months. Prepare Joint Venture Account, Joint Bank Account and accounts of Varma and Mani.**

**Sol. :**

**Dr** **Joint Venture A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Joint Bank – Salaries A/c | 8,000 | By Joint Bank A/c | 2,50,000 |
| To Joint Bank – Wages A/c | 46,000 | By Varma - Stock A/c | 11,000 |
| To Joint Bank – Material A/c | 1,10,000 | By Joint Bank – Mixer plant sale A/c | 20,000 |
| To Joint Bank – Fees A/c | 7,000 | | |
| To Joint Bank – Cartage A/c | 12,000 | | |
| To Joint Bank – Mixer plant A/c | 25,000 | | |
| To Varma – (Material) A/c | 9,000 | | |
| To Mamik – (Material) A/c | 8,000 | | |
| To Profit transferred to | | | |
| Varma – 32,000* | | | |
| Manik – 16,000* | 48,000 | | |
| | 2,81,000 | | 2,81,000 |

**Dr** **Capital A/c** **Cr**

| Particulars | Varma Rs. | Manik Rs. | Particulars | Varma Rs. | Manik Rs. |
|---|---|---|---|---|---|
| To Joint Venture – Material A/c | 11,000 | – | By Joint Bank A/c | 50,000 | 25,000 |
| | | | By Joint Venture - Material A/c | 9,000 | 8,000 |
| To Joint Bank A/c | 88,000 | 49,000 | By Joint Venture - Profit A/c | 32,000 | 16,000 |
| | | | By Joint Venture A/c (Establishment Exp.) | 8,000 | – |
| | 99,000 | 49,000 | | 99,000 | 49,000 |

**Dr** **Joint Bank A/c** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Joint Venture - Mixer plant A/c | 20,000 | By Joint Venture - Salaries A/c | 8,000 |
| To Joint Venture A/c | 2,50,000 | By Joint Venture - Wages A/c | 46,000 |
| To Varma A/c | 50,000 | By Joint Venture - Material A/c | 1,10,000 |
| To Manik A/c | 25,000 | By Joint Venture - Fees A/c | 7,000 |
| | | By Joint Venture - Cartage A/c | 12,000 |
| | | By Joint Venture - Mixer plant A/c | 25,000 |
| | | By Varma A/c | 88,000 |
| | | By Manik A/c | 49,000 |
| | 3,45,000 | | 3,45,000 |

* Distribution of profit = Varma = 48,000 × 2/3 = 32,000

Manik = 48,000 × 1/3 = 16,000

# Exercise Problems

1. A and B were participants in a joint venture, sharing profits and losses in the proportion of 10 : 9 respectively. Each party maintains a complete record in his own books. A supplies goods to the value of Rs. 25,000 and incurs an expenditure of Rs. 500 on them ; and B supplies goods to the extent of Rs. 21,000 and his expenses thereon amounted to Rs. 1000. A sells all the goods for Rs. 70,000 for which he is entitled to receive a commission at 5 per cent. Accounts are settled by bank draft. Give journal entries and prepare necessary accounts in the books of both parties.

**Ans : [Profit Rs. 19,000 ; Amount paid to B Rs. 31,000)]**

2. Arun bought goods of the value of Rs. 12,000 and sent them to Prabhakar to be sold by ‘ him on Joint Venture. They agreed to share profits in the ratio of 2/3 and 1/3. Arun paid Rs. 800 for Freight and Insurance and drew a bill on Prabhakar for Rs. 8,000 on account. The bill was discounted by Arun for Rs. 7,600. Prabhakar paid Rs. 500 towards Dock Charges and Rs. 600 towards Rent. The Sales .proceeds amounted to Rs. 20,000. Prabhakar sent a draft for the balance amount due to Arun after charging 5% Commission on Sales.

   Give Journal entries in the books of Arun.

**Ans : [Profit Rs. 500 ; Amount received from Prabhakar Rs. 8,333]**

3. On 1st October, 2006 Hiren bought a parcel of precious stones for Rs. 85,000. He consigned it to Dhiren who agreed to share with him equally the profit and loss in the venture. Hiren paid Rs. 900 on account of carriage and insurance. He drew on Dhiren at 3 months for Rs. 40,000 on account, discounting the bill on 4th October, 2006 for Rs. 39,600. Discount is borne by the parties equally. On receipt of the stones on 3rd October, Dhiren paid for insurance Rs. 300 and Rs. 800 for cutting and polishing. On 28th February, 2007, Dhiren sold the stones for Rs. 1,05,000, his expenses being Rs. 900. On 31st March, he sent to Hiren an Account Sales along with a bank draft for the amount due to him.

   Write up the accounts as they would appear in the books of Hiren and Dhiren respectively.

**Ans : [Profit Rs. 16,700 ; Account received from Dhiren Rs. 54,650]**

4. A and B enter into a joint venture to ship goods abroad. A sends goods to the Value of Rs. 1,000, pays freight Rs. 100 and sundry expenses Rs. 150. These transactions take place on 1st January, 2006. B sends goods valued at Rs. 750 on February 1st and pays freight and insurance Rs. 80 and Sundry expenses Rs. 50. B advances to A on March 1st Rs. 450 on account of the venture. A receives account sales and remittance and net proceeds for whole of the goods amounting to Rs. 2,500 on 1st April. Final settlement between A and B is made on 30th April, 2006. Show these transactions of the venture calculating interest at 5% p.a. in months.

**Ans : [Profit Rs. 348 ; Amount paid to B Rs. 1,519]**

5. Ramesh and Naresh undertook the construction of a building for Ideal Engineering Co. Ltd. for a contract price of Rs. 3,00,000 payable as to Rs. 2,00,000 by instalments in cash and Rs. 1,00,000 in fully paid debentures of a company. Ramesh put Rs. 75,000 and Naresh Rs. 45,000 in a joint banking account opened for the purpose. They are to share profits and losses equally. The following amounts were spent.

   (a) on wages Rs. 75,000

   (b) on Materials Rs. 1,58,000 and

   (c) on plant Rs. 20,000.

   The contract was completed and the price duly received. The joint venture was closed by Ramesh taking up all the debentures at an agreed valuation of Rs. 95,000. Half of the plant was taken over by Naresh and the other half wassold for Rs. 12.000. Naresh also took over unused stock of materials at a mutually agreed price of Rs. 8,000.

   Prepare ledger accounts as they would appear in the books of Ramesh and Naresh.

**Ans : [Profit 72,000 ; Amount paid to Ramesh Rs. 16,000 and Naresh Rs. 63,000]**

# Short Question and Answers

**1. What is joint venture?**

*Ans :*

A joint venture is a form of partnership which is limited to a particular venture. It may seem to be cxactly the same as partnership, with the exception that it is one of a business that is to be terminated. Since the business is to be concluded after completion of the venture, a firm name is not used.

There are many reasons for a joint venture. A joint venture is undertaken when different persons have mutual advantages to tackle a particular business venture together, without doing it separately. For example, an individual may be in a particular advantageous position to buy goods exceptionally cheap, but lacks capital. An associate might agree to provide capital to finance the whole operation. When the respective advantages of the parties are pooled together, the persons can undertake a joint venture for mutual profit.

"A joint venture is usually a temporary partnership without the use of a firm name, limited to carrying out a particular business plan in which the persons conccrned agree to contribute capital and to share profits or losses". The parties in a joint venture are known as coventurers and their liability is limited to the adventure concerned for which they agree to contribute capital and share profits or losses.

**2. What are the features of Joint venture?**

*Ans :*

1. It is a particular partnership.
2. It does not entail a continuing partnership,since termination is certain.
3. The business is dissolved after the venture is terminated.
4. Application of the many accounting concepts are dispensed with such as the going concern concept.
5. Ascertainment of income is relatively simple.
6. All the assets are ultimately received in cash and all liabilities are paid in cash.
7. Profit is the difference between total cash receipts and total cash payments, excluding investment by or payments to the venturers.
8. It does not use firm name.

**3. What are the benefits of joint venture ?**

*Ans :*

Following benefits will be available from joint venture business :

**(i) Sharing of Risk :** The risk in case of joint venture business will be borne by all co-adventurers as profit or loss on joint venture transactions are shared by all co-adventurers in a predetermined ration.

**(ii) Financial Resources :** Adequate financial resources provided by two or more persons will be available to undertake a relatively big projects required more capital.

**(iii) Sufficient Experience:** More people of different skills and experience can come together to undertake costly and profitable projects and execute them efficiently.

**4. Joint Bank Account**

*Ans :*

For better financial control, a Joint Bank Account is opened specially for the venture. The co-venturers will operate this account jointly. This account is just like a cash book - all cash deposited into the bank are debited and all withdrawals are credited. Generally, capital contribution of the venturers and sale proceeds are deposited in this account. Similarly, all major payments are made from this account. It is finally closed by payment to the co-venturers.

**5. Co-venturers' Accounts**

*Ans :*

This account records the transactions between the ventur and the co-ventur-ers. Since these are the capital accounts of the Co-venturers, they are credited for what they contribute to the venture and debited for any withdrawals from the venture. Co-venturers' contribution towards joint venture in cash in goods and services are credited to these accounts. Goods and sale proceeds taken over by co-venturers are debited to these accounts. The profit or loss on venture is credited or debited respectively in these accounts and ultimately closed off by cash payment from the joint bank.

**6. Joint Venture Account**

*Ans :*

It is in the nature of a Trading and Profit and Loss Account and it is prepared to ascertain the profit or loss on joint venture. Goods purchased, goods supplied by the co-venturers, expenses incurred etc are debited to this account and sale proceeds, unsold stock etc are credited to it. The final balance represents profit or loss on venture which is transferred to the Co-venturers' Accounts in the profit sharing ratio. It is interesting to note that no separate accounts for purchases, sales and expenses are maintained; all these are directly entered in the Joint Venture Account.

**7. What is the difference between joint venture and partnership.**

*Ans :*

| | Basis of Distinction | Joint Venture | Partnership |
|---|---|---|---|
| 1. | Name of the Firm | It is carried on without a firm's name. | It is carried on with firm's name. |
| 2. | Co-venturers/Partners | Parties are called co-venturers. | Parties are called partners. |
| 3. | Continuity | Temporary partnership and comes to an end after the completion of a particular venture. | Continuous and does not end after the completion of a particular venture. |
| 4. | Liability | Limited to the adventure concerned for which they agree to contribute capital and share profits or losses. | Unlimited to the extent of their business and private estate |
| 5. | Location of Business | It is generally local. | It may be located at different places. |
| 6. | Position of a Minor admitted | In it, minor is generally | not A minor, can be admitted only for benefits. |
| 7. | Application of the Act | No enactment is applicable | Indian Partnership Act, 1932 is applicable. |
| 8. | No. of Partners/ | No limit in it Members | Limited to 20 in ordinary trade and 10 in banking business. |

# Choose the Correct Answer

1. Joint venture account is in the nature of a [ c ]
   (a) real account (b) personal account
   (c) nominal account (d) none of these
2. A joint venture is a [ b ]
   (a) a general partnership (b) a particular partnership
   (c) not limited a particular venture (d) none of these
3. A complete separate set of books of account is kept when the size of the venture is [ a ]
   (a) large (b) small
   (c) not known (d) none
4. Joint Bank Account is [ b ]
   (a) Not like a cash book (b) opened specifically for the venture
   (c) opened by one of the ventures (d) none of these
5. Profit or loss on a joint venture is shared by the co-venturers [ c ]
   (a) equally (b) in the capital ratio
   (c) as per the agreement (d) none of these
6. In a limited liability partnership liquidation, the final cash distribution to partners is made in accordance with the: [ b ]
   (a) Partners' income-sharing ratio
   (b) Balances of partners' capital accounts
   (c) Ratio of original investments by partners
   (d) Ratio of original investments less withdrawals by partners
7. The partners of X & Y Co. net income and losses equally. Both X and Y are insolvent. At the time they decided to liquidate the limited liability partnership, its balance sheet included the following: cash, Rs 1,000; other assets, Rs 19,000; liabilities, Rs 8,000; X capital, Rs 3,000; and Ys capital, Rs 9,000. The other assets realized Rs 12,000 and the liabilities were paid. The amountY received from the liquidation of the partnership was: [ c ]
   (a) Rs 6,500 (b) Rs 5,500
   (c) Rs 5,000 (d) Rs 2,500
8. On January 1, 2002, the partners of S & T had capital account balances of Rs 40,000 and Rs 20,000, respectively. They shared net income and losses equally, and the partnership had a net income of Rs 10,000 during 2002. On December 31, 2002, the partnership was liquidated. If, after realization of noncash assets and payment of liabilities, Rs 30,000 remained for distribution to the partnership, S received: [ c ]
   (a) Rs 15,000 (b) Rs 20,000
   (c) Rs 25,000 (d) Rs 30,000

9. After realization of a portion of the noncash assets of A, B & C, which is being liquidated, the capital account balances were Al, Rs 35,000; B, C Rs 40,000; and , Rs Rs 43,000. Cash of Rs 42,000 and other assets with a carrying amount of Rs 78,000 were on hand. Creditors' claims totaled Rs 2,000. The partners shared net income and losses equally. The cash that may be paid to C at this time is: [ b ]

(a) Rs 43,000 (b) Rs 17,000

(c) Rs 14,000 (d) Rs 13,333

10. The partners of L & M Joint Venture net income and losses equally. After the realization of all noncash assets and payment of all liabilities, L had a capital account balance of Rs 3,800, and M had a capital deficit of Rs 3,800. Lon has personal assets of Rs 30,000 and personal liabilities of Rs 35,000; M has personal assets of Rs 20,000 and personal liabilities of Rs 18,000. The total amount that personal creditors of L should expect to receive after marshaling of assets is: [ c ]

(a) Rs 35,000 (b) Rs 33,800

(c) Rs 32,000 (d) Rs 30,000

# *Fill in the blanks*

1. Joint venture is a form of ________.
2. Joint venture account is a ________ account.
3. The value of unsold stock is ________ to the Joint Venture Account.
4. In case of joint venture, discount on bill is charged to ________ account.
5. For calculating the ________ of the joint venture, abnormal losses are ________.
6. Joint venture is a ________ partnership.
7. Parties involved in joint venture is called ________.
8. Joint venture business is limited to a ________.
9. Memorandum joint venture account is prepared to ascertain profit or loss, i.e., the nature of ________.
10. When purchases made for the joint venture out of joint bank account, the ________ account is debited.
11. Under memorandum joint venture method, each co-venturer opens only one account which is in the nature of a ________ .
12. When goods are taken away by the co-venturer mainting accounts regarding joint venture, the account to be debited is ________ .
13. The accounts to be credited for traansferring profit on joint venture in the books of the co-venturer maintaining accounts regarding joint venture are ________ .



## ANSWERS

1. Partnership
2. Nominal
3. Credited
4. Joint venture
5. Profit, ignored
6. Particular
7. co-venturers
8. Single period
9. Personal
10. Joint venture
11. Personal Account
12. Goods Account
13. Profit and Loss Account and other party A/c (for his share)

| | |
|---|---|
| UNIT IV | **Accounts from Incomplete Records :** Single Entry System – Meaning -Features–Difference between Single Entry and Double Entry systems -Defects in Single Entry System - Books and accounts maintained - Ascertainment of Profit - Statement of Affairs and Conversion method |

## 4.1 Single Entry System - Meaning

**Q1. Define single entry system.**

*Ans :*

Any set of procedures for ascertaining profits that does not provide for the analysis of each transaction in terms of the double entry system of book keeping is generally referred to as "Single Entry System". Strictly speaking, single entry constitutes incomplete records rather than single entry accounting. Therefore, the expression single entry does not mean that there is only one entry for each transaction. In fact, single entry system is a mixture of : (i) double entry; (ii) single entry; and (iii) no entry. Under this system, certain transactions are recorded just like the double entry system; for example : cash collected from debotors - it is recorded in the Debtors Account as well as in the Cash Account. Again, certain transactions are not recorded at all, e.g., Bad Debt, Depreciation, etc. Single entry system may be defined as a system in which accounting records are not kept strictly according to the double entry principles of bookkeeping. Since all the transactions are not recorded strictly on the double entry principle, it is not possible to prepare a trial balance and check the arithmetical accuracy of the books of account.

In India, there are many small-scale business which do not keep complete records for all their financial transactions because the proprietors of these businesses are untrained in accounting and regard it better to keep an additional productive employee rather than a book keeper. They assume that without an elaborate accounting system, they can exercise control over assets, expenses, revenues and liabilities. They record few transactions completely just like the double entry system but a majority of the transactions are recorded only partially.

### 4.1.1 Features

**Q2. What are the features of single entry system?**

*Ans :*

1. This system is a mixture of : (i) double entry; (ii) single entry ; and (iii) no entry.
2. This system is suitable for small businesses where the proprietor or partners can directly control the affairs of the business.
3. In this system, generally Personal Accounts are kept but Real and Nominal Accounts are ignored.
4. In the absence of record of the two-fold aspect of every transaction, it is not possible to prepare a trial balance and check the arithmetical accuracy of the books of account. Similarly, no Balance Sheet can be prepared in the absence of balances in ledger.
5. This system is highly changeable and flexible and it is not governed by any definite rules of operation.
6. Under this system the profit or loss can be found out but its composition will not be available.

## 4.2 Difference between Single Entry and Double Entry System

**Q3. Distinguish between double entry and single entry system?**

*Ans :*

| | Basis of Distinction | Double Entry System | Incomplete Records System |
|---|---|---|---|
| 1. | Assumptions and principles | It is based on certain assumptions and principles. | It is not based on certain assumptions and principles. |
| 2. | Both aspects of all | Both the aspects of all transactions are recorded. | Both the aspects of all transactions transactions are not recorded. |
| 3. | Nature of accounts | All types of accounts - Personal, are maintained, | Usually, Cash and Personal maintained Real and Nominal, accounts are maintained. |
| 4. | Trial Balance | Arithmetical accuracy of the records can be checked by preparing a Trial Balance. | Arithmetical accuracy of the records cannot be checked since Trial Balance cannot be prepared. |
| 5. | Determination of True Profit or Loss | True profits or losses can be determined by preparing Trading and Profit & Loss Account. | Only estimated profit or losses can be determined since Trading & Profit and Loss Account cannot be prepared. |
| 6. | Financial position | True financial position can be known by preparing a Balance Sheet. | Only estimated financial position can be known on the basis of Statement of Affairs. |
| 7. | Adjustments | All types of adjustments are made while preparing final accounts. | No special attention is given to adjustments. |
| 8. | Utility | It is used by all types of traders. | It is used only by small traders. |
| 9. | Recognition | Records maintained according to this system are recognised by the government. | Records maintained according to this system are not recognised by the government. |



## 4.3 Limitations/Defects in single entry system

**Q4. What are the limitations of single entry system?**

*Ans :*

1. Trial Balance cannot be prepared, hence arithmetical accurancy of the accounts cannot be checked.
2. In the absence of real and nomial accounts Trading and Profit and Loss Account and Balance Sheet cannot be prepared.
3. As complete records are not kept, there is considerable scope for fraud and misappropriation.
4. Accounts maintained by single entry system are generally not-accepted by Sales Tax Department, Income tax Department and Court.
5. On the basis of the records maintained under single entry system, it is not possible to raise loan from banks and financial institutions.
6. As gross profit, Net profit cannot be ascertained under this method, accounting ratios such as gross profit ratio; net profit ratio, operating ratios etc cannot be prepared.
7. It is difficult to sell business, because proper values of assets including goodwill are not provided under this system.

## 4.4 Methods (Approaches) of Single Entry

**Q5. What are the methods (Approaches) of single entry system?**

*Ans :*

There are mainly two approaches for income determination :

(a) The Transaction Approach, and

(b) The Balance Sheet Approach;

**(a) The Transaction Approach**

When books of account are maintained under complete double entry principles of bookkeeping, this approach is followed for determining the profit or loss of a particular period. In this approach, every transaction is analysed and the following steps are followed:

1. We record only transactions to business - events which can be translated into monetary terms.
2. Every transaction involves two account - one of these accounts is debited and the other is credited in the books of primary entry.
3. From books of primary entry, we prepare Ledger Accounts and, thereafter, accounts are balanced.
4. A Trial Balance is prepared from the Ledger balances to ensure the arithmetical accuracy of the records.
5. After preparing the Trial Balance, adjusting entries are passed to record the internal transactions such as provision for bad debts, depreciation, etc.
6. A second Trial Balance (called Adjusted trial balance) is prepared to incorporate the adjusting entries.
7. From the Trial Balance, nominal accounts are transferred to Trading and Profit and Loss Account.
8. The trading account shows the gross profit and the profit and loss account shows the net profit or loss.

**(b) The Balance Sheet Approach**

When books of account are maintained under single entry system, it is not possible to determine profit or loss by the transaction approach because we cannot get full information regarding all transactions.

The problems that arise in the single entry system for the determination of profit can be solved within the context of the fundamental Balance Sheet equation, as under:

Capital = Assets – Liabilities

Under this method, two Balance Sheets (better to say, Statement of Affairs) are prepared. One, at the beginning of the period for finding out **the Opening Capital** and the other at the end of the period for finding out **the Closing Capital.** A comparison is made between the opening and closing capital. If the closing capital is more than the opening capital, it shows an increase in capital, which means a **profit.** Conversely, if the closing capital is less than the opening capital, it shows a decrease in capital, which means a loss for the period. In other words :

Closing Balance Sheet: Assets = Liabilities + Capital

<u>Opening Balance Sheet: Assets = Liabilities + Capital</u>

Change in period : $\Delta$ Assets = $\Delta$ Liabilities + $\Delta$ Capital

The change (Δ) in assets may be due to change in liabilities or capital or both. The increase in assets due to increase in capital represents profit.

Let us take a simple example in which Mr. X keeps no adequate records. The firm was set upon 1st. January, 2015 with a capital in cash Rs 50,000. At the end of the year, the following assets and liabilities were revealed:

**Assets**: Building at cost – Rs 30,000; Stock – Rs 10,000; Trade debtors – Rs 20,000; Cash – Rs 15,000

**Liabilities**: Trade creditors – Rs 5,000. From this, it appears that the changes for the year are:

| | Assets | = | Liabilities | + | Capital |
|---|---|---|---|---|---|
| Closing position (Rs) | 75,000 | = | 5,000 | | 70,000 |
| Opening position (Rs) | 50,00 | = | – | | 50,000 |
| Net changes (Rs) | 25,000 | = | 5,000 | | 20,000 |

Assets have increased by Rs 25,000. Out of this increase, Rs 5,000 owing to increase in liabilities and Rs 20,000 owing to increase in capital and it is nothing but profit earned during the year 2015.

## 4.5 Steps for Ascertaining Profit

**Q6. How do you ascertaining the profit from incomplete records?**

*Ans :*

**Step 1**

**Calculate Opening Capital**

It can be calculated by preparing a Statement of Affairs at the beginning of the year. The Statement of Affairs is just similar to a Balance Sheet. All the assets are shown on the right-hand side and all the liabilities are shown on the left-hand side of the Statement of Affairs. If the total of the right-hand side is greater than the total of the left-hand side, it represents "Opening Capital". The assets and liabilities are ascertained as follows:

1. Amount of cash is ascertained by physical count
2. Bank balance is ascertained from the Pass Book
3. The closing stock is ascertained by physical stock taking
4. The balances of debtors and creditors can be ascertained from the list, the trader maintains
5. Regarding other assets, the trader prepares a list and values them and
6. Other relevant information is supplied by the trader from his memory.

**Step 2**

**Ascertain the Drawings During the Period**

Ascertainment of drawings for the period is a most difficult task. Drawings increase the personal capital but decrease the business capital. Since the entries are recorded from the point of the proprietor, personal affairs of the proprietor get mixed up with the business affairs. To take an account of drawings, all withdrawals from the business must be traced. For calculating drawings, the; following are to be considered: (i) How much is drawn from the business at regular intervals for household or private purposes?; and (ii) How much has been utilized for household or private purposes from the sale proceeds or other receipts before depositing it into the bank ?

**Step 3**

**Ascertain the Capital Introduced During the Period**

A trader may introduce new capital (in the form; of cash or assets) during the period. The trader is to make a list of the amount of capital introduced during the period.

**Step 4**

**Calculate Closing Capital**

It can be calculated by preparing the closing Statement of Affairs in the same manner we prepare the opening Statement of Affairs in Step 1. However, in the closing Statement of Affairs, we will consider assets and liabilities at the end of the period (before adjustments).

**Step 5**

**Prepare Statement of Profit**

The statement of profit is to be prepared as follows:

**Statement of Profit and Loss for the Year Ended**

| Particulars | | Rs. |
|---|---|---|
| Closing Capital (before adjustment) | | xxx |
| Add: Drawings for the period | | xxx |
| | | xxx |
| Less: Opening Capital | xxx | |
| New Capital introduced | xxx | xxx |
| Profit before adjustments | | xxx |
| Less: Adjustments | | |
| (i) Depreciation | xxx | |
| (ii) Provision for Bad debts, etc | xxx | xxx |
| Net profit for the period | | xxx |
| Less: Appropriations | | |
| (i) Salary of the partners (1) | xxx | |
| (ii) Interest on capital (1) | xxx | xxx |
| Divisible profit (1) | | xxx |
| (1) Applicable lo partnership firms. | | xxx |

**Exhibit 3.2** Format of Statement of Affairs

**Statement of Affairs of... as at...**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Sundry Creditors | xxxx | Cash in Hand | xxxx |
| Bills Payable | xxxx | Cash at Bank | xxxx |
| Outstanding Expenses | xxxx | Sundry Debtors | xxxx |
| Bank Overdraft | xxxx | Bills Receivable | xxxx |
| Capital (Balancing figure) | xxxx | Stock in trade | xxxx |
| | | Prepaid Expenses | xxxx |
| | | Fixed Assets | xxxx |
| | xxxx | | xxxx |

## 4.6 Distinction between Statement of affairs and Balance Sheet

**Q7. How statement of affairs differs from balance sheet?**

*Ans :*

Statement of Affairs which looks like a Balance Sheet, differs from the Balance Sheet in the following respects:

| | Balance Sheet | | Statement of Affairs |
|---|---|---|---|
| 1. | Balance sheet is prepared with balances extracted from ledger balances maintained under the double entry system. | 1. | Statement of Affairs is a statement of the assets and liabilities prepared from incomplete records and other sources of information. |
| 2. | Balance Sheet is prepared on the basic of accepted principles of accountancy. Hence it is accurate and reliable. | 2. | It is not prepared on any systematic basis, it is only an estimate of the financial position. Hence it is not |
| 3. | The aim of Balance Sheet is to show true financial position of a business. | 3. | Statement of Affairs has three purposes (i) to know the financial position (ii) to find out capital and (ii) to know the profit or loss on the basis of difference between the closing andopening capitals. |
| 4. | Balance sheet is prepared after the preparation of Profit & Loss Account | 4. | A statement of Profit or Loss is made after the preparation of Statement of Affairs. |
| 5. | If any asset or liability is omitted to be taken in Balance Sheet, it will be the detected by non-agreement of the Balance Sheet | 5. | Omission of any asset or liability cannot be detected in Statement of Affairs. It gets adjusted in capital. which is a balancing figure. |

**Q8. Explain briefly about Final Statement of Affairs**

*Ans :*

After ascertaining profit by following the above procedures, a final statement of Affairs is prepared at the end of the period after incorporating adjustment for depreciation, provision for bad debts, etc. The final Statement of Affairs will appear as follows:

| Liabilities | Rs. | Rs. | Assets | Rs. | Rs. |
|---|---|---|---|---|---|
| Opening Capital | ... | | Plant & Machinery | ... | |
| Add: New Capital introduced | ... | | Less: Depreciation | ... | ... |
| Add: Profit for the year | ... | | Furniture | ... | |
| | ... | | Less: Depreciation | ... | ... |
| Less : Drawings | ... | ... | Debtors | ... | |
| Creditors | | ... | Less : Provision for bad debts | ... | ... |
| | | | Stock | | ... |
| | | | Cash at bank | | ... |
| | | | Cash in hand | | ... |

## 4.7 Conversion to Double Entry System

**Q9. What was process involved in converting single entry to double entry system?**

*Ans :*

We have seen that under the single entry system adequate accounting information is not available and the profit disclosed by that system is not gladly accepted by the revenue authority. For better management of the business, avoiding harassment by the revenue authority, and facing challenge of the competitors in a scientific manner, sometimes a trader may adopt the double entry system by giving up the single entry system.

In the single entry system, there are varying degrees of incompleteness, and the procedure to be adopted for conversion must depend upon the nature of the records and data available. It is not possible to give a formula which can be applied in every situation. However, as a general rule, the following steps are followed:

**Step 1**

A Statement of Affairs of the business should be prepared at the beginning of the accounting period from which the change is to be effected. The balance of the Statement of Affairs will represent the opening capital.

In examination problems on the single entry system, it may not be possible to prepare the Statement of Affairs due to the missing out of opening balances of certain assets and liabilities. For example, opening debtors or opening creditors or opening cash-in-hand may be missing. In such a situation, students are advised to prepare the statement as far as possible with the available information and leave it for the time being.

**Step 2**

If no Cash Account or Bank Account is maintained properly, a careful scrutiny of the Bank Statement or Pass Book shall be made and enquiry should be done in respect of the amount of cash takings which has been used by the trader for meeting personal expenses, business expenses or for cash purchases, etc.

After collecting information through enquiry and scrutiny, a Cash Book (with cash & bank columns etc.) Should be prepared by showing:

**(a) On the debit side:**

(i) Cash collected from debtors (cash/cheque);

(ii) Cash sales;

(iii) Income from investment; and

(iv) Sales proceeds of assets, etc.

**(b) On the credit side:**

(i) Total payment to creditors;

(ii) Wages, salaries and other expenses paid;

(iii) Payment for purchase of assets; and

(iv) Drawing by the proprietor, etc.

In examination problems, the opening or closing balance of cash or bank may be missing. The balance of the Cash Book will represent the respective figure at the beginning or at the end. Cash Book must be prepared even when both the opening and closing balances of cash and bank are given. The shortage on the debit side of cash column represents cash sales or capital introduced or sundry income. Similarly, shortage on the credit side of the cash column represents cash purchases, drawing or sundry expenses.

Where the Cash Book is maintained, care should be taken in respect of private income and private expenditure which have been entered in the Cash Book. All the private income such as interest on private investment, etc should be credited to Capital Account. Similarly, all the private payments should be debited to Capital Account.

**Step 3**

Prepare Total Debtors Account, Total Creditors Account, Bills Receivable Account and Bills Payable Account, Total Sales Account and Total Purchases Account. The preparation of these accounts will help for finding out different missing information regarding; (i) opening/closing debtors balances; (ii) opening/closing creditors balances; (iii) credit purchases; and (iv) credit sales, etc.

**Step 4**

Now complete the Statement of Affairs (left incomplete at Step 1) with the available information. The balance of the Statement of Affairs represents opening capital.

**Step 5**

Pass the appropriate opening entry in the Journal in respect of the assets and liabilities included in the above Statement of Affairs.

**Step 6**

Write up the Real and Nominal Accounts from the information contained in the Cash Book and other accounts. Every account should be carefully scanned; and the double entry effect of every transaction must be given by passing corresponding debit and credit entry in appropriate Ledger Accounts which should be opened, if necessary.

**Step 7**

Balance of the accounts and prepare the Trial Balance in the usual manner.

**Step 8**

From the Trial Balance and allied information, prepare Trading, Profit and Loss Account and Balance Shea.

In examination, the students should skip Steps 5, 6 and 7 and directly prepare Trading, Profit and Loss Account and Balance Sheet for saving time.

**Total Debtors Account**

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| To Balance b/d (opening) | xxx | By Cash or Bank | xxxx |
| | | (amount received from debtors) | |
| To Credit sales | xxx | By B/R received | xxxx |
| To B/R dishonoured | xxx | By Discount allowed | xxxx |
| To Total creditors a/c | xxx | By Bad debts | xxxx |
| Bills received endorsed to creditors | xxx | By Balance c/d (closing) | xxxx |
| dishonoured | | | |

**Total Creditors Account**

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| To Cash or Bank | xxx | By Balance b/d (opening) | xxx |
| (amount paid to creditors) | | By Credit Purchases | xxx |
| To Bills Payable Accepted | xxx | By B/P dishonoured | xxx |
| To Discount received | xxx | By Total Debtors a/c | |
| To Purchases Returns | xxx | (endosed B/R dishonoured) | |
| To Bills receivable (-) B/r | xxx | | |
| endorsed to creditors | | | |
| To Balance c/d | xxx | | |

**Bills Receivable Account**

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| To Balance b/d (opening) | xxx | By Cash/Bank (bill receivable honoured) | xxx |
| To Total Debtors A/c (B/R | xxx | By Total Debtors - B/R dishonoured | xxx |
| received from debtors) | | By Total creditors A/c | |
| | | (B/R endorsed to creditors) | xxx |
| | | By Balance c/d | xxx |

**Bills Payable Account**

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| To Cash/Bank - B/P honoured | xxx | By Balance b/d - opening | xxx |
| To Total creditors A/c B/P dishonoured | xxx | Total creditors A/c B/P accepted | xxx |
| To Balance c/d | xxx | | |

**Q10. Differences between single entry and double entry ?**

*Ans :*

| Double Entry System | Single Entry System |
|---|---|
| 1. It is based on certain principles and assumptions. | 1. It is not based on any principles or assumptions |
| 2. Both aspects of a transaction are recorded. | 2. Both aspects of each transaction are not recorded. |
| 3. All types of accounts-personal real and nominal are recorded. | 3. Usually personal accounts of customers and suppliers and Cash Book are maintained. Real accounts and nominal accounts are not maintained. |
| 4. Arithmetical accuracy can be checked by preparing trial Balance | 4. Arithmetical accuracy cannot be checked because trial balance cannot be prepared. |
| 5. True profit or loss of the business can be ascertained by preparing Profit and loss Account | 5. True profit or loss cannot be ascertained as profit and loss Account cannot be prepared |
| 6. Financial position of the business house can be ascertained by preparing Balance Sheet. | 6. The various assets and liabilites Accounts are not maintained in the books, hence Balance Sheet cannot be prepared. |
| 7. Books maintained by this system are reliable and accepted by Income tax and sales tax Departments and and courts. | 7. Books maintained under this system are not reliable and not accepted by tax officials, courts etc. |
| 8. Financial statements prepared under this method can be used for analysis of financial position by preparing gross profit ratio net profit, operating ratio etc. | 8. Accounts maintained under single entry are not useful for analysis of financial statements. |

**Example**

**Mr. *X* could not keep complete records. He furnishes you the following information for the year 2011 - 2012 (a) Particulars of Assets and Liabilities**

| Particulars | 1.4.2011 Rs. | 31.3.2012 Rs. |
|---|---|---|
| Stock-in-trade | 37,400 | 46,800 |
| Sundry Debtors | 24,000 | 28,000 |
| Sundry Creditors | 18,000 | 3,000 |
| Bills Receivable | 8,000 | 10,000 |
| Bills Payable | 2,000 | 400 |
| Furniture & Fixtures | 1,200 | 1,200 |
| Buildings | 24,000 | 24,000 |
| Bank Balance | 8,700 | 1,660 (Cr.) |

**Additional Information**

**Additional Capital introduced Rs 5,000, drawings Rs 15,000; A provision @ 10% is required for doubtful debts and depreciation @ 5% p.a. is to be written-off for furniture and fixtures and buildings, Rs 6,000 is outstanding for wages and Rs 2,400 for salaries, prepaid insurance amounted to Rs 400. outstanding legal expenses are Rs 1,400. *Required:* From the above particulars, find out by Statement of Affairs method, the Profit or Loss made by Mr. *X* during 2011-2012. Also prepare his Balance Sheet as at 31 March 2012.**

**Solution**

**Statement of Profit for the year ending on 31.3.2012**

| | Particulars | | Rs. |
|---|---|---|---|
| A. | Capital at the end | | 1,04,940 |
| B. | Add Drawings during the year | | 15,000 |
| C. | Less: Additional capital introduced during the year | | 5,000 |
| D. | Adjusted Capital at the end (A + B – C) | | 1,14,940 |
| E. | Less. Capital in the beginning | | 83,300 |
| F. | Profit subject to adjustments (D - E) | | 31,640 |
| G. | Less: Adjustments | | |
| | Provision for Doubtful Debts | 2,800 | |
| | Depreciation on furniture | 60 | |
| | Depreciation on Building | 1,200 | |
| | Outstanding Wages | 6,000 | |
| | Outstanding Salaries | 2,400 | |
| | Outstanding Legal Expenses | 1,400 | |
| | Prepaid Insurance | (400) | 13,460 |
| H. | Net Profit for the year [F - G] | | 18,180 |

**Balance Sheet of Mr. X as at 31st March, 2012**

| Liabilities | Rs | Assets | | Rs |
|---|---|---|---|---|
| Sundry Creditors | 3,000 | Stock in trade | | 46,800 |
| Bills Payable | 400 | Sundry Debtors | 28,000 | |
| Bank Overdraft | 1,660 | Less: Provision | 2,800 | 25,200 |
| Outstanding expenses: | | Bills Receivable | | 10,000 |

| | | | | | |
|---|---|---|---|---|---|
| Wages | 6,000 | | Prepaid Expenses | 400 | |
| Salaries | 2,400 | | Furniture & Fixtures | 1,200 | |
| Legal | 1,400 | 9,800 | Less. Depreciation | 60 | 1,140 |
| Capital: | | | Buildings | 24,000 | |
| Opening Balance | 83,300 | | Less. Depreciation | 1,200 | 22,800 |
| Add. Profit | 18,180 | | | | |
| Add: Additional Capital | 5,000 | | | | |
| | 1,06,480 | | | | |
| Less: Drawings | 15,000 | 91,480 | | | |
| | | 1,06,340 | | | 1,06,340 |

**Working Note:** Calculation of Opening Capital and Closing Capital

**Statement of Affairs of Mr. X as at 31.3.20X1 and 31.3.2012**

| Liabilities | 31.3.2011 Rs. | 31.3.2012 Rs. | Assets | 31.3.2011 Rs. | 31.3.2012 Rs. |
|---|---|---|---|---|---|
| Sundry Creditors | 18,000 | 3,000 | Cash at Bank | 8.700 | — |
| Bills Payable | 2,000 | 400 | Stock-in-trade | 37,400 | 46.800 |
| Bank Overdraft | — | 1,660 | Sundry Debtors | 24,000 | 28.000 |
| Capital (Balancing figure) | 83,300 | 1,04,940 | Bills Receivable | 8,000 | 10,000 |
| | | | Furniture & Fixtures | 1,200 | 1,200 |
| | | | Buildings | 24,000 | 24,000 |
| | 1,03,300 | 1,10,000 | | 1,03,300 | 1,10,000 |



## ACCOUNTS FROM INCOMPLETE RECORDS

1. **Varma commenced business on January 1,2005 with a capital of `30,000. He immediately purchased Machinery for ` 20,000. On 30th June 2005 he borrowed ` 10,000 from his wife @ 10% p.a. (interest not yet paid), and introduced further capital of ` 15,000. During the year he withdrew ` 800 p.m. for domestic use. On 31s' December 2005 his position was as follows:-**

   **Cash in hand ` 600; Cash at Bank ` 8000; Sundry Debtors ` 16,000; Stock 8,000; Bills Receivable ` 5,000; Sundry Creditors ` 2,000; Outstanding expenses ` 800. Machinery is to be depreciated by 10%. Ascertain the Profit or Loss made by Varma during 2005.**

**Sol. :**

**Statement of Affairs as on 31.12.2005**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Creditors | | 2,000 | Cash in hand | | 600 |
| Out standing expenses | | 800 | Cash at bank | | 8,000 |
| Loan | 10,000 | | Stock | | 18,000 |
| (+) Interest | 500 | 10,500 | Machinery | 20,000 | |
| Capital (Balance) | | 52,300 | (-) Depreciation | 2,000 | 18,000 |
| | | | Debtors | | 16,000 |
| | | | Bills reversible | | 5,000 |
| | | 65,600 | | | 65,600 |

**Statement of Profits or Loss**

| Particular | Rs. |
|---|---|
| Capital as on 31.12.2015 | 52,300 |
| Add : Drawings $[800\times12]$ | 9,600 |
| | 61,900 |
| Less : Additional capital | 15,000 |
| | 46,900 |
| Less : Opening capital | 30,000 |
| Profit generated during 2015 | 16,900 |

**2. Jones keeps his books by Single Entry method. On 1st May 2004 his financial position was as follows:-**

**Cash in hand ` 250; Cash at Bank ` 3,000, Stock in trade ` 7,500; Fixtures and Fitting ` 350; Sundry Debtors ` 9,800; Plant and Machinery ` 15,100; S.Creditors ` 9,000. During the year Jones withdrew from the business various sums amounting to ` 5,900. On 30th April 2005 his financial position was as follows:- Sundry Creditors ` 7,500; Plant and Machinery ` 18,100; Fixtures and Fittings ` 320. Sundry Debtors ` 13,300; Stock in trade ` 14,000; Cash in hand `150; Bank Overdraft ` 2,600.**

**You are required to prepare a statement of profit and a closing Statement of Affairs.**

**Sol.:**

**Statement of Affairs as on 1.05.2004**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Creditors | 9,000 | Cash in hand | 250 |
| Capital (Balance) | 27,000 | Cash at bank | 3,000 |
| | | Stock in trade | 7,500 |
| | | Fixtures & Fitting | 350 |
| | | Debtors | 9,800 |
| | | Plant & Machinery | 15,100 |
| | 36,000 | | 36,000 |

**Statement of Profits or Loss**

| Particular | Rs. |
|---|---|
| Capital as on 30.4.2005 | 35,770 |
| Add : Drawing | 5,900 |
| | 41,670 |
| Less : Opening capital | 27,000 |
| Profit generated during the year | 14,670 |

**Statement of affairs as on 30.4.2005**

| Liabilities | | Rs. | Assets | Rs. |
|---|---|---|---|---|
| Bank O.D | | 2,600 | Cash in hand | 150 |
| Creditors | | 7,500 | Debtors | 13,300 |
| Capital | 27,000 | | Stock | 14,000 |
| (+) Profit | 14,670 | | Fixture | 320 |
| | 41,670 | | Plant & Machinery | 18,100 |
| Less: Drawings | 5,900 | 35,770 | | |
| | | 45,870 | | 45,870 |



3. **Ram Prakash Keeps his books by the Single Entry method, his position on 31st December 2004 was as follows:**

 **Cash in hand ` 200; Cash at bank ` 3,000; Stock in Trade ` 20,000; .Sundry Debtors ` 8,500; Fixtures and Fittings ` 1,800; Plant and Machinery ` 15,000; Sundry Creditors ` 22,000. During the year Ram Prakash introduced ` 5,000 as further capital in the business and withdrew ` 750 per month.**

 **On 31st December 2005 his position was as follows: Cash in hand ` 300; Cash at Bank ` 2,000; Sundry Debtors ` 14,000; Stock in Trade ` 19,000; Plant and Machinery ` 27,000; Fixtures and Fitting ` 1,500; Sundry Creditors ` 29,000.**

 **From the above, prepare a Statement showing the profit or loss made by him for the year ended 31s1 December 2005.**

**Sol.:**

**Statement of Affairs as on 31.12.2004 and 31.12.2005**

| Liabilities | 31.12.2004 Rs. | 31.12.2005 Rs. | Asset | 31.12.2004 Rs. | 31.12.2005 Rs. |
|---|---|---|---|---|---|
| Creditors | 22,000 | 29,000 | Cash in hand | 200 | 300 |
| Capital (Balance) | 26,500 | 34,800 | Cash at bank | 3,000 | 2,000 |
| | | | Stock in trade | 20,000 | 19,000 |
| | | | Debtors | 8,500 | 14,000 |
| | | | Fixtures & Fittings | 1800 | 1500 |
| | | | Plant & Machinery | 15,000 | 27,000 |
| | 48,500 | 63,800 | | 48,500 | 63,800 |

**Statement of Profits or Loss**

| Particular | Rs. |
|---|---|
| Capital as on 31.12.2005 | 34,800 |
| Add : Drawings | 9,000 |
| | 43,800 |
| Less : Additional capital | 5,000 |
| | 38,800 |
| Less Capital (Opening) | 26,500 |
| Profit generated during the year | 12,300 |



**4. A trader has not kept proper books of account. The following balances are placed before you and you are requested to prepare statement of Profit and Loss for the year ended 31st March 2016 and a Statement of Affairs as at that date.**

| Particulars | 1-4-2015 ` | 31-3-2016 ` |
|---|---|---|
| **Cash in hand** | **5,350** | **5,400** |
| **Bank Overdraft** | **45,000** | **40,000** |
| **Stock in Trade** | **59,350** | **62,200** |
| **Sundry Creditors** | **38,600** | **37,200** |
| **Sundry Debtors** | **30,200** | **29,800** |
| **Bills Receivable** | **42,400** | **40,800** |
| **Land and Buildings** | **53,000** | **53,000** |
| **Furniture and Fittings** | **4,600** | **4,600** |
| **Bills Payable** | **62,000** | **58,000** |

**Drawings during the year amounted to ` 6,000. Depreciation is to be calculated on Land and Buildings at 2 percent and Furniture and Fittings at 10 percent. Provide for Doubtful Debts at $2^{m}$ percent.**

**Sol.:**

**Statement of Affairs as on 1.4.2015 and 31.3.2016**

| Liabilities | 1.4.2015 Rs. | 31.3.2015 Rs. | Asset | 1.04.2015 Rs. | 31.3.2016 Rs. |
|---|---|---|---|---|---|
| Bank Over draft | 45,000 | 40,000 | Cash inhand | 5,350 | 5,400 |
| Creditors | 38,600 | 37,200 | Stock in trade | 59,350 | 62,200 |
| Bills payable | 62,000 | 58,000 | Debtors | 30,200 | 29,055 |
| Capital (balance) | 49,300 | 58,335 | Bills receivables | 42,400 | 40,800 |
| | | | Land & Buildings | 53,000 | 51,940 |
| | | | Furniture & Fittings | 4,600 | 4,140 |
| | 1,94,900 | 1,93,535 | | 1,94,900 | 1,93,535 |

**Working Notes**

| | | |
|---|---|---|
| 1. | Debtors | 29,000 |
| | Less : Reserve(2.5%) $\left(29,000 \times \frac{2.5}{100}\right)$ | 745 |
| | | 29,055 |
| 2. | Land & Buildings | 53,000 |
| | Less : Depreciation (2%) $\left(53,000 \times \frac{2}{100}\right)$ | 1,060 |
| | | 51,940 |
| 3. | Furniture & filltings | 4,600 |
| | Less : depreciation (10%) $\left(4600 \times \frac{10}{100}\right)$ | 460 |
| | | 4,140 |

**Statement of Profits or Loss**

| Particulars | Rs. |
|---|---|
| Capital as on 31.12.2016 | 58,335 |
| Add : Drawings | 6,000 |
| | 64,335 |
| Less : Capital as on 1.4.2015 | 49,300 |
| Profit generated during the year | 15,035 |

**Statement of affairs as on 31.3.2016**

| Liabilities | | Rs. | Assets | Rs. |
|---|---|---|---|---|
| Bank over draft | | 40,000 | Cash in hand | 5,400 |
| Creditors | | 37,200 | Stock | 62,200 |
| Bills payable | | 58,000 | Debtors | 29,055 |
| Capital (opening) | 49,300 | | Bills recivables | 40,800 |
| Add: Profit | 15,035 | | Furniture | 4,140 |
| | 64,335 | | | |
| Less : Drawings | 6,000 | 58,335 | Land & Buildings | 51,940 |
| | | 1,93,535 | | 1,93,535 |

**5. Hari keeps his books on single entry system. You are required to ascertain profit or loss made by him in the year 2015 from the following :**

| Particulars | 31-12-2015 ` | 1-1-2015 ` |
|---|---|---|
| **Stock in trade** | **6,700** | **8,500** |
| **S. Creditors** | **5,400** | **4,000** |
| **S. Debtors** | **4,200** | **4,500** |
| **Cash in hand** | **200** | **150** |
| **Bank overdraft** | **3,200** | **5,000** |
| **Bills Receivable** | **1,050** | **2,000** |
| **Fixtures & Fittings** | **1,500** | **1,500** |
| **Motor Van** | **4,000** | **4,000** |
| **Plant** | **10,000** | **10,000** |

**Total Drawings during the year amounted to ` 3,600. During the year, he has introduced further capital of ` 3,000. Depreciate fixtures at 10%, Plant at 20% and Motor Van ` 500. As regards S.Debtors, it is ascertained that ` 500 was irrecoverable and 5% were doubtful. There was a need for reserving ` 500 in respect of bills receivable. Also prepare the final Statement of Affairs.**

**Sol. :**

**Statement of Affairs as on 1.1.2015 and 31.12.2015**

| Liabilities | 1.1.2015 Rs. | 31.12.2015 Rs. | Asset | 1.1.2015 Rs. | 31.12.2015 Rs. |
|---|---|---|---|---|---|
| Bank O.D | 5,000 | 3,200 | Cash inhand | 150 | 200 |
| Creditors | 4,000 | 5,400 | Stocks | 8,500 | 6,700 |
| Capital (balance) | 21,650 | 19,050 | Debtors | 4,500 | 4,200 |
| | | | Bills recivable | 2,000 | 1,050 |
| | | | Fixtures and Fittings | 1,500 | 1,500 |
| | | | Motor van | 4,000 | 4,000 |
| | | | Plant | 10,000 | 10,000 |
| | 30,650 | 27,650 | | 30,650 | 27,650 |

**Statement of Profits or Loss**

| Particulars | | | | Rs. |
|---|---|---|---|---|
| Capital as on 31.12.2015 | | | | 19,050 |
| Add: Drawings | | | | 3,600 |
| | | | | 22,650 |
| Less: Additonal capital | | | | 3,000 |
| | | | | 19,650 |
| Less: Capital as on 1.1.2015 | | | | 21,650 |
| Loss | | | | (2,000) |
| Add | (a) | Depreistion on | | |
| | | (i) Fixed fixture | 150 | |
| | | (ii) Plant | 2,000 | |
| | | (iii) Motor van | 500 | 2,650 |
| | (b) | Bad debts | | 500 |
| | (c) | Provision for doughtful debts | | 185 |
| | (d) | Reserve for bill receivable | | 500 |
| Net : Loss generated during the year | | | | (5,835) |



**Statement of Affairs as on 31.12.2015**

| Liabilities | | Rs. | Assets | Rs. |
|---|---|---|---|---|
| Creditors | | 5,400 | Cash | 200 |
| Bank over draft | | 3,200 | Stock | 6,700 |
| Capital (opening) | 21,650 | | Debtors (1) | 3,515 |
| (+) Additional captial | 3,000 | | Bills receivables (2) | 550 |
| | 24,650 | | Fixtures (3) | 1,350 |
| Less : Drawings | 3,600 | | Motor van (4) | 3,500 |
| | 21,050 | | Plant (5) | 8,000 |
| Less : loss | 5,835 | 15,215 | | |
| | | 23,815 | | 23,815 |

**Working Notes**

| | | |
|---|---|---|
| 1. | Debtors | 4,200 |
| | Less: bad debts | 500 |
| | | 3,700 |
| | Less: reserve 5% $\left(3700 \times \frac{5}{100}\right)$ | 185 |
| | | 3515 |
| 2. | Bills receivables | 1,050 |
| | Less : Reserve | 500 |
| | | 550 |
| 3. | Fixtures | 1,500 |
| | Less : depreciation @ 10% | 150 |
| | $\left(1500 \times \frac{10}{100}\right)$ | 1350 |
| 4. | Motor van | 4,000 |
| | Less : Depreciation | 500 |
| | | 3,500 |
| 5. | Plant | 10,000 |
| | Less : depreciation @ 20% | 2,000 |
| | $\left(10,000 \times \frac{20}{100}\right)$ | 8,000 |



**6. The following are the assets and liabilities of A at the end and beginning of the year 2008.**

| Particulars | As on 31-12-2008 ` | As on 1-1-2008 ` |
|---|---|---|
| **Land and Buildings** | **58,800** | **60,000** |
| **Plant & Machinery** | **1,20,000** | **96,000** |
| **Furniture & Fixtures** | **16,200** | **16,000** |
| **Stock in Trade** | **56,000** | **30,000** |
| **S.Debtors** | **3,10,000** | **2,80,000** |
| **S. Creditors** | **1,50,000** | **1,45,000** |
| **Loan from Bank** | **1,00,000** | **1,20,000** |
| **Outstanding liabilities** | **80,000** | **90,000** |
| **Cash at Bank** | **30,000** | **34,000** |

**During the year A had withdrawn ` 5,000 in cash and ` 3,000 in goods from the business. He had also introduced ` 80,000 as additional capital. A machine costing ` 20,000 had been sold during the year for ` 18,000 and a new machine costing ` 50,000 was purchased in replacement. New furniture costing ` 2,500 was also purchased during the year.**

**Prepare a Statement of Profit or Loss for the year ended 31-12-2008.**

**Sol.:**

**Statement of Affairs as on 1.1.2008 and 31.12.2008**

| Liabilities | 1.1.2008 Rs. | 31.12.2008 Rs. | Asset | 1.1.2008 Rs. | 31.12.2008 Rs. |
|---|---|---|---|---|---|
| Creditors | 1,45,000 | 1,50,000 | Cash at Bank | 34,000 | 30,000 |
| Bank loan | 1,20,000 | 1,00,000 | Stock | 30,000 | 56,000 |
| Outstanding | 90,000 | 80,000 | Debtors | 2,80,000 | 3,10,000 |
| Capital (balance) | 1,61,000 | 2,61,000 | Furniture & fixtures | 16,000 | 16,200 |
| | | | Plant & Machinery | 96,000 | 1,20,000 |
| | | | Land & Building | 60,000 | 58,800 |
| | 5,16,000 | 5,91,000 | | 5,16,000 | 5,91,000 |

**Statement of Profits or Loss**

| Particulars | Rs. |
|---|---|
| Capital as on 31.12.2008 | 2,61,000 |
| Add : Drawing | 8,000 |
| | 2,69,000 |
| Less: Additional capital | 80,000 |
| Less : Capital as on 1.1.2008 | 1,89,000 |
| | 1,61,000 |
| Profit generated | 28,000 |

**7. Swami keeps his books on single entry system. His financial position :**

| Particulars | As on 31st March 2004 ` | As on 31st March 2005 ` |
|---|---|---|
| **Cash in hand** | **400** | **300** |
| **Bank Overdraft** | **6,400** | **10,000** |
| **Stock in Trade** | **13,400** | **17,000** |
| **Bills Receivable** | **2,100** | **4,000** |
| **Bills payable** | **1,800** | **1,900** |
| **Sundry debtors** | **41,000** | **63,000** |
| **Furniture** | **3,000** | **3,000** |
| **Motor van** | **8,000** | **8,000** |
| **Plant** | **20,000** | **20,000** |

**Total drawings during the year amounted to ` 7,200. He introduced further capital of ` 6,000 during the year. Depreciate all fixed assets at 10%. Ascertain the result of business preparing the required statements.**

**Sol. :**

**Statement of Affairs as on 31.3.2004 and 31.3.2005**

| Liabilities | 31.3.2004 Rs. | 31.3.2005 Rs. | Asset | 31.3.2004 Rs. | 31.3.2005 Rs. |
|---|---|---|---|---|---|
| Bank OD | 6,400 | 10,000 | Cash in hand | 400 | 300 |
| Bills payable | 1800 | 1900 | Stock in trade | 13,400 | 17,000 |
| Capital (balance) | 79,700 | 1,03,400 | Bills receivables | 2,100 | 4,000 |
| | | | Sundry debtors | 41,000 | 63,000 |
| | | | Furniture | 3,000 | 3,000 |
| | | | Motor van | 8,000 | 8,000 |
| | | | Plant | 20,000 | 20,000 |
| | 87,900 | 1,15,300 | | 87,900 | 1,15,300 |

**Statement of Profits or Loss**

| Particulars | Rs. |
|---|---|
| Capital as on 31.3.2005 | 1,03,400 |
| Add: Drawings | 7,2000 |
| | 1,10,600 |
| Less : Additional capital | 6,000 |
| | 1,04,600 |
| Less : Capital as on 1.4.2005 | 79,700 |
| Profit before adjustments | 24,900 |
| i) Furniture - 300 | |
| ii) Motor van - 800 | |
| iii) Plant - 2,000 | 3,100 |
| Profit generated during the year | 21,800 |

**8. A retailer who had kept books of accounts under single entry system, supplied the following information to you. Prepare statement of profit or loss as on 31.12.2008.**

| Particulars | 01.01.2008 ` | 31.12.2008 ` |
|---|---|---|
| **Stock** | **16,700** | **18,500** |
| **Creditors** | **15,400** | **14,000** |
| **Debtors** | **11,200** | **10,500** |
| **Cash** | **250** | **1,200** |
| **Bank Overdraft** | **20,200** | **19,400** |
| **Bills Receivable** | **15,050** | **14,200** |
| **Furniture** | **1,500** | **1,500** |
| **Machinery** | **1,900** | **1,900** |

**The drawings during the year amounted to ` 2,600. Depreciate furniture by 10%. Write off ` 300 from machinery. Debtors include ` 500 bad debts, make provision for doubtful debts at 5% on debtors.**

**Sol.:**

**Statement of Affairs as on 1.1.2008 and 31.12.2008**

| Liabilities | 1.1.2008 Rs. | 31.12.2008 Rs. | Asset | 1.1.2008 Rs. | 31.12.2008 Rs. |
|---|---|---|---|---|---|
| Creditors | 15,400 | 14,000 | Stock | 16,700 | 18,500 |
| Bank over draft | 20,200 | 19,400 | Debtors | 11,200 | 10,500 |
| Capital (balance) | 11,000 | 14,400 | Cash | 250 | 1,200 |
| | | | Bills receivable | 15,050 | 14,200 |
| | | | Furniture | 1,500 | 1,500 |
| | | | Machinery | 1,900 | 1,900 |
| | 46,600 | 47,800 | | 46,600 | 47,800 |

**Statement of Profits or Loss**

| Particulars | | Rs. |
|---|---|---|
| Capital as on 31.12.2008 | | 14,400 |
| Add: Drawings | | 2,600 |
| | | 17,000 |
| Less: Capital as on 1.1.2008 | | 11,000 |
| Profit before adjustments | | 6,000 |
| Less : Depreciation on | | |
| (a) i) Furniture | 150 | |
| Machinery | 300 | 450 |
| (b) Bad debts | | 500 |
| (c) Provision for doughtful debts | | 500 |
| Profit genarated during the year | | 4,550 |

**9. Mr. Ramalal keeps his books single entry system.**

| Particulars | 01.01.2007 ` | 31.12.2007 ` |
|---|---|---|
| **Bank OD** | **10,000** | **12,000** |
| **Furniture** | **20,000** | **20,000** |
| **Land and Building** | **70,000** | **70,000** |
| **Investments** | **-** | **10,000** |
| **Sundry Debtors** | **20,000** | **30,000** |
| **Sundry Creditors** | **30,000** | **40,000** |
| **Stock** | **45,000** | **50,000** |
| **Motor Car (1.7.2007)** | **-** | **20,000** |
| **Cash** | **10,000** | **20,000** |
| **Plant and Machinery** | **40,000** | **40,000** |

**During the year he has withdrawn ` 10,000 for personal use. On 1.7.2007 he introduced further capital of ` 20,000 by selling his private house.**

**Adjustments :**

**(a) Appreciate Land and Building by 20%.**

**(b) Debtors include ` 1,000 from a customer who is insolvent and is irrecoverable.**

**(c) Maintain a Reserve for bad debts at 5% on Debtors.**

**(d) Depreciate Plant and Machinery at 10%, Furniture at 5% and Motor Car at 10%.**

**Prepare a statement showing profit or loss for the year 2007.**

**Sol.:**

**Statement of Affairs as on 1.1.2007 and 31.12.2007**

| Liabilities | 1.1.2007 Rs. | 31.12.2007 Rs. | Asset | 1.1.2007 Rs. | 31.12.2007 Rs. |
|---|---|---|---|---|---|
| Bank O.D | 10,000 | 12,000 | Furniture | 20,000 | 20,000 |
| Creditors | 30,000 | 40,000 | Land & Buildings | 70,000 | 70,000 |
| Capital (Balance) | 1,65,000 | 2,08,00 | Investments | - | 10,000 |
| | | | Debtors | 20,000 | 30,000 |
| | | | Stock | 45,000 | 50,000 |
| | | | Motor car | - | 20,000 |
| | | | Cash | 10,000 | 20,000 |
| | | | Plant & Machinery | 40,000 | 40,000 |
| | 2,05,000 | 2,60,00 | | 2,05,000 | 2,60,000 |



**Statement of Profit or Loss**

| Particulars | | Rs. |
|---|---|---|
| Capital as on 31.12.2008 | | 2,08,000 |
| Add: Drawings | | 10,000 |
| | | 2,18,000 |
| Less : Additional capital | | 20,000 |
| | | 1,98,000 |
| Less : Capital as on 1.1.2007 | | 1,65,000 |
| | | 33,000 |
| Add : Building appreciation @ 20% | | 14,000 |
| | | 47,000 |
| Less : i) Bad debts | 1,000 | |
| ii) Provision for Doubtful debts | 1450 | |
| iii) Depriciation on plant & machinery | 4,000 | |
| iv) Depreciation on Furniture | 1,000 | |
| v) Depreciation motor car | 1,000 | 8,450 |
| Profit generated during the year | | 38,550 |

**10. Sanjay started his business with a capital of ` 1,00,000 and he keeps his books under the single entry system. On April 1,2009 his position was as under.**

| | | |
|---|---|---|
| **Machinery** | **:** | **` 30,000** |
| **Furniture** | **:** | **` 15,000** |
| **Debtors** | **:** | **` 27,000** |
| **Stock** | **:** | **` 34,000** |
| **Bills receivable** | **:** | **` 17,000** |
| **Creditors** | **:** | **` 12,000** |
| **Bills payable** | **:** | **` 7,000** |

**During the year, he withdrew Rs.18,000 from business for personal use and used business stocks for private purpose amounting to Rs.900. The following adjustments are to be made :**

**i) Depreciate machinery and furniture by 10%**

**ii) Rent outstanding X 1,300**

**iii) Interest on capital at 5%**

**You are required to calculate profits for the year and prepare statement of affairs at the end.**

**Sol.:**

**Statement of Affairs as on 1.4.2009**

| Liabilities | Rs. | Asset | Rs. |
|---|---|---|---|
| Creditors | 12,000 | Debtors | 27,000 |
| Bills payable | 7,000 | Bills recivables | 17,000 |
| Capital (Balance) | 1,04,000 | Stock | 34,000 |
| | | Machinery | 30,000 |
| | | Furniture | 15,000 |
| | 1,23,000 | | 1,23,000 |

**Statement of Profits or Loss**

| Particulars | | Rs. |
|---|---|---|
| Capital as on 31.3.2019 | | 1,04,000 |
| Add : Drawing | | 18,000 |
| Stock (personal use) | | 900 |
| | | 1,22,900 |
| Less : Capital as on 1.4.2008 | | 1,00,000 |
| Profit before adjustment | | 22,900 |
| Less : Adjustments | | |
| (a) Depreciation on | | |
| i) Machinery @ 10% = (30,000 × 10/100) | 3000 | |
| ii) Furniture @ 10% = (15,000 × 10/100) | 1500 | 4,500 |
| (b) Rent out standing | | 1,300 |
| (c) Interest capital | | 5,000 |
| Profit made during the year | | 12,100 |

### Statement of Affairs as on 31.3.2009

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Creditors | | 12,000 | Bills recivable | | 17,000 |
| Bills payable | | 7,000 | Stock | | 34,000 |
| Rent out standing | | 1,300 | Debtors | | 27,000 |
| Capital | 1,00,000 | | Machinry | 30,000 | |
| (+) Interest | 5,000 | | Less : Dep @ 10% | 3,000 | 27,000 |
| | 1,05,000 | | Furniture | 15,000 | |
| (+) Profit | 12,100 | | Less : Dep @ 10% | 1,500 | 13,500 |
| | 1,17,000 | | | | |
| Less: Drawing | 18,000 | | | | |
| Stock | 900 | 98,200 | | | |
| | | 1,18,500 | | | 1,18,500 |

**11. Sanjay and Swaroop are partners sharing Profit in the ratio of 5 : 4. Their position on April 1, 2008 was as follows :**

| Liabilities | Rs. ` | Assets | Rs. ` |
|---|---|---|---|
| Capitals : | | Machinery | 40,000 |
| Sanjay | 60,000 | Debtors | 30,000 |
| Swaroop | 40,000 | Stock | 35,000 |
| Sundry Creditors | 18,000 | Bills Receivable | 15,000 |
| Bank Overdraft | 12,000 | Cash in hand | 10,000 |
| | **1,30,000** | | **1,30,000** |

**On March 31, 2009 their position was :**

**Stock - ` 36,000; Machinery - ` 60,000; Cash in hand- ` 14,000; Debtors - ` 52,000; Bills Receivable - ` 20,000; Cash at bank - ` 6,000; Sundry Creditors - ` 12,000.**

**Find profit made by the firm and also show the Statement of Affairs at the end, after the following adjustments. (1) Depreciate machinery @10%. (2) Interest on capital @ 8%. (3) Provide 5% for doubtful debts on debtors.**

**Sol.:**

### Statement of Affairs as on 31.3.2009

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Creditors | 12,000 | Cash in hand | 14,000 |
| Capital (Bal.) | 1,76,000 | Cash at bank | 6,000 |
| Combined | | Stock | 36,000 |
| | | Debtors | 52,000 |
| | | Bills Receivable | 20,000 |
| | | Machinery | 60,000 |
| | 1,88,000 | | 1,88,000 |

**Statement of Profits or Loss**

| Particulars | | Rs. |
|---|---|---|
| Capital combined as on 31.3.2009 | | 1,76,000 |
| Add : Drawing | | – |
| | | 1,76,000 |
| Less: Opening capital | | 1,00,000 |
| Profit before adjustment | | 76,000 |
| Less : Adjustments | | |
| (a) Depreciation on | | |
| Machinery for 1 year | 4,000 | |
| Machinery for 6 months | 1,000 | 5,000 |
| (b) Provision for doubtful debts | | 2,600 |
| (c) Interest on capital | | 8,000 |
| Profit | | 60,400 |

Sanjays profit = 60,400 × 5/9 = 33,556

Swaroops profit = 60,400 × 4/9 = 26,844

**Statement of Affairs as on 31.3.2009**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Creditors | | 12,000 | Cash in hand | | 14,000 |
| Capitals | | | Cash at bank | | 6,000 |
| Sanjay | 60,000 | | Debtors | 52,000 | |
| (+) Interest on capital | 4,800 | | (-) Provision for baddebts | 2,600 | 49,400 |
| (+) Profit | 33,556 | 98,356 | Stock | | 36,000 |
| Swaroop | 40,000 | | Machinery | 60,000 | |
| (+) Interest on capital | 3,200 | | Less: Depcriciation | 5,000 | 55,000 |
| (+) Profit | 26,844 | 70,044 | Bills receivables | | 20,000 |
| | | 1,80,400 | | | 1,80,400 |

**12. Sivam and Sundaram are equal partners who have contributed capitals also equally. They maintained books under single entry system and their position on 1-1-2008 and 31-12-2008 is shown below.**

| Particulars | On 1-1-2008 ` | On 31-12-2008 ` |
|---|---|---|
| Sundry Debtors | 6,000 | 9,000 |
| S.Creditors | 7,000 | 6,000 |
| Plant and Machinery | 8,000 | 10,000 |
| Unexpired Expenses | 90 | 150 |
| Outstanding Expenses | 250 | 300 |
| Stock | 5,000 | 7,500 |
| Furniture & Fittings | 3,500 | 4,500 |
| Cash at Bank | 1,000 | 2,400 |
| Insurance Policy Premium paid | 500 | _ |

**You are required to ascertain the profit or loss made by the partners during the year 2008 and prepare detailed Statement of Affairs as on 31- 12-2008 after taking into consideration the following provisions. Calculate depreciation on opening balance.**

**(a) Insurance Policy matured during the year for ` 800**

**(b) Plant & Machinery and Furniture & Fitting are to be depreciated to 10% and 6% P.A. Respectively.**

**(c) A provision for doubtful debts is to be created at 2%**

**(d) Interest on capital at 5% P.A. to be provided. During the year 2008 partners withdrew from the business at ` 1000 each.**

**Sol. :**

**Statement of Affairs as on 1.1.2008 and 31.12.2008**

| Liabilities | 1.1.2008 Rs. | 31.12.2008 Rs. | Asset | 1.1.2008 Rs. | 31.12.2008 Rs. |
|---|---|---|---|---|---|
| Creditors | 7,000 | 6,000 | Cash at bank | 1,000 | 2,400 |
| Out standing exp | 250 | 3,000 | Debtors | 6,000 | 9,000 |
| Combined capital | 16,840 | 27,250 | Un expired expenses | 90 | 150 |
| (Balance) | | | Stock | 5,000 | 7,500 |
| | | | Insurance policy | 500 | - |
| | | | Furniture | 3,500 | 4,500 |
| | | | Machinery | 8,000 | 10,000 |
| | 24,090 | 33,500 | | 24,090 | 33,500 |



**Statement of Profits or Loss**

| Particulars | | Rs. |
|---|---|---|
| Combined capital on 31.12.2008 | | 27,250 |
| Add : Drawing (1000 × 2) | | 2,000 |
| | | 29,250 |
| Less: Combined capital 1.1.2008 | | 16,840 |
| Profit : Before Adjustment | | 12,410 |
| Less : (a) Depreciation | | |
| (i) Machinery @ 10% – | 800 | |
| (ii) Furniture @ 6% – | 210 | 1,010 |
| (b) Provision for doubtful debts | | 225 |
| (c) Interest on capital | | 842 |
| Profit generated during the year | | 10,333 |
| Profit distribution | | |

Sivam = 10,333 × ½ = 5,166.5

Sundaram = 10,333 × ½ = 5,166.5

**Statement of Affairs as on 31.12.2008**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Creditors | | 6,000 | Machinery | 10,000 | |
| Out standing exp | | 300 | (–) Depericition | 800 | 9,200 |
| Capital | | | Furniture | 4,500 | |
| Sivam | 8,420 | | (–) Depreciation | 210 | 4,290 |
| (+) Profit | 5,166.5 | | Debtors | 9,000 | |
| (+) Interest on cap | 4,210 | | (-) Provision for doubtful debts | 225 | 8,775 |
| | 14007.5 | | Stock | | 7,500 |
| Less: Drawings | 1,000 | 13007.5 | Cash at bank | | 2,400 |
| Sundaram | 8420 | | Un expired expenses | | 150 |
| (+) Profit | 5166.5 | | | | |
| (+) Interest on capital | 4210 | | | | |
| | 14007.5 | | | | |
| Less Drawings | 1,000 | 13007.5 | | | |
| | | 32,315 | | | 32,315 |

**13. Ram and Shyam are Partners sharing Profits and Losses in the ratio of 3:2 after charging interest on Capital at 5% p.a. Interest on drawings is to be ignored. On 31st December 2004 their position was as follows :**

| Liabilities | ` | Assets | ` |
|---|---|---|---|
| **S.Creditors** | **15,000** | **Cash at Bank** | **6,000** |
| **Ram's Capital** | **30,000** | **Cash in hand** | **500** |
| **Shyam's Capital** | **25,000** | **Prepaid Insurance** | **500** |
| | | **Stock** | **20,000** |
| | | **Sundry Debtors** | **12,000** |
| | | **Furniture** | **1,000** |
| | | **Machinery** | **30,000** |
| | **70,000** | | **70,000** |

**During the year ended 31s' December 2005 Ram had withdrawn ` 10,000 and Shyam X 5,000 for their private purposes. On 31st December 2005 the assets and liabilities were : Sundry Debtors ` 16,000, Stock ` 28,000 Cash at Bank ` 5,000, Prepaid insurance ` 500 Sundry Creditors `15,100; Expenses owing ` 300 Machinery and Furniture were to be depreciated at 10% p.a. Prepare a statement showing the Profit or Loss made by Ram and Shyam for the year ended 31st December 2005 and a statement of affairs as on that date.**

**Sol. :**

**Statement of Affairs as on 31.12.2005**

| Liabilities | Rs. | Assets | | Rs. |
|---|---|---|---|---|
| Creditors | 15,100 | Debtors | | 16,000 |
| Outstanding exp | 300 | Stock | | 28,000 |
| Combined capital | 62,000 | Cash at bank | | 5,000 |
| (Balance) | | Prepaid insurance | | 500 |
| | | Machinery | 30,000 | |
| | | (-) Depreciation | 3,000 | 27,000 |
| | | Furniture | 1,000 | |
| | | (-) depreciation | 100 | 900 |
| | 77,400 | | | 77,400 |

**Statement of Profits or Loss**

| Particulars | Rs. |
|---|---|
| Combined capital on 31.12.2005 | 62,000 |
| Add : Drawings (10,000 + 5,000) | 15,000 |
| | 77,000 |
| Less: Combined capital as on 1.1.2005 (30,000+25,000) | 55,000 |
| Profit before adjustment | 22,000 |
| Less: Intrest on capital | |
| Ram 30,000 × 5/100 = 1500 | |
| Shyam - 25,000 × 5/100 = 1250 | 2750 |
| Profit generated during the year | 19,250 |

Profit distribution

Ram - 19, 250 × 3/5 = 11,550

Shyman - 19, 250 × 2/5 = 7,700

**Statement of Affairs as on 31.12.2005**

**Dr** **Cr**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Creditors | | 15,100 | Debtors | | 16,000 |
| Outstanding exp | | 300 | Stock | | 28,000 |
| Capital | | | Cash at bank | | 5,000 |
| Ram | 30,000 | | Prepaid insurance | | 500 |
| (+) Profit | 11,550 | | Machinery | 30,000 | |
| (+) Int on capital | 1,500 | | (-) dep@ 10% | 3,000 | 27,000 |
| | 43,050 | | Furniture | 1000 | |
| Less : Drawing | 10,000 | 33,050 | (-) drp @ 10% | 100 | 900 |
| Shyam | 25,000 | | | | |
| (+) Profit | 7,700 | | | | |
| (+) Int on cap | 1,250 | | | | |
| | 33,950 | | | | |
| Less : Drawings | 5,000 | 28,950 | | | |
| | | 77,400 | | | 77,400 |

**14. The following is the statement of affairs as at 31st March 2005 of Young and Bell. Who are in partnership sharing profits and losses in proportions of 2/3rd and 1/3rd respectively. From the particulars given below prepare as at 31st March 2006 (a) a Statement of Profit, apportioning the balance between Young and Bell and (b) a Statement of Affairs as at the date.**

**Young and Bell**

**Statement of Affairs as at 31st March 2005**

| Liabilities | ` | AsseAssetsA | ` |
|---|---|---|---|
| **Capital Accounts :** | | **Plant and Machinery** | **4,000** |
| **Young 20,000** | | **Freehold Property** | **12,000** |
| **Bell 8,000** | **28,000** | **Furniture and Fittings** | **1,000** |
| **Bills Payable** | **1,000** | **Stock** | **7,000** |
| **Sundry Creditors** | **12,000** | **Sundry Debtors** | **13,000** |
| | | **Bills Receivable** | **3,000** |
| | | **Bank** | **990** |
| | | **Cash** | **10** |
| | **41,000** | | **41,000** |

**The position as at 31st March 2006 was as follows :**

**Cash at Bank `1,500; Cash in hand `100; Sundry creditors `19,000; Bills payable `1,200; Sundry Debtors `5,000; Bills Receivable ` 3,800. The stock on hand amounted**

**to ` 8,400. Young's drawings during the year had been ` 3,000 and Bell had drawn ` 1,200. Young withdrew the sum of ` 4,000; on 30th September 2005 from his Capital Account. Depreciate Machinery and Plant by 5%. Furniture and Fittings by 10% and allow interest on Partner's Capital at the rate of 5% p.a. Ignore interest on Drawings.**

**Sol. :**

**Statement of Affairs as on 31.12.2005**

| Liabilities | Rs. | Assets | | Rs. |
|---|---|---|---|---|
| Creditors | 19,000 | Cash at bank | | 15,000 |
| Bills payable | 1,200 | Cash in hand | | 100 |
| | | Debtors | | 5,000 |
| Combined capital | 15,300 | Bills receivables | | 3,800 |
| (balance) | | Stock | | 8,400 |
| | | Pland & Machinery | 4000 | |
| | | (-) dep | 200 | 3,800 |
| | | Furniture | 1000 | |
| | | (-) dep | 100 | 900 |
| | | Free hold propery | | 12,000 |
| | 35,500 | | | 35,500 |

**Statement of Profits or Loss**

| Particulars | | Rs. |
|---|---|---|
| Combined capital on 31.3.2006 | | 15,300 |
| Add : Drawings (3,000 + 1200 + 4,000) | | 8,200 |
| | | 23,500 |
| Less: Combined capital as on 31.3.2005 (20,000 + 8000) | | 28,000 |
| Loss : before Adjustments | | (4,500) |
| Add : Interest on capital | | |
| Young 20,000 × $\frac{5}{100} \times \frac{6}{12}$ = 500 | | |
| 16,000 × $\frac{5}{100} \times \frac{6}{12}$ = 400 | 900 | |
| Bell - 8000 × $\frac{5}{100}$ = 400 | 400 | 1300 |
| Net loss generated during the year | | (5800) |

Young = 5800 × $\frac{2}{3}$ = 3867, Bell 5800 × $\frac{1}{3}$ = 1933

**Statement of Affairs as on 31.3.2006**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Creditors | | 19,000 | Cash at bank | | 1,500 |
| Bills payable | | 1,200 | Cash in hand | | 100 |
| | | | Debtors | | 5,000 |
| Capitals | | | Bills receivables | | 3,800 |
| | | | Stock | | 8,400 |
| **Young :** | | | Plant & Machinery | 4000 | |
| Op. Balance | 20,000 | | (–) depreciation | 200 | 3,800 |
| (+) Int on cap | 900 | | Furniture | 1000 | |
| | 20,900 | | (–) depreciation | 100 | 900 |
| Less: Drawing | 7,000 | | Free hold property | | 12,000 |
| | 13,900 | | | | |
| Less : Net loss | 3,867 | | | | |
| | 10,033 | | | | |
| **Bell** | | | | | |
| Op. Balance | 800 | | | | |
| (+) Interest on | 400 | | | | |
| Capital | 8400 | | | | |
| (–) Drawings | 1200 | | | | |
| | 7200 | | | | |
| (–) Net Loss | 1933 | | | | |
| | 5267 | 15,300 | | | |
| | | 35,500 | | | 35,500 |



**15. A, B and C were in Partnership, and towards the end of 2005 most of their books and records were destroyed in a fire. The Balance Sheet as on 31st December 2004 was as follows :**

| Liabilities | | ` | AssAssetse | ` |
|---|---|---|---|---|
| **Creditors** | | **5,500** | **Cash** | **2,400** |
| **Capital :** | | | **Debtors** | **3,600** |
| **A** | **4,500** | | **Stock** | **6,500** |
| **B** | **3,000** | | **Machinery** | **1,440** |
| **C** | **1,500** | **9,000** | **Fixtures & Fittings** | **600** |
| **Current Accounts** | | | **Advance Payments** | **35** |
| **A** | **145** | | **Current Account :** | |
| **B** | **100** | **245** | **C** | **170** |
| | | **14,745** | | **14,745** |

**The partners' drawings in 2005 have been proved at A `1,400. B `1,000 and C `650. On 31st December 2005 the Cash was `3,200; Debtors `4,025; Stock `5,900; Advance Payment `25, and creditors `6,040. Machinery is to be depreciated by 10% per annum and Fixtures and Fitting at $7^1/_2$%. 5% interest is to be allowed on Capital. The Partners share profits in proportions of $^1/_2$, 1/3 and 1/6 respectively.**

**You are required to prepare a statement showing Net Trading Profit for the year 2005 and the division of the same between the Partners, together with the Balance Sheet as on 31st December 2005.**

***Hint:* Prepare Statement of Affairs as on 31-12-2005 to ascertain combined Current Accounts of A, B and C. It amounts to `39 excess of liabilities over assets. Prepare the statement of profit and Loss starting with combined Current Accounts of A, B and C. `39 (minus). Add drawings of A, B and C totalling `3050. Deduct net Current Account balance of partners on 31-12-2004 ` 75 (`245 less `170). The figure arrived at is the profit before allowing interest on capital. The net profit is arrived after deducting interest on Capital.**

**Sol. :**

**Statement of Affairs as on 31.12.2005**

| Liabilities | Rs. | Assets | | Rs. |
|---|---|---|---|---|
| Creditors | 6,040 | Cash | | 3,200 |
| Combined capital (fixed) | 9,000 | Debtor | | 4,025 |
| | | Stock | | 5,900 |
| | | Advance payment | | 25 |
| | | Machinery | 1440 | |
| | | (-) depreciation (1440×10/100) | 144 | 1296 |
| | | Furniture | 600 | |
| | | (-) depreciation (600×7.5/100) | 45 | 555 |
| | | Combined current A/c (Balance) | | 39 |
| | 15040 | | | 15040 |

**Statement of Profits or Loss**

| Particulars | Rs. |
|---|---|
| Combined current a/c as on 31.12.2005 | (–39) |
| Add: Drawing (1400 + 1000 + 650) | 3,050 |
| | 3011 |
| Less : Combined current a/c as on 1.1.2005 145 + 100 + (–170) | 75 |
| | 2936 |
| Less: Interest 225 + 150 + 75 | 450 |
| Profit | 2486 |
| Profit distribution | |
| A = 2486 × ½ = 1243 | |
| B = 2486 × 1/3 = 829 | |
| C = 2486 × 1/6 = 414 | |

**Statement of Affairs as on 31.12.2005**

| Liabilities | Rs. | Assets | | Rs. |
|---|---|---|---|---|
| Creditors | 6,040 | Cash | | 3,200 |
| Capital (fixed) | | Debtor | | 4,025 |
| A = 4500 | | Stock | | 5,900 |
| B = 3000 | | Advance payment | | 25 |
| C = 1500 | 9,000 | Machinery | 1440 | |
| | | (-) dep | 144 | 1296 |
| Current A/c | | Furnature | 600 | 555 |
| A = 213 | | (-) dep | 45 | 555 |
| B = 79 | 292 | * C current A/c | | 331 |
| | 15,332 | | | 15,332 |

* **Calculation of current A/c**

| Partners | A | B | C |
|---|---|---|---|
| Opening balance | 145 | 100 | (–170) |
| Add : Profit | 1243 | 829 | 414 |
| Int on capital | 225 | 150 | 75 |
| | 1613 | 1079 | 319 |
| Less : drawings | 1400 | 1000 | 650 |
| | 213 | 79 | (331) |

**16. Ascertain Credit Sales and Credit Purchases from the following figures.**

| Particulars | ` | Particulars | ` |
|---|---|---|---|
| **Opening Balances** | | **Cash received from Debtors** | **48,300** |
| **Debtors** | **11,400** | **Cash Paid to Creditors** | **25,100** |
| **Creditors** | **6,800** | **Bad Debts-written off** | **300** |
| **Discount allowed** | **1,500** | **Discount received** | **300** |
| **Sales Returns** | **800** | **Purchases Returns** | **600** |
| **Bills Payable issued** | **3100** | **Bills Receivable received** | **6,100** |
| **Closing Balances** | | | |
| **Debtors** | **10,800** | | |
| **Creditors** | **5,400** | | |

**Sol. :**

**Total Debtor's A/c**

**Dr** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Balance | 11,400 | By Cash | 48,300 |
| To Credit sales (Balance) | 56,400 | By Bill Recived | 6,100 |
| | | By Discount | 1,500 |
| | | By Sales returns | 800 |
| | | By Bad debts | 300 |
| | | By Balance | 10,800 |
| | 67,800 | | 67,800 |

**Total Creditor's A/c**

**Dr** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Cash | 25,100 | By Balance | 6,800 |
| To Discount | 300 | By Credit purchases | |
| To Bills payable | 3,100 | (Balance) | 27,700 |
| To Purchase returns | 600 | | |
| To Balance | 5,400 | | |
| | 34,500 | | 34,500 |



**17. From the following prepare Total Debtors Account. Total Creditors Account, Bills Receivable Account and Bills Payable Account and ascertain Credit Sales and Purchases.**

| Particulars | ` | Particulars | ` |
|---|---|---|---|
| **Balances on 1st Jan 2015** | | **B/P issued during the year** | **10,000** |
| **Total Debtors** | **18,000** | **Cash paid to creditors** | **30,000** |
| **Total Creditors** | **12,000** | **Discount allowed by suppliers** | **3,000** |
| **Bills Receivable** | **8,000** | | |
| **Bills Payable** | **7,000** | **Allowances received from suppliers** | **1,000** |
| **B/R received during the year** | **20,000** | | |
| | | **B/R endorsed to creditors dishonoured** | **2,000** |
| **Cash received from debtors** | **35,000** | **B/P honoured** | **8,000** |
| **Cash paid to customers** | **1,000** | **B/P dishonoured** | **3,000** |
| **Discount allowed to customers** | **3,000** | **Purchases Returns** | **2,000** |
| | | **Provision for Doubtful Debts** | **2,000** |

| | | | |
|---|---|---|---|
| **Allowance given to customers** | **2,000** | **Balance on 31st** | |
| **Bad Debts written off** | **4,000** | **December 31,2015** | |
| **B/R Endorsed to creditors** | **5,000** | **Total Debtors** | **15,000** |
| **B/R Dishonoured by customer** | **6,000** | **Total Creditors** | **13,000** |
| **B/R honoured by customers** | **14,000** | **Bills Receivable** | **1,000** |
| | | **Bills Payable** | **6,000** |
| **Interest charged to customers** | **2,000** | | |
| **B/R discounted for (Discount `40)** | **1960** | | |
| **B/R Discount dishonoured** | **1,000** | | |
| **Bad Debts recovered** | **500** | | |
| **Sales Returns** | **3,000** | | |

**Sol. :**

**Total Debtor's A/c**

**Dr** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Balance | 18,000 | By Cash | 35,000 |
| | | By Bills receivables | 20,000 |
| To Cash paid | 1,000 | By Discount | 3,000 |
| To Bill recivable dishonoured | 6,000 | By Allowance | 2,000 |
| To Bill receivable discounted dishonoured | 1,000 | By Bad debts | 4,000 |
| | | By Sales returns | 3,000 |
| To Interest charged | 2,000 | By Balance | 15,000 |
| To Bill receivable endorsed to creditors dishonoured | 2,000 | | |
| To Credit sales (Balance) | 52,000 | | |
| | 82,000 | | 82,000 |

**Total Creditor's A/c**

**Dr** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Cash | 30,000 | By Balance | 12,000 |
| To Purchase returns | 2,000 | By B/R endorsed dishonoured | 2,000 |
| To B/R endorsed | 5,000 | By B/P Dishonoured | 3,000 |
| To Discount | 3,000 | To Credit puchases (Balance) | 47,000 |
| To B/P Accepted | 10,000 | | |
| To Allowances | 1,000 | | |
| To Balance | 13,000 | | |
| | 64,000 | | 64,000 |

**Bills Receivable A/c**

**Dr** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Balance | 8,000 | By Cash | 14,000 |
| To Total Debtors | 20,000 | By B/R Dishonourd | 6,000 |
| | | By Bank | 1960 |
| | | By Discount on B/R | 40 |
| | | By Creditors B/R endorsed | 5,000 |
| | | By Balanced | 1,000 |
| | 28,000 | | 28,000 |

**Bills Payable A/c**

**Dr** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Cash | 8,000 | By Balance | 7,000 |
| To Creditor B/P Dishonoured | 3,000 | By Creditors | 10,000 |
| To Balance | 6,000 | | |
| | 17,000 | | 17,000 |



**18. Sri Mohanlal keeps his book on single entry system the position of his business as on 1st April 2011 was as follows :**

**S Creditors `17,000; Premises ` 50,000; Stock ` 25,000 S Debtors ` 20,000; Furniture ` 2,000**

**An abstract of Cash Book is given below :**

| Receipts | ` | Payments | ` |
|---|---|---|---|
| **From S. Debtors** | **45,000** | **Bank Overdraft** | |
| **Cash Sales** | **55,000** | **(on 1-4-2014)** | **10,000** |
| | | **Expenses** | **55,000** |
| | | **Drawings** | **3,000** |
| | | **S. Creditors - Payments** | **20,000** |
| | | **Cash in Hand** | **3,000** |
| | | **Cash at Bank** | **9,000** |
| | **1,00,000** | | **1,00,000** |

**Closing Balances :**

**Stock ` 30,000; Debtors ` 25,000; Creditors `22,000; Depreciate furniture by 15% and Premises by 10%. Provision for Doubtful debts is to be made at 5%.Prepare Trading and Profit & Loss Accounts for the year ended 31st March, 2015 and Balance Sheet as on the date.**

**Sol. :**

**Statement of Affairs as on 31.3.2014**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Sundry creditors | 17,000 | Stock | 25,000 |
| Bank O.D. | 10,000 | Debtors | 20,000 |
| Capital (Balance) | 70,000 | Furniture | 2,000 |
| | | Premises | 50,000 |
| | 97,000 | | 97,000 |

**Total Debtors A/c**

Dr Cr

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Balance | 20,000 | By Cash | 45,000 |
| To Credit Sales Balance | 50,000 | By Balance | 25,000 |
| | 70,000 | | 70,000 |

**Total Creditor A/c**

Dr Cr

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Cash | 20,000 | By Balance | 17,000 |
| To Balance | 22,000 | By Credit purchases | 25,000 |
| | 42,000 | | 42,000 |

**Trading A/c for the year end 31.3.2015**

Dr Cr

| Particulars | Rs. | Particulars | | Rs. |
|---|---|---|---|---|
| To Op. Balance | 25,000 | By Sales | | |
| To Purchases | 25,000 | Cash | 55,000 | |
| To Gross profit | 85,000 | Credit | 50,000 | 1,05,000 |
| | | By Closing stock | | 30,000 |
| | 1,35,000 | | | 1,35,000 |

**Profit & Loss A/c for the year end 31.3.2015**

Dr Cr

| Particulars | | Rs. | Particulars | Rs. |
|---|---|---|---|---|
| To Expenses | | 55,000 | By Gross Profit | 85,000 |
| To Depreciation | | | | |
| i) Furniture | 300 | | | |
| ii) Premises | 5,000 | 5,300 | | |
| To Provision for Doubtful debts | | 1,250 | | |
| To Net profit | | 23,450 | | |
| | | 85,000 | | 85,000 |

**Balance sheet as on 31.3.2015**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Creditor | | 22,000 | Cash in hand | | 3,000 |
| Capital | 70,000 | | Cash in bank | | 9,000 |
| (+) Profit | 23,450 | | Debtors | 25,000 | |
| | 93,450 | | (–) Provision | 1250 | 23,750 |
| (–) Drawings | 3,000 | 90,450 | Stock | | 30,000 |
| | | | Furniture | 2,000 | |
| | | | (–) Dep | 300 | 1,700 |
| | | | Premises | 50,000 | |
| | | | (–) Dep | 5,000 | 45,000 |
| | | 1,12,450 | | | 1,12,450 |

**19.** **Bonthaiah keeps his books on single entry system. From the following particulars prepare Trading and Profit and Loss Account for the year ended 31st December 2015 and Balance Sheet as at that date : On 1-1-2015 his assets and liabilities were as follows : Stock ` 50,000; Sundry Debtors ` 60,000; Machinery ` 60,000; Furniture 5,000; Sundry Creditors ` 30,000; and Bank Overdraft ` 10,000.**

**The Cash Book given the following information**

| Particulars | ` |
|---|---|
| Receipts from Debtors | 80,000 |
| Cash Sales | 30,000 |
| Payments to Creditors | 40,000 |
| Cash Purchases | 25,000 |
| Interest on Bank Overdraft | 1,500 |
| Salaries | 5,000 |
| Drawings | 4,000 |
| General Expenses | 8,000 |
| Rent | 2,200 |

**Discount allowed to debtors was ` 4,000 and Discount earned from creditors was ` 2,500; Goods worth ` 3,000 were returned by the customers and goods worth ` 1,500 were returned to Suppliers.**

**On 31st Decembers 2015 his Position was as follows :**

**Stock ` 45,000; Sundry Debtors ` 70,000; Bills Receivable ` 6,000; Bills Payable ` 4,000; Machinery ` 60,000; Furniture ` 5,000; Sundry Creditors ` 25,000; and Salary outstanding ` 500. Depreciate Machinery and Furniture by 10% and 5% respectively.**

**Sol. :**

**Cash A/c**

Dr Cr

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Debtors | 80,000 | By Bank Overdraft | 10,000 |
| To Sales | 30,000 | By Creditors | 40,000 |
| | | By Punchases | 25,000 |
| | | By Interest on Overdraft | 1,500 |
| | | By Salaries | 5,000 |
| | | By Drawings | 4,000 |
| | | By General Exp | 8,000 |
| | | By Rent | 2,200 |
| | | By Balance | 14,300 |
| | 1,10,000 | | 1,10,000 |

**Total Debtors A/c**

Dr Cr

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Balance | 60,000 | By Cash | 80,000 |
| To Credit sales | 1,03,000 | By Discount | 4,000 |
| | | By Sales returns | 3,000 |
| | | By Bills recivables | 6,000 |
| | | By Balance | 70,000 |
| | 1,63,000 | | 1,63,000 |

**Total Creditor A/c**

Dr Cr

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Cash | 40,000 | By Balance | 30,000 |
| To Discount | 2,500 | By Credit purchases | 43,000 |
| To Purchase returns | 1,500 | | |
| To B/P | 4,000 | | |
| To Balance | 25,000 | | |
| | 73,000 | | 73,000 |

**Statement of Affairs as on 1.1.2015**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Bank Overdraft | 10,000 | Stock | 50,000 |
| Creditors | 30,000 | Debtors | 60,000 |
| Capital (balance) | 1,35,000 | Machinery | 60,000 |
| | | Furniture | 5,000 |
| | 1,75,000 | | 1,75,000 |

**Trading, Profit & Loss A/c for the year ended 31.12.2015**

**Dr** **Cr**

| Particulars | | Rs. | Particulars | | Rs. |
|---|---|---|---|---|---|
| To Opening stock | | 50,000 | By Sales | | |
| To Purchases | | | | | |
| Cash | 25,000 | | Cash | 30,000 | |
| Credit | 43,000 | | Credit | 1,03,000 | |
| | 68,000 | | | 1,33,000 | |
| (-) Returns | 1,500 | 66,500 | (–) Returns | 3,000 | 1,30,000 |
| Gross profit | | 58,500 | By Closing stock | | 45,000 |
| | | 1,75,000 | | | 1,75,000 |
| To Salaries | 5000 | | By Gross profit | | 58,500 |
| (+) Outstanding | 500 | 5,500 | By Discount | | 2,500 |
| To General expenses | | 8,000 | | | |
| To Rent | | 2,200 | | | |
| To Interest on O.D | | 1,500 | | | |
| To Discount | | 4,000 | | | |
| To Depreciation | | | | | |
| Machinery | 6,000 | | | | |
| Furniture | 250 | 6,250 | | | |
| To Net profit | | 33,550 | | | |
| | | 61,000 | | | 61,000 |



**Balance Sheet as on 31.12.20015**

| Labilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Creditors | | 25,000 | Furniture | 5000 | |
| Bills payable | | 4,000 | (-) Dep | 250 | 4,750 |
| Outstanding exp | | 500 | Machinery | 60,000 | |
| Capital | 1,35,000 | | (-) Dep | 6,000 | 54,000 |
| (+) Profit | 33,550 | | Debtors | | 70,000 |
| | 1,68,550 | | Bills recivables | | 6,000 |
| (-) Drawings | 4,000 | 1,64,450 | Cash | | 14,300 |
| | | | Stock | | 45,000 |
| | | 1,94,050 | | | 1,94,050 |

**20. A keep his books by single entry. On January 1st 2015 his Capital was ` 6,900. An analysis of his Cash Book for 2015 gives the following particulars.**

| Debit | ` | Credit | ` |
|---|---|---|---|
| Received from Sundry | | Due to Bank. 1st Jan. 2015 | 740 |
| Debtors | 6,000 | Payment to Sundry Creditors | 2,500 |
| Paid in on Capital Account | 500 | General Expenses of Business | 1,000 |
| | | Wages | 1,550 |
| | | Drawings | 300 |
| | | Balance at Bank 31st Dec. 2015 | 400 |
| | | Balance in Hand | 10 |

| Particulars | 1-1-2015 ` | 21-12-2015 ` |
|---|---|---|
| Debtors | 5,300 | 8,800 |
| Creditors | 1,500 | 1,950 |
| Stock | 1,700 | 1,900 |
| Plant and Machinery | 2,000 | 2,000 |
| Furniture and Fittings | 140 | 140 |

**From the above material, prepare a Profit & Loss Account for the year ended 31st December 2015 and Balance Sheet at that date, after providing interest on Capital (ignoring payment in and drawings), 10% Depreciation on Plant, 5% Depreciation on Furniture and Reserve of 5% on Sundry Debtors.**



**Sol. :**

**Statement of Affairs as on 1.1.2015**

| Labilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Bank O.D | 740 | Debtors | 5,300 |
| Creditors | 1,500 | Stock | 1,700 |
| Captial (Balance) | 6,900 | Plat & Machinery | 2000 |
| | | Furniture | 140 |
| | 9,140 | | 9,140 |

**Total Debtors A/c**

**Dr** **Cr**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Balance | 5,300 | By Cash | 6,000 |
| To Credit sales (Balance) | 9,500 | By Balance | 8,800 |
| | 14,800 | | 14,800 |

### Total Credit Sales A/c

Dr Cr

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Cash | 2,500 | By Balance | 1,500 |
| To Balance | 1,950 | By Credit purchase (Balance) | 2,950 |
| | 4,450 | | 4,450 |

### Trading, Profit & Loss A/c for the year end 31.12.2015

Dr Cr

| Particulars | | Rs. | Particulars | Rs. |
|---|---|---|---|---|
| To Opening stock | | 1700 | By Sales | 9,500 |
| To Purchases | | 2,950 | By Closing stocks | 1,900 |
| To Wages | | 1,550 | | |
| To Gross profit | | 5,200 | | |
| | | 11,400 | | 11,400 |
| To General Expenses | | 1,000 | By Gross profit | 5,200 |
| To Depreciation | | | | |
| i) Plant | 200 | | | |
| ii) Furniture | 7 | 207 | | |
| To Provision for Doubtful Debts | | 440 | | |
| To Interest on capital | | 345 | | |
| To Net Profit | | 3,208 | | |
| | | 5,200 | | 5,200 |

### Balance Sheet as on 31.12.2015

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Creditor | | 1950 | Plant & Machinery | 2000 | |
| Capital | 6,900 | | (-) Dep. | 200 | 1800 |
| (+) Addl.captial | 500 | | Furniture | 140 | |
| (+) Net profit | 3208 | | (-) Dep | 7 | 133 |
| (+) Interest | 345 | | Debtors | 8800 | |
| | 10,953 | | (-) Provision | 440 | 8,360 |
| (-) Drawing | 300 | 10,653 | Stock | | 1,900 |
| | | | Cash in hand | | 10 |
| | | | Cash at Bank | | 400 |
| | | 12,603 | | | 12,603 |

# Exercise Problems

1. Jeejibhoy kept their books on Single Entry System. Their position on31st March, 2012 was as follows :

   Cash in hand ` 200; Cash at Bank ` 3,000 ; Stock ` 20,000; Sundry Debtors ` 8,500 ; Fixtures and Fittings, ` 1,800; Plant and Machinery ` 15,000; Sundry Creditors ` 22,000.

   Jeejibhoy put ` 5,000 during the yeaar as new capital and his drawings were @ ` 750 per month.

   His position on 31st March, 2013 was as follows:

   Cash in Hand ` 300 ; Cash at Bank ` 2,000; Sundry Debtors ` 14,000 ; Stock ` 19,000 ; Plant and Mechinery ` 27,000 ; Fixture and Fittings ` 1,500 ; Sundry Creditors ` 29,000.

   From the above information, prepare a Statement of Affairs showing profit or loss during the year ending on 31st March, 2013.

**Ans. [Beginning Capital ` 26,500; Capital at the end ` 34,800 ; Profit ` 12,300].**

2. A commenced business on 1st January, 2012 with a capital of ` 25,000. He immediately bought furniture for ` 6,000. During the year he borrowed ` 15,000 from his wife and introduced a further capital of his own amounting to ` 9,500. He had withdrawn ` 900 at the end of each month for family expenses. On 31st December, 2012, his position was as follows :

   Cash in hand ` 600 ; Cash at Bank ` 7,800 ; Sundry Debtors ` 14,400 ; Stock ` 20,400; Bills Receivable ` 4,800 ; Sundry Creditors ` 1,500 ; Rent due ` 450.

   Furniture to be depreciated by 10 per cent.

   Ascertain the profit or loss made by A during 2012.

**Ans. [Capital at the end ` 36,450 ; Profit ` 12,750].**

3. 'X' commenced business on 1st January, 2012 with a capital of ` 20,000. Soon thereafter, he bought furniture and fixures for ` 4,000. On 30th June, 2012 he borrowed ` 10,000 from his brother at 12% per annum (interest not yet paid) and introduced a further capital of his own amounting to ` 3,000. He with drew @ ` 600 p.m. at the end of each month for household expenses. On 31st December, 2012 his position was as follows :

   Cash in hand, ` 400 ; Cash at bank, ` 5,200 ; Sundry Debtors, ` 9600 ; Stock ` 10,000 ; Bills Re ceivable ` 3,200 ; sundry Creditors, ` 1,000 and owing for rent ` 300.

   Furniture and fixture are to be depreciated by 10%

   Ascertain the profit or loss made by X during 2012.

**Ans. [Capital at the end ` 20,100 ; Profit ` 4,300].**

4. Panwar commenced business on 1st January, 2012, with a capital of ` 10,000, which he paid into Banking Account opened for that purpose. On the same date he bought stock valued at `6,500 and furniture which cost ` 2,000. He kept his books on single entry basis. On 31st December, 2012, stock was valued at ` 8,300. There were book debts amounting to ` 3,400 of which ` 200 represented debts which were irrecoverable. Creditors amounted to ` 3,600 and the Cash Book showed a balance of ` 1,650, but according to Pass Book, the balance at Panwar's credit was only ` 1,450, he having given his son ` 200 and omitted to enter in the Cash Book. Panwar withdraw

` 1,800 from the business for his private expenses, and in addition he used, ` 500 worth of goods from his shop. He took ` 1,000 as loan from his wife during the year.

Prepare a statement showing Panwar's profit or loss in the business for the year ended 31st December, 2012 from the above information.

**Ans. [Capital at the end ` 10,350 ; Profit ` 2,850]**

5. Mr. A does not maintain complete double entry books of accounts. From the following details determine s the profits for the year and prepare revised statement of affairs at the end of the year.

` 1,000 (cost) furniture was sold for ` 5,000 on 1-1-2012 ; 10% depreciation is to be charged on furniture. Mr. A has drawn ` 1,000 per month. ` 2,000 was invested by Mr. A in 2012.

| | *1-1-2012* ` | *31-12-2012* ` |
|---|---|---|
| Stock | 40,000 | 60,000 |
| Debtors | 30,000 | 40,000 |
| Cash | 2,000 | 1,000 |
| Bank | 10,000 | 5,000 (O.D) |
| Creditors | 15,000 | 25,000 |
| Outstanding Expenses | 5,000 | 8,000 |
| Furniture (cost) | 3,000 | 2,000 |

Bank balance on 1.1.2012 is as per Cash Book, but the bank overdraft on 31.12.2012 is as per Bank Statement. ` 2,000 cheques drawn in December, 2012 have not been encashed within the year.

**Ans. [Beginning Capital ` 65,000 ; Capital at the end ` 62,800 ; Profit ` 7,800].**

6. A retailer who had kept books of accounts under single entry system, supplied the following Information to you. Prepare statement of profit or loss and a revised statement of affairs as on 31-12-2012.

| Particulars | 1-1-12 | 31-12-12 |
|---|---|---|
| Stock | 16,700 | 18,500 |
| Creditors | 15,400 | 14,000 |
| Debtors | 11,200 | 10,500 |
| Cash | 250 | 1,200 |
| Bank Over draft | 20,200 | 19,400 |
| Bills Receivable | 15,050 | 14,200 |
| Furniture | 1,500 | 1,500 |
| Machinery | 1,900 | 1,900 |

The drawings during the year amounted to ` 2,600. Depreciate furniture by 10%. Write off ` 300 from machinery. Debtors include ` 500 bad debts. Make provision for doubtful debts at 5% on debtors.

**Ans. [Capital : on 1-1-2012 ` 11,000; on 31-12-2012 (without adjustments) ` 14,400; Gross Profit ` 6,000; Net Profit ` 4,550; Total of Revised Statement of Affairs ` 46,350]**

7. Anand a retail trader, had no proper methods of accounting, but the following information is made available to you :

| Particulars | 1-1-2012 ` | 31-12-2012 ` |
|---|---|---|
| Furniture | 3,000 | 3,000 |
| Motor Vans | 3,800 | 3,800 |
| Cash | 500 | 2,400 |
| Stock | 33,400 | 37,000 |
| Bank Overdraft | 40,400 | 38,800 |
| Debtors | 22,400 | 21,000 |
| Bills Receivable | 30,100 | 28,400 |
| Creditors | 30,800 | 28,000 |

During the year he withdrew ` 5,200 for personal use.

**Adjustments** :

(a) Depreciate furniture by 10%.

(b) Write off ` 200 from Motor Vans,

(c) Debtors include ` 400 irrecoverable and a further reserve of 2% is to be made,

(d) A bill of ` 500 is considered doubtful.

Prepare a statement showing profit or loss for the year ended 31-12-2012 and a Revised Statement of Affairs as on that date.

**Ans. [Capital: on 1-1-2012 ` 22,000; (After Adjustment) on 31-12-2012 ` 27,478; Profit ` 10,678]**

# Short Question & Answers

**1. Define single entry system.**

*Ans :*

Any set of procedures for ascertaining profits that does not provide for the analysis of each transaction in terms of the double entry system of book keeping is generally referred to as “Single Entry System”. Strictly speaking, single entry constitutes incomplete records rather than single entry accounting. Therefore, the expression single entry does not mean that there is only one entry for each transaction. In fact, single entry system is a mixture of : (i) double entry; (ii) single entry; and (iii) no entry.

Under this system, certain transactions are recorded just like the double entry system; for example : cash collected from debotors - it is recorded in the Debotrs Account as well as in the Cash Account. Again, certain transactions are not recorded at all, e.g., Bad Debtt, Depreciation, etc. Single entry system may be defined as a system in which accounting records are not kept strictly according to the double entry principles of bookkeeping. Since all the transactions are not recorded strictly on the double entry principle, it is not possible to prepare a trial balance and check the arithmetical accuracy of the books of account.

In India, there are many small-scale business which do not keep complete records for all their financial transactions because the proprietors of these businesses are untrained in accounting and regard it better to keep an additional productive employee rather than a book keeper. They assume that without an elaborate accounting system, they can exercise control over assets, expenses, revenues and liabilities. They record few transactions completely just like the double entry system but a majority of the transactions are recorded only partially.

**2. Features of single entry system?**

*Ans :*

1. This system is a mixture of : (i) double entry; (ii) single entry ; and (iii) no entry.
2. This system is suitable for small businesses where the proprietor or partners can directly control the affairs of the business.
3. In this system, generally Personal Accounts are kept but Real and Nominal Accounts are ignored.
4. In the absence of record of the two-fold aspect of every transaction, it is not possible to prepare a trial balance and check the arithmetical accuracy of the books of account. Similarly, no Balance Sheet can be prepared in the absence of balances in ledger.
5. This system is highly changeable and flexible and it is not governed by any definite rules of operation.
6. Under this system the profit or loss can be found out but its composition will not be available.

**3. The Transaction Approach.**

*Ans :*

When books of account are maintained under complete double entry principles of bookkeeping, this approach is followed for determining the profit or loss of a particular period. In this approach, every transaction is analysed and the following steps are followed:

1. We record only transactions to business - events which can be translated into monetary terms.
2. Every transaction involves two account - one of these accounts is debited and the other is credited in the books of primary entry.
3. From books of primary entry, we prepare Ledger Accounts and, thereafter, accounts are balanced.
4. A Trial Balance is prepared from the Ledger balances to ensure the arithmetical accuracy of the records.
5. After preparing the Trial Balance, adjusting entries are passed to record the internal transactions such as provision for bad debts, depreciation, etc.
6. A second Trial Balance (called Adjusted trial balance) is prepared to incorporate the adjusting entries.
7. From the Trial Balance, nominal accounts are transferred to Trading and Profit and Loss Account.
8. The trading account shows the gross profit and the profit and loss account shows the net profit or loss.

**4. The Balance Sheet Approach.**

*Ans :*

When books of account are maintained under single entry system, it is not possible to determine profit or loss by the transaction approach because we cannot get full information regarding all transactions.

The problems that arise in the single entry system for the determination of profit can be solved within the context of the fundamental Balance Sheet equation, as under:

Capital = Assets – Liabilities

Under this method, two Balance Sheets (better to say, Statement of Affairs) are prepared. One, at the beginning of the period for finding out **the Opening Capital** and the other at the end of the period for finding out **the Closing Capital.** A comparison is made between the opening and closing capital. If the closing capital is more than the opening capital, it shows an increase in capital, which means a **profit.** Conversely, if the closing capital is less than the opening capital, it shows a decrease in capital, which means a loss for the period.

# Choose the Correct Answers

1. The opening capital is ascertained by preparing: [ d ]
   (a) Cash book (b) Creditors A/c
   (c) Debtors A/c (d) Opening statement of affairs
2. A single entry system it: [ b ]
   (a) Complete and scientific system (b) Incomplete and unscientific
   (c) Incomplete and scientific (d) Complete and unscientific
3. Single entry system has effect: [ a ]
   (a) One effect (b) Tow effect
   (c) Three effect (d) None of the above
4. In single entry system, it is not possible to prepare: [ b ]
   (a) Receipts and payments A/c (b) Trial balance
   (c) Balance sheet (d) Account sales
5. A single entry system is usually adopted by: [ c ]
   (a) Company (b) Partnership
   (c) Government (d) None of above
6. Single entry system is must suited where: [ a ]
   (a) Cash transactions are many
   (b) Credit transactions are many
   (c) Cash & credit transactions are more
   (d) None of the above
7. Capital can be obtained by preparing: [ b ]
   (a) Cash book (b) Statement of affairs
   (c) Debtors A/c (d) Creditors A/c
8. Credit sale can be obtained by preparing: [ c ]
   (a) Cash book (b) Statement of affairs
   (c) Debtors A/c (d) Creditors A/c
9. Credit purchase can be calculated by preparing: [ d ]
   (a) Cash book (b) Statement of affairs
   (c) Debtors A/c (d) Creditors A/c
10. Cash in hand can be obtained by preparing: [ a ]
   (a) Cash book (b) Statement of affairs
   (c) Debtors A/c (d) Creditors A/c

# Fill in the blanks

1. Accounting records that are not maintained strictly on the basis of double entry book keeping system is termed as ________.
2. Single entry system is usually maintained by ________.
3. Generally, there will be no records relating to ________ and ________ accounts under this system.
4. ________ cannot be prepared under this system.
5. This system is never maintained by ________ on account of legal requirement.
6. Under this system ________ accounts are not maintained properly.
7. Ascertainment of profit/loss under this system can be made by preparing ________ and statement of profit or loss.
8. Statement of affairs method is also known as ________.
9. When net worth at the end of the given period is more than that of the beginning (after adjustments), the result is ________.
10. The difference between total assets and total outside liabilities is known as ________.



## ANSWERS

1. Single entry system
2. Sole traders (or businessmen)
3. Real and personal
4. Trial balance
5. Limited companies
6. Nominal
7. Statement of affairs
8. Net worth method / method of capital comparison
9. Profit
10. Capital

# UNIT V

**Accounting for Non-profit Organizations :**

Non- Profit Organziation – Meaning – Features – Receipts and Payments Account – Income and Expenditure Account – Balance Sheet

## 5.1 Non-Profit Organization - Meaning

**Q1. What is non-profit organizations?**

*Ans :*

In every society, some form of organization or association is found which does not have the objective of making profit. Their main objective may be social, educational or charitable and they take the form of clubs, societies or charitable bodies and so on. Many Government activities fall into this category, such as hospitals, schools and colleges, etc. Their main objectives are to provide service to the members or beneficiaries. The main idea is to spend the funds of the organization in such a fashion that provides maximum benefit to the members. Nonetheless, in the long run, these forms of organization must have sufficient surplus after meeting the expenses from the income. Many social clubs are democratically organized just like a company and the members or beneficiaries get information similar to that provided to a shareholder. But the surplus of these organizations is not distributed among its members by way of dividends as it is done in case of a company However, we may find certain charitable institutions which are autocratic. They are managed by a small group of trustees who retain the power to appoint their own successors.



**Meaning of Non-profit Seeking Organizations**

Non-profit seeking organizations refer to those organizations which:

(a) Are formed for the purpose of promoting commerce, art, science, religion, charity or any other useful object,

(b) Intend to spend their income in promoting their objectives, and

(c) Prohibit the payment of any dividend to their members.

The examples of such organizations include sports clubs, social clubs, libraries, charitable hospitals, educational institutions, temples, churches, gurudwaras, masjids and professional bodies (e.g. The Institute of Chartered Accountants of India, The Institute of Cost and Works Accountants of India, The Institute of Company Secretaries of India).

Such entities may or may not have trading activities. If trading activities are carried on by such entities, then the profit arising therefrom is used for the purposes of promoting the objectives for which such entities were formed. For example, if a sports club also runs a restaurant, the profit of such a restaurant is used to promote the service objectives.

**Q2. Explain the objectives of non-profit organization ?**

*Ans :*

1. To evaluate the performance of organizations in terms of achieving their goals for which they were created.
2. To judge whether those organizations are appropriating the funds with three E's viz. economically, effectively and efficiently.
3. To examine the compliance of rules, regulations, bye-laws in the organizations.
4. For obtaining grants from government departments.
5. To submit annual accounts to the Registrar with whom they are registered.

### 5.1.1 Features of Non-Profit Organization.

**Q3. Explain the features of Non-profit organization.**

*Ans :*

**1. Main Aim is Service**

The basic aim of non-profit organizations is to serve the society. They are working for the benefit of the society as a whole.

**2. Profit is not the Criterion**

Non-profit organizations are formed for some idealistic purposes such as religious, charitable or providing education etc. Earning of profits can never be their aim.

**3. Surplus not Distributed among its Members**

Though earning profit is not the criterion for non-profit organizations, yet there may be excess of income over expenditure or excess of expenditure over income. The former is known as 'surplus' and latter is known as 'deficit'. Unlike other business, surplus or deficit of non-profit organizations is not distributed among its members. They are adjusted in the capital fund of such organizations.

**4. Separate Entity**

The separate entity concept is equally applicable to non-profit organizations. Such organizations are treated as a separate entity distinct from its members.

**5. Major Funds from Contributions and Donations etc.**

Usually, non-profit organizations are not self sufficient to run their activities with the revenue generated from their own sources, so they depend upon the subscriptions, donations and grants received from various government departments.

## 5.2 Distinction between a Profit Seeking Organization and A Non-profit Seeking Organization

**Q4. How profit organizations differ with non-profit organizations?**

*Ans :*

A Profit seeking organization may be distinguished from a Non-profit seeking organization as under:

| | Basis of Distinction | Profit Seeking Organization | Non-profit Seeking Organization |
|---|---|---|---|
| 1. | Primary Motive | The primary motive of such an entity is to earn profit. | The primary motive of such an entity is to provide services. |
| 2. | Owner's Fund Vs. Capital Fund | Interest of owners is known as owner's fund which represents the owner's investments plus accumulated do- reserves and surplus. | Interest of members is known as capital fund which represents the accumulated surplus of subscription, nations and net profits from activities carried on by such an entity. |
| 3. | Net result of activities | The net result of the activities of such an entity is known as the profit/loss. | The net result of the activities of such an entity is known as the surplus/deficit |
| 4. | Accounting Statements | The accounting statements of such type of entity include:<br>(a) a Manufacturing A/c<br>(b) a Trading A/c;<br>(c) a Profit and Loss A/c;<br>(d) a Balance Sheet. | The accounting statements of such an entity includes:<br>(a) a Receipts and Payments A/c;<br>(b) an Income and Expenditure A/c<br>(c) a Trading A/c;<br>(d) a Balance Sheet. |

## 5.3 Meaning of Few Items in the Accounts of Non-profit Organization

**Q5. Briefly explain about (i) Capital fund (ii) Donations (iii) Legacy (iv) Subscriptions and Life membership.**

*Ans :*

**1. Capital Fund**

It is nothing but the capital of the non-profit organizations. It represents the surplus of assets over liabilities of the organization. It may be made up in part by special donation or by capitalizing admission fees etc. This fund is increased (or decreased) by any surplus (or deficit) on the income and expenditure account. It is also called "General Fund" or "Accumulated Fund".

**2. Donations**

It is the amount contributed by the supporters, members and well-wishers of the organization in the form of cash or kind. The donation may be general or special (such as donation for building, prize etc.)

**3. Legacy**

When anything is personally given away by a will, it is treated as a gift in the eye of law. The gift which made by a will, out of a general fund of an estate, it is described as 'legacy'. A legacy may be "demonstrative when it is made out of a particular fund or "specific" when a particular portion of the estate is assigned. Then are possibilities of loss of the legacy by "ademption".

**4. Subscriptions**

It is the amount paid by the members annually to keep his membership alive. Subscriptions are the norma main source of revenue of the nonprofit organizations. At the beginning of the accounting period all subscriptions normally become due and almost all members pay it immediately, since the organizations usual % have rules which provide for members to be deleted from the membership roll if they do not pay their subscriptions within a decided period.

**5. Sectional Subscriptions**

It is the special subscriptions collected from the members who participate in a particular activity because of the cost involved in providing these may vary considerably.

**6. Life Membership**

This is a system whereby a member pays a lumpsum and then becomes a member for the whole life.

**Treatment of few items in the accounts of non-profit organization are given below:**

**1. Subscriptions**

It should be treated as income of the period concerned after being adjusted for outstanding advance subscriptions. In practice, outstanding subscriptions are seldom taken into consideration. It may be taken as revenue, provided there is a strong exception that defaulting members will pay in future. (In examinations, we generally take these into consideration).

**2. Donations**

(i) Donations received from persons, firms, companies in the form of money should be added directly to the capital fund if the amount is **large and non-recurring.**

(ii) Small and recurring donations collected or received should be credited to Income & Expenditure Account of the period concerned.

(iii) Donations received in the form of an asset should be credited to the particular fund, for which the amount has been donated and in the absence thereof, to the Capital Fund Account.

(iv) When specific direction has been given in the rules and regulations of the organization, it should be treated accordingly.

**3. Entrance or Admission Fees**

(i) Admission fee payable by a member only once, at the time of becoming a member, should be treated as capital receipts and credited to Capital Fund Account.

(ii) Where the amount is small, just to cover the expenses of admission, it should be treated as revenue receipts and credited to Income & Expenditure Account.

(iii) When a specific direction has been given in the rules and regulations of the organization, it should be treated accordingly.

**4. Life Membership Fees**

(i) Amount received from life membership should be credited to a special fund and an amount equal to annual subscriptions is transferred every year to the Income and Expenditure Account, the balance of this fund is carried forward till it is fully exhausted. If any life member dies before the entire amount paid by him has been transferred in the above way, the balance should be transferred to the Capital Fund on the date of his death.

(ii) Alternatively, the entire amount can be credited to the Capital Fund in the year in which it is received.

**5. Legacy**

Legacy received is directly added to Capital Fund after deducting any tax payable under the law for the time being in force.

## 5.4 Accounting Procedures

**Q6. What type of accounting procedures followed by non-profit organization? Explain.**

*Ans :*

The non-profit organizations must prepare regularly annual accounts reflecting the financial affairs of the organization for submitting to the members and government departments for financial grants etc. A majority of the organizations keep their accounting records under the single entry system. They mainly, maintain cash book, supplier's ledger and members' register. Where the size of the organization is large, the accounts are kept under complete double entry system. Whatever may be the system of accounting, these organizations prepare, at the year end, the following three key statements:

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

## 5.5 Receipts and Payments Account

**Q7. What is receipts and payments account? Explain its features.**

*Ans :*

A Receipts and Payments Account is a summary of the Cash Book. This is the primary report prepared by the treasurers of the clubs, societies etc to present the result of the year's cash position. Since it is a cash basis of reporting, the Receipts and Payments Account gives the opening cash and bank, the receipts and payments by cash or by cheque during an accounting period and the resultant balance of cash and bank at the end of the accounting period. All the receipts and payments (whether in cash or cheque) are shown on the left-hand side; and all payments (whether in cash or cheque) are shown on the right-hand side.

**Features of a Receipts and Payments Account**

1. It is the summary of the cash and bank transactions; like cash book, all the receipts (capital or revenue) are debited, similarly all the payments (capital or revenue) are credited.
2. It starts with opening cash and bank balances (though sometimes they are merged) and also ends with their closing balances.
3. This account is usually not a part of the double entry system. It is the duplicate of cash book in concise form.
4. It includes all cash and bank receipts and payments, whether they are related to current, past or future periods.
5. Surplus or deficit for an accounting period cannot be ascertained from this account, since it shows only the cash position and excludes all non-cash items.
6. This account is not a Trial Balance but a'Cash Trial'.
7. It ends with closing balance of Cash in hand and Cash at bank.

A specimen of a Receipts and Payments Account is given below.

**Format**

A general format of a Receipts & Payments Account is given below.

**Receipts and Payments Account**
Dr. **for the period ending on ...** Cr.

| Receipts | | Rs. | Payments | Rs |
|---|---|---|---|---|
| To Balance b/d | | | By Balance b/d (Bank overdraft) | xxx |
| Cash | | xxx | By Annual Sports Expenses | xxx |
| Bank | xxx | xxx | By Salaries & Wages | xxx |
| To Subscription | | | By Rent, Rates & Taxes | xxx |
| for previous year | xxx | | By Insurance | xxx |
| for current year | xxx | | By Furniture | xxx |
| for next year | xxx | xxx | By Sports Equipments | xxx |
| To Entrance Fees | | xxx | By Books & Periodicals | xxx |
| To Donation for Building | | xxx | By Audit Fees | xxx |
| To General Donations | | xxx | By Printing & Stationery | xxx |

| | | | | |
|---|---|---|---|---|
| To Life Membership Fees | xxx | By Honorarium | | xxx |
| To Legacy | xxx | By Bank Charges | | xxx |
| To Grant from Govt. | xxx | By Postage & Telegrams | | xxx |
| To Contribution for Annual Dinner | xxx | By Water & Electricity | | xxx |
| To Dividend | xxx | By Conveyance & Travelling | | xxx |
| To Interest | xxx | By Repairs & Maintenance | | xxx |
| To Rent | xxx | By Sundry Expenses | | xxx |
| To Receipt on Annual Sports | xxx | By Annual Dinner Expenses | | xxx |
| To Sale of Old Sports Materials | xxx | By purchase of Investments | | xxx |
| | | purchase of furniture | | xxx |
| To Sale of Old Magazines | xxx | By Balance c/d | | xxx |
| To Sundry Receipts | xxx | Cash | xxx | xxx |
| To Balance c/d (Bank overdraft) | xxx | Bank | xxx | xxx |
| | xxx | | | xxx |

### 5.5.1 Preparation of Receipts and Payment

**Q8. What is the procedure for Receipt and Payment a/c ?**

*Ans :*

A Receipts and Payments Account is a summary of the Cash Book. Therefore, as in the Cash Book, receipts are shown on the debit side, i.e., left-hand side and payments on the credit side, i.e., right-hand side. The following points are worth noting about the preparation of a Receipts and Payments Account:

(i) Any opening balance of Cash and Bank are shown first on the Debit side separately.

(ii) It includes all receipts and payments whether they are of revenue or capital nature.

(iii) It does not exclude receipts and payments relating to preceding years or the subsequent years. For example, if a member pays his subscriptions in advance for the coming year, it is shown on the receipts (debit) side.

(iv) It excludes outstanding expenses of the period.

(v) Closing balance represents cash-in-hand and Bank at the end of the period.

**Types of Problems**

1. Preparation of income and expenditure account and balance sheet when trial balance and other information are given.
2. Preparation of income and expenditure account and balance sheet when receipts and payments account and other information are given.
3. Preparation of income and expenditure account and balance sheet from incomplete records.
4. Preparation of Receipts and Payments Account when ledger balances and other information are given.
5. Preparation of Receipts & Payments Account when Income and Expenditure Account, Balance Sheet and other information are given.
6. Preparation of opening and closing Balance Sheet when Receipts and Payments Account and Income and Expenditure Account are given.

**The following steps are to be followed for preparing a Receipts and Payments Account :**

**Step 1**

Draw up a proforma of Receipts and Payments Account. Opening Balance of Cash and Bank are to be written first on the receipts side separately. If no information regarding opening balance of Cash and Bank has been given, leave space for that.

**Step 2**

Analyse the figure given in the expenditure side of the Income and Expenditure Account. Now,

(i) Post those items of expenditure in which no adjustment to be made, directly to the payments side of the Receipts and Payments Account,

(ii) Prepare statement or open ledger accounts in respect of items of expenditure in which adjustment to be made. Post the adjusted amount to the payments side of the Receipts and Payments Account.

**Step 3**

Analyse the given information and Balance Sheet and post capital expenditure (involving outflow of Cash and/or Bank) to the payments side of the Receipts and Payments Account.

**Step 4**

Analyse the figures given in the income side of the Income and Expenditure Account. Now,

(i) Post those items of income in which no adjustment to be made, directly to the receipts side of the Receipts and Payments Account.

(ii) Prepare statement or open ledger accounts in respect of items of Income in which adjustment to be made. Post the adjusted amount to the receipts side of the Receipts and Payments Account.

**Step 5**

Analyse the given information and Balance Sheet and post capital receipts, if any, to the Receipts side of the Receipts and Payments Account.

**Step 6**

Now, balance the Receipts and Payments Account. The closing balance will represent balance of cash and bank at the end of the period.

In this respect the following points are important:

(i) If both the opening and closing balances of Cash and Bank are given, both payments side and receipts side of the Receipts and Payments Account will be equal.

(ii) If only the opening balances of Cash and Bank have been given, the balance will represent closing balances of Cash and Bank.

(iii) If only the closing balances of cash and bank have been given, the balancing figure will represent opening Cash and Bank.

## 5.6 Income and Expenditure Account

**Q9. What is income and expenditure account? Explain it's features.**

*Ans :*

The Income and Expenditure Account is equivalent to the Profit and Loss Account of a business enterprise. It is prepared by matching the revenues against the expenses for a specified period, usually a year. Since non-profit organizations do not earn profit (of incur loss) they do not prepare Profit and Loss Account but for evaluating the financial condition of the organization, they prepare Income and Expenditure Account at the year-end. This account shows surplus or deficit of income over expenditure.

The method and technique of the preparation of an Income and Expenditure Account is similar to that which is followed in the preparation of a Profit and Loss Account of a profit-seeking concern. The main sources of revenues of these organizations are subscriptions, admission fees, donations and government or other grants. The whole of the revenue income and revenue expenditure for the period are taken into consideration, irrespective of the fact whether they have been actually received or paid or not. Just like Profit and Loss Account, all accrued incomes and outstanding expenditures are shown in this account. All incomes are shown on the right-hand side (income side) and all expenditures are shown on the left-hand side (expenditure side) No capital expenditure or receipt is taken in the Income and Expenditure Account. If the right-hand total of this account exceeds the left-hand side total, the balance is a surplus and it is called "Excess of Income over Expenditure". Conversely, if the left-hand side total exceeds the right-hand side total, the balance is a deficit and it is called "Excess of Expenditure over Income".

### Features of an Income and Expenditure Account

1. It is a revenue account prepared at the end of the financial period for finding out the surplus or deficit of that period.
2. It is prepared by matching expenses against the revenues of the period concerned.
3. Both cash and non cash items, such as depreciation, are taken into consideration.
4. All capital expenditures and incomes are excluded.
5. Only current year's incomes and expenses arc considered.

### Format

A general format of an Income and Expenditure Account is given below.

**Income and Expenditure Account of**

**Dr.** **for the period ending on** **Cr.**

| Expenditure | | Rs | Income | | Rs |
|---|---|---|---|---|---|
| To Salaries and Wages paid | | xxx | By Subscription Received | xxx | |
| **Add:** Outstanding at the end | xxx | | **Add:** Outstanding at the end | xxx | |
| **Less:** Prepaid at the end | xxx | | **Less:** Advance at the end | xxx | |
| Add Prepaid in the beginning | xxx | | **Add:** Advance in the beginning | xxx | |
| **Less:** Outstanding in the beginning | xxx | xxx | **Less:** Outstanding in the | | |
| To Rent, Rates and Taxes | | xxx | beginning | xxx | xxx |
| To Insurance Premium | | xxx | By Entrance Fees (only that portion | | |
| To Depreciation on Furniture and | | xxx | which is to be treated as revenue) | | xxx |
| Sports equipments | | xxx | By General Donations | | xxx |
| To Books and Periodicals | | xxx | By Life membership Fees (only that | | |
| To Audit fees | | xxx | portion which is to be treated as | | |
| To Printing & Stationery | | xxx | revenue) | | xxx |
| To Honorariam | | xxx | By Profit from Annual Dinner | | |
| To Bank Charges | | xxx | Contribution | xxx | |
| To Postage & Telegram | | xxx | Less: Expenses | xxx | xxx |
| To Electricity & Water | | xxx | By Profit on Annual sports | | |
| To Conveyance & Travelling | | xxx | (Receipts - expenses) | | xxx |

| | | | |
|---|---|---|---|
| To Sundry Expenses | xxx | By Profit on sale of provisions | |
| To* Surplus i.e., excess of income | | (Sale + Closing Stock - Purchases - | |
| over expenditure | xxx | Opening Stock) | xxx |
| | | By Rent of Club Hall | xxx |
| | | By Dividend & Interest | xxx |
| | | By Sundry Receipts | xxx |
| | | By* Deficit i.e. Excess of | |
| | | expenditure over income | xxx |
| | xxx | | xxx |

## 5.7 Distinction between the Receipts and Payments Account and the Income and Expenditure Account

**Q10. What is difference receipts and payments accounts and income and expenditure account?**

*Ans :*

| Receipts's and Payments Account | Income and Expenditure Account |
|---|---|
| 1. It is as 'real account. | 1. It is a 'normal' account |
| 2. It is a statement of cash transaction for a particular period | 2. It is a revenue account showing income and expenses of a Non-Trading concern for accounting year. |
| 3. It includes both capital and revenue items. | 3. It includes only revenue items |
| 4. Besides the items of the current year, it may contain the items of previous year or the next year. | 4. It does not contain the items of the previous year or the next year, but contains the items of only the current year. |
| 5. It does not include outstanding items. | 5. It includes outstanding items |
| 6. It does not include non-cash items like bad debts, depreciation etc. | 6. It includes non- cash items like bad debts, depreciation etc. |
| 7. It begins with opening cash and bank balances | 7. It does not begin with any opening balances |
| 8. In a Receipts and Payments A/c. receipts are shown on the debit side and payments are shown on the credit side | 8. In an Income and Expenditure Account, expenses are shown the debit side and incomes are shown on the credit side |
| 9. The difference between the two sides of this account represents the cahs and bank balances at the end of the year. | 9. The difference between the two sides of this account represents the excess of income over expenditure or excess expenditure over income |
| 10. The closing balance of this account is brought down for the next accounting year. | 10. The closing balance of this account is not brought down for the next accounting year, but is closed by transfer to Capital Fund in the balance sheet. |
| 11. It need not necessarilty be accompanied by a Balance Sheet | 11. It is always accompanied by a Balance Sheet. |

**Q11. Differences between Income Expenditure a/c and profit Loss A/c.**

*Ans :*

1. Income and Expenditure Account is prepared by non-trading concerns, whereas Profit & Loss A/c is prepared by trading concerns.
2. The main purpose of preparation of Income & Expenditure is to ascertain excess of Income over Expenditure i.e. Surplus or excess of expenditure over income i.e. Deficit, whereas profit & loss A/c is prepared to ascertain the net Profit or net loss.
3. Income and expenditure Account is prepared mainly on the basis of Receipts and Payments Account whereas trial balance is the basis for the preparation of profit and loss A/c.
4. Surplus/Deficit of Income and Expenditure A/c is transferred to Capital Fund, whereas net profit nor loss is transferred to Capital Account of the proprietor in case of sole trading concerns, to capital Accounts in case of partnership firm and in case of Companies shown in Balance sheet on the liabilities side under the head "Reserves and Surplus'.

**Q12. Explain the preparation of Income and Expenditure Account on basis of Receipt and payment A/c.**

*Ans :*

The following steps are to be followed for preparing the Income & Expenditure Account and Balance Sheet from a given Receipts and Payments Account:

**Step 1**

Prepare Balance Sheet at the beginning of the period after taking into account (i) the opening balances of cash and bank as per Receipts & Payments Account, (ii) Assets and Liabilities (supplied through additional information) at the beginning.

The difference between the Assets and Liabilities represents Accumulated Fund. This Accumulated Fund is also called General Fund or Capital Fund.

**Step 2**

Identify, from the Payments side of the Receipts and Payments Account, the Capital Payments and Revenue Payments. Now,

(i) Post revenue payments in which no adjustments to be made directly, to the expenditure side (left hand side/ debit side) of the Income & Expenditure Account.

(ii) Prepare statements or open ledger accounts in respect of revenue payments in which adjustment to be made. Post the adjusted amount to the expenditure side of the Income & Expenditure Account.

(iii) Post capital payments to appropriate assets or liabilities accounts for being incorporated in the Balance Sheet.

**Step-3**

Identify, from the Receipts side of the Receipts and Payments Account, the Capital Receipts and Revenue Receipts. Now,

(i) Post revenue receipts in which no adjustment to be made, directly to the receipts side (right hand side/credit side) of the Income and Expenditure Account.

(ii) Prepare statement or open ledger accounts in respect of revenue receipts in which adjustment to be made. Post the adjusted amount of the receipts side of the Income & Expenditure Account.

(iii) Post capital receipts to appropriate assets and Liabilities accounts for being incorporated in the Balance Sheet.

**Step 4**

Analyse the additional information given and make necessary entries in the Income & Expenditure Account for depreciation on fixed assets, loss or profit on sale of assets etc.

(i) Depreciation ⟶ Post to the expenditure side of the Income & Expenditure Account.

(ii) Loss on sale of Assets ⟶ Post to the expenditure side of the Income and Expenditure Account.

(iii) Profit on sale of Assets ⟶ Post to the income side of the Income & Expenditure Account.

**Step 5**

Calculate surplus or deficit in the Income and Expenditure Account, (i) If the income side is greater than expenditure side, there is a 'surplus' and put it in the expenditure side as "To Excess of Income over Expenditure"; (ii) If the expenditure side is greater than the Income side, there is a 'deficit' and put it on the Income side as "By Excess of Expenditure over Income"; (iii) Transfer the surplus or deficit of the Income and Expenditure Account to the Accumulated Fund Account; and (iv) Prepare Balance Sheet at the end of the period after taking into account opening balance, addition and/or, sale during the year and other adjustments like depreciation etc. in respect of the assets.

## Balance Sheet

As in case of non-trading concerns, Trial Balance is generally not given Balance Sheet has to be prepared on the basis of the previous year's Balance Sheet and other information given. The following points may be noted.

1. Assets given in the previous period's Balance Sheet should be adjusted by taking into account additions, sales and depreciation during the year.

2. On the basis of Receipts and payments Account new assets acquired and liabilities incurred have to be ascertained and included in the Balance Sheet. Payments side will show the assets acquired, and receipts side new liabilities such as loan taken etc. Previous year's liabilities repaid should be ascertained by seeing the payments side.

3. Closing Cash and Bank Balance as shown by Receipts and Payments Account will appear on the asset side. Closing Bank Overdraft will appear on the liabilities side.

5. Special Fund such as Tournament fund, Match fund etc. will appear on the liabilities side. From the Fund amount, expenditure incurred towards the fund should be deducted and balance shown in Outer Column.

6. Outstanding and prepaid expenses, incomes should be ascertained on the basis of information and included in Balance Sheet.

7. To the Capital Fund given in the Balance Sheet of the previous year, surplus should be added and deficit, if any, deducted. If items such as life membership fees, legacies etc. are capitalised, then those should be added to Capital Fund.

8. In some problems the Capital Fund at the beginning of the year is not given. It is to be ascertained by preparing opening Balance Sheet. All assets and liabilities at the beginning of the year are to be taken. The excess of assets over liabilities is to be taken as capital Fund (balancing figure) Generally the Balance Sheet of non-trading concerns will be on the following lines.

**Balance Sheet as at....**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Outstanding Expenses | | Cash in Hand | |
| Income Received in Advance | | Cash at Bank | |
| Bank Loan or Overdraft | | Investments | |
| Special Fund | | Outstanding Subscriptions | |
| Less Expenses | | Interest Receivable | |
| Specific Donations | | Rent Receivable | |
| Capital Fund | | Prepaid Expenses | |
| Add Surplus, | | Stock of stamps and Stationery | |
| Less Deficit (if any) | | Stock of sports materials | |
| | | Library Books | |
| | | Furniture and Fixtures | |
| | | Land and Buildings | |
| | | Club ground and pavilion | |



## PROBLEMS

**1. On the basis of the following information ascertain the Entrance Fees actually received in 2015.**

| | |
|---|---|
| **Entrance Fees as per Income and Expenditure A/c for 2015** | **Rs. 20,000** |
| **Entrance Fees received in advance on 31-12-2015** | **Rs. 1,000** |
| **Entrance Fees outstanding on 31-12-2015** | **Rs. 4,800** |
| **Entrance Fees in arrears on 01-01-2015** | **Rs. 2,800** |

**Ans :**

**Calculation of actual entrance fees received**

| Particulars | Rs. |
|---|---|
| Entrance fees as per Income and Expenditure A/c | 20,000 |
| (+) Entrance fees received in advance on 31-12-2015 | 1000 |
| | 21000 |
| (–) Entrance Fees outstanding on 31-12-2015 | 4,800 |
| | 16,200 |
| (+) Entrance Fees arrears on 1 – 1 – 2015 | 2,800 |
| Actual Entrance Fees Received | 19,000 |

**2. Calculate the amount to be debited to income and expenditure account for the year 2013.**

| | Rs. |
|---|---|
| **Stock of stationery on 1st January, 2013** | **2,000** |
| **Creditors for stationery outstanding on 1st January, 2013** | **1,500** |
| **Creditors for stationery outstanding on 31st December 2013** | **100** |
| **Amount paid for stationery during 2013** | **7,500** |
| **Stock of stationery on 31st December 2013** | **750** |

**Ans :**

**Calculation of Stock of Stationery debited to income & expenditure account**

| Particulars | Amount (`) |
|---|---|
| Opening stock of stationery | 2,000 |
| (+) Purchases during the year | 7,500 |
| | 9,500 |
| (–) Closing stock of stationery | 750 |
| | 8,750 |
| (–) Opening outstanding creditors | 1500 |
| | 7,250 |
| (+) Opening outstanding creditors | 100 |
| | 7,350 |



**3. On the basis of the following information ascertain the subscription received in 2013.**

| | |
|---|---|
| **Subscriptions as per Income and Expenditure account for 2013** | **45,000** |
| **Subscriptions received in advance on 31-12-2013** | **1,800** |
| **Subscriptions outstanding on 31-12-2013** | **7,200** |
| **Subscriptions in arrears on 01-01-2013** | **3,600** |

**Ans :**

**Calculation of subscription Received**

| Particulars | Amount (`) |
|---|---|
| Subscriptions as per income & expenditure a/c | 45,000 |
| (+) Subscription received in advance on 31-12-2013 | 1,800 |
| | 46,800 |
| (–) Subscriptions outstanding on 31-12-2013 | 7,200 |
| | 39,600 |
| (+) Subscription outstanding on 1-1-2013 | 3,600 |
| | 43,200 |

**4. Prepare Receipts and Payments account**

| | |
|---|---|
| **Cash in hand** | **Rs. 4.000** |
| **Subscriptions** | **Rs. 11,000** |
| **Donations** | **Rs. 8,000** |
| **Printing & Stationary** | **Rs. 1,000** |
| **Entrance Fee** | **Rs. 2,000** |
| **Rent paid** | **Rs. 3,000** |
| **Outstanding Rent** | **Rs. 600** |
| **Outstanding subscription** | **Rs. 2,500** |

**Ans :**

**Receipts and Payments Accounts**

**Dr.** **Cr.**

| Receipts | Rs. | Payments | Rs. |
|---|---|---|---|
| To Balance b/d | 4,000 | By printing and Stationary | 1,000 |
| To Subscriptions | 11,000 | By rent paid | 3,000 |
| To Donations | 8,000 | By Balance c/d | 21,000 |
| To Entrance Fees | 2,000 | | |
| | 25,000 | | 25,000 |

**5. From the following Receipts and Payments Account of a charitable institution and further informations supplied, prepare an income & expenditure A/c for the year ended 31-12-2005.**

**Receipts and Payments Account**

| 2005 | Receipts | ` | 2005 | Payments | ` |
|---|---|---|---|---|---|
| Jan | To Cash at Bank | 7,400 | Dec.3 | By Charities | 14,500 |
| | To Cash in Hand | 300 | | By Salaries | 2,600 |
| | | | | By Rent & Taxes | 1,200 |
| Dec 31 | To Donations | 8,000 | | By Printing & Stationery | 300 |
| | To Subscriptions | 4,000 | | By Postage | 100 |
| | To Endowment fund | | | By Advertisements | 250 |
| | Receipts | 15,000 | | By Furniture | 750 |
| | To Legacies | 6,000 | | By Investments | 15,000 |
| | To Interest on Investments | 9,500 | | By Advances to Contractor | 5,000 |
| | To Interest on deposits | 150 | | By Balance c/d | |
| | To Sale of old furniture | 75 | | Cash at Bank | 10,000 |
| | | | | Cash on had | 725 |
| | | 50,425 | | | 50,425 |

**It was decided to treat one half of the total amount received on account of legacies and donations as income. ` 200 were owing for rent ` 300 for salaries and ` 50 for advertisements. Interest on investments ` 500 had accrued, but was not received.**

**Sol. :**

**Income and Expenditure a/c for the year ended 31.12.2005**

**Dr** **Cr**

| Expenditure | Rs. | Income | | Rs. |
|---|---|---|---|---|
| To Salaries (2600+300) | 2,900 | By subscriptions | | 4,000 |
| To Rent and Taxes | 1,400 | By Donations $\left(8000 \times \frac{1}{2}\right)$ | | 4,000 |
| To Printing | 300 | By Legacies | | 3,000 |
| To Postage | 100 | By Interest on investment – | 9500 | |
| To Advertising (250+50) | 300 | (+) Accrued – | 500 | 10,000 |
| To Charities | 14,500 | By Interest on deposits | | 150 |
| To Excess of Income over Expenditure | 1,650 | | | |
| | 21,150 | | | 21,150 |

**6. From the following Receipts and Payments Account of a sport club, prepare an Income and expenditure A/c for the year ended 31st December, 2005.**

| Receipts | ` | Payments | | ` |
|---|---|---|---|---|
| Jan 1-Dec 31 | | Jan 1-Dec 31 | | |
| To Cash in hand | 400 | By Bank overdraft | | 8,000 |
| To Members Subscriptions | 14,000 | By Salaries | | 4,200 |
| To Donation for club | 20,000 | By Rent Rates & Taxes | | 3,600 |
| To Entertainment Receipts | 6,200 | By Insurance | | 600 |
| To Entrance fees | 1,400 | By Entertainment | | 4,200 |
| To Cricket fees | 500 | By Furniture | | 3,600 |
| To Sale of old Newspaper | 100 | By Newspapers | | 900 |
| To Sundry Donations | 4,000 | By General Expenses | | 500 |
| To Interest on securities | 224 | By Cash and Bank Bal | | |
| | | in hand | 304 | |
| | | with Bank | 920 | |
| | | Fixed Deposit | 20,000 | 21,224 |
| | 46,824 | | | 46,824 |

**Member's subscriptions include ` 1200 received for the year 2004 and ` 600 for the year 2006. Salaries include ` 400 paid for the year 2004 and ` 500 are outstanding for the year 2005. One-half of the Entrance fees is to be treated as income. Membership subscriptions amounting to ` 500 are in arrears.**

**Sol. :**

**Income and Expenditure a/c for the year ended on 31.12.2015**

**Dr** **Cr**

| **Expenditure** | | **Rs.** | **Income** | **Rs.** |
|---|---|---|---|---|
| To Salaries | 4200 | | By Subscription (1) | 12,700 |
| (+) O/standing | 500 | | By Entrance fees $\left(1400\times\frac{1}{2}\right)$ | 700 |
| | 4700 | | By Entertainment Receipts | 6200 |
| (–) previous year | 400 | 4,300 | By Cricket fees | 500 |
| To Rent & Taxes | | 3,600 | By Sale of Newspaper | 100 |
| To General expenses | | 500 | | |
| To Insurance | | 600 | By Donations | 4,000 |
| To Entertainment | | 4,200 | By Interest on securities | 224 |
| To News papers | | 900 | | |
| To Excess of Income over Expenditure | | 10,324 | | |
| | | 24,424 | | 24,424 |

**Working Notes :**

| | | |
|---|---|---|
| (1) Subscription | | 14,000 |
| (+) Arrears | | 500 |
| | | 14,500 |
| (–) for 2004 – | 1200 | |
| for 2006 – | 600 | 1,800 |
| | | 12,700 |



**7. The following is the summary of receipts and payments of Shakunthala sports club for the year ended on 31$^{st}$ March 2009.**

Dr. Cr.

| Receipts | Rs. | Payments | Rs. |
|---|---|---|---|
| To Balance | 14,100 | By General expenses | 6,200 |
| To Subscriptions | 38,500 | By Rent and rates | 6,700 |
| To Donations | 9,200 | By Travelling | 5,900 |
| To. Sale of refreshments | 12,400 | By Postage and stationary | 1,280 |
| To Interest on fixed deposit | 7,800 | By Bats and balls | 8,400 |

| | | | |
|---|---|---|---|
| To Locker rent | 2,400 | By Books | 7,800 |
| | | By Furniture | 9,400 |
| | | By Refreshments | 10,200 |
| | | By News papers, periodicals | 1,960 |
| | | Balance | 26,560 |
| | 84,400 | | 84,400 |

**Other Information :**

**i) Subscriptions include ` 700 of previous year and ` 1,200 of forthcoming year.**

**ii) Subscriptions outstanding for current year 11,000**

**iii) Donations are to be capitalised as per bye-laws.**

**Prepare Income and Expenditure Account.**

**Sol. :**

**Shakuntala Sports Clubs**

**Income and Expenditure A/c for the year ended as on 31.3.2009**

**Dr** **Cr**

| Expenditure | Rs. | Income | Rs. |
|---|---|---|---|
| To General expenses | 6,200 | By subsciptions (1) | 37,600 |
| To Rent and Rates | 6,700 | By Sale of refreshments | 12,400 |
| To Travelling | 5,960 | By Interest on fixed deposit | 7,800 |
| To Postage and stationary | 1,280 | By Locker rent | 2,400 |
| To Refreshments | 10,200 | | |
| To News papers | 1,960 | | |
| To Excess of Income over Exp. | 27,910 | | |
| | 60,200 | | 60,200 |

**Working Notes :**

| | | |
|---|---|---|
| (1) Subscriptions | – | 38,500 |
| (+) Outstanding | – | 1,000 |
| | | 39,500 |
| (–) for previous year | – | 700 |
| (–) for forthcoming year | – | 1,200 |
| | | 37,600 |

**8. The following particulars relate to Abhilash Sports Club.**

Income and Expenditure Account for the year 2006 - 07

Dr Cr

| Expenditure | ₹ | Income | ₹ |
|---|---|---|---|
| To Salaries | 900 | By Entrance fees | 6,300 |
| To Printing, Stationery | 1,320 | By Subscriptions | 9,360 |
| To Advertising | 960 | By Rents | 2,400 |
| To Audit fees | 300 | | |
| To Fire insurance | 600 | | |
| To Depreciation on equipment | 5,400 | | |
| To Surplus | 8,580 | | |
| | 18,060 | | 18,060 |

Receipts and Payments Account for the year 2006-07

Dr Cr

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| To Balance b/d | 2,520 | By Salaries | 600 |
| To Entrance fees | 6,300 | By Printing and Stationery | 1,560 |
| To Subscriptions: | | By Advertising | 960 |
| 2005-06 | 360 | By Fire insurance | 720 |
| 2006-07 | 9,000 | By Investments | 12,000 |
| 2007-08 | 240 | By Balance c/d | 4,680 |
| To Rent received | 2,100 | | |
| | 20,520 | | 20,520 |

**The assets on April 1, 2006 included club ground ₹ 26,400, Equipment ₹ 15,000, Furniture ₹ 2,400. Subscriptions in arrears on that day amounted to ₹ 480. Prepare Balance Sheet as on 31st march, 2007.**

**Sol. :**

**Abhishek Sports Clubs**

**Balance Sheet as on 31.4.2006**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Oustanding printing (1560 - 1320) | 240 | Club ground | 26,400 |
| Capital fund (Balance) | 46,560 | Equipment | 15,000 |
| | | Furniture | 2,400 |
| | | Outstanding subscriptions | 480 |
| | | Cash | 2,520 |
| | 46,800 | | 46,800 |

**Balance Sheet as on 31.3.2007**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Salaries (900 – 600) | | 300 | Subscription – | 360 | |
| Outstanding Audit fees | | 300 | (+) last year (480 – 360) | 120 | 480 |
| Subscriptions received in advance | | 240 | Outstanding rent | | 300 |
| Capital fund – | 46,560 | | Prepaid Insurance (720–600) | | 120 |
| (+) Surplus – | 8,580 | 55,140 | Investments | | 12,000 |
| | | | Club ground | | 26,400 |
| | | | Equipment | 15000 | |
| | | | (–) Depreciation | 5400 | 9,600 |
| | | | Furniture | | 2,400 |
| | | | Cash | | 4,680 |
| | | 55,980 | | | 55,980 |

**9. Kakatiya Friends club gives you their Receipts and Payments Account and other information and requests you to prepare their Income and Expenditure Account for the year ending on 31-3-07 and Balance sheet as on that date.**

| Receipts | ` | Payments | ` |
|---|---|---|---|
| To Balance | 3,800 | By Salaries | 20,000 |
| To Subscriptions | 90,000 | By Buildings | 1,55,000 |
| To Donations | 80,000 | By Investments purchased | 20,000 |
| To Sale of Investments | 42,000 | By Printing | 22,000 |
| To Interest | 10,200 | By General Expenses | 4,000 |
| | | By Balance | 5,000 |
| | 2,26,000 | | 2,26,000 |



**Additional Information :**

**i) Opening Balances**

| | |
|---|---|
| **Buildings** | **` 20,000** |
| **Investments** | **` 50,000** |
| **Outstanding subscriptions** | **` 6,000** |

**ii) Value of investments sold was ` 45,000**

**iii) Outstanding subscriptions at end ` 500**

**Sol. :**

**Kakatiya Freinds Club's**

**Balance Sheet as on 31.3.2006**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Capital fund (Balance) | 79,800 | Investments | 50,000 |
| | | Buildings | 20,000 |
| | | Cash | 3,800 |
| | | Outstanding subscriptions | 6,000 |
| | 79,800 | | 79,800 |

**Dr Income and Expenditure a/c for the year ending on 31.3.2007 Cr**

| Experience | Rs. | Income | Rs. |
|---|---|---|---|
| To Salaries | 20,000 | By Subscriptions (1) | 84,500 |
| To Printing | 22,000 | By Internet | 10,200 |
| To General Expenses | 4,000 | | |
| To Loss on sale of investments | 3,000 | | |
| To Excess of Income over Expenditure (surplus) | 45,700 | | |
| | 94,700 | | 94,700 |

**Working Notes :**

1) Calculation of Subscriptions.

| | |
|---|---|
| for current year – | 90,000 |
| (+) Outstanding – | 500 |
| | 90,500 |
| (–) Outstanding for previous year | 6,000 |
| | 84,500 |

**Balance Sheet as on 31.3.2007**

| Liabilities | | Rs. | Assets | Rs. |
|---|---|---|---|---|
| Capital fund | 79,800 | | Investments (50,000 + 20,000 + 45,000) | 25,000 |
| (+) Surplus | 45,700 | | Buildings (20,000 + 1,55,000) | 1,75,000 |
| | 1,25,500 | | Cash | 5,000 |
| (+) Donations | 80,000 | 2,05,500 | Subscriptions outstanding | 500 |
| | | 2,05,500 | | 2,05,500 |

**10. The following is the Receipts and Payments Account of Vani Nursing Home for the year ended 30th June 2005.**

| Receipts | ` | Payments | ` |
|---|---|---|---|
| To Balance b/f on June 1,2004 | 2,010 | By Salaries of Nurses | 656 |
| | | By Boarding etc. | 380 |
| To Subscriptions | 1,115 | By Rent and Taxes | 200 |
| To Fees from non-members | 270 | By Cost of Vehicles | 2,000 |

| | | | |
|---|---|---|---|
| To Municipal grant | 1,000 | By Expenses of Vehicles | 840 |
| To Donations for | | By Drugs | 670 |
| Buildings Fund | 1,560 | By Balance c/d on | |
| To Interest | 38 | 30th June 2005 | 1,247 |
| | 5,993 | | 5,993 |

**The Home owns Freehold Land ` 8,000. A donation of `100 received for the Building Fund was wrongly included in the subscriptions account. A bill for medicines purchased during the year amounting to ` 129 was outstanding. Prepare Income and Expenditure Account for the year and Balance sheet as at 30th June 2005.**

**Sol. :**

**Vani Nursing Homes**

**Balance Sheet as on 31.6.2004**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Capital fund | 10,010 | Cash | 2,010 |
| (Balance) | | Free hold land | 8,000 |
| | 10,010 | | 10,010 |

**Dr Income & Expenditure for the year ended 30.6.2005 Cr**

| Experience | | Rs. | Income | | Rs. |
|---|---|---|---|---|---|
| To Salaries | | 656 | By Subscription | 1,115 | |
| To Boarding | | 380 | Less : Building | 100 | 1,015 |
| To Rent | | 200 | By Fees from members | | 270 |
| To Vechicle expenses | | 840 | By Municipal Grants | | 1,000 |
| To Drugs | 670 | | By Interest | | 38 |
| + O/standing | 129 | 799 | By Excess of Expenditure over Income | | 552 |
| | | | (Deficit) | | |
| | | 2,875 | | | 2,875 |

**Balance Sheet as on 31.6.2005**

| Liabilities | | Rs. | Assets | Rs. |
|---|---|---|---|---|
| Capital fund | 10,010 | | Free Land | 8,000 |
| (–) Deficit | 552 | 9,458 | Vehicle | 2,000 |
| Outstanding medical bill | | 129 | Cash | 1,247 |
| Building fund (1560+100) | | 1,660 | | |
| | | 11,247 | | 11,247 |

**11. From the following particulars relating to Adarsh Commercial and Literary Society, prepare a Receipts and Payments Account, an Income and Expenditure Account and a Balance Sheet as at 31st December, 2005.**

Balance Sheet as at 31st December 2004.

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Outstanding creditors | 425 | Cash at bank | 3,000 |
| Capital Fund:- | | Govt. Securities | 10,000 |
| Excess of Income over | | Accrued Interest | 125 |
| Expenditure | 15,575 | Outstanding Subscriptions | 400 |
| | | Library books | 1,000 |
| | | Furniture and Fittings | 1,475 |
| | 16,000 | | 16,000 |

**The transactions for the year 2005 were :**

**Received form subscriptions ` 2,500; Proceeds of entertainment and lectures `1,000; received from interest on securities ` 475; entrance fees received ` 500; sale proceeds of old chairs ` 75.**

**Paid for rent ` 600; for Printing ` 150; for advertising ` 200, for petty disbursements ` 55; Purchase of Government securities ` 2,500; paid for outstanding creditors ` 425; for Furniture ` 400; for library books ` 300; for entertainment ` 750.**

**On 31st December 2005 the following liabilities were outstanding: for printing ` 75 and for rent ` 100. There were also outstanding on account of interest on securities ` 150 and subscriptions ` 325.**

**Sol. :**

**Adarsh Commercial and Literacy Society's**

**Dr Receipts and Payments a/c for the year ended as on 31.12.2005 Cr**

| Receipts | Rs. | Payments | Rs. |
|---|---|---|---|
| To Balance | 3,000 | By Rent | 600 |
| To Subscriptions | 2,500 | By Printing | 150 |
| To Entertainment and Lectures | 1,000 | By Advertising | 200 |
| To Interest on securities | 475 | By Petty disbursements | 55 |
| To Entrance fees | 500 | By Investments | 2,500 |
| To Sale of furniture | 75 | By Outstanding creditors (Last year) | 425 |
| | | By Furniture | 400 |
| | | By Library books | 300 |
| | | By Entertainment | 750 |
| | | By Balance | 2,170 |
| | 7,550 | | 7,550 |

**Income & Expenditure A/c for the year ended 31.12.2005**

**Dr** **Cr**

| Expenditure | | Rs. | Income | Rs. |
|---|---|---|---|---|
| To Rent | 600 | | By Subscriptions * | 2,425 |
| (+) Outstanding | 100 | 700 | By Interest ** | 500 |
| To Printing | 150 | | By Entertainment & Lectures | 1,000 |
| (+) Outstanding | 75 | 225 | By Entrance fees | 500 |
| To Advertising | | 200 | | |
| To Petty disbursements | | 55 | | |
| To Entertainment | | 750 | | |
| To Excess of Income over expenditure | | 2,495 | | |
| | | 4,425 | | 4,425 |

**Working Notes :**

| | | | |
|---|---|---|---|
| * | Subscriptions for current year | – | 2500 |
| | (+) Current year outstanding | – | 325 |
| | | | 2,825 |
| | (–) Last year outstanding | | 400 |
| | | | 2,425 |
| ** | Interest for current year | – | 475 |
| | (+) Outstanding for current year | – | 150 |
| | | | 625 |
| | (–) Outstanding for last year | – | 125 |
| | | | 500 |

**Balance Sheet as on 31.12.2005**

| Liabilities | | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|---|
| Oustanding expenses | | | | Furniture – | 1475 | |
| i) Printing | | 75 | | (+) Purchases – | 400 | |
| ii) Rent | | 100 | 175 | | 1,875 | |
| Capital fund | – | 15,575 | | (–) Sale | 75 | 1,800 |
| (+) Excess of Income | – | 2,495 | 18,070 | Books – | 1000 | |
| over expenditure | | | | (+) Purchases – | 300 | 1,300 |
| | | | | Investments – | 10,000 | |
| | | | | (+) Purchases – | 2,500 | 12,500 |
| | | | | Accured Internet | | 150 |
| | | | | Subscriptions outstanding | | 325 |
| | | | | Cash | | 2,170 |
| | | | 18,245 | | | 18,245 |

**12. The Jai Bharat Sports Club gives you the following Receipts and Payments Account for the year ended 31st December 2005.**

| Receipts | ` | Payments | ` |
|---|---|---|---|
| Cash in hand | 300 | Groundmen's Fee | 2,000 |
| Cash at Bank | 2,500 | Mowing Machine | 1,500 |
| Subscriptions | 8,000 | Rent | 1,000 |
| Tournament Fund | 3,000 | Salaries to Coaches | 4,000 |
| Life Membership Fees | 2,000 | Tournament Expenses | 1,200 |
| Entrance Fees | 500 | General Expenses | 2,800 |
| Donation for Pavilion | 4,500 | Sports Equipment Purchased | 1,500 |
| Sale of Newspaper | 200 | Cash in hand | 1,500 |
| Sale of Grass | 500 | Cash at Bank | 6,000 |
| | 21,500 | | 21,500 |

**Subscriptions due on 31st December 2004, and on 31st December 2005. were ` 1,000 and ` 1,500 respectively. Subscriptions received also include subscription for 2006 ` 300. Sports Equipments on hand on 31st December 2004 was ` 1,200. The value placed on equipment on hand on 31st December 2005 is ` 1,300. The mowing machine was purchased on 1st July 2005 and is to be depreciated at 20% p.a.**

Prepare Income and Expenditure Account and Balance Sheet relating to 1988.

**Sol. :**

**Dr** **Income & Expenditure for the year ended as on 2005** **Cr**

| Expenditure | Rs. | Income | Rs. |
|---|---|---|---|
| To Salaries | 4,000 | By Subscriptions (2) | 8,200 |
| To Ground fees | 2,000 | By Entrance fees | 500 |
| To Rent | 1,000 | By Sale of News paper | 200 |
| To General expenses | 2,800 | By Sale of Grass | 500 |
| To Sports equipment (1) | 1,400 | By Excess of Expenditure over Income | 1,950 |
| To Depreciation on machinery | 150 | (Deficit) | |
| | 11,350 | | 11,350 |

**Working Notes :**

| | | | |
|---|---|---|---|
| (1) Sports equipment | 1,200 | (2) Subscriptions | 8,000 |
| (+) purchases | 1,500 | (+) Outstanding for current year | 1,500 |
| | 2,700 | | 9,500 |
| (–) Opening balance | 1,300 | (–) Outstanding for last year | 1,000 |
| | 1,400 | | 8,500 |
| | | (–) Advance receipts | 300 |
| | | | 8,200 |

**Balance Sheet as on 31.12.2005**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Subscriptions received in advance | | 300 | Making Machinery – | 1500 | |
| | | | (–) Depreciation – | 150 | 1,350 |
| Tournament fund – | 3,000 | | Sports equipment | | 1,300 |
| (–) Tournament exp – | 1,200 | 1,800 | Outstanding subscriptions | | 1,500 |
| Donations for pavilion | | 4,500 | Cast at Bank | | 6,000 |
| Capital fund – | 5000 | | Cash in hand | | 1,500 |
| (+) Life membership fees – | 2000 | | | | |
| | 7000 | | | | |
| (–) Excess of Expenditure over Income | 1,950 | 5,050 | | | |
| | | 11,650 | | | 11,650 |

**13. From the following receipts and payments account of Ideal Cricket Club and the sub-joined information prepare Income and Expenditure account for the year ended 31st December 2005 and the Balance Sheet as on that date.**

Receipts and Payments Account

| Receipts | ` | Payments | ` |
|---|---|---|---|
| To Balance on 1-1-2005 | | By Match expenses | 1,324 |
| Cash in hand | 352 | By Salaries | 1,100 |
| To Current account | | By Purchase of | |
| with bank | 2,738 | Postage stamps | 105 |
| To Fixed Deposit with | | By Maintenance of ground | 682 |
| Bank at 7% p.a. | 3,000 | By Printing & Stationery | 324 |
| To Membership | | By Conveyance | 82 |
| Subscription (including | | By Purchase of | |
| ` 600 for 2004 | 4,000 | Cricket equipment | 972 |
| To Entrance fees | 275 | By Sundry Expenses | 200 |
| To Donations | 501 | By Investments in | |
| To Interest on fixed | | National Saving | 1,600 |
| Deposits upto 30-06-2005 | 105 | By Balance on 31-12-2005 | |
| | | Cash in hand | 280 |
| | | By Current account with bank | 1,302 |
| | | By Fixed deposit with bank at 7% p.a. | 3,000 |
| | 10,971 | | 10,971 |

(a) **Salary outstanding ` 100**

(b) **The Value of unused postage Stamps is as follows:**

**On 31st Dec.2004 ` 75**

**On 31st Dec.2005 ` 90**

(c) **The stock of Cricket Equipment on 31st December 2005 was ` 321**

(d) **The arrears of membership subscription for 2005 amounted to ` 800. All arrears for 2004 were receiving during 2005.**

(e) **According to the bye-laws of the Club Donations and Entrance Fees are required to be credited to the General Fund.**

**Sol. :**

**Ideal Cricket Club's**
**Balance Seet as on 31.12.2014**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Capital Fund (Balance) | 6,765 | Fixed Deposits | 3,000 |
| | | Outstanding subscriptions | 600 |
| | | Unused stamps | 75 |
| | | Cash at Bank | 2,738 |
| | | Cash in hand | 352 |
| | 6,765 | | 6,765 |

**Dr Income & Expenditure A/c for the year ended 31.12.2005 Cr**

| Expenditure | | Rs. | Income | Rs. |
|---|---|---|---|---|
| To Salaries | 1100 | | By Subsciptions (1) | 4,200 |
| (+) Outstanding | 100 | 1,200 | By Interest on fixed deposits (2) | 210 |
| To Postage | 105 | | By Excess of Expenditure over Income | 143 |
| (+) Oening | 75 | | (Deficit) | |
| | 180 | | | |
| (–) Closing | 90 | 90 | | |
| To Maintenance of Ground | | 682 | | |
| To Printing | | 324 | | |
| To Conveyance | | 82 | | |
| To Depreciation on cricket equp. | | 651 | | |
| To Sundry expenses | | 200 | | |
| To Match expenses | | 1,324 | | |
| | | 4,553 | | 4,553 |

**Working notes :**

**1) Subscriptions**

| | | |
|---|---|---|
| For Current year received | – | 4,000 |
| (+) Current year arrears | – | 800 |
| | | 4,800 |
| (–) Last year subscriptions | – | 600 |
| | | 4,200 |

**2) Interest on fixed deposits**

| | | |
|---|---|---|
| For current year received | – | 105 |
| For current year arrears | – | 105 |
| | | 210 |

**Balance Sheet as on 31.12.2005**

| Liabilities | | Rs. | Assets | Rs. |
|---|---|---|---|---|
| Captial fund – | 6,765 | | Cricket equipment | 321 |
| (+) Donations – | 701 | | Investments | 1,600 |
| (+) Entrance fees | 275 | | Fixed deposits | 3,000 |
| | 7,541 | | Interest receivable | 105 |
| (–) Excess of Expenditure over income | 143 | 7,398 | Outstanding subscriptions | 800 |
| Outstanding Salaries | | 100 | Postage stamps | 90 |
| | | | Cast at Bank | 1,302 |
| | | | Cash in hand | 280 |
| | | 7,498 | | 7,498 |

**14. The following is the Receipts and Payments Account of the Ashok Nagar Association for the year ended 31st December 2005.**

| Receipts | Rs. | Payments | Rs. |
|---|---|---|---|
| To Balance on 1-1-2005 | 3,000 | By Rent | 14,400 |
| To Entrance Fees | 5,500 | By Stationery | 2,870 |
| To Subscriptions 2004 | 2,000 | By Wages | 9,800 |
| To Subscriptions 2005 | 85,000 | By Billiard Tables | 39,000 |
| To Subscriptions 2006 (advance) | 2,000 | By Repairs etc. | 5,410 |
| | | By Interest | 6,200 |
| To Locker Rent | 1,600 | By Furniture | 2,000 |
| To Special Subscriptions for Dinner | 7,600 | By Books | 3,000 |
| | | By Fixed Deposit | 10,000 |
| | | By Dinner Expenses | 5,800 |
| | | By Balance on 31-12-2005 | 8,220 |
| | 1,06,700 | | 1,06,700 |

**Locker rent ` 300 related to 2004 Rent ` 2,400 has been paid in advance. Subscriptions ` 1,600 are unpaid for 2005.**

**From the above information you are required to prepare an Income and Expenditure Account for the year ended 31st December 2005 and Balance Sheet as on the date.**

**Sol. :**

**Ashok Nagr Association**

**Dr Income & Expenditure A/c for the year ended 31.12.2005 Cr**

| Expenditure | | Rs. | Income | | Rs. |
|---|---|---|---|---|---|
| To Rent | 14,400 | | By Subscriptions – | 85000 | |
| (–) Advance | 2,400 | 12,000 | (+) Reeivables | 1,600 | 86,600 |
| To Stationary | | 2,870 | By Dinner subscriptions (7600 – 5800) | | 1,800 |
| To Wages | | 9,800 | By Locket Rent – | 1600 | |
| To Repairs | | 5,410 | (–) Last year – | 300 | 1,300 |
| To Interest | | 6,200 | By Entrance Fees | | 5,500 |
| To Excess of Income over Expenditure (surplus) | | 58,920 | | | |
| | | 95,200 | | | 95,200 |

**Balance Sheet as on 31.12.2004**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Capital fund (Balance) | 5,300 | Outstanding Subscriptions | 2,000 |
| | | Outstanding Locker rent | 300 |
| | | Cash | 3,000 |
| | 5,300 | | 5,300 |

**Balance Sheet as on 31.12.2005**

| Liabilities | | Rs. | Assets | Rs. |
|---|---|---|---|---|
| Capital fund – | 5,300 | | Furniture | 2,000 |
| (+) Surplus – | 58,920 | 64,220 | Fixed Deposits | 10,000 |
| Subscriptions received in advance | | 2,000 | Books | 3,000 |
| | | | Billiards Table | 39,000 |
| | | | Prepaid Rent | 2,400 |
| | | | Outstanding Subscriptions | 1,600 |
| | | | Cash | 8,220 |
| | | 66,220 | | 66,220 |

**15. Prepare Income and Expenditure Account and Balance Sheet form the following Receipts and Payments Account and Balance Sheet for 2005.**

Receipts and Payments Account for 2005

| Receipts | Rs | Payments | Rs |
|---|---|---|---|
| Balance 1-1-2005 | 20,000 | Expenses: | |
| Subscriptions; | | 2004 | 2,400 |
| 2004 | 400 | 2005 | 4,000 |
| 2005 | 4,200 | Land | 8,000 |
| 2006 | 300 | Interest | 800 |
| Entrance Fees | 1,600 | Miscellaneous Expenses | 4,000 |
| Locker Rent | 1,500 | Balance 31-12-2005 | 16,800 |
| Miscellaneous Income | 8,000 | | |
| | 36,000 | | 36,000 |

Balance Sheet as at 31-12-2004

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Capital Fund | 67,240 | Buildings | 60,000 |
| Subscriptions received | | Outstanding | |
| in advance | 1,200 | Subscriptions | 760 |
| Outstanding Expenses | 2,800 | Outstanding Lockers | |
| Loan | 10,000 | Rent | 480 |
| | | Cash | 20,000 |
| | 81,240 | | 81,240 |



**Sol. :**

**Dr Income & Expenditure A/c for the year ended 31.12.2005 Cr**

| Expenditure | Rs. | Income | | Rs. |
|---|---|---|---|---|
| To Expenses | 4,000 | By Subscriptions – | 4,200 | |
| To Miscellenous expenses | 4,000 | (+) Received cash year – | 1,200 | 5,400 |
| To Interest | 800 | By Entrance fees | | 1,600 |
| To Excess of Income over expenditure | 7,220 | By Locker rent – | 1,500 | |
| (Surplus) | | (–) Last year o/s | 480 | 1,020 |
| | | By Miscellaneous Income | | 8,000 |
| | 16,020 | | | 16,020 |

**Balance Sheet as on 31.12.2005**

| Liabilities | | Rs. | Assets | Rs. |
|---|---|---|---|---|
| Capital fund – | 67,240 | | Buildings | 60,000 |
| (+) Excess of Income over expenditure | 7,220 | 74,460 | Land | 8,000 |
| Loan | | 10,000 | Subscriptions (760 – 400) | 360 |
| Subscriptions received in advance | | 300 | Cash | 16,800 |
| Outstanding expenses last year (2800 – 2400) | | 400 | | |
| | | 85,160 | | 85,160 |

**16. The following is the Statement of Assets and Liabilities of Hyderabad Library. Association as on 30th June 2004.**

| Liabilities | ` | Assets | ` |
|---|---|---|---|
| Capital Fund | 44,350 | Cash | 2,200 |
| Outstanding Expenses | 2,650 | Furniture | 5,850 |
| | | Books account | 17,850 |
| | | Investments | 5,000 |
| | | Buildings | 14,000 |
| | | Outstanding Subscriptions | 1,750 |
| | | Rent of Lecture hall Outstanding | 350 |
| | 47,000 | | 47,000 |

The following are the Cash Transactions for the year :

| Receipts | ` | Payments | ` |
|---|---|---|---|
| To Balance b/f | 2,200 | By Salaries | 2,400 |
| To Entrance fee | 2,600 | By Taxes and Insurance | 1,200 |
| To Subscriptions | 9,500 | By Additions to Library | 1,250 |
| To Sale of Furniture | 660 | By Outstanding expenses of last year paid | 2,650 |
| To Rent of Lecture Hall | 1,040 | By Printing and Stationery | 650 |
| To Proceeds of entertainment | 3,000 | By Electric Installation expenses | 4,500 |
| | | By Sundry Expenses | 200 |
| | | By Balance c/d | 6,150 |
| | 19,000 | | 19,000 |

**It, was ascertained that ` 2,000 were outstanding by way of subscriptions and ` 450 for Lecture Hall. Outstanding expenses are estimated at ` 750 and insurance is prepaid to the extent of `150.**

**Prepare Income and Expenditure Account for the year and Balance Sheet as on 30th June 2005 after providing for depreciation on Buildings at 2% and on the Library Books at 10%.**

**Sol. :**

**Hyderabad Library**

**Dr Income & Expenditure A/c for the year ended 30.06.2005 Cr**

| Expenditure | | Rs. | Income | Rs. |
|---|---|---|---|---|
| To Salaries | | 2,400 | By Subscriptions (1) | 9,750 |
| To Taxes & Insurance (1200–150) | | 1,050 | By Rent (2) | 1,140 |
| To Expenses | | 950 | By Entrance fees | 2,600 |
| To Printing & Stationary | | 650 | By Entertainment | 3,000 |
| To Depreciation on | | | | |
| i) Building – | 280 | | | |
| ii) Books – | 1,785 | 2,065 | | |
| To Excess of Income over Expenditure | | 9,375 | | |
| | | 16,490 | | 16,490 |

**Working Notes :**

| (1) Subscriptions | | (2) Rent | |
|---|---|---|---|
| for current year – | 9500 | for current year – | 1040 |
| (+) O/standing for current year | 2000 | (+) Outstanding for current year | 450 |
| | 11,500 | | 1,490 |
| (–) Outstanding for last year | 1,750 | (–) Outstanding for last year | 350 |
| | 9,750 | | 1,140 |

**Balance Sheet as on 31.06.2005**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Capital fund – | 44,350 | | Building | 14,000 | |
| (+) Excess of Income over expenditure | 9,375 | 53,725 | (–) Depreciation | 280 | 13,720 |
| | | | Furniture | | 5,190 |
| Oustanding expenses | | 750 | Books * | | 17,315 |
| | | | Investments | | 5,000 |
| | | | Prepaid Insurance | | 150 |
| | | | Outstanding subscriptions | | 2,000 |
| | | | Outstanding Rent | | 450 |
| | | | Cash | | 6,150 |
| | | 54,475 | | | 54,475 |

**Working Notes :**

* Books

| | | |
|---|---|---|
| for current year – | 17,850 | |
| (+) purchases – | 1,250 | |
| | 19,100 | |
| (–) depreciation | 1785 | = 17,315 |

**17. The Balance Sheet of Public Library showed as follows on 1st April 2005.**

| Liabilities | ` | Assets | | ` |
|---|---|---|---|---|
| Outstanding creditors for expenses | 700 | Cash at Bank | | 4,000 |
| | | Sundry Debtors | | |
| Creditors on open Accounts | 4,300 | For Subscriptions outstanding | 1,000 | |
| Capital Fund : | | For use of Lecture Hall | 400 | 1,400 |
| Accumulated excess of | | Investment 5% | | |
| Income over Expenditure | 70,000 | Govt. Loan | | 6,000 |
| | | Library Books | | 20,000 |
| | | Furniture & Fittings | | 3,500 |
| | | Buildings | | 40,000 |
| | | Prepaid Insurance | | 100 |
| | 75,000 | | | 75,000 |

The Cash transactions for the year ending 31st March 2006 were as follows :

| | ` | | ` |
|---|---|---|---|
| To Bank Balance on | | By Payments to Creditors | |
| 1st April 2005 | 4,000 | on open Accounts | 4,300 |
| To Entrance Fees | 1,200 | By Addition to Library Books | 1,400 |
| To Subscriptions | 12,500 | | |
| To Proceeds from Lectures | | By Electric Lighting | |
| and entertainment | 4,500 | and power | 300 |
| To Rent received from use of Hall | 1,500 | By Municipal Taxes | 1,100 |
| | | By Repairs to Buildings | 800 |
| To Interest on Investments | 200 | By Insurance | 350 |
| To Sale of old Newspapers | 450 | By Electric Installation | |
| To Sale of Furniture | 100 | Expenses | 2,000 |
| | | By Payment to outstanding creditors of last year | 700 |
| | | By Printing and Stationery | 500 |
| | | By Sundry Expenses | 250 |
| | | By Postage | 420 |
| | | By Subscriptions to Periodicals | 1,400 |
| | | By Cost of Investments bought | 3,000 |
| | | By Salaries | 3,600 |
| | | By Balance at Bank on 31-3-2006 | 4,330 |
| | 24,450 | | 24,450 |

**Insurance was prepaid to the extent of ` 75 and subscriptions outstanding amount to ` 1,800. ` 250 were owing for use of Lecture Hall and ` 300 for Interest on Investments had accrued due. There were creditors outstanding for new steel shelves acquired during the year amounting `1,750. There were also owing for salaries `500 and stationery `75 Entrance Fees are to be capitalised.**

**You are required to prepare an Income and Expenditure Account and Balance Sheet for the year ended 31st March 2006 after providing 2% depreciation on Buildings, 5% on Electric Installation and Furniture and Fittings and 10% on Library Books, such depreciation to be calculated on the opening balances of the assets in question.**

**Sol. :**

**Public Library's**

**Dr Income & Expenditure A/c for the year ended 31.03.2006 Cr**

| Expenditure | | Rs. | Income | | Rs. |
|---|---|---|---|---|---|
| To Salaries – | 3600 | | By Subscriptions – | 12,500 | |
| (+) Outstanding – | 500 | 4,100 | (+) Outstanding – | 1,800 | |
| | | | | 14,100 | |
| To Electric, Lighting & Power | | 300 | (–) O/s. for last year | 1,000 | 13,100 |
| To Municipal taxes | | 1,100 | By Lecturers & Entertainment | | 4,500 |
| To Repairs to Building | | 800 | By Rent – | 1500 | |
| To Insurance (350+100 – 75) | | 375 | (+) Outstanding – | 250 | |
| To Subscriptions to periodicals | | 1,400 | | 1750 | |
| To Printing – | 500 | | (–) Outstanding for last year | 400 | 1,350 |
| (+) Outstanding – | 75 | 575 | By Interest – | 200 | |
| To Sundry Expenses | | 250 | (+) Outstanding – | 300 | 500 |
| To Postage | | 420 | By Sale of news papers | | 450 |
| To Depreciation | | | | | |
| i) Building – | 800 | | | | |
| ii) Furniture – | 175 | | | | |
| iii) Books – | 2000 | 2,975 | | | |
| To Excess of Income over expenditure | | 7,805 | | | |
| | | 20,100 | | | 20,100 |

**Balance Sheet as on 31.03.2006**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Capital fund – | 70,000 | | Buildings – | 40,000 | |
| (+) Surplus – | 7,805 | | (–) Depreciation | 800 | 39,200 |
| (+) Entrance fees – | 1,200 | 79,005 | Furniture | | 6,975 |
| Creditors for furniture | | 1,750 | Library books ** | | 19,400 |
| Outstanding Expenses : | | | Investments (6000+3000) | | 9,000 |
| i) Salaries – | 500 | | Interest on Investment | | 300 |
| ii) Stationary – | 75 | 575 | Prepaid insurance | | 75 |
| | | | Oustanding subscriptions | | 1,800 |
| | | | Outstanding rent | | 250 |
| | | | Cash | | 4,330 |
| | | 81,330 | | | 81,330 |

**18. From the following Prepare the Income and Expenditure account for the year ended $31^{st}$ March 2005 and the Balance Sheet as at the date :**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2004 | | | ` | 2005 | | | ` |
| Apr.1 | To | Balance : | | $31^{st}$ | | | |
| | | Cash at Bank | 455 | Mar. | By | Salaries | 3,600 |
| | | Cash in Hand | 55 | | By | Rent | 600 |
| 2005 | To | Subscriptions | | | By | Printing and | |
| $31^{sl}$ | | (including ` 200 | | | | Stationery | 145 |
| Mar. | | for 2005-06 | 3,000 | | By | Postage | 25 |
| | To | Interest on | | | By | Bicycle | |
| | | Investments | | | | (Purchase) | 95 |
| | | (cost of invest- | | | By | Plan Bonds | 680 |
| | | ments ` 30,000) | 1,500 | | By | Balance : | |
| | To | Bank Interest | 10 | | | Cash in hand | 12 |
| | To | Sale of Scooter | 250 | | | Cash at bank | 113 |
| | | | 5,270 | | | | 5,270 |

**Subscriptions include `120 for 2003-04 Also rent includes ` 50 paid for March 2004 Subscriptions amounting to `150 are still to be collected for the year 2004-05 Rent for March 2005. ` 50 is still to be paid and ` 25 are outstanding against a stationery bill. The book value of the Scooter was ` 320.**

**Sol. :**

**Balance Sheet as on 31.03.2004**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| | | Investments | 30,000 |
| Capital Fund (Balance) | 30,900 | Scooter | 320 |
| | | Oustanding subscriptions | 120 |
| | | Cast at Bank | 455 |
| | | Cash in hand | 55 |
| | 30,900 | | 30,900 |

**Dr Income & Expenditure a/c for the year ended 31.03.2005 Cr**

| Expenditure | | Rs. | Income | Rs. |
|---|---|---|---|---|
| To S alaries | | 3,600 | By Subscription (1) | 2,830 |
| To Rent – | 600 | | By Inton Investment | 1500 |
| (+) Outstandng | 50 | | By Bank Interest | 10 |
| | 650 | | By Excess of Expenditure over Income | 125 |
| (–) Outstanding last year – | 50 | 600 | | |
| To Print & Station | | 170 | | |
| To Postage | | 25 | | |
| To Loss on Sale of Scooter | | 70 | | |
| | | 4,465 | | 4,465 |

**Working Notes :**

| | |
|---|---|
| (1) Subscriptions for current year – | 3000 |
| (+) Current year outstanding – | 150 |
| | 3,150 |
| (–) Last year outstanding | 120 |
| | 3,030 |
| (–) Received in advance | 200 |
| | 2,830 |

**Balance Sheet as on 31.03.2004**

| Liabilities | | Rs. | Assets | Rs. |
|---|---|---|---|---|
| Capital fund – | 30,900 | | Investment | 30,680 |
| (–) Excess of Expenditure over Income | 125 | 30,775 | Bicycle | 95 |
| Subscriptions | | 200 | Oustanding subscriptions | 150 |
| Outstanding expenses | | | Cast at Bank | 113 |
| Rent – | 50 | | Cash in hand | 12 |
| Standing – | 25 | 75 | | |
| | | 31,050 | | 31,050 |

**19. The following is the Receipts and payments Account of Calcutta Association for the year ended 31st December 2005.**

| Receipts | ` | Payments | ` |
|---|---|---|---|
| To Opening Balance : | | By Establishment | |
| Cash in hand | 250 | (Including ` 400 for 2006 | 6,000 |
| Cash at bank | 20,550 | | |
| To Subscriptions | | By Telephone Charges | 540 |
| (including for 2006 ` 750) | 21,250 | By Electric Charges | 250 |
| | | By Stamps & Stationery | 600 |
| To Hall Rent | 1,250 | By Travelling | 150 |
| To Interest on Securities | 1,000 | By Meeting Expenses | 500 |
| To Donations | 10,000 | By Rent | 5,400 |
| To Telephone receipts | 50 | By Library | 3,000 |
| | | By Donations | 5000 |
| | | By Closing Balance : | |
| | | Cash in hand | 310 |
| | | Cash at Bank | 32,600 |
| | 54,350 | | 54,350 |

**The following additional information is available :**

**a) The association holds 3 percent Government securities amounting to ` 40,000.**

**b) The library account stood at ` 20,000 on 1st January 2005.**

**c) The donations of ` 10,000 are to be founded for a prize to be awarded by the association.**

**d) The outstanding liabilities are: Rent ` 300 printer's bill ` 150.**

**e) There are 400 members who pay subscriptions at the rate of ` 50 per member.**

**You are required to prepare an income and expenditure account for the year ended 31st December 2005 and a balance sheet as on that date.**

**Sol. :**

**Balance Sheet as on 31.03.2004**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Capital fund (Balance) | 81,300 | Govt. securities | 40,000 |
| | | Library | 20,000 |
| | | Cash at Bank | 20,550 |
| | | Cash in hand | 250 |
| | | Outstanding subscriptions | 500 |
| | 81,300 | | 81,300 |

**Working Notes**

| | | |
|---|---|---|
| * | Interest received for currentyear – | 1000 |
| | (+) Outstanding for current year – | 200 |
| | | 1,200 |

**Calculate Associations**

**Income & Expenditure a/c for the year ended 31.03.2005**

| Expenditure | | Rs. | Income | Rs. |
|---|---|---|---|---|
| To Establishment | 6000 | | By Subscriptions | 20,000 |
| (–) Advance | 400 | 5,600 | By Hall rent | 1,250 |
| To Telephone charges | | 540 | By Interest on securities * | 1,200 |
| To Electric charges | | 250 | By Telephone receipts | 50 |
| To Stamps and Stationary | | 600 | | |
| To Printing | | 150 | | |
| To Meeting Expenses | | 500 | | |
| To Rent | 5400 | | | |
| (+) Oustanding | 300 | 5,700 | | |
| To Donations | | 5,000 | | |
| To Excess of Income over expenditure | | 4,010 | | |
| | | 22,500 | | 22,500 |

**Balance Sheet as on 31.12.2005**

| Liabilities | | Rs. | Assets | Rs. |
|---|---|---|---|---|
| Capital fund | 81,300 | | Library * | 23,000 |
| (+) Excess of Income over expenditure | 4,010 | 85,310 | Investments | 40,000 |
| Donations (Prize fund) | | 10,000 | Outstanding Interest | 200 |
| Subscriptions received in advance | | 750 | Establishment prepaid | 400 |
| | | | Cast at Bank | 32,600 |
| Outstanding Rent | | 300 | Cash in hand | 310 |
| Outstanding Printing | | 150 | | |
| | | 96,510 | | 96,510 |

**20. The following particulars are obtained from the books of Osmania Youngmen's Association, for the year ended December 31st, 2005.**

**Receipts and Payments Account for the year ended December 31st 2005**

| Receipts | | Rs | Payments | Rs |
|---|---|---|---|---|
| To Balance b/d | 7,000 | | By Salaries | 3,000 |
| To Subscriptions | | | By Printing & Stationery | 300 |
| 2004 | 500 | | By Postage & Telephone | 1,800 |
| 2005 | 9,000 | | By Municipal Taxes | 1,600 |
| 2006 | 1000 | 10,500 | By Cutlery Purchases | 3,000 |
| To Entrance Fees | | 1,000 | By Electricity Charges | 1,200 |
| To Life Membership fee | | 5,000 | By Annual Dinner Charges | 4,800 |
| To Annual Dinner | | 6,000 | By Fixed Deposit in Andhra Bank | 12,000 |
| To Hall Rent | | 3,000 | By Balance c/d | 5,400 |
| To Miscellaneous Income | | 600 | | |
| | | 33,100 | | 33,100 |

**On January 1,2005 the Association had a Building worth ` 2,00,000 Cutlery worth ` 6,000 and Kitchen ware worth ` 8,000; There is a deposit with the Telephones Department under the Own Your Telephone Scheme amounting to ` 8,000. Entrance Fees and Life Membership Fees are to be capitalised.**

**You are required to depreciate Building by 5% Cutlery by 40% and Kitchen ware by 25%. The Annual Subscriptions of the Association members is ` 10 and 100 members were in arrears during this year.**

**Municipal Taxes were paid up to March 31, 2006**

**You are required to prepare an Income and Expenditure Account for the year ended December 31, 2005 and a Balance Sheet as on that date, after making the necessary adjustment.**

**Sol. :**

**Osmania youngmen's Association's**

**Balance sheet as on 1.01.2005**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Capital Fund (Balance) | 2,29,500 | Building | 2,00,000 |
| | | Cutlery | 6,000 |
| | | Kitchen ware | 8,000 |
| | | Telephone | 8,000 |
| | | Cash | 7,000 |
| | | Subscriptions outstanding | 500 |
| | 2,29,500 | | 2,29,500 |

**Dr Income & Expenditure a/c for the year ended 31.03.2005 Cr**

| Expenditure | | Rs. | Income | Rs. |
|---|---|---|---|---|
| To Salaries | | 3,000 | By Subscriptions (1) | 10,000 |
| To Printing & Stationary | | 300 | By Annual dinner | 6,000 |
| To Postage & Telephone | | 1,800 | By Hall rent | 3,000 |
| To Municipal Taxes | 1600 | | By Misc. Income | 600 |
| (–) Advances paid | 400 | 1,200 | By Excess of Expenditure over Income | 7,100 |
| To Electricity charges | | 1,200 | (Deficit) | |
| To Annual Dinner exp. | | 4,800 | | |
| To Depreciation on | | | | |
| Building – | 10,000 | | | |
| Cutlery – | 2400 | | | |
| Kitchen – | 2000 | 14,400 | | |
| | | 26,700 | | 26,700 |

**Working Notes :**

(1) Subscriptions received for current year – 9,000

(+) Subscriptions arrears for current year – 1000

10,000

**Balance Sheet as on 31.12.2005**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Capital fund – | 2,29,500 | | Building – | 2,00,000 | |
| (–) Excess of Expenditure over Income | 7,100 | | (–) Depreciation | 10,000 | 1,90,000 |
| | 2,22,400 | | Telephone | | 8,000 |
| (+) Entrance fees | 1,000 | | Fixed Deposits | | 12,000 |
| (+) Life membership | 5,000 | 2,28,400 | Kitchen ware | 8000 | |
| | | | (–) depreciation | 2000 | 6,000 |
| Subscriptions received in advance | | 1,000 | Cutlery – | 6000 | |
| | | | (–) depreciation – | 2400 | |
| | | | | 3,600 | |
| | | | (+) purchases – | 3,000 | 6,600 |
| | | | Muncipal taxes prepaid | | 400 |
| | | | Outstanding subscriptions | | 1,000 |
| | | | Cash | | 5,400 |
| | | 2,29,400 | | | 2,29,400 |

**21. The Jubilee Club, Salem had the following assets and liabilities as on 1-1-2005**

| ParticularP | ` |
|---|---|
| Cash in Hand | 2,000 |
| Subscriptions Receivable | 200 |
| Furniture | 1,000 |
| Sports Materials | 600 |
| Investments | 2,500 |
| Buildings | 5,000 |
| Outstanding Creditors for Supplies | 300 |
| Capital Fund | 11,000 |

**During the year 2005 the club did the following business.**

**Subscriptions received (including the arrears) ` 3,000 subscription due ` 300; paid the outstanding creditors for supplies; subscriptions to new papers ` 500; sports materials purchased ` 1,000; Sale of old newspapers ` 50; meeting expenses ` 450; lighting Charges ` 400; salaries of establishment ` 1,000; stock of sports materials at the end ` 500; interest received on investments ` 75 (outstanding ` 25); Borrowings ` 2,000; purchased Furniture ` 400 expenditure on annual function ` 375; donations received ` 1,800; (half to be capitalised). Provide depreciation at 5% on Furniture and Buildings.**

**Prepare a Receipts and Payments account and Income and Expenditure account for the year ended 31st December 2005 and a Balance Sheet as on that date.**

**Sol. :**



**Jubilee Club Salem's**

**Dr Receipts & Payments a/c for the year ended 31.12.2005 Cr**

| Receipts | Rs. | Payments | Rs. |
|---|---|---|---|
| To Balance | 2,000 | By Outstanding creditors | 300 |
| To Subscriptions | 3,000 | By Subscriptions to news papers | 500 |
| To Sale of news papers | 50 | By Meeting expenses | 450 |
| To Interest | 75 | By Lighting | 400 |
| To Borrowings | 2,000 | By Salaries | 1,000 |
| To Donations | 1,800 | By Furniture | 400 |
| | | By Annual function | 375 |
| | | By Balance | 4,500 |
| | 8,925 | | 8,925 |

**Dr Income & Expenditure A/c for the year ended 31.12.2005 Cr**

| Expenditure | | Rs. | Income | | Rs. |
|---|---|---|---|---|---|
| To Salaries | | 1,000 | By Subscriptions * | | 3,100 |
| To Meeting expenses | | 450 | By Donations | | 900 |
| To Lighting | | 400 | By Sale of Newspapers | | 50 |
| To Annual functions | | 375 | By Interest | 75 | |
| To Subscription to news papers | | 500 | (+) Outstanding | 25 | 100 |
| To Sports material used ** | | 1,100 | | | |
| To Depreciation | | | | | |
| Building – | 250 | | | | |
| Furniture – | 50 | 300 | | | |
| To Excess of Income over expenditure | | 25 | | | |
| | | 4,150 | | | 4,150 |

**Working notes :**

| | | | |
|---|---|---|---|
| * | Subscriptions received for current year – | | 3,000 |
| | (+) subscriptions arrears for current year – | | 300 |
| | | | 3,300 |
| | (–) Subscriptions arrears for last year – | | 200 |
| | | | 3,100 |
| ** | Sports material – | 600 | |
| | (+) Sports material purchase | 1000 | |
| | | 1,600 | |
| | (–) Closing stock | 500 | |
| | Current year used | – 1,100 | |

**Balance Sheet as on**

| Liabilities | | Rs. | Assets | Rs. |
|---|---|---|---|---|
| Capital fund – | 11,000 | | Furniture * | 1,350 |
| (+) Donations | 900 | | Investments | 2,500 |
| (+) Surplus | 25 | 11,925 | Buildings ** | 4,750 |
| Borrowings | | 2,000 | Sports material | 500 |
| | | | Interest | 25 |
| | | | Outstanding subscriptions | 300 |
| | | | Cash in hand | 4,500 |
| | | 13,925 | | 13,925 |

**Working Notes :**

| | | | |
|---|---|---|---|
| * | Furniture | – | 1,000 |
| (+) | Purchases | – | 400 |
| | | | 1,400 |
| (–) | Depreciation | – | 50 |
| | | | 1,350 |
| ** | Buildings | – | 5,000 |
| (–) | Donations | – | 250 |
| | | | 4,750 |

**22. The following is the Receipts and Payments Accounts of Healthcare Hospital for the year ended on 31.03.09 :**

| Receipts | Rs. | Payments | Rs. |
|---|---|---|---|
| To Balance b/d | 560 | By Paid for medicines | 2,400 |
| To Subscriptions | 4,560 | By Salaries | 2,200 |
| To Donations | 1,160 | By Sundry expenses | 40 |
| To Charity show | 800 | By Equipment | 1,200 |
| | | By Charity show | 80 |
| | | By Honorarium | 800 |
| | | By Balance c/d | 360 |
| | 7,080 | | 7,080 |

Additional Information :

| Particulars | As on 01.04.08 | As on 31.03.09 |
|---|---|---|
| Subscriptions due | 100 | 200 |
| Stock of medicines | 800 | 600 |
| Value of equipment | 1,600 | 2,100 |
| Value of buildings | 8,000 | 7,200 |

**Donations are to be capitalised. Prepare Income and Expenditure for the year ended on 31.03.09 and also show Balance Sheet as on that date.**

**Sol. :**

**Balance Sheet as on 31.03.2008**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Capital fund (Balance) | 11,060 | Buildings | 8,000 |
| | | Equipment | 1,600 |
| | | Stock of Medicines | 800 |
| | | Outstanding subscriptions | 100 |
| | | Cash | 560 |
| | 11,060 | | 11,060 |

**Health Care Hospital's**

**Dr Income & Expenditure a/c for the year ended 31.03.2009 Cr**

| Expenditure | | Rs. | Income | Rs. |
|---|---|---|---|---|
| To Medicines (2) | | 2,600 | By Subscriptions (1) | 4,660 |
| To Salaries | | 2,200 | By Charity Show | 800 |
| To Expenses | | 40 | By Deficit | 1,760 |
| To Charity show | | 80 | | |
| To Depreciation on | | | | |
| equipment – | 700 | | | |
| buildings – | 800 | 1,500 | | |
| | | 7,220 | | 7,220 |

**Working Notes**

**1. Subscription :**

| | | |
|---|---|---|
| Subscriptions for current year | – | 4,560 |
| (+) outstanding for current year | – | 200 |
| | | 4,760 |
| (–) Outstanding for last year | – | 100 |
| | | 4,660 |

**2. Medicines**

| | | |
|---|---|---|
| Medicines for current year | – | 2,400 |
| (+) Outstanding for current year | – | 800 |
| | | 3,200 |
| (+) Outstanding for last year | – | 600 |
| | | 2,600 |

**Balance Sheet as on 31.03.2009**

| Liabilities | | Rs. | Assets | Rs. |
|---|---|---|---|---|
| Capital fund – | 11,060 | | Buildings | 7,200 |
| (+) Donations | 1,160 | | Equipment | 2,100 |
| | 12,220 | | Stock of medicines | 600 |
| (–) Excess of Expenditure | 1,760 | 10,460 | Outstanding subscriptions | 200 |
| over Income | | | Cash | 360 |
| | | 10,460 | | 10,460 |

**23. Hyderabad Sports Club prepared the following Receipts and Payments Account for the year ended on 31st March, 2009 :**

| Receipts | Rs. | Payments | Rs. |
|---|---|---|---|
| Opening Balance | 3,180 | Salaries to staff | 37,000 |
| Subscriptions | 18,000 | Printing and Stationery | 1,600 |
| Sale of old newspaper | 6,500 | Postage | 120 |
| Interest received | 22,000 | Rates and taxes | 1,500 |
| Receipts on sports | 9,020 | Upkeep of land | 2,000 |
| | | Expenses on sports | 10,000 |
| | | Other expenses | 3,480 |
| | | Closing Balance | 3,000 |
| | 58,700 | | 58,700 |

**Additional Information :**

| Particulars | As on 31.03.08 ` | As on 31.03.09 ` |
|---|---|---|
| Subscriptions in arrears | 2,000 | 1,000 |
| Subscriptions received in advance | 500 | 800 |
| Furniture | 2,000 | 1,800 |
| Land | 10,000 | 10,000 |
| Investments | 1,00,000 | 1,00,000 |

**Prepare Income and Expenditure Account and Balance Sheet for the above period.**

**Sol. :**

**Hyderabad Sports Club's**
**Balance Sheet as on 31.03.2008**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Subscriptions | 500 | Subscriptions | 2,000 |
| Capital fund (Balance) | 1,16,680 | Furniture | 2,000 |
| | | Land | 10,000 |
| | | Investments | 1,00,000 |
| | | Cash | 3,180 |
| | 1,17,180 | | 1,17,180 |

**Income & Expenditure for the year ended 31.03.2009**

| Expenditure | Rs. | Income | Rs. |
|---|---|---|---|
| To Salaries | 37,000 | By Subscritpions * | 16,700 |
| To Printing | 1,600 | By Sale of Newspaper | 6,500 |
| To Postage | 120 | By Interest | 22,000 |
| To Rates and Taxes | 1,500 | By Receipts on sports | 9,020 |
| To Up keep of Land | 2,000 | By Excess of Expenditure over Income | 1,680 |
| To Expenses on sports | 10,000 | | |
| To Other expenses | 3,480 | | |
| To Depreciation on furniture | 200 | | |
| | 55,900 | | 55,900 |

**Working Notes :**

| | | | |
|---|---|---|---|
| * | Subscriptions for current year | – | 18,000 |
| | (+) Arrears for current year | – | 1,000 |
| | (+) Received in advance at last year | – | 500 |
| | | | 19,500 |
| | (–) Outstandig subscriptions for last year | – | 2,000 |
| | (–) Received in advance | – | 800 |
| | | | 16,700 |

**Balance Sheet as on 31.03.2009**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| | | | Land | | 10,000 |
| Capital fund – | 1,16,680 | | Furniture – | 2000 | |
| (–) Excess of expenditure overIncome | 1,680 | 1,15,000 | (–) Depreciation – | 200 | 1,800 |
| Subscription received in advance | | 800 | Investment | | 100,000 |
| | | | Subscriptions outstanding | | 1,000 |
| | | | Cash | | 3,000 |
| | | 1,15,800 | | | 1,15,800 |

**24. A summary of receipts and payments account of Sri Sai Siva Hospital for the year ended on 31.3.98 is give below :**

| Receipts | Rs. | Payments | Rs. |
|---|---|---|---|
| To Balance (1.4.1997) | 280 | By Payments for medicines | 1,200 |
| To Subscriptions | 2,000 | By Salaries | 1,100 |
| To Interest on Investments @7 %p.a | 280 | By Sundry expenses | 20 |
| To Donations | 580 | By Purchase of Equipment | 600 |
| To Charity show proceeds | 400 | By Charity show expenses | 40 |
| | | By Honorarium to director | 400 |
| | | By Balance | 180 |
| | 3.540 | | 3,540 |

Additional Information :

| Particulars | As on 31.03.08 ` | As on 31.03.09 ` |
|---|---|---|
| Subscriptions due | 20 | 40 |
| Subscriptions received in advance | 40 | 20 |
| Stock of medicines | 400 | 600 |
| Amount due to medicine supplier | 320 | 480 |
| Value of equipment | 840 | 1,200 |
| Value of Building | 1,600 | 1,520 |

**Donations are to be capitalized. Prepare Income and Expenditure Account for the year ended on 31.3.1998 and Balance Sheet as on that da.0.0.0.0te.**

**Sol. :**

**Sri Sai Siva Hospital's**

**Balance Sheet as on 31.03.2007**

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Subscriptions received | | Buildings | 1,600 |
| in advance | 40 | Equipments | 840 |
| Creditors for medicines | 320 | Investments | 4,000 |
| Capital fund (Balanced) | 6,780 | Stock of medicines | 400 |
| | | Subscriptions outstanding | 20 |
| | | Cash in hand | 280 |
| | 7,140 | | 7,140 |

**Dr Income & Expenditure A/c for the year ended 31.03.2008 Cr**

| Expenditure | | Rs. | Income | Rs. |
|---|---|---|---|---|
| To Salaries | | 1,100 | By Subscription (1) | 2,040 |
| To Medicines used (2) | | 1,160 | By Interest on investments | 280 |
| To Expenses | | 20 | By Charity show | 460 |
| To Charity show exp | | 40 | By Excess of Expenditure over Income | 320 |
| To Honorarium | | 400 | | |
| To Depreciation on | | | | |
| equipment – | 240 | | | |
| buildings – | 80 | 320 | | |
| | | 3,040 | | 3,040 |

**Working Notes :**

| | | | | |
|---|---|---|---|---|
| (1) | Subscriptions for current year – | 2000 | (2) Medicines – | 400 |
| (+) | Outstanding for current year – | 40 | (+) Purchases – | 1200 |
| “ | Received in last year for C.Y | 40 | (+) Creditors | 480 |
| | | 2,080 | | 2,080 |
| (–) | Subscriptions for last year | 20 | (–) Closing stock | 600 |
| (–) | Subscriptions for advance | 20 | (–) Creditors for Last year | 320 |
| | | 2,040 | | 1,160 |

**Balance Sheet as on 31.03.2008**

| Liabilities | | Rs. | Assets | | Rs. |
|---|---|---|---|---|---|
| Capital fund – | 6,780 | | Buildings – | 1,600 | |
| (+) Donations – | 580 | | (–) depreciation – | 80 | 1,520 |
| | 7,360 | | Equipment | | 1,200 |
| (–) Excess of Expenditure over Income | 320 | 7,040 | Investment * | | 4,000 |
| Creditors for medicines | | 480 | Subscriptions outstanding | | 40 |
| Subscriptions received in advance | | 20 | Medicnes | | 600 |
| | | | Cash | | 180 |
| | | 7,540 | | | 7,540 |

**Working notes :**

Calculating of Investments

Interest @ 7% – 280

Investment @ 100% – ?

$$\text{Investments} = \frac{100 \times 280}{7}$$

$$= 4,000$$

**25. The following is the Receipts and Payments Account of Jolly makers Club in respect of the year ending March 31, 1991.**

**Dr.** **Cr.**

| | Receipts | ` | | Payments | ` |
|---|---|---|---|---|---|
| 2004 | | | 2005 | | |
| Apr.1 | To Balance b/d | 2,050 | Mar.31 | By Salaries | 4,160 |
| 2005 | | | | By Rates & Taxes | 1,200 |
| Mar.31 | To subscriptions : | | | By Stationery | 800 |
| | 2003 - 04 80 | | | By Telephone | 200 |
| | 2004 - 05 4,220 | | | By Investments | 2,500 |
| | 2005 - 06 160 | 4,460 | | By Sundry exps. | 1,850 |
| | To Profit on Sport Meeting | 2,850 | | By Balance c/d | 900 |
| | To Interest on Interest | 2,000 | | | |
| | to Sundry receipts | 250 | | | |
| | | 11,610 | | | 11,610 |

The following additional facts are ascertained :

1. Stock of stationery on April 1, 2004 was ` 100 and on March 31, 2005 ` 180.
2. Rates and Taxes were prepaid to the extent of ` 400.
3. Telephone Charges outstanding amounts to ` 75.
4. In 2003-04 subscriptions received in advance amount to ` 200 for current year and ` 180 were due on March 31, 2005 for 2004-05.
5. On March 31, 2004 the Buildings stood in the books at ` 20,000 and it is required to write off depreciation at 5%. Investments at March 31, 2004 were ` 40,000.

You are required to prepare Income and Expenditure Account for the year ended March 31,2005 and a Balance Sheet as at that date.

**Solution :**

As Capital Fund at the beginning of the year is not given, it is ascertained by preparing opening Balance Sheet.

**Balance Sheet as on 31st March, 2004**

| **Liabilities** | ` | **Assets** | ` |
|---|---|---|---|
| Subscriptions received | | Cash | 2,050 |
| in advance | 200 | Stock of Stationery | 100 |
| Capital Fund (bal.fig) | 62,030 | Outstanding Subscriptions | 80 |
| | | Investments | 40,000 |
| | | Buildings | 29,000 |
| | 62,230 | | 62,230 |

**Dr.** **Cr.**

**Income and Expenditure A/c**

**for the year ended 31st March 2005**

| **Expenditure** | | ` | **Income** | | ` |
|---|---|---|---|---|---|
| To Salaries | | 4,1600 | By Suscription | | |
| To Rent & | | | received | 4,220 | |
| Taxes | 1,200 | | (+) received | | |
| (–) Prepaid | 400 | 800 | in advance | | |
| To Stationery | 800 | | last year | 200 | |
| (+) Opening | | | | 4,420 | |
| Stock | 100 | | (+) Out- | | |
| | 900 | | Standing for | | |
| (-) Closing | | | Current year | 180 | 4,600 |
| Stock | 180 | 720 | By Interest on Investment | | 2,000 |

| | | | |
|---|---|---|---|
| To Telephone 200 | | By Profit on Sports Meeting | 2,850 |
| (+) Outstanding 75 | 275 | By Sundry receipts | 250 |
| To Sundry Expenses | 1,850 | | |
| To Depreciation on building | 1,000 | | |
| To Surplus | 895 | | |
| | 9,700 | | 9,700 |

Balance Sheet as on 31st March, 2005

| **Liabilities** | ` | **Assets** | ` |
|---|---|---|---|
| Outstanding Telephone | | Cash | 900 |
| Charges | 75 | Stock of Stationery | 180 |
| Subscriptions received | | Rates & Taxes prepaid | 400 |
| in advance | 160 | Outstanding | |
| Capital Fund : | | Subscriptions : | 180 |
| Opening 62,030 | | Investments 40,000 | |
| (+) Surplus 895 | 62,925 | (+) Purchases 2,500 | 42,500 |
| | | Building 20,000 | |
| | | (-) Depreciation 1,000 | 19,000 |
| | 63,100 | | 63,160 |

**26. The following is the Income and Expenditure Account of Guntur Stadium Club for year ended 31-3-2006.**

**Income and Expenditure Account for the year ended 31-3-2006.**

| **Expenditure** | ` | **Income** | ` |
|---|---|---|---|
| To Salaries | 7,800 | By Subscriptions | 27,200 |
| " Rent | 1,800 | " Donations | 2,000 |
| " Printing | 300 | | |
| " Insurance | 200 | | |
| " Audit fees | 300 | | |
| " Games & Sports | 1,400 | | |
| " Subscriptions to periodicals | 140 | | |
| " Miscellaneous Expenses | 5,800 | | |
| " Loss on sale of furniture | 1,000 | | |
| " Depreciation : | | | |
| Sports Equipment | 2,400 | | |
| Furniture | 1,240 | | |
| " Excess of Income over | | | |
| Expenditure | 6,820 | | |
| | 29,200 | | 29,200 |

| Additional Information | **31-3-2005** ` | **31-3-2006** ` |
|---|---|---|
| Subscription in arrears | 1,040 | 1,080 |
| Advance Subscription | 400 | 600 |
| Outstanding Expenses | | |
| Rent | 200 | 320 |
| Salaries | 480 | 140 |
| Audit fees | 200 | 300 |
| Sports Equipments less depreciation | 10,000 | 9,600 |
| Furniture less depreciation | 12,000 | 11,160 |
| Prepaid Insurance | | 60 |

**Book value of furniture sold is ` 2,800. Entrance fees capitalised is ` 1,600. On 1st April, 2005, there was no cash in hand but there is a bank overdraft for ` 6,000. On 31st March 2006 cash in hand amounted to ` 340 and the rest was bank balance. Prepare the Receipts and Payment Account of the club for the year ended 31-3-2006.**

**Sol:**

**Receipts and Payments Account for the year 31-3-2006.**

| Receipts | | ` | Payments | | ` |
|---|---|---|---|---|---|
| To Subscriptions | | | By Bank Overdraft | | |
| Income | 27,200 | | 1-4-2005 | | 6,000 |
| + Arr. of 2005 | 1,040 | | " Salaries | | |
| | 28,240 | | Expenses | 7,800 | |
| – Arr. of 2006 | 1,080 | | + Out of 2005 | 480 | |
| | 27,160 | | | 8,280 | |
| – Advance in 2005 | 400 | | + Less out. | | |
| | 26,760 | | of 2006 | 140 | |
| + Advance in 2006 | 600 | | | | 8,140 |
| | | 27,360 | Rent-expense | 1,800 | |
| " Donations | | 2,000 | Out of 2005 | 200 | |
| " Entrance fees | | 1,600 | | 2,000 | |
| " Sale of Furniture | | | " Out of 2006 | 320 | 1,680 |
| (2,800-1,000) | | 1,800 | Printing | | 300 |
| | | | Insurance | 200 | |
| | | | + Prepaid | 60 | 260 |
| | | | Audit fees. exp | 300 | |
| | | | + Out of 05 | 200 | |

| | | | | |
|---|---|---|---|---|
| | | | 500 | |
| | | – Out of . 2006 | 300 | |
| | | | | 200 |
| | | " Games & Sports | | 1,400 |
| | | " Miscellaneous Expenses | | 5,800 |
| | | " Subscriptions to periodicals | | 140 |
| | | " Sports Equipment purchased | | |
| | | Bal. on 2006 | 9,600 | |
| | | + Depreciation | 2,400 | |
| | | | 12,000 | |
| | | – Bal. on 05 | 10,000 | 2,000 |
| | | " Furniture Purchased | | |
| | | Bal on 2006 | 11,160 | |
| | | + Dept. | 1,240 | |
| | | + B.V. of Sale of Furniture | 2,800 | |
| | | | 15,200 | |
| | | – Bal . on 05 | 12,000 | 3,200 |
| | | Cash in hand | | 340 |
| | | " Bank Balance (Balancing fig) | | 3,300 |
| | 32,760 | | | 32,760 |

**27. From the following information of a sports club prepare the Balance Sheets as on 1-1-2003 and 31-12-2003.**

**Receipts and Payments Account for the year ended 31-12-2003**

| **Receipts** | ` | **Payments** | ` |
|---|---|---|---|
| To Balance b/c | 8,400 | By Salaries | 16,000 |
| " Entrance Fees | 4,000 | " Investments | 40,000 |
| " Subscriptions | | " Advertising | 1,000 |
| 2002 | 1,200 | " Printing & Stationery | 3,600 |
| 2003 | 50,000 | " Insurance Premium | 2,400 |
| 2004 | 800 | " Balance c/d | 5,400 |
| " Interest received | 4,000 | | |
| | 68,400 | | 68,400 |

**Income & Expenditure Account for the year ended 31-12-2003**

| Expenditure | ` | Income | ` |
|---|---|---|---|
| To Salaries | 16,800 | By Subscriptions | 51,000 |
| " Advertising | 1,000 | " Entrance Fees | 4,000 |
| " Printing & Stationery | 3,000 | " Interest received | 4,000 |
| " Audit fees | 2,000 | | |
| " Insurance Premium | 2,000 | | |
| " Depreciation on Equipment | 15,000 | | |
| " Depreciation on Furniture | 800 | | |
| " Surplus | 18,400 | | |
| | 59,000 | | 59,000 |

**Assests of the club on 1-1-2003 included sports Equipments ` 50,000 Ground and Pavilion ` 80,000. Furniture ` 8,000. Subscriptions in arrears on that date were ` 1600 and Subscriptions received in advance were ` 500.**

**Sol.**

**Balance Sheet of Sports Club as on 1-1-2003**

| Liabilities | ` | Assets | ` |
|---|---|---|---|
| Outstanding Printing & Stationery (3600 - 3000) | 600 | Cash Balance | 8,400 |
| | | Outstanding Subscriptions | 1,600 |
| Subscriptions received in advance | 500 | Furniture | 8,000 |
| | | Sports Equipment | 50,000 |
| Capital Fund-Bal fig | 1,46,900 | Ground and Pavilion | 80,000 |
| | 1,48,000 | | 1,48,000 |



**Balance Sheet of Sports Club As on 31-12-2003**

| Liabilities | | ` | Assets | | ` |
|---|---|---|---|---|---|
| Outstanding salaries | | | Cash Balance | | 5,400 |
| (1680 -16,000) | | 800 | Investments | | 40,000 |
| Outstanding Audit fees | | 2,000 | Prepaid Insurance (2400 -2000) | | 400 |
| Subscriptions received | | | Out standing subscriptions | | |
| in advance | | 800 | 2002 | 400 | |
| Capital Fund | | | 2003 | 500 | 900 |
| Opp. Balance | 1,46,900 | | Furniture | 8,000 | |
| + Surplus | 18,400 | | less Dept. | 800 | 7,200 |
| | | 1,65,300 | Sports Equipments | 50,000 | |
| | | | less Dept. | 15,000 | 35,000 |
| | | | Ground and pavilion | | 80,000 |
| | | 1,68,900 | | | 1,68,900 |

# Exercise Problems

1. The following is the receipts and payments statement of Madras Sports Club for the year ended 31st December 2005

| | Receipts | ` | | Payments | ` |
|---|---|---|---|---|---|
| To | Balance 1-1-2005 | 2,400 | By | Secretary's Salary | 3,600 |
| To | Entrance Fees | 500 | By | Upkeep of Ground (c) | 2,100 |
| To | Subscriptions (a) | 8,700 | By | Wages of | |
| To | Proceeds of Concerts | 1,500 | | Grounds men (d) | 2,400 |
| To | Interest on | | By | Ground Rent | 150 |
| | Investment (b) | 500 | By | Printing & Postage | 200 |
| | | | By | Sundry Repairs | 175 |
| | | | By | Balance 31-12-2005 | 4,975 |
| | | 13,600 | | | 13,600 |

(a) This item - includes subscriptions outstanding brought over form previous year ` 500.

(b) This item includes ` 100 in respect of interest accrued in the previous year.

(c) This item includes ` 300 applicable to the previous year.

(d) This item includes ` 150 applicable to the previous year.

Other ledger balances at the commencement of the financial period were : Capital Funds ` 40,100; Income and Expenditure accounts credit balance brought forward ` 8,900; Club premises and grounds (as per valuation) ` 30,000; Investments ` 10,000; Sports materials ` 2,450; Furniture and Fixtures ` 4,000.

From the above particulars prepare a balance sheet at the commencement of the period, an income and expenditure account for the period and a balance sheet as at the close of the period.

Entrance Fees are to be capitalised. The outstanding liabilities on 31st December 2005 were; Wages ` 200 and Printing ` 100 Interest accured and outstanding on investments was ` 120. Depreciated club premises by 2%. Furniture by 5% and sports equipments by $33 - \frac{1}{3}\%$.

**Ans. [Excess of income over expenditure ` 128.33; Opening Balance Sheet Total ` 49,450; Closing Balance Sheet Total ` 49,928.33]**

2. The following is the receipts and payments account of Free Medical Aid Society for the year ended 31st March 2006.

| | Receipts | ` | | Payments | ` |
|---|---|---|---|---|---|
| To | Cash in hand on | | By | Payments for | |
| | 1-4-2005 | 7,000 | | Medicines | 30,000 |
| To | Subscriptions | 50,000 | By | Honorarium to Doctor | 10,000 |
| To | Donations | 14,500 | By | Salaries | 27,500 |

| | | | | | |
|---|---|---|---|---|---|
| To | Interest on investments at 7% for the year | 7,000 | By | Sundry Expenses | 500 |
| To | Charity Show proceeds | 10,000 | By | Equipment Purchased | 15,000 |
| | | | By | Charity show expenses | 1,000 |
| | | | By | Cash on hand on 31st March 2006 | 4,500 |
| | | 88,500 | | | 88,500 |

**Additional information :**

(i) Subscriptions due

(ii) Subscriptions received in advance

(iii) Stock of medicine

(iv) Amount due to medicine supplies

(v) Value of Equipments

(vi) Value of Buildings

You are required to prepare :

(a) Income and Expenditure account for the year ended 31st March 2006 and

(b) Balance Sheet as on that date. Show all your working.

**Ans. [Excess of income over expenditure ` 6,500, Total of Balance Sheet ` 1,88,500)**

3. Dr. Quick commenced his practice on 1st April, 2008. His receipts and payments account for the year ended on 31st March, 2009 was as follows :

Dr Cr

| | Receipts | ` | | Payments | ` |
|---|---|---|---|---|---|
| To | Cash introduced | 40,000 | By | Furniture | 20,000 |
| To | Visiting Fees | 20,000 | By | Dispensary purchases | 1,56,000 |
| To | Dispensary | 2,90,000 | By | Salary to compounder | 33,000 |
| To | Miscellaneous receipts | 1,000 | By | Rent | 9,600 |
| | | | By | Coveyance | 4,800 |
| | | | By | Lighting | 3,200 |
| | | | By | Drawings | 72,000 |
| | | | By | Balance C/F | 52,400 |
| | | 3,51,000 | | | 3,51,000 |

**Other Information :**

i) Amount still receivable ; visting fees ` 10,000, dispensary ` 6,000

ii) Amount payable for purchases ` 13,000, salary of compounder ` 2,000

iii) Conveyance to the extent of 40% is for domestic purpose.

Prepare Income and Expenditure Account and Balance Sheet of Dr. Quick from the above.

**Ans. [Surplus ` 1,05,320 Balance Sheet Total ` 86,400]**

4. Dr. Faust, after retirement started Rosary Clinic on January 1, 2005 with 10,000 of his own and ` 15,000 borrowed at 9 per cent per annum from Elimer. Following is the Summary of the Cash book for the year ended 31st December 2005 wherein his private incomes and expenses also were recorded to show further capital brought into the clinic.

| | Receipts | ` | | Payments | ` |
|---|---|---|---|---|---|
| To | Capital | 10,000 | By | Medicines | 9,250 |
| To | Loan from Elmer | 15,000 | By | Surgical Equipments | 15,750 |
| To | Consulation Fees | 26,250 | By | Motor Car | 8,450 |
| To | Visiting Fees | 12,500 | By | Motor Car, Expenses | 2,487 |
| To | Lecture Fees | 1,200 | By | Wages and Salaries | 4,080 |
| To | Pension | 3,600 | By | Rent | 1,200 |
| To | Interest on Investments | | By | General Charges | 650 |
| | (Personal) | 2,700 | By | Household Expenses | 2,675 |
| | | | By | Household Furniture | 850 |
| | | | By | Expenses on Private | |
| | | | | Functions | 4,250 |
| | | | By | Interest on loan | 1,000 |
| | | | By | Balance at Bank | 20,000 |
| | | | By | Balance on hand | 638 |
| | | 71,250 | | | 71,250 |

Prepare Income and Expenditure Account for year ended 31st December 2005 and Balance Sheet as on that date for the clinic. One - fourth of the motor car expenses should be treated as private expenses and ` 1,200 of the wages and salaries were in respect of his domestic servants. Stock of medicines on hand on 31st December 2005 was valued at ` 1,825.

**Ans. [Excess of income over expenditure of the cline ` 23,380; Balance Sheet total ` 46,663)**

5. The following particulars relate to the Rising Stars Sports Club.

**Income and Expenditure Account**

**For the year ended 31st December 2005**

| | Expenditure | ` | | Income | ` |
|---|---|---|---|---|---|
| To | Secretary's Salary | 1,500 | By | Entrance Fees | 10,500 |
| To | Printing & Stationery | 2,200 | By | Subscriptions | 15,600 |
| To | Advertising | 1,600 | By | By Rent receivable | 4,000 |
| To | Audit Fees | 500 | | | |

| | | | |
|---|---|---|---|
| To Fire Insurance | 1,000 | | |
| To Depreciation on Sports equipments | 9,000 | | |
| To Surplus (being excess of income over expenditure) | 14,300 | | |
| | 30,100 | | 30,100 |

**Receipts and Payments Account**

**for the year ended 31st December 2005**

| Receipts Rec | ` | Payments | ` |
|---|---|---|---|
| To Balance on 1st January | 4,200 | By Secretary's Salary | 1,000 |
| To Entrance Fees 2004 | 1,000 | By Printing and Stationery | 2,600 |
| To Entrance Fees 2005 | 10,000 | By Advertising | 1,600 |
| To Subscriptions 2004 | 600 | By Fire Insurance | 1,200 |
| To Subscriptions 2005 | 15,000 | By Investments Purchased | 20,000 |
| To Rent Received | 3,000 | | |
| | 34,200 | | 34,200 |

The Assets on 1st January 2005 included Club grounds and pavilion ` 44,000, Sports Equipments ` 25,000 and Furniture and Fixture ` 4,000.

Prepare the opening and closing Balance Sheet

**Ans. [Balance sheet total opening ` 78,800, closing ` 94,100]**

# Short Question & Answers

**1. What is non-profit organizations?**

*Ans :*

In every society, some form of organization or association is found which does not have the objective of making profit. Their main objective may be social, educational or charitable and they take the form of clubs, societies or charitable bodies and so on. Many Government activities fall into this category, such as hospitals, schools and colleges, etc. Their main objectives are to provide service to the members or beneficiaries. The main idea is to spend the funds of the organization in such a fashion that provides maximum benefit to the members. Nonetheless, in the long run, these forms of organization must have sufficient surplus after meeting the expenses from the income. Many social clubs are democratically organized just like a company and the members or beneficiaries get information similar to that provided to a shareholder. But the surplus of these organizations is not distributed among its members by way of dividends as it is done in case of a company However, we may find certain charitable institutions which are autocratic. They are managed by a small group of trustees who retain the power to appoint their own successors.

**Meaning of Non-profit Seeking Organizations**

Non-profit seeking organizations refer to those organizations which:

(a) Are formed for the purpose of promoting commerce, art, science, religion, charity or any other useful object,

(b) Intend to spend their income in promoting their objectives, and

(c) Prohibit the payment of any dividend to their members.

The examples of such organizations include sports clubs, social clubs, libraries, charitable hospitals, educational institutions, temples, churches, gurudwaras, masjids and professional bodies (e.g. The Institute of Chartered Accountants of India, The Institute of Cost and Works Accountants of India, The Institute of Company Secretaries of India).

**2. How profit organizations differ with non-profit organizations?**

*Ans :*

A Profit seeking organization may be distinguished from a Non-profit seeking organization as under:

| | Basis of Distinction | Profit Seeking Organization | Non-profit Seeking Organization |
|---|---|---|---|
| 1. | Primary Motive | The primary motive of such an entity is to earn profit. | The primary motive of such an entity is to provide services. |
| 2. | Owner's Fund Vs. Capital Fund | Interest of owners is known as owner's fund which represents the owner's investments plus accumulated do- reserves and surplus. | Interest of members is known as capital fund which represents the accumulated surplus of subscription, nations and net profits from activities carried on by such an entity. |
| 3. | Net result of activities | The net result of the activities of such an entity is known as the profit/loss. | The net result of the activities of such an entity is known as the surplus/deficit |

| | | | |
|---|---|---|---|
| 4. | Accounting Statements | The accounting statements of such type of entity include:<br>(a) a Manufacturing A/c<br>(b) a Trading A/c;<br>(c) a Profit and Loss A/c;<br>(d) a Balance Sheet. | The accounting statements of such an entity includes:<br>(a) a Receipts and Payments A/c;<br>(b) an Income and Expenditure A/c<br>(c) a Trading A/c;<br>(d) a Balance Sheet. |

**3. Receipts and payments account ?**

*Ans :*

A Receipts and Payments Account is a summary of the Cash Book. This is the primary report prepared by the treasurers of the clubs, societies etc to present the result of the year's cash position. Since it is a cash basis of reporting, the Receipts and Payments Account gives the opening cash and bank, the receipts and payments by cash or by cheque during an accounting period and the resultant balance of cash and bank at the end of the accounting period. All the receipts and payments (whether in cash or cheque) are shown on the left-hand side; and all payments (whether in cash or cheque) are shown on the right-hand side.

**4. Features of a Receipts and Payments Account.**

*Ans :*

1. It is the summary of the cash and bank transactions; like cash book, all the receipts (capital or revenue) are debited, similarly all the payments (capital or revenue) are credited.
2. It starts with opening cash and bank balances (though sometimes they are merged) and also ends with their closing balances.
3. This account is usually not a part of the double entry system. It is the duplicate of cash book in concise form.
4. It includes all cash and bank receipts and payments, whether they are related to current, past or future periods.
5. Surplus or deficit for an accounting period cannot be ascertained from this account, since it shows only the cash position and excludes all non-cash items.
6. This account is not a Trial Balance but a'Cash Trial'.
7. It ends with closing balance of Cash in hand and Cash at bank.

**5. Income and expenditure account ?**

*Ans :*

The Income and Expenditure Account is equivalent to the Profit and Loss Account of a business enterprise. It is prepared by matching the revenues against the expenses for a specified period, usually a year. Since non-profit organizations do not earn profit (of incur loss) they do not prepare Profit and Loss Account but for evaluating the financial condition of the organization, they prepare Income and Expenditure Account at the year-end. This account shows surplus or deficit of income over expenditure.

The method and technique of the preparation of an Income and Expenditure Account is similar to that which is followed in the preparation of a Profit and Loss Account of a profit-seeking concern. The main sources of revenues of these organizations are subscriptions, admission fees, donations and government or other grants. The whole of the revenue income and revenue expenditure for the period are taken into consideration, irrespective of the fact whether they have been actually received or paid or not. Just like Profit and Loss Account, all accrued incomes and outstanding expenditures are shown in this account. All incomes are shown on the right-hand side (income side) and all expenditures are shown on the left-hand side (expenditure side) No capital expenditure or receipt is taken in the Income and Expenditure Account. If the right-hand total of this account exceeds the left-hand side total, the balance is a surplus and it is called "Excess of Income over Expenditure". Conversely, if the left-hand side total exceeds the right-hand side total, the balance is a deficit and it is called "Excess of Expenditure over Income".

### 6. Features of an Income and Expenditure Account.

*Ans :*

1. It is a revenue account prepared at the end of the financial period for finding out the surplus or deficit of that period.
2. It is prepared by matching expenses against the revenues of the period concerned.
3. Both cash and non cash items, such as depreciation, are taken into consideration.
4. All capital expenditures and incomes are excluded.
5. Only current year's incomes and expenses arc considered.

### 7. Donations.

*Ans :*

(i) Donations received from persons, firms, companies in the form of money should be added directly to the capital fund if the amount is **large and non-recurring.**

(ii) Small and recurring donations collected or received should be credited to Income & Expenditure Account of the period concerned.

(iii) Donations received in the form of an asset should be credited to the particular fund, for which the amount has been donated and in the absence thereof, to the Capital Fund Account.

(iv) When specific direction has been given in the rules and regulations of the organization, it should be treated accordingly.

### 8. Entrance or Admission Fees.

*Ans :*

(i) Admission fee payable by a member only once, at the time of becoming a member, should be treated as capital receipts and credited to Capital Fund Account.

(ii) Where the amount is small, just to cover the expenses of admission, it should be treated as revenue receipts and credited to Income & Expenditure Account.

(iii) When a specific direction has been given in the rules and regulations of the organization, it should be treated accordingly.

### 9. Life Membership Fees.

*Ans :*

(i) Amount received from life membership should be credited to a special fund and an amount equal to annual subscriptions is transferred every year to the Income and Expenditure Account, the balance of this fund is carried forward till it is fully exhausted. If any life member dies before the entire amount paid by him has been transferred in the above way, the balance should be transferred to the Capital Fund on the date of his death.

(ii) Alternatively, the entire amount can be credited to the Capital Fund in the year in which it is received.

**10. Explain the objectives of non-profit organization ?**

*Ans :*

1. To evaluate the performance of organizations in terms of achieving their goals for which they were created.
2. To judge whether those organizations are appropriating the funds with three E's viz. economically, effectively and efficiently.
3. To examine the compliance of rules, regulations, bye-laws in the organizations.
4. For obtaining grants from government departments.
5. To submit annual accounts to the Registrar with whom they are registered.

**11. Explain the features of Non-profit organization.**

*Ans :*

**1. Main Aim is Service**

The basic aim of non-profit organizations is to serve the society. They are working for the benefit of the society as a whole.

**2. Profit is not the Criterion**

Non-profit organizations are formed for some idealistic purposes such as religious, charitable or providing education etc. Earning of profits can never be their aim.

**3. Surplus not Distributed among its Members**

Though earning profit is not the criterion for non-profit organizations, yet there may be excess of income over expenditure or excess of expenditure over income. The former is known as 'surplus' and latter is known as 'deficit'. Unlike other business, surplus or deficit of non-profit organizations is not distributed among its members. They are adjusted in the capital fund of such organizations.

**4. Separate Entity**

The separate entity concept is equally applicable to non-profit organizations. Such organizations are treated as a separate entity distinct from its members.

**5. Major Funds from Contributions and Donations etc.**

Usually, non-profit organizations are not self sufficient to run their activities with the revenue generated from their own sources, so they depend upon the subscriptions, donations and grants received from various government departments.

# Choose the Correct Answers

1. The opening capital is ascertained by preparing: [ d ]
   (a) Cash book (b) Creditors A/c
   (c) Debtors A/c (d) Opening statement of affairs
2. A single entry system it: [ b ]
   (a) Complete and scientific system (b) Incomplete and unscientific
   (c) Incomplete and scientific (d) Complete and unscientific
3. Single entry system has effect: [ a ]
   (a) One effect (b) Two effect
   (c) Three effect (d) None of the above
4. In single entry system, it is not possible to prepare: [ b ]
   (a) Receipts and payments A/c (b) Trial balance
   (c) Balance sheet (d) Account sales
5. A single entry system is usually adopted by: [ c ]
   (a) Company (b) Partnership
   (c) Government (d) None of above
6. Single entry system is must suited where: [ a ]
   (a) Cash transactions are many (T)
   (b) Credit transactions are many
   (c) Cash & credit transactions are more
   (d) None of the above
7. Capital can be obtained by preparing: [ b ]
   (a) Cash book (b) Statement of affairs (T)
   (c) Debtors A/c (d) Creditors A/c
8. Credit sale can be obtained by preparing: [ c ]
   (a) Cash book (b) Statement of affairs
   (c) Debtors A/c (T) (d) Creditors A/c
9. Credit purchase can be calculated by preparing: [ d ]
   (a) Cash book (b) Statement of affairs
   (c) Debtors A/c (d) Creditors A/c
10. Cash in hand can be obtained by preparing: [ a ]
    (a) Cash book (b) Statement of affairs
    (c) Debtors A/c (d) Creditors A/c

# Fill in the blanks

1. Fund based accounting is maintained by ________.
2. A life membership fee is a ________
3. Income and Expenditure account records transactions of ________ nature only.
4. Receipts and Payments account record transactions of ________ nature.
5. A debit balance in the Income and Expenditure A/c denotes excess of ________ over ________.
6. A credit balance in the Income and Expenditure A/c denotes excess of ________ over ________.
7. Receipts and Payments account is a ________ account.
8. Income and expenditure account is a ________ account.
9. Not for profit organisation prepares ________ and ________.
10. Legacy is an item of ________ nature.



## Answers

1. Non trading concern
2. Capital receipt
3. Revenue
4. Both capital and revenue
5. Expenditure, Income
6. Income, Expenditure
7. Real
8. Nominal
9. Income and Expenditure A/c, Receipts and Payments
10. Non-recurring

# FACULTY OF COMMERCE

## B.Com (CBCS) II- Semester Examination

## January - 2021

**(Common Paper for General / Computer Applications / Advertising /Foreign Trade / Tax Practices and Honours Courses)**

# FINANCIAL ACCOUNTING-II

**Time : 2 Hours]** **[Max. Marks : 80**

### PART – A (5 × 4 = 20 Marks)

**Note :** Answer any **Four** questions

**ANSWERS**

1. Explain the parties involved in a Bill of Exchange. **(Unit-I, SQA-2)**
2. Differences between Abnormal Loss and Normal Loss. **(Unit-II, Q.No.13)**
3. Ranga and Srinu enter into Joint Venture and keep separate set of books. Write entries in their books for
   (a) Joint Bank Account opened by Ranga contributing ` 3,00,000 and Srinu contributing ` 2,00,000.
   (b) Amount paid from Joint Bank Account ` 1,50,000 for purchases of materials.

*Sol:*

**Journal Entries**

| S.No. | Particulars | LF | Debit | Credit |
|---|---|---|---|---|
| 1. | Joint Bank A/c Dr | | 5,00,000 | – |
| | To Ranga A/c | | - | 3,00,000 |
| | To Srinu A/c | | - | 2,00,000 |
| | (Being capital contributed by co-ventures) | | | |
| 2. | Joint Venture A/c Dr | | 1,50,000 | - |
| | To Joint Bank A/c | | - | 1,50,000 |
| | (Being amount paid from joint bank account) | | | |

4. Features of Single Entry. **(Unit-IV, Q.No.2)**
5. Ascertain the amount of subscriptions to be credited to Income and Expenditure Account for the year ending 31- 3-2018.

Subscription received in 2018 ` 1,20,000.

Subscription of 2017 received in 2018 ` 14,000

Subscription of 2019 received in 2018 ` 12,000

Outstanding Subscription of 2018 ` 35,000.

*Sol:*

Calculation of subscription for the year ending 31-3-2018

| Particulars | Amount |
|---|---|
| Subscription Received in 2018 | 1,20,000 |
| (–) outstanding subscriptions of 2017 | 14000 |
| | 1,06,000 |
| (–) subscription received in advance for 2019 in 2018 | 12,000 |
| | 94000 |
| (–) outstanding subscription | 35,000 |
| | 1,29,000 |

6. From the following information you are required to calculate Total Purchases.

Cash Purchases ` 20,000; Creditors as on January 1, 2018 ` 40,000

Cash paid to Creditors ` 1,40,000; Creditors as on 31st Dec. 2018 ` 1,30,000

*Sol:*

**Total creditors A/c**

**Dr** **Cr**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Cash a/c | 1,40,000 | By balance b/d | 40,000 |
| To Balance b/d | 1,30,000 | By credit purchase (B/F) | 2,30,000 |
| | 2,70,000 | | 2,70,000 |

**Total Purchases A/C**

| Particulars | Amount |
|---|---|
| Cash purchases | 20,000 |
| (+) Credit purchases | 2,30,000 |
| Total purchases | 2,50,000 |

7. Ramu sends goods on consignment to Rajender. The terms are that Rajender will receive 10% Commission on the Invoice Price (which is Cost plus 25%) and 20% of any price realized above the invoice price. Ramu send goods whose cost is ` 20,000. Rajender sold 3/4* of the goods for ` 30,000. Ascertain the Commission payable to Rajender.

*Sol :*

18750 × 10% = 1875

20% of price Realised above invoice price.

30,000 – 18,750 = 11,250

20% of 11,250 = 2250

Total commission payable to

Rajender = 1875 + 2250

= ` 4125

8. Explain Life Membership Fee. **(Unit-5, SQA-9)**

**PART – B (4 × 14 = 60 Marks)**

**Note :** Answer any Four questions.

9. Explain the difference between Bills of Exchange and Promissory Note. **(Unit-I, Q.No.7)**

10. Raju sold goods to Sunder worth ` 10,000 on Jan. 1, 2018 drew three bills of Exchange for ` 5,000, ` 3,000 and ` 2,000 payable after one moth, two month and three months respectively. The first bill was endorsed to his creditor Narendra. The second bill was discounted with bank on 4th Jan. 2018 @ 12% p.a. and the third bill was sent to the bank for collection. On the due date all the bills were duly met by Sunder. Pass Journal entries in the books of Raju and Sunder.

*Sol :*

**Journal Entries in the books of Raju (Drawer)**

| Date | Particulars | | LF | Debit | Credit |
|---|---|---|---|---|---|
| 1-1-2018 | Sunder a/c | Dr | | 10,000 | – |
| | To sales A/c | | | – | 10,000 |
| | (being goods sold to sunder on credit) | | | | |

| | | | | |
|---|---|---|---|---|
| 1-1-2018 | Bills Receivable a/c Dr<br>To Sunder a/c<br>(being bill drawn on sunder for 3 Months) | | 10,000<br>– | –<br>10,000 |
| 1-1-2018 | Narendra a/c Dr<br>To Bills Receivable a/c<br>(being first bill endorsed to creditor Narendra) | | 5000<br>– | –<br>5000 |
| 4-1-2018 | Bank a/c Dr<br>Discount a/c Dr<br>To Bills Receivable a/c<br>(being 2nd bill discounted with bank 12% Pa for 2 months) | | 2940<br>60<br>- | –<br>–<br>3000 |
| 4-1-2018 | Bank a/c Dr<br>To Bills sent for collection a/c<br>(being collection of bill met on due date) | | 2000<br>- | –<br>2000 |

**Journal Entries in the books of Sunder (Drawee)**

| Date | Particulars | LF | Debit | Credit |
|---|---|---|---|---|
| 1-1-2018 | Purchases a/c Dr<br>To Raju a/c<br>(being goods purchased on credit from Raju) | | 10,000<br>– | –<br>10,000 |
| 1-1-2018 | Raju a/c Dr<br>To Bills payable a/c<br>(being bills accepted for 1 month) | | 5000<br>- | -<br>5000 |
| 1-1-2018 | Raju a/c Dr<br>To Bills payable a/c<br>(being bill accepted for 3 months) | | 2000<br>- | -<br>2000 |

| | | | | |
|---|---|---|---|---|
| 4-2-2018 | Bills payable a/c Dr | | 5000 | - |
| | To Bank a/c | | - | 5000 |
| | (being first bill met on due date) | | | |
| 4-3-18 | Bills payable a/c Dr | | 3000 | - |
| | To Bank a/c | | - | 3000 |
| | (being payment of 2nd bill on due date) | | | |

11. On 1st Sept. 2018 goods of die value of ` 2,64,000 were consigned by Ram of Nizamabad to his agent Kiran of Karimnagar. Ram paid insurance and other forwarding charges amounting to ` 10,000. Kiran paid ` 2,000 being transport cost. He was entitled to 5% Commission on Gross Sales and an additional 3% Del Credere Commission on Credit Sales only. Kiran incurred expenses of ` 2,040 on selling. 3/4 of the goods were sold at ` 2,80,000, half of which were credit sales. Show the necessary ledger accounts in the books of Ram.

*Sol :*

**Consignment a/c (Ram)**

**Dr** **Cr**

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| 1-9-2018 | To Goods sent | | | | |
| | On consignment A/c | 2,64,000 | | By cash sales | 1,40,000 |
| | To Kiran a/c (Expenses) | 4040 | | By credit sales | 1,40,000 |
| | To Bank a/c (Insurance) | 10,000 | | By consignment | 69000 |
| | To commission | | | stock | |
| | commission | | | | |
| | @ 5% on 2,80,000 – 14,000 | | | | |
| | Del creder commission 4200 | 18,200 | | | |
| | To P & L a/c (B/F) | 52,760 | | | |
| | | 3,49,000 | | | 3,49,000 |

### Consignee a/c (Kiran a/c)

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| | To Sales | 2,80,000 | | By Expenses | 4040 |
| | | | | By commission | 18,200 |
| | | | | By balance c/d | 2,57,760 |
| | | 2,80,000 | | | 2,80,000 |

### Goods sent on consignment A/c

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| | To Trading a/c | 2,64,000 | | By consignment a/c | 2,64,000 |
| | | 2,64,000 | | | 2,64,000 |

12. Rakesh of Hyderabad consigns to Suresh of Suryapet 150 cases of goods at a cost of ` 3,000 per case. Rakesh incurred the following expenses. Freight ` 6,000; Insurance ` 16,000. Suresh paid Cartage ` 4,000 and Rent ` 5,400. 10 cases were destroyed in the transit and a sum of ` 25,000 is agreed by the Insurance Company as compensation. 120 cases were sold for ` 4,500 each. Suresh is entitled for a Commission of 6% on Sales. Suresh paid the full amount due to Rakesh by a bank draft. Show the necessary ledger accounts in the books of both.

*Sol :*

### In the Books of Rakesh

### Consignment Account

**Dr** **Cr**

| Date | Particulars | | Amount (`) | Date | Particulars | Amount (`) |
|---|---|---|---|---|---|---|
| | To Goods Sent on Consignment Account (150 cases @ 3,000) | | 4,50,000 | | By Suresh A/c (Sales) (120 cases @ 4,500) | 5,40,000 |
| | To Bank A/c (Consignor expenses): | | | | By Abnormal loss A/c | 31,467 |
| | | | | | By Consignment Stock A/c | 64,276 |
| | Freight | 6,000 | | | | |
| | Insurance | 16,000 | 22,000 | | | |
| | To Suresh A/c (Consignee expenses): | | | | | |
| | Cartage | 4,000 | | | | |
| | Rent | 5,400 | 9,400 | | | |
| | To Suresh A/c (Commission) (5,40,000 @ 6%) | | | | | |
| | To Profit and Loss A/c (Bal. Fig.) | | 1,21,943 | | | |
| | | | 6,35,743 | | | 6,35,743 |

### Suresh Account

Dr Cr

| Date | Particulars | Amount (`) | Date | Particulars | Amount (`) |
|---|---|---|---|---|---|
| | To Consignment A/c (Sales) | 5,40,000 | | By Consignment A/c (Expenses) | 9,400 |
| | | | | By Consignment A/c (Commission) | 32,400 |
| | | | | By Bank a/c (Balancing Figure) | 4,98,200 |
| | | 5,40,000 | | | 5,40,000 |

### Rakesh Account

Dr Cr

| Date | Particulars | Amount (`) | Date | Particulars | Amount (`) |
|---|---|---|---|---|---|
| | To Trading A/c | 5,40,000 | | By Consignment A/c (Goods Sent on on Consignment | 9,400 |

13. Arun and Varun were partners in a Joint Venture sharing Profit and Loss equally. Arun supplied goods to the value of ` 25,000 and incurred expenses amounting to ` 2,000. Varun supplied goods to the value of ` 20,000 and expenses amount to ` 1,500. Varun sold the entire goods on behalf of Joint Venture and realized ` 80,000. Varun was entitled to a Commission of 5% on sales. Varun settled his account by Bank Draft. Show the journal entries and ledger accounts in the books of Arun.

*Ans :*

### Journal Entries in the books of Arun

| S.No. | Particulars | LF | Debit | Credit |
|---|---|---|---|---|
| 1 | Joint venture a/c Dr | | 25000 | – |
| | To Trading a/c | | - | 25000 |
| | (being goods sent to varun to be sold by him) | | | |
| 2 | Joint venture a/c Dr | | 2000 | - |
| | To bank a/c | | - | 2000 |
| | (being expenses incurred in connection with joint venture) | | | |
| 3 | Joint venture a/c Dr | | 20,000 | - |
| | To Varun a/c | | - | 20,000 |
| | (being goods supplied by Varun) | | | |

| | | | | |
|---|---|---|---|---|
| 4 | Joint venture a/c Dr<br>To Varun a/c<br>(being Expenses incurred by Varun) | | 1500<br>- | -<br>1500 |
| 5 | Varun a/c Dr<br>To joint venture a/c<br>(being sales proceeds on Joint venture) | | 80,000<br>- | -<br>80,000 |
| 6. | Joint venture a/c Dr<br>To Varun a/c<br>(being 5% commission paid to Varun) | | 4000<br>- | -<br>4000 |
| 7. | Bank a/c Dr<br>To Varun a/c<br>(being bank draft received from Varun in full settlement) | | 40,750<br>- | -<br>40,750 |

**Consignment a/c (Ram)**

**Dr** **Cr**

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| | To Trading a/c | 25000 | | By Varun a/c (Sales) | 80,000 |
| | To Varun a/c (Expenses) | 1500 | | | |
| | To Varun a/c (goods supplied) | 20,000 | | | |
| | To Balance | 2000 | | | |
| | To Varun a/c | 4000 | | | |
| | To Profit & Loss | | | | |
| | Arun 27,500 $\times \frac{1}{2}$ | 13,750 | | | |
| | Varun 27,500 $\times \frac{1}{2}$ | 13,750 | | | |
| | | 80,000 | | | 80,000 |

**Varun's capital A/c**

**Dr** **Cr**

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| | To Joint Venture a/c | 80,000 | | By joint venture | |
| | | | | Goods | 20,000 |
| | | | | Expenses | 1500 |
| | | | | By commission | 4000 |
| | | | | By profit | 13,750 |
| | | | | By bank | 40,750 |
| | | 80,000 | | | 80,000 |

14. A and B both contractors undertook a Joint Venture to construct a building. A Joint Bank Account was opened in which A contributed ` 75,000 and B contributed ` 37,500. The Contract Price was ` 3,75,000. The profits distributed in the ratio 2:1. The details of the transactions were as follows:

Wages paid ` 50,000

Material supplied by A ` 13,500

Material supplied by B ` 12,000

Material purchased ` 1,65,000

Architect fee paid by A ` 18,500

Salaries paid ` 12,000

The stock of materials on the completion of the contract values at ` 16,500 was taken over by A.

*Ans :*

**Joint venture a/c**

**Dr** **Cr**

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| | To Joint bank a/c | | | By Joint bank a/c | 3,75,000 |
| | Wages 50,000 | | | By A's a/c | 16,500 |
| | Salaries 12,000 | 2,27,000 | | | |
| | Materials 1,65,000 | | | | |

| | | | | | |
|---|---|---|---|---|---|
| | To Co-venture a/c | | | | |
| | A - Materials | 13,500 | | | |
| | B - Materials | 12000 | | | |
| | A - fees | 18,500 | | | |
| | To P & L a/c | 1,20,500 | | | |
| | | 3,91,500 | | | 3,91,500 |

Profit & Loss = 1, 20, 500

$$A = 1,20,00 \times \frac{2}{3} = 80,333$$

$$B = 1,20,500 \times {}^{1}\!/_{3} = 40,167$$

**Co- venture's A/c**

**Dr** **Cr**

| Date | Particulars | A | B | Date | Particulars | A | B |
|---|---|---|---|---|---|---|---|
| | To Joint venture a/c | 16,500 | - | | By Joint bank a/c | 75000 | 37500 |
| | To Joint bank a/c (B/F) | 1,70,833 | 89,667 | | By Joint Venture a/c | 32,000 | 12,000 |
| | | | | | By Joint venture | 80,333 | 40,167 |
| | | 1,87,333 | 89,667 | | | 1,87,333 | 89,667 |

**Joint Bank a/c**

**Dr** **Cr**

| Date | Particulars | Amount | Date | Particulars | | Amount |
|---|---|---|---|---|---|---|
| | To Co-venture a/c | | | By Joint venture a/c | | |
| | A - 75,000 | | | wages | 50,000 | |
| | B - 37500 | 1,12,500 | | Materials | 1,65,000 | |
| | | | | Salaries | 12000 | 2,27,000 |
| | To Joint venture a/c | 3,75,000 | | Co-venture | | |
| | | | | A - | 1,70,833 | |
| | | | | B - | 89,667 | 2,60,500 |
| | | 4,87,500 | | | | 4,87,500 |

15. From the following information you are required to calculate Credit Purchase and Credit Sales.

| Particulars | Opening (`) | Closing (`) |
|---|---|---|
| Bills Payable | 5,000 | 7,000 |
| Bills Receivable | 10,000 | 15,000 |
| Sundry Debtors | 12,500 | 8,500 |
| Sundry Creditors | 5,000 | 10,000 |

Bills receivable encashed during the year ` 42,000.

Bills payable discharged during the yeai ` 16,500

Cash received from Debtors ` 1,20,000

Cash paid to Creditors ` 60,000

Return inwards ` 8,000

Return outwards ` 2,400

*Sol :*

**Calculation of Credit Purchases**

**Bills payable A/c**

**Dr** **Cr**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Cash a/c | 16,500 | By balance b/d | 5000 |
| To Balance b/d | 7000 | By Total creditors a/c | 18,500 |
| | 23,500 | | 23,500 |

**Total creditors a/c**

**Dr** **Cr**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Cash a/c | 60,000 | By balance b/d | 5000 |
| To Return outward | 2400 | By credit purchases a/c | 85,900 |
| To bills payable a/c | 18,500 | | |
| To Balance c/d | 10,000 | | |
| | 90,900 | | 90,900 |

**Calculation of Credit sales a/c**

**Bills Receivable a/c**

**Dr** **Cr**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Balance b/d | 10,000 | By cash | 42000 |
| To Total debtors a/c | 47000 | By balance c/d | 15000 |
| | 57,000 | | 57,000 |

**Total debtors A/c**

**Dr** **Cr**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Balance b/d | 12,500 | By cash a/c | 1,20,000 |
| | | By Return inwards | 8000 |
| To Credit sales (B/F) | 1,71,000 | By Bills Receivable a/c | 47000 |
| | | By Balance c/d | 8500 |
| | 1,83,500 | | 1,83,500 |

16. Swami who keeps his books on Single Entry System, supplied the following information to you. Prepare Statement of Profit or Loss as on 31-12-2018.

| Particulars | 1-1-2018 (`) | 31-12-2018 (`) |
|---|---|---|
| Stock | 1,67,000 | 1,85,000 |
| Creditors | 1,54,000 | 1,40,000 |
| Debtors | 1,12,000 | 1,05,000 |
| Cash | 2,500 | 12,000 |
| Bank Overdraft | 2,02,000 | 1,94,000 |
| Bills Receivable | 1,50,500 | 1,42,000 |
| Furniture | 1,50,000 | 1,50,000 |
| Machinery | 1,90,000 | 1,90,000 |

Swami introduced ` 50,000 as further capital in the business and withdrew ` 2,500 per month. Depreciate Furniture by 10% p.a. Write off ` 3,000 from Machinery. Interest on Capital at 5% p.a.

*Sol :*

**Statement of affairs as on 1-1-2018**

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Creditors | 1,54,000 | Cash | 2500 |
| | | Stock | 1,67,000 |
| | | Debtors | 1,12,000 |
| Bank over draft | 2,02,000 | furniture | 1,50,000 |
| | | Machines | 1,90,000 |
| Capital at beginning | 4,16,000 | Bills Receivable | 1,50,500 |
| | 7,72,000 | | 7,72,000 |

**Statement of affairs as on 31-12-2018**

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Creditors | 1,40,000 | Cash | 12,000 |
| Bank overdraft | 1,94,000 | Stock | 1,85,000 |
| | | Debtors | 1,05,000 |
| Capital at end | 4,50,000 | Furniture | 1,50,000 |
| | | Machinary | 1,90,000 |
| | | Bills Receivable | 1,42,000 |
| | 7,84,000 | | 7,84,000 |

**Statement of profit & Loss for the year ending 31-12-2008**

| Particulars | Amount | Amount |
|---|---|---|
| Capital at the End | | 4,50,000 |
| (+) Drawings | | 30,000 |
| | | 4,80,000 |
| (-) Additional capital | | 50,000 |
| | | 4,30,000 |
| (-) Capital at beginning | | 4,16,000 |
| | | 14,000 |

| | | | |
|---|---|---|---|
| **(-)** | **Adjustments** | | |
| 1. | Depreciation on furniture | 15000 | |
| 2. | Depreciation on Machines | 3000 | |
| 3. | Interest on opening capital | 20,800 | |
| 4. | Interest on additional capital | 2500 | 41,300 |
| | Net Loss | | (27300) |

17. Explain the differences between Receipt and Payment Account and Income and Expenditure Account. **(Unit-V, Q.No. 10)**

18. Hyderabad Sport Club prepared the following Receipt and Payments Account for the year ended on 31st March 2018.

| **Receipts** | **Amount (`)** | **Payments** | **Amount (`)** |
|---|---|---|---|
| To Balance b/d | 31,800 | By Staff Salaries | 3,70,000 |
| To Subscription | 1,80,000 | By Printing & Stationary | 17,200 |
| To Sale of Old items | 65,000 | By Rates & Taxes | 15,000 |
| To Interest Received | 2,20,000 | By Purchase of Land | 20,000 |
| To Receipts from Sports | 90,200 | By Purchase of Sports Items | 1,00,000 |
| By Other Expenses | 34,800 | | |
| By Balance c/d | 30,000 | | |
| | 5,87,000 | | 5,87,000 |

Additional Information:

| Particulars | As on 31-3-2017 | As on 31-3-2018 |
|---|---|---|
| Subscription in arrears | 20,000 | 30,000 |
| Subscription received in Advance | 5,000 | 3,000 |
| Furniture | 20,000 | 18,000 |
| Sports Items | 20,000 | 30,000 |

Prepare Income and Expenditure Account and Balance Sheet for the above period.

*Sol :*

**Income and Expenditure of Hyderabad**

| Expenditure | Amount | Income | Amount |
|---|---|---|---|
| To staff salaries | 3,70,000 | By Interest received | 2,20,000 |
| To Rates & Taxes | 15000 | By Receipt from Sports | 90,200 |
| To Printing & Stationary | 17,200 | By sale of old items | 65,000 |
| To other Expenses | 34,800 | By subscription | 1,92,000 |
| To Depericiation | | | |
| on furniture | 2000 | | |
| on furniture | | | |
| (20,000 – 18000) | | | |
| To surplus | 38,200 | | |
| | 5,67,200 | | 5,67,200 |

**Balance Sheet of Hyderabad as on 31-3-2018**

| Liabilities | | Amount | Assets | Amount |
|---|---|---|---|---|
| Capital | 86,800 | | Furniture | 18,000 |
| (+) Surplus | 38,200 | | Sport items | 30,000 |
| (+) Received in advance | 3000 | 1,28,000 | Subscription | 30,000 |
| | | | Due cash | 30,000 |
| | | | Cash Land | 20,000 |
| | | 1,28,000 | | 1,28,000 |

**Working notes**

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Subscription Received in advance | 5000 | furniture | 20,000 |
| | | sports items | 20,000 |
| Capital | 86,800 | Arreas of subscription | 20,000 |
| | | Cash | 31,800 |
| | 91,800 | | 91,800 |

**Calculation of subscription**

| | | |
|---|---|---|
| | Subscription Received | 1,80,000 |
| (+) | due on 31-3-2018 | 30,000 |
| | | 2,10,000 |
| (+) | Received in advance on 31- 3 - 2017 | 5000 |
| | | 2,15,000 |
| (–) | Due on 31-3-2017 | 20,000 |
| | | 1,95,000 |
| (–) | Received in advance as on 31-3-2018 | 3000 |
| | | 1,92,000 |

# FACULTY OF COMMERCE

## B.Com (CBCS) II- Semester Examination

## May / June - 2019

**(Common Paper for General/Computers/Computer Applications/ Foreign Trade/ and Taxation Courses)**

# FINANCIAL ACCOUNTING-II

**Time : 3 Hours]** **[Max. Marks : 80**

### PART – A (5 × 4 = 20 Marks)

**Note :** Answer any **FIVE** of the following questions not exceeding 20 lines each.

**ANSWERS**

1. Explain features of a bill of exchange? **(Unit-I, Q.No. 1)**

2. What is proforma invoice? **(Unit-II, Q.No. 6)**

3. State features of joint venture. **(Unit-III, Q.No. 2)**

4. From the following information ascertain total sales

   Debtors 1-1-2015 Rs. 20,000/-

   Cash Received from debtors during the year Rs. 1,20,000/-

   Return inwards Rs. 2000/-

   Bad debts Rs. 3000/-

   Debtors as on 31-12-2015 Rs. 15,000

   Cash sales Rs. 15,000.

*Ans :*

**Total Debtors Account**

**Dr.** **Cr.**

| Particulars | Amount (`) | Particulars | Amount (`) |
|---|---|---|---|
| To Balance b/d | 20,000 | By Cash received from debtors | 1,20,000 |
| To credit sales | 1,20,000 | By Return Inwards | 2,000 |
| [Balancing Figure] | | By Bad debts | 3,000 |
| By Balance c/d | 15,000 | | |
| | 1,40,000 | | 1,40,000 |

∴ Total sales = Cash sales + Credit sales

= 15,000 + 1,20,000 = Rs. 1,35,000.

5. Ascertain the income towards subscription for the year 2015 on the basis of the following information

   Subscription received in 2015 Rs. 40,000

   Subscription in arrears in 2014 Rs. 10,000

   Subscription in arrears in 2015 Rs. 3,000

*Ans :*

| Particulars | Amount (`) |
|---|---|
| Subscriptions received in 2015 | 40,000 |
| (–) Subscriptions in arrears in 2014 | 10,000 |
| | 30,000 |
| (+) Subscriptions in arrears in 2015 | 3,000 |
| Net Subscriptions received | 33,000 |

6. Ramu draw a bill on Shyam Rs. 4,000 payable after two months. Shyam accepts the bill. Ramu deposit the bill with the bank for collection. On the due date the bill is honoured Pass entries in the books of both parties.

*Ans :*

| Date | Particulars | | L.F. | Debit (`) | Credit (`) |
|---|---|---|---|---|---|
| (1) | Bills receivable account | Dr. | | 4,000 | – |
| | To Shyam account | | | – | 4,000 |
| | [Being drawn on shyam for two months] | | | | |
| (2) | Bills sent to Bank for collection A/c | Dr. | | 4,000 | – |
| | To Bills receivable account | | | – | 4,000 |
| | [Being bill sent to bank for collection] | | | | |
| (3) | Bank Account A/c | Dr. | | 4,000 | – |
| | To Bills sent to bank for collection | | | – | 4,000 |
| | [Being bill sent to bank for collection] | | | | |

**Journal Entries in the Books of Shyam**

| Date | Particulars | | L.F. | Debit (`) | Credit (`) |
|---|---|---|---|---|---|
| (1) | Ramu account | Dr. | | 4,000 | – |
| | To bills payable account | | | – | 4,000 |
| | [Being bill accepted by shyam] | | | | |
| (2) | No Journal Entry | | | – | |
| | | | | | – |
| (3) | Bills Payable A/c | Dr. | | 4,000 | – |
| | To Cash A/c | | | – | 4,000 |
| | [Being bill honoured on due date] | | | | |

7. Raju and Rani enter into a joint venture and keep separate set of books. What entries are made in their books for
   (i) Joint bank account opened by Raju Contributing Rs. 30,000 and Rani contributing Rs. 20,000.
   (ii) Expenses paid from joint bank account account Rs. 15,000
   (iii) Expenses paid by Raju Rs. 3,000.

*Ans :*

| Date | Particulars | | L.F. | Debit (`) | Credit (`) |
|---|---|---|---|---|---|
| (1) | Joint bank account | Dr. | | 50,000 | – |
| | To Raju Account | | | – | 30,000 |
| | To Rani Account | | | – | 20,000 |
| | [Being amount contributed by raju and rani] | | | | |
| (2) | Joint venture account | Dr. | | 18,000 | – |
| | To Joint bank account | | | – | 15,000 |
| | To Raju account | | | – | 3,000 |
| | [Being expenses paid] | | | | |

8. Explain features of Non-Trading concern. **(Unit-V, Q.No. 3)**

**SECTION – B (5 × 4 = 20 Marks)**

**Note :** Answer all the questions in not exceeding 4 pages each.

9. a) Mohan draws a bill on Suresh for Rs.14,000 for 4 months which is accepted by Suresh. Mohan discounted the same Rs. 13,750 on maturity Suresh fail to honour the bill and request Mohan to draw a new bill for 4 months for the original amount of bill plus interest Rs. 500. Mohan agree to the proposal Make journal entries in the books of mohan.

*Ans :*

| Date | Particulars | | L.F. | Debit (`) | Credit (`) |
|---|---|---|---|---|---|
| (1) | Bills receivable A/c | Dr. | | 14,000 | – |
| | To Suresh A/c | | | – | 14,000 |
| | [Being bill drawn on suresh for 4 months] | | | | |
| (2) | Bank A/c | Dr. | | 13,750 | – |
| | Discount A/c | | | 250 | – |
| | To Bills receivable A/c | | | – | 14,000 |
| | [Being bill discounted with bank] | | | | |
| (3) | Suresh A/c | Dr. | | 14,000 | – |
| | To Bank A/c | | | – | 14,000 |
| | [Being bill dishonoured on due date] | | | | |
| (4) | Suresh A/c | Dr. | | 500 | – |
| | To Interest A/c | | | – | 500 |
| | [Being bill dishonoured on due date] | | | | |
| (5) | Bills Receivable A/c | Dr. | | 14,500 | – |
| | To Suresh A/c | | | – | 14,500 |
| | [Being new bill drawn on suresh with Interest] | | | | |

OR

b) Explain difference between a bill of exchange and a permission note.

*Ans :*

**Difference between a Bill of Exchange and a Promissory Note**

Following are the main points of differences :

(i) A bill of exchange is an unconditional order to pay whereas a promissory note is an unconditional promise to pay.

(ii) A bill of exchange is drawn by the creditor and he makes an order on the debtor to make the payment while a promissory note is written by the debtor wherein he promises to make the payment in future.

(iii) A bill of exchange has usually three parties namely the drawer, the drawee and the :ayee whereas a promissory note has only two parties, *i.e.,* the maker and the payee.

(iv) A bill of exchange is required to be accepted by the drawee *(i.e.,* debtor) if it is to be a legal document, whereas a promissory note needs no acceptance because the debtor himself makes the promise to make the payment.

(v) Bills of exchange payable on demand do not require any stamp duty whereas promissory notes payable on demand require ad *valorem* stamp duty.

(vi) The liability of the drawer of the bill of exchange is secondary because he is required to make the payment only when the drawee of the bill fails to make the payment. On the other ‘and, the liability of the maker of the promissory note is primary and absolute because a promissory note is written by him.

(vii) Foreign bills are usually drawn in a set of three whereas foreign promissory notes are drawn in one set only.

(viii) Foreign bills must be noted and protested on their being dishonoured but foreign promissory notes do not need any noting and protesting on their dishonour.

(ix) A promissory note can never be conditional whereas a bill of exchange can be accepted conditionally because a bill can have qualified acceptance.

(x) If a bill is dishonoured due to non-payment or non-acceptance, notice of dishonour of must be given to all persons liable to pay. But if a promissory note is disonoured, notice of dishonour to the maker of the promissory note is not necessary.

(xi) A bill of exchange is widely circulated in business whereas a promissory note is not as popular as bill of exchange is and is not so common in circulation in business.

(xii) A bill of exchange is usually used in settlement of trade debts whereas a promissory | note is used to borrow money.

10. a) Narendra of Madras sent some piece goods to Shankar of Calcutta to be sold on behalf of Narendra. Shankar getting a commission (including delcredere commission) of 10% on sales. The invoice value of the goods was Rs. 3,00,000 made up as cost plus 20% Narendra spent Rs. 10,000 for forwarding and packing.

Shankar paid the following

Freight and cartage to godown Rs. 30,000

Stores Rs. 5,000

Insurance or godown Rs. 3,000

At the end of the three months Shankar reported that he had sold 4/5th of the goods for Rs. 3,00,000. Shankar settled his account. Prepare important ledger Accounts in the books Narendra.

*Ans :*

**Ledger Accounts in the books of Narendra**

**Consignment Account**

| Particulars | Amount (`) | Particulars | Amount (`) |
|---|---|---|---|
| To goods sent on consignment | 3,00,000 | By Goods sent on consignment | 50,000 |
| To bank a/c (exp) | 10,000 | By Shankar (sales) | 3,00,000 |
| To Shankar A/c (exp) [30,000 + 5,000 + 3,000] | 38,000 | By consignment stock (unsold stock) | 68,000 |
| To Shankar A/c (Commission) [3,00,000 × 10%] | 30,000 | | |
| To stock reserve [50,000 × 1/5] | 10,000 | | |
| To profit and loss c/d (Profit) | 30,000 | | |
| | 4,18,000 | | 4,18,000 |

**Shankar Account**

**Dr.** **Cr.**

| Particulars | Amount (`) | Particulars | Amount (`) |
|---|---|---|---|
| To consignment (sales) | 3,00,000 | By consignment A/c (exp) | 38,000 |
| | | By consignment A/c (comm.) | 30,000 |
| | | By Bank A/c c/d | 2,32,000 |
| | 3,00,000 | | 3,00,000 |

**Goods sent on consignment A/c**

**Dr.** **Cr.**

| Particulars | Amount (`) | Particulars | Amount (`) |
|---|---|---|---|
| To consignment | 50,000 | By consignment | 3,00,000 |
| To Trading A/c c/d | 2,50,000 | | |
| | 3,00,000 | | 3,00,000 |

**Calculation of Closing Stock**

| Particulars | Rs. |
|---|---|
| Invoice price of 1/5th goods [3,00,000×1/5] | 60,000 |
| (+) proportionate exp. of consignor [10,000 × 1/5] | 2,000 |
| (+) proportionate non recurring exp of consignee. [30,000 × 1/5] | 6,000 |
| | 68,000 |

OR

b) Explain difference between a proforma invoice and account sales?

*Ans :*

| Point of Distinction | Account Sales | Proforma Invoice |
|---|---|---|
| 1. Preparation of Despatch | It is prepared by the consignees and sent to the consignor. | It is prepared and despatched consignor to all the consignees. |
| 2. Contents | It contains details of goods sold by the consignee, expenses, commission and advance deducted showing net balance payable to the consianor. | It contains the particulars of goods despatched to the consignee. |
| 3. Nature | It is a Statement or Account of Sales. | It is an advice note. |
| 4. Time | It is prepared periodically or at the completion of sales. | It is prepared at the time of despatch of goods. |
| 5. Accountability of consignee | It makes the consignee accountable to the consignor. | There is no responsibility on the part of the consignee. |
| 6. Basis for entries in Books | It serves as the basis for recording entries in the books by the consignor. | It does not serve as the basis of accounting entries. It is merely for advice and information of consignee. |

11. a) A enter into a joint venture with B. The following transaction took place during the course of venture.

| Particulars | Rs. | Rs. |
|---|---|---|
| Cash sent by | - | 60,000 |
| Cash Received by | 60,000 | - |
| Goods purchased by | 4,80,000 | 2,40,000 |
| Good supplied from own stock | 1,20,000 | 60,000 |
| Expanses paid by | 9,000 | 5,000 |
| Good sold by | 8,40,000 | 2,40,000 |
| Unsold stock taken by | 12,000 | 11,000 |

Prepare joint venture account and B account in the books of A.

*Ans :*

**In the Books of A**

**Dr. Joint Venture with B a/c Cr.**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To bank (purchases) | 4,80,000 | By Bank (sales) | 8,40,000 |
| To Bank A/c (purchases) | 2,40,000 | By Bank (sales) | 2,40,000 |
| To Bank (exp.) | 9,000 | By Stock A/c | 12,000 |
| To Bank (exp) | 5,000 | By Bank A/c (Stock taken) | 11,000 |
| To stock A/c | 1,20,000 | | |
| To Bank A/c (Stock) | 60,000 | | |
| To P and L (Profit of A) | 94,500 | | |
| B(Profit) | 94,500 | | |
| | 11,03,000 | | 11,03,000 |

**Dr. B Account Cr.**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Joint venture (Sales) | 2,40,000 | By Joint venture (pur) | 2,40,000 |
| To Joint venture (Stock) | 11,000 | By Joint venture (exp) | 5,000 |
| To cash A/c | 60,000 | By Joint venture (Stock) | 60,000 |
| To Bank A/c c/d | 88,500 | By Joint venture (profit) | 94,500 |
| | 3,99,500 | | 3,99,500 |

OR

b) X and Y doing business separately as building contractors undertake jointly to construct a building a building for a newly started joint stock company for contract price of Rs. 20,00,000 payable as to Rs. 18,00,000 by installments in cash and Rs.2,00,000 in fully paid shares of the company. A bank account is opened in their joint names. A paying in Rs.6,00,000 and B Rs.4,00,000. They are to share profit or loss in the ratio is 3:2.

Their transactions were as follows.

Wages Rs. 8,00,000 material Rs. 6,00,000 material supplied by A Rs. 80,000

Architects fee paid by B is Rs. 40,000.

The contact was completed and the price duly received. The joint venture was closed by A taking up all share of the company at an agreed valuation Rs.1,80,000 B taking stock of material Rs. 40,000.

Show the necessary ledger accounts.

*Ans :*

**Dr. Joint Venture A/c Cr.**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Joint bank (exp) | 8,00,000 | By Joint Bank (Contract price) | 18,00,000 |
| To Joint bank (material) | 6,00,000 | By Shares (Contract price) | 2,00,000 |
| To X A/c | 80,000 | By Y A/c (Stock Taken) | 40,000 |
| To Y A/c (architect fees) | 40,000 | | |
| To Loss an shares | 20,000 | | |
| (2,00,000 – 1,80,000) | | | |
| To profit & loss c/d | | | |
| X(5,00,000 × 3/5) | 3,00,000 | | |
| Y(5,00,000 × 2/5) | 2,00,000 | | |
| | 20,40,000 | | 20,40,000 |

**Dr.** **Conventurers A/c** **Cr.**

| Particulars | X | Y | Particulars | X | Y |
|---|---|---|---|---|---|
| To Shares | 1,80,000 | – | By Joint venture | 80,000 | 40,000 |
| To Joint venture | – | 40,000 | By Joint venture | 3,00,000 | 2,00,000 |
| To Joint bank c/d | 8,00,000 | 6,00,000 | By Joint Bank A/c | 6,00,000 | 4,00,000 |
| | 9,80,000 | | | 9,80,000 | 6,40,000 |

**Dr.** **Joint Bank A/c** **Cr.**

| Particulars | ` | Particulars | ` |
|---|---|---|---|
| To Joint Venture (contract price) | 18,00,000 | By Joint Venture (exp) | 8,00,000 |
| To X A/c | 6,00,000 | By Joint venture (Materials) | 6,00,000 |
| To Y A/c | 4,00,000 | By X A/c | 8,00,000 |
| | | By Y A/c | 6,00,000 |
| | 28,00,000 | | 28,00,000 |

12. (a) Ram keeps his books on single entry system. Your are required to ascertain profit or loss made by him in the year 2015 from the following.

| Particulars | 31-12-2014 | 31-12-2015 |
|---|---|---|
| Stock in trade | 6500 | 17000 |
| S. creditors | 5400 | 4000 |
| S. debtors | 8400 | 9000 |
| Cash in hand | 400 | 300 |
| Bank overdraft | 6,400 | 10,000 |
| Furniture | 3000 | 3000 |
| Motorvan | 40,000 | 40,000 |
| Plant | 1,00,000 | 1,00,000 |

Total drawing during the year amounted to Rs.36,000. During the year he has introduced further capital of Rs.30,000. Depreciated furniture at 10% Plant at 20% and Motor van Rs. 5000.

Prepare the final statement of affairs.

*Ans :*

**Statement of Affairs of Ram as on 31-12-2014 and 31-12-2015**

| Liabilities | 31-12-2014 (`) | 31-12-2015 (`) | Assets | 31-12-2014 (`) | 31-12-2015 (`) |
|---|---|---|---|---|---|
| Sundry creditors | 5,400 | 4,000 | Stock in trade | 6,500 | 17,000 |
| Bank overdraft | 6,400 | 10,000 | Sundry debtors | 8,400 | 9,000 |
| Capital C/d | 1,46,500 | 1,55,300 | Cash in hand | 400 | 300 |
| | | | Furniture | 3,000 | 3,000 |
| | | | Motor van | 40,000 | 40,000 |
| | | | Plant | 1,00,000 | 1,00,000 |
| | 1,58,300 | 1,69,300 | | 1,58,300 | 1,69,300 |

**Statement of Profit and Loss of Ram for the year ended 31-12-2015**

| Particulars | Amount (`) | Amount (`) |
|---|---|---|
| Closing capital | | 1,55,300 |
| (+) Drawings | | 36,000 |
| | | 1,91,300 |
| (–) Additional capital | | 30,000 |
| | | 1,61,300 |
| (–) Opening capital | | 1,46,500 |
| Gross Profit | | 14,800 |
| (–) (1) Depreciation on Furniture [3,000 × 10%] | 300 | |
| (2) Depreciation on plant [1,00,000 × 20%] | 20,000 | |
| (3) Depreciation on Motorvan | 5,000 | 25,300 |
| Net Loss | | 10,500 |

**Final Statement of Affairs as on 31-12-2015**

| Liabilities | ` | ` | Assets | ` | ` |
|---|---|---|---|---|---|
| S. Creditors | | 4,000 | Stock in Trade | | 17,000 |
| Bank overdraft | | 10,000 | S. Debtors | | 9,000 |
| Capital | 1,46,500 | | Cash in hand | | 300 |
| (–) Net Loss | 10,500 | | Furniture | 3,000 | |
| | 1,36,000 | | (–) Depreciation | 300 | 2,700 |
| (–) Drawings | 36,000 | | | | |
| | 1,00,000 | | Motor Van | 40,000 | |
| (+) Additional capital | 30,000 | 1,30,000 | (–) Depreciation | 5,000 | 35,000 |
| | | | Plant | 1,00,000 | |
| | | | (–) Depreciation | 20,000 | 80,000 |
| | | 1,44,000 | | | 1,44,000 |

OR

(b) A trader keeps his books on single entry system. He provides you the following information. You are required to prepare his trading and profit and loss Account for the year ended 31st March 2015 and Balance sheet as at that date.

| Particulars | 1-4-2014 Rs. | 31-3-2015 Rs. |
|---|---|---|
| Furniture | 50,000 | 60,000 |
| Stock | 20,000 | 40,000 |
| S. Debtor | 30,000 | 90,000 |
| Prepaid expenses | - | 2,000 |
| S. creditors | 20,000 | |
| Cash in hand | 11,000 | 3,000 |
| Receipt and payment during 2014 - 2015 | | |
| Receipt from debtors | - | 2,10,000 |
| Paid to creditors | - | 1,00,000 |
| Carriage | - | 20,000 |
| Drawings | - | 1,20,000 |
| Sundry Expenses | - | 1,60,000 |
| Furniture purchase | - | 10,000 |
| Cash sales | - | 1,92,000 |

*Ans :*

**Opening Statement of Affairs as on 1-4-2014**

| Liabilities | ` | Assets | ` |
|---|---|---|---|
| S.Creditors | 20,000 | Furniture | 50,000 |
| Capital C/d | 91,000 | Stock | 20,000 |
| | | S. Debtors | 30,000 |
| | | Cash in hand | 11,000 |
| | 1,11,000 | | 1,11,000 |

**Dr.** **Total Debtors A/c** **Cr.**

| Particulars | ` | Particulars | ` |
|---|---|---|---|
| To balance b/d | 30,000 | By cash received from debtors | 2,10,000 |
| To credit sales (Balance Figure) | 2,70,000 | Debtors | – |
| | | By Sales returns | – |
| | | By Bad debts | – |
| | | By Discount allowed | – |
| | | By Balance c/d | 90,000 |
| | 3,00,000 | | 3,00,000 |

**Dr.** **Total Creditors A/c** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To cash paid to creditors | 1,00,000 | By balance b/d | 20,000 |
| To purchase returns | – | By credit purchases | 80,000 |
| To Discount received | – | (Balance Figure) | |
| To Bills payable | – | | |
| To balance c/d | – | | |
| | 1,00,000 | | 1,00,000 |

**Dr.** **Cash A/c** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To balance b/d | 11,000 | By paid to creditors | 1,00,000 |
| To receipt from debotrs | 2,10,000 | By drawings | 1,20,000 |
| To cash sales | 1,92,000 | By carriage | 20,000 |
| | | By sundry expenses | 1,60,000 |
| | | By furniture purchase | 10,000 |
| | | By balance c/d | 3,000 |
| | 4,13,000 | | 4,13,000 |

**Trading and Profit and Loss for the Year ended 31-3-2015**

| Particulars | ₹ | ₹ | Particulars | ₹ | ₹ |
|---|---|---|---|---|---|
| To opening stock | | 20,000 | By sales | | |
| To purchases | | | Cash | 1,92,000 | |
| Cash | NIL | | Credit | 2,70,000 | 4,62,000 |
| Credit | 80,000 | 80,000 | By closing stock | | 40,000 |
| To carriage | | 20,000 | | | |
| To gross profit c/d | | 3,82,000 | | | |
| | | 5,02,000 | | | 5,02,000 |
| To sundry expenses | | | By gross profit b/d | | 3,82,000 |
| (1,60,000 – 2,000) | | 1,58,000 | | | |
| To Net profit c/d | | 2,24,000 | | | |
| | | 3,82,000 | | | 3,82,000 |

**Balance Sheet as on 31-3-2015**

| Liabilities | | ` | Assets | ` |
|---|---|---|---|---|
| S. Creditors | | NIL | Furniture | 60,000 |
| Capital | 91,000 | | Stock | 40,000 |
| (+) Net profit | 2,24,000 | | S. Debtors | 90,000 |
| | 3,15,000 | | Prepaid exp. | 2,000 |
| (–) Drawings | 1,20,000 | 1,95,000 | Cash in hand | 3,000 |
| | | 1,95,000 | | 1,95,000 |

13. (a) The following is the summary of receipts and payments of sports club for the year ended 31st March 2015.

| Receipt | Amount (`) | Payments | Amount (`) |
|---|---|---|---|
| To Balance b/d | 14,100 | By general Expenses | 6,200 |
| To subscriptions | 38,500 | By Rent and rate | 6,700 |
| To Donations | 9,200 | By travelling | 5,900 |
| To sale of refreshments | 12,400 | By postage | 1,280 |
| To Interest on fixed deposit | 7,800 | By equipments | 8,400 |
| To Locker rent | 2,400 | By Books | 7,800 |
| | | By furniture | 9,400 |
| | | By News paper | 1,960 |
| | | By Refreshment | 10,200 |
| | | By balance c/d | 26,560 |
| | 84,400 | | 84,400 |

Other information

i) Subscription include Rs. 700 of Previous year and Rs. 1200 of Forth coming year.

ii) Subscriptions outstanding for current year Rs.1000

iii) Donation are to be capitalized as per bye-laws.

iv) The asset on April 2014 club ground Rs.25,000 and Equipment Rs.15,000 furniture Rs.8000.

v) The asset on 31st March 2015. Equipments Rs.20,000

Prepare income and expenditure. Account and balance sheet as on 31st March 2015.

*Ans :*

**Opening Balance Sheet as on 1-4-2014**

| Liabilities | ` | Assets | ` |
|---|---|---|---|
| Capital Fund C/d | 62,800 | Cash in hand | 14,100 |
| | | Subscriptions outstanding | 700 |
| | | Club ground | 25,000 |
| | | Equipment | 15,000 |
| | | Furniture | 8,000 |
| | 62,800 | | 62,800 |

**Income and Expenditure A/c for the year ended 31-3-2015**

| Expenditure | ` | Income | | ` |
|---|---|---|---|---|
| To general expenses | 6,200 | By subscriptions | 38,500 | |
| To rent and rates | 6,700 | (–) previous year | 700 | |
| To travelling | 5,900 | | 37,800 | |
| To postage | 1,280 | (+) current year | 1,000 | |
| To news paper | 1,960 | | 38,800 | |
| To refreshment | 10,200 | (–) Next year | 1,200 | 37,600 |
| To depreciation an equipment | 3,400 | By sale of refreshments | | 12,400 |
| [15,000 + 8400 – 20,000] | | By interest on FD | | 7,800 |
| | | By Locker Rent | | 2,400 |
| To surplus c/d | 24,560 | | | |
| | 60,200 | | | 60,200 |

**Balance Sheet of sports club as on 31-3-2015**

| Liabilities | | ` | Assets | | ` |
|---|---|---|---|---|---|
| Donations | | 9,200 | Cash | | 26,560 |
| Subscriptions of next year | | 1,200 | Club ground | | 25,000 |
| Capital fund | 62,800 | | Equipment | | 20,000 |
| (+) Surplus | 24,560 | 87,360 | Furniture | 8,000 | |
| | | | (+) additonal purchase | 9,400 | 17,400 |
| | | | Subscription outstanding | | 1,000 |
| | | | Books | | 7,800 |
| | | 97,760 | | | 97,760 |

OR

b) Prepare Income and Expenditure Account and balance sheet from the following Receipts and payments Account and Balance sheet.

| Receipt | Amount | Payments | Amount |
|---|---|---|---|
| To balance b/d | 20,000 | By expenses | 6,400 |
| To subscription | 10,000 | By Land | 8,000 |
| To entrance fee | 1,600 | By Interest | 800 |
| To lock Rent | 1,500 | By Miscellaneous Expenses | 4,000 |
| To miscellaneous Income | 2,900 | By balance c/d | 16,800 |
| | 36,000 | | 36,000 |

Balance as on 31-12-2014

| Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Capital Fund | 68,440 | Building | 60,000 |
| O/s Expenses | 2,800 | O/s subscriptions | 760 |
| Loan Account | 10,000 | O/s Locker Rent | 480 |
| | | Cash | 20,000 |
| | 81,240 | | 81,240 |

**Adjustment**

1) Subscription receivable Rs. 2000 and Expenses payable Rs. 1000.
2) Provide deprecation on building @10%.

*Ans :*

**Income and Expenditure for the year ended 31-3-2015**

| **Expenditure** | | ₹ | **Income** | | ₹ |
|---|---|---|---|---|---|
| To expenses | 6,400 | | By subscriptions | 10,000 | |
| (–) O/S for P.Y | 2,800 | | (–) O/S for P.Y. | 760 | |
| | 3,600 | | | 9,240 | |
| (+) O/S for C.Y | 1,000 | 4,600 | (+) O/S for C.Y | 2,000 | 11,240 |
| To interest | | 800 | By entrance Fee | | 1,600 |
| To miscellaneous exp | | 4,000 | By locker rent | 1,500 | |
| To Dep on buildings | | 6,000 | (–) O/S for P.Y. | 480 | 1,020 |
| [60,000 × 10%] | | | By miscellaneous income | | 2,900 |
| To surplus c/d | | 1,360 | | | |
| | | 16,760 | | | 16,760 |

**Balance Sheet as on 31-3-2015**

| **Liabilities** | | ₹ | **Assets** | | ₹ |
|---|---|---|---|---|---|
| Capital fund | 68,440 | | Buildings | 60,000 | |
| (+) Surplus | 1,360 | 69,800 | (–) depreciation | 6,000 | 54,000 |
| O/S expenses | | 1,000 | | | |
| Loan | | 10,000 | O/S subscriptions | | 2,000 |
| | | | Cash | | 16,800 |
| | | | Land | | 8,000 |
| | | 80,800 | | | 80,800 |

## FACULTY OF COMMERCE

### B.Com (CBCS) II- Semester Examination, May / June - 2018

### (Common Paper for General/Computers/Computer Applications/Foreign Trade/ and Taxation Courses)

# FINANCIAL ACCOUNTING-II

**Time : 3 Hours]** **[Max. Marks : 80**

**Note :** Answer any **FIVE** of the following questions not exceeding 20 lines each.

**SECTION - A - (5 × 4 = 20 Marks)**

1. Renewal of a bill. **(Unit-I, SQA -12)**
2. Goods sent at Invoice Price **(Unit-II, SQA -14)**
3. Joint Venture. **(Unit-III, SQA -1)**
4. List out any four differences between single entry System and Double Entry System. **(Unit-IV, SQA -3)**
5. Del Credere commission. **(Unit-II, SQA -5)**
6. Promissory Note. **(Unit-I, SQA -5)**
7. Consignment **(Unit-II, SQA -1)**
8. From the following particulars, calculate the amount to be shown in the Income tax and Expenditure Account For Subscriptions received in the current year are :

| | |
|---|---|
| Last Year | Rs.25,000 |
| Current Year | Rs.2,25,000 |
| Next Year | Rs.20,000 |
| Subscriptions outstanding in the last year | Rs.37,500 |
| Subscriptions outstanding for the current Year | Rs..50,000 |
| Subscriptions received in advance in last year for the current year | Rs.32,500 |
| Subscription received in advance in current year for the next year | Rs.10,000 |

*Ans.*

**Subscription to be shown in Income & Expenditure a/c.**

| Particulars | (Rs) |
|---|---|
| Subscriptions for current year | 2,25,000 |
| (+) Subscriptions outstanding for current year | 50,000 |
| (+) Subscriptions Received in advance in last | 32,500 |
| year for current year | 307500 |
| (–) Outstanding subscriptions for last year | 37,500 |
| (–) Advance subsrciptions Received in current | 10,000 |
| year for the Next year | 2,60,000 |

**SECTION - B - (5 × 12 = 60 Marks)**

**Note :** Answer all the questions in not exceeding 4 Pages each.

9. (a) Manish purchased goods with Rs.3,60,000 from Malhotra on 1st January 2018. He pays Rs.1,20,000 immediately in cash and sends his acceptance to a bill to Malhotra for 4 months for the remaining amount. Malhotra gets it discounted at 6% p.a. Pass Journal entries in the books of Manish as well as Malhotra assuming that the bill was met the due date

*Ans.*

**In the Books of "Malhotra"**

| Date | Particulars | L.F. | Dr Rs. | Cr Rs. |
|---|---|---|---|---|
| 1.1.18 | Bills Receivable a/c Dr. | | 2,40,000 | |
| | To Manish a/c (W.N) | | | 2,40,000 |
| | **Bill discounted :** | | | |
| | Bank a/c Dr [2,40,000 – 4800] | | 2,35,200 | |
| | Discount a/c Dr $\left[2,40,000 * \frac{6}{100} * \frac{4}{12}\right]$ | | 4800 | |
| | To Bills Receivable a/c | | | 2,40,000 |

**Working Note (W.N)**

| | | |
|---|---|---|
| ∴ Manish Purchased | ` 3,60,000 | |
| (–) Cash paid Immediately | ` 1,20,000 | |
| Balance | ` 2,40,000 | [Amt of Bill drawn by "Malhotra"] |

**In the Books of Manish**

| Date | Particulars | Rs. (Dr) | Rs. (Cr) |
|---|---|---|---|
| 1.1.18 | Malhotra a/c Dr | 2,40,000 | |
| | To Bills payable a/c | | 2,40,000 |
| | **Bill discounted :** | | |
| | Bills Payable a/c Dr | 2,40,000 | |
| | To Bank a/c | | 2,40,000 |

**OR**

(b) What do you mean by Retirement of Bill under Rebate? How it is different from Dishonor of Bill ?

*Ans.*

**Differences between Retirement of bill under Rebate & Dishonor of Bill**

| Retairing of Bill | Dishonar of Bill |
|---|---|
| 1) Retairing of a bill occurce with in the date of maturity. | 1) Dishonar of a bill occurce after the data of maturity. |
| 2) In Retairing of a bill drawee got discount from the drawer (Rebale on bill) | 2) In Dishonar drawee have to pay Interest to the drawer. |
| 3) At the time of Retaile amount paid by the drawee is Less then the actual amount of bill. | 3) At the time of Dishonar amount paid by the drawee is more than the actual amount of bill. |
| 4) Retairment of the bill is loss to drawer and gain to the drawee. | 4) Dishnor of the bill is liability to the drawee and Asset to the drawer. |
| 5) At the time of Retaire no need to write fresh bill. | 5) At the time of dishnor drawer writes fresh bill. |
| 6) In this drawee make payment | 6) In this drawer fails to make payment |
| 7) Retairement bill is also known as homour of the bill. | 7) Dishonour is known as Renewal of bill |
| 8) It is benefit to the drawee. | 8) Benefit to the drawer. |

10. (a) Prerna of Delhi consigned goods of value Rs. 2,00,000 to Anurag of Mumbai to be sold at 5% commission. Prerna paid freight Rs. 12,000, insurance and other charges Rs.8,000. A cheque was received for Rs.12,000 from Anurag as an advance against the consignment. In due course, an Account sales was received from Anurag stating that half the consignment was disposed off realizing Rs. 1,80,000. Expenses incurred being Rs.11,000. A cheque was enclosed for the balance. Give the Journal entries and open necessary ledger accounts in the books of both the parties.

*Ans.*

**Journal Entries in the Books of Prerana of Delhi :**

| | Particulars | Dr (Rs.) | Cr (Rs.) |
|---|---|---|---|
| **1.** | **When goods are sent to the Anurag of Mumbai on consignment :** | | |
| | Consignment A/C | 2,00,000 | |
| | To Goods sent on on consignment A/C | | 2,00,000 |
| | (Being goods sent to Anurag of Delhi for sale) | | |
| **2.** | **For expenses paid by Prerana of Delhi :** | | |
| | Consignment A/C Dr | 20,000 | |
| | To Bank A/C | | 20,000 |
| | (Being expenses paid on behalf for Freight, insurance and others) | | |
| **3.** | **On receiving advance from Anurag of Mumbai :** | | |
| | Bank A/c Dr. | 12,000 | |
| | To Consignee A/c | | 12,000 |
| | (Being advanced from Anurag of Mumbai) | | |
| **4.** | **When goods are sold by Anurag of Mumbai :** | | |
| | Anurag of Mumbai A/c Dr. | 1,80,000 | |
| | To Consignment A/C | | 1,80,000 |
| | (Being goods sold by Anurag of Mumbai) | | |
| **5.** | **for expenses paid by and commission due to Anurag of Mumbai :** | | |
| | Consignment A/c Dr. | 20,000 | |
| | To Anurag of Mumbai (expenses) A/C | | 11,000 |
| | To Anurag of Mumbai (commission) A/C | | 9,000 |
| | (Being expenses incurred by consignee and commission paid to consignee) | | |
| **6.** | **For unsold goods with the Anurag of Mumbai :** | | |
| | Consignment stock A/C Dr. | 1,10,000 | |
| | To Consignment A/c | | 1,10,000 |
| | (Being value of closing stock with Anurag of Mumbai) | | |

| | | | |
|---|---|---|---|
| **7.** | **Consignment Profit :** | | |
| | Consignment A/c Dr | 50,000 | |
| | To Profit & Loss A/c | | 50,000 |
| | (Being Profit on consignment transferred to Profit and Loss A/c) | | |
| **8.** | **When the final amount Received from the Anurag of Mumbai on account sale :** | | |
| | Bank A/c Dr | 1,48,000 | |
| | To Anurag of Mumbai A/c | | 1,48,000 |
| | (Being the value of account sale received from Anurag of Mumbai) | | |
| **9.** | **Closing goods sent on consignment Account :** | | |
| | Goods sent on consignment A/c Dr | 2,00,000 | |
| | To Trading or Purchase A/c | | 2,00,000 |
| | (Being Goods sent on Consignment account) | | |

**Ledger accounts in the books of Prerana of Delhi :**

Dr **Consignment to Anurag of Mumbai Account** Cr

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Goods Sent On Consignment A/c | 2,00,000 | By Anurag of Mumbai A/c (account sales) | 1,80,000 |
| To Bank A/C (Expenses) | 20,000 | | |
| Expense - 11,000 | 20,000 | By stock on Consignment | 1,10,000 |
| Commission - 9000 | | (unsold with Anurag of Mumbai) | |
| To Profit & Loss (Balance) (Profit) | 50,000 | | |
| | 2,90,000 | | 2,90,000 |

Dr **Anurag of Mumbai Account** Cr

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Consignment A/c | 1,80,000 | By Bank | 12,000 |
| (Sale Proceeds) | | (Advance paid By Anurag of Mumbai) | |
| | | By Consignment A/c | 20,000 |
| | | (Expenses and Commission to | |
| | | Anurag of Mumbai) | |
| | | By Bank A/c | |
| | | (Net sale amount Received | 1,48,000 |
| | | From Anurag of Mumbai) | |
| | 1,80,000 | | 1,80,000 |

**Working Notes :**

**Calculation of Value of Unsold Stock :**

| | |
|---|---|
| Original Stock Value of Unsold Goods (2,00,000/2) - : | 1,00,000 |
| **Add :** Proportionate share of Non-recurring Expenses of Prerana of Delhi : (20000/2 = 10000) | 10,000 |
| Proportionate share of Non-recurring Expenses of Anurag of Mumbai | NILL |
| Here all expenses paid by Anurag of Mumbai treated as selling expenses | |
| Closing Value of unsold stock : | 1,10,000 |

**Journal Entries in the books of Anurag of Mumbai :**

| | Particulars | Dr (Rs.) | Cr (Rs.) |
|---|---|---|---|
| 1. | When the goods are received from the Prerana of Delhi : | | |
| | ------------ No Journal Entry ----------- | | |
| 2. | Advance Paid To the Prerana Of Delhi On | | |
| | Account of Consignment : | | |
| | Prerana of Delhi A/c Dr | 12,000 | |
| | To Bank A/c | | 12,000 |
| | (Being advance paid to Prerana of Delhi) | | |
| 3. | When Expenses incurred by on Behalf of Consignment : | | |
| | Prerana of Delhi A/c Dr | 11,000 | |
| | To Bank A/c | | 11,000 |
| | (Being Expenses incurred on behalf of Consignment) | | |
| 4. | When sale is made by the Anurag of Mumbai : | | |
| | Cash or Bank A/c Dr | 1,80,000 | |
| | To Prerana of Delhi A/c | | 1,80,000 |

| | | | |
|---|---|---|---|
| | (Being sale is made on behalf of consignment) | | |
| 5. | When Anurag of Mumbai Earns Commission : | | |
| | Prerana of Delhi A/c Dr | 9,000 | |
| | To Commission A/c | | 9,000 |
| | (Being Commission Due from Prerana of Delhi) | | |
| 6. | When the stock at the end of the With Anurag of Mumbai ; | | |
| | -------- No Journal Entry ------- | | |
| 7. | Whent the final Amount Remitted To Prerana of Delhi : | | |
| | Prerana of Delhi A/c Dr | 1,48,000 | |
| | To Cash/ Bank A/c | | 1,48,000 |
| | (Being net amount remitted to the Prerana of Delhi) | | |

Dr **Prerana of Delhi Account** Cr

| **Particulars** | **Amount** | **Particulars** | **Amount** |
|---|---|---|---|
| To cash or Bank A/c | 11,000 | By Bank | 1,80,000 |
| (Expense) | | (Sale made) | |
| To cash or Bank A/c | 12,000 | | |
| To Commission A/c | 9000 | | |
| (Commission Due) | | | |
| To Bank | 1,48,000 | | |
| (Final amount paid) | | | |
| | 1,80,000 | | 1,80,000 |

Dr **Commission Account** Cr

| **Particulars** | **Amout** | **Particulars** | **Amount** |
|---|---|---|---|
| To Profit & Loss account | 9,000 | By Prerana of Delhi A/c | 9000 |
| | 9000 | | 9000 |

OR

(b) What is Abnormal loss, how it is different from Normal loss? Explain with suitable examples.

**(Unit-II, Topic 2.10.1)**

11. (a) Surya bought goods of the value of Rs.45,000 and sent them to Chandra on a Joint Venture. It was decided that the profits would be divided equally. On the same day Surya paid Rs.2,700 and drew a bill on Chandra for Rs. 18,000 and discounted the bill for Rs.17,640. On receipt of the goods, Chandra paid carriage of Rs.900 and insurance of Rs.1,200. Surya received an

Account sales showing that the goods had realized Rs.76,500 gross. Pass Journal entries and prepare the necessary Ledger accounts showing the Results of Joint Venture in the books of both the parties assuming that the final settlement was made.

*Ans.*

Dr **Memorandum JV a/c** Cr

| Particulars | Rs | Particulars | Rs. |
|---|---|---|---|
| To Goods purchased | 45000 | By sales | 76500 |
| To Expenses | 2700 | | |
| To Discount (Bill) | 360 | | |
| To Expenses by Chandra | 2100 | | |
| (1200 + 900) | | | |
| To Profit (Profit & loss a/c) | | | |
| Chandra 13170 | | | |
| Surya 13170 | 26,340 | | |
| | 76,500 | | 76,500 |

**In the Books of Surya**

Dr **JV with chandra a/c** Cr

| Particulars | Rs | Particulars | Rs. |
|---|---|---|---|
| To Purchase | 45000 | By Bills Revivable | 18000 |
| To Cash / Bank | 2700 | | |
| To Discount (Bill) | 360 | By Balance c/d (balance) | 43,230 |
| To Profit & loss A/c | 13,170 | | |
| | 61,230 | | 61,230 |

**In the books of Chandra :**

Dr **JV with surya a/c** Cr

| Particulars | Rs. | Particulars | Rs |
|---|---|---|---|
| To cash / Bank a/c | 2100 | By Bank a/c / cash a/c | 76,500 |
| (900 + 1200) | | (Sales) | |
| To Profit & loss a/c | 13170 | | |
| To Bills payable | 18,000 | | |
| To Balance c/d | 43230 | | |
| | 76,500 | | 76,500 |

**Memorandum Joint Venture (JV) Method :**

| Journal Entries | In the Books of " Surya [His own Transaction] | In the Books of " chandra" [His own Transaction] |
|---|---|---|
| 1) Goods supplied | JV with 'Chandra a/c Dr 45000<br>To purchase a/c 45000 | - |
| 2) Expenses Incurred | JV with chandra a/c Dr 2700<br>To cash a/c / bank a/c 2700 | JV with surya a/c Dr 2100<br>(1200+900)<br>To cash a/c 2100 |
| 3) Bills Receivable | Bills Receivable a/c Dr. 18000<br>To JV with chandra a/c 18000 | JV with surya a/c Dr 18000<br>To Bills Payable a/c 18000 |
| 4) Bills discounted | Cash a/c Dr 17640<br>Discount a/c Dr 360<br>To Bills Receivable a/c 18000 | Bills payable a/c Dr 18000<br><br>To cash 18000 |
| 5) Sales made | - | Cash a/c Dr 76,500<br>To JV with surya a/c 76,500 |
| 6) For Profit | JV with chandra a/c Dr 13 170<br>To profit & loss a/c 13170 | JV with surya a/c Dr 13170<br>To Profit & loss a/c 13170 |
| 7) Final Payment made to co-venturess | JV with chandra a/c Dr 43230<br>To cash 43230 | JV with surya a/c 43230<br>To cash 43230 |
| 8) Final Amount Received | Cash a/c Dr 43230<br>To JV with chandra a/c 43230 | Cash a/c Dr 43230<br>To JV with surya a/c 43230 |

(b) P and Q entered into a Joint Venture, they contributed Rs.20,000 and Rs.16,000 respectively and decided to share profits and losses in the ratio of 3:4. The purchases are Rs.32,000 and sales amounted to Rs.40,000. The remaining stock is taken over by Q for Rs.2,000. Expenses paid are Rs.1,600. P drew from the Venture Rs.8,000 Pass Journal entries and prepare the necessary ledger accounts for the joint venture.

*Ans.*

**Method :** When No seperate set of Books are maintained

**Note :** In this Method, Investment contributed by Co-venturess should Not be Recorded in JV (joint venture) a/c.

**Journal Entries**

| | Particulars | Dr (Rs.) | Cr (Rs.) |
|---|---|---|---|
| 1. | Purchase of goods : JV a/c Dr | 32,000 | |
| | To Cash a/c | | 32,000 |
| 2. | Receipt contribution : Cash a/c Dr | 36,000 | |
| | by Co- ventures To P a/c | 20,000 | |
| | To Q a/c | | 16,000 |
| 3. | Expenses Incurred JV a/c dr | 1,600 | |
| | To cash a/c | | 1,600 |
| 4. | Sale of Good cash a/c Dr | 40,000 | |
| | To JV a/c | | 40,000 |
| 5. | Unsold goods taken 'Q' a/c Dr | 2,000 | |
| | over by 'Q' To JV a/cm | | 2000 |
| 6. | 'P' Drawings 'P' a/c Dr | 8000 | |
| | To cash a/c | | 8,000 |

Dr **Joint venture (JV) a/c** Cr

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To cash (purchase) | 32000 | By cash (sales) | 40000 |
| To cash (Expenses) | 1600 | By Q a/c (unsold goods taken over) | 2000 |
| To Profit | | | |
| $- P \left(8400 * \frac{3}{7}\right) = 3600$ | | | |
| $- Q \left(8400 * \frac{4}{7}\right) = 4800$ | 8400 | | |
| | 42000 | | 42000 |

Dr "P" a/c Cr

| Particulars | Rs | Particulars | Rs |
|---|---|---|---|
| To cash (Drawings) | 8000 | By cash (Investment) | 20000 |
| | | By JV (Profit) | 3600 |
| To Balance c/d | 15,600 | | |
| | 23,600 | | 23,600 |

**'Q' a/c**

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To JV (unsold goods took over) | 2000 | By cash (Investment) | 16000 |
| To Balance c/d | 18800 | By JV (profit) | 4800 |
| | 20,800 | | 20,800 |

Dr **Cash a/c** Cr

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To P : 20,000 | | | |
| Q :16000 | 36,000 | By JV (purchase) | 32,000 |
| To JV (sales) | 40,000 | By JV (Expenses) | 1,600 |
| | | By 'P' (Drawings) | 8,000 |
| | | By Balance c/d | 34,400 |
| | 76,000 | | 76,000 |

12. (a) Mr. Careless keeps his records under the Single Entry System.

| Particulars | 1-4-2017 | 31-03-2018 |
|---|---|---|
| Bank O/D | 10,000 | 12,000 |
| Furniture | 20,000 | 20,000 |
| Building | 70,000 | 70,000 |
| Investment | - | 10,000 |
| Debtors | 20,000 | 30,000 |
| Creditors | 30,000 | 40,000 |
| Stock | 45,000 | 50,000 |
| Jeep(1-10-2017) | - | 20,000 |
| Cash | 10,000 | 20,000 |
| Plant and Machinery | 40,000 | 40,000 |

During the year he withdrew Rs.10,000 fer personal use on 1-10-2017, and he introduced further capital of Rs.20,000.

(i) Reserve for Bad and Doubtful debts is to be maintained at Rs.5% on debtors.

(ii) Plant and Machinery to be depreciated at 10%, Furniture at 5% and Jeep 10%.

(iii) Appreciate Building by 20%

(iv) Debtors included Rs.1,000 from an insolvent customer Ascertain profit or loss and prepare statement of Affairs.

*Ans.*

**Statement of affairs as on 1-4-2017 and 31-03-2018**

| Liabilities | 1.4.2017 Rs | 31-03-18 Rs | Assest | 1-04-2017 Rs | 31-3-2018 Rs |
|---|---|---|---|---|---|
| Bank O.D | 10,000 | 12,000 | Furniture | 20,000 | 20,000 |
| Creditors | 30,000 | 40,000 | Land & Buildings | 90,000 | 70,000 |
| | | | Investments | – | 10,000 |
| Capital (Balance) | 1,65,000 | 2,08,000 | Webtors | 20,000 | 30,000 |
| | | | Stock | 45,000 | 50,000 |
| | | | Jeep | – | 20,000 |
| | | | Cash | 10,000 | 20,000 |
| | | | Plant & Machines | 40,000 | 40,000 |
| | 2,05,000 | 2,60,000 | | 2,05,000 | 2,60,000 |

**Statement of Profit & Loss**

| Particulars | | Rs. |
|---|---|---|
| Add : Capital Drawing on 1-10-17 | | 2,08,000 |
| | | 10,000 |
| | | 2,18,000 |
| Less : Additional capital | | 20,000 |
| | | 1,98,000 |
| Less : Capital as on 1.1.2007 | | 1,65,000 |
| | | 33,000 |
| Add : Building Appreiation @ 20% | | 14000 |
| | | 47,000 |
| **Less :** i) Bad debts | 1000 | |
| ii) Provision for Doubtful debts | 1450 | |
| iii) Depreciation by plant & machinery | 4000 | |
| iv) Depreciation on furniture | 1000 | |
| v) Depreciation on Jeep | 1000 | |
| | | 8,450 |
| Profit generated durings the year | | 38,550 |

**OR**

(b) Mrs. P has not kept proper books of account. From the balances obtained prepare statement of Profit or loss for the year 2018-18 and Statement of Affairs as on that date.

| Particulars | 1-4-2017 | 31-03-2018 |
|---|---|---|
| Bank O/D | 2,25,000 | 2,00,000 |
| Furniture | 23,000 | 23,000 |
| Land & Building | 2,65,000 | 2,65,000 |
| Debtors | 1,51,000 | 1,49,000 |
| Creditors | 1,93,000 | 1,86,000 |
| Stock | 2,96,750 | 3,11,000 |
| Cash | 26,750 | 27,000 |
| Bills Receivable | 2,12,000 | 2,04,000 |
| Bills Payable | 3,10,000 | 2,90,000 |

During the year, he withdrew Rs.30,000 for personal use.

**Adjustments:**

(i) Maintain Provision for Doubtful debts at 2.5% on debtors.

(ii) Depreciate Land and building by 2% and furniture at 10%.

*Ans.*

Statement of affairs as on 1-4-17 and 31-03-18.

| Liabilities | 1.4.2017 Rs | 31-03-18 Rs | Assest | 1-04-2017 Rs | 31-3-2018 Rs |
|---|---|---|---|---|---|
| Bank O.D | 2,25,000 | 2,00,000 | Furniture | 23,000 | 23,000 |
| Creditors | 1,93000 | 1,86,000 | Land & Building | 2,65,000 | 2,65,000 |
| Bills payable | 3,10,000 | 2,90,000 | Debtors | 1,51,000 | 1,49,000 |
| Capital (Balance) | 2,46,500 | 3,03,000 | Stock | 2,96,750 | 3,11,000 |
| | | | Cash | 26,750 | 27,000 |
| | | | Bills Receivable | 2,12,000 | 2,04,000 |
| | 9,74,500 | 9,79,000 | | 9,74,500 | 9,79,000 |

**Statement of Profit & loss**

| **Particulars** | **Rs.** |
|---|---|
| Capital as on 31-3-18 | 3,03,000 |
| Add : Drawings | 30,000 |
| | 3,33,000 |
| Less : Opening Capital on 1-4-17 | (2,46,500) |
| | 86,500 |
| Less : i) Depreciation on | |
| a) Land & Building @ 2% | |
| $\left(2,65,000 \times \frac{2}{100}\right)$ | (5,300) |
| b) Furniture @ 10% | (2,300) |
| $\left(23,000 \times \frac{10}{100}\right)$ | |
| ii) Provision for Doubtful Debts | (3,725) |
| $\left(1,49,000 * \frac{2.5}{100}\right)$ | |
| Profit generated durings the year | 75,175 |

13. (a) From the following Receipts and Payments account of XYZ charitable Hospital, Prepare Income and Expenditure account for the year ending 31-3-2018 and Balance sheet as on that date.

| **Receipts** | **Amount** | **Payments** | **Amount** |
|---|---|---|---|
| To Balance b/d | 40,200 | By salaries | 13,120 |
| To subscriptions | 22,300 | By Boarding | 7,600 |
| To fees from Non-members | 5,400 | By Rent and Taxes | 4,000 |
| To Municipal Grant | 760 | By Cost of Vehicle | 20,000 |
| To Donations for Buildings | 31,200 | By Expenses of Vehicles | 16,800 |
| | | By Drugs | 13,400 |
| | | By Balance c/d | 24,940 |
| | 1,19,860 | | 1,19,860 |

The Hospital owns Freehold land Rs.1,60,000. A donation of Rs.2,000 received for the Building fund was wrongly included in the subscription Account. A bill for medicines purchased during the year amounting to Rs.2,580 was outstanding. Prepare Income and Expenditure account for the year and Balance sheet as on 31-3-2018.

*Ans.*

xyz Charitable Trust

Balance Sheet as on 31-03-2017 (Opening Balance Sheet)

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Capital fund | 2,00,000 | Cash | 40,200 |
| (Balance) | | Freehold land | 1,60,000 |
| | 2,00,000 | | 2,00,000 |

**Dr Income & Expenditure a/c for the year ended 31-03-2018 Cr**

| Expenditure | | Rs. | Income | | Rs. |
|---|---|---|---|---|---|
| To Salaries | | 13,120 | By Subscription | 22300 | |
| To Boarding | | 7,600 | (-) Donation for Building | 2000 | 20,300 |
| To Rent | | 4,000 | | | |
| To Vehicle Expenses | | 16,800 | By fees from Members | | 5,400 |
| To Drugs | 13,400 | | By Municipal grant | | 760 |
| (+) outstanding | 2,580 | 15,980 | By Excess of Expenditure over Income (Deficit) | | 31,040 |
| | | 57,500 | | | 57,500 |

**Balance Sheet as on 31-03-2018**

| Liabilities | Rs. | Assets | Rs |
|---|---|---|---|
| Capital fund 2,00,200 | | Free Land | 1,60,000 |
| (-) Deficit (31,040) | 1,69,160 | Vehicle ** | 20,000 |
| Outstanding Medical Bill | 2,580 | Cash | 24,940 |
| Building fund (31200+2000) | 33,200 | | |
| | 204940 | | 204940 |

**OR**

(b) Receipts and Payments account of Sania Sports Club for the year 2017-18 is given below.

| Receipts | Amount | Payments | Amount |
|---|---|---|---|
| To Donations | 42,000 | By salaries | 9,900 |
| To life Membership fee | 15,000 | By furniture | 35,100 |
| To Tournament Fund | 24,000 | By Games expenses | 7,500 |

| | | | |
|---|---|---|---|
| To subscriptions | 19,500 | By printing and Stationary | 9,300 |
| To Entrance fees | 3,600 | By Tournament expenses | 9,000 |
| To Donations for computers | 15,000 | By sports equipment bought | 42,000 |
| To sale of old Newspapers | 1,500 | By balance c/d | 7,800 |
| | 1,20,600 | | 1,20,600 |

**Additional Information:**

(i) Subscriptions receivable for 2016-17 is Rs.4,500 and for 2017-18 is Rs.7,500

(ii) Value of sports equipment 1-04-2017 is Rs.3,000 and on 31-03-2018 is Rs. 27,000

(iii) Provide Rs.3,000 for depreciation on furniture.

Prepare Income and expenditure account for the year and Balance sheet as on 31-03.2018.

*Ans.*

Dr **Income & Expenditure a/c for the year ended 31-03-2018** Cr

| Expenditure | Rs | Incomes | Rs |
|---|---|---|---|
| To Salaries | 9900 | By subscription (W.N (2)) | 22500 |
| To Games Expenses | 7500 | | |
| To Printing | 9300 | | |
| To Sports Equipment (W.N (1)) | 18000 | By Entrance fees | 3600 |
| | | By sale of News paper | 1500 |
| To Depreciation on Furniture | 3000 | By Excess of Expenditure Cover Income (Deficit) | 20,100 |
| | 47,700 | | 47,700 |

**Working Notes :**

| | |
|---|---|
| (1) Sports Equipment as on 1-4-2017 | 3,000 |
| Add : Purchases | 42,000 |
| Less : Closing Balance on 31-03-2018 | (27000) |
| | 18000 |
| (2) Subscription | |
| Subscription Received | 19500 |
| (+) Outstanding for current year | 7500 |
| | 27000 |
| (–) Outstanding Last year | (4500) |
| Subscription to be shown in I& E a/c | 22500 |

**Working Note (W.N) : (3)**

**Balance Sheet as on 1-4-2017**

| Liabilities | Rs. | Assets | Rs |
|---|---|---|---|
| Capital fund on 1-4-2017 | 7500 | Subscription outstanding | 4500 |
| (Balance) | | Value of sports Equipment | 3000 |
| | 7500 | | 7500 |

**Balance Sheet as on 31-03-2018**

| Liabilities | | Rs. | Assets | | Rs |
|---|---|---|---|---|---|
| Tournament fund | 24000 | | Furniture | 35,100 | |
| (-) Tournament Expenses | (9000) | 15000 | (-)Depreciation | (3000) | 32,100 |
| Donations (General) | | 42000 | Sports Equipment | | 27,000 |
| Donations for computers | | 15000 | | | |
| Life Membership fees | | 15000 | Outstanding subscription | | 7,800 |
| | | | Cash | | 7,500 |
| Capital fund on 1-4-2017 | | 7500 | Deficit (Income & | | |
| (W.N (3)) | | | Expenditure a/c) | | 20,100 |
| | | 94,500 | | | 94,500 |

# FACULTIES OF COMMERCE

### B.Com. (CBCS) I-Year II-Semester Examination

### *May/June - 2017*

## FINANCIAL ACCOUNTING-II

**Time : 3 Hours]** **[Max. Marks : 80**

### SECTION - A (5 × 4 = 20 M)

*Answer any 5 Questions*

**ANSWERS**

1. Explain features of a promissory note.

**Ans :**

(i) It must be in writing.

(ii) It must be signed by maker.

(iii) It must be unconditional promise to pay by the maker.

(iv) The amount payable must be certain and should expressed in terms of money only.

(v) Bank note or currency not promissory note.

(vi) It must be essentially be stamped under the Indian stamp Act 1899.

(vii) In promissory note, statement such as 'on demand' refers to payable immediately or forthwith.

2. What is abnormal loss? **(Unit-II, Q.No. 10, (Pt. 2))**

3. What is memorandum joint venture method? **(Unit-III, Q.No. 9)**

4. From the following information you are required to calculate total purchases.

Cash purchase Rs. 10,000

Creditors as on January 1, 2015 Rs.20,000

Cash paid to creditors Rs. 70,000

Return outwards Rs. 1500

Creditors as on 31 December 2015 - Rs. 65,000

**Ans :**

Credit purchases = Cash paid to creditors + Closing creditors – Opening creditors.

= 70,000 + 65,000 – 20,000 = 1,15,000

Total purchases = Credit purchases ⊕ Cash purchases (–) Return outwards.

= 1,15,000 + 10,000 – 1500

= 1,23,500

5. Calculate the amount to be debited to Income and Expenditure Account for the year 2015.

Stock of stationary on 1st January 2015 – Rs. 800.

Creditors for stationary out standing on 1st January 2015 Rs. 600

Amount paid for stationary during the year 2015 Rs. 3000

Stock of stationary on 31st December 2015 - Rs. 300

**Ans :**

| | |
|---|---|
| Amount paid for stationary during the year | 3,000 |
| **Add :** Stock of stationary on 1st Jan 2015 | 800 |
| | 3,800 |
| **Less :** Creditors outstanding on 1st Jan 2015 | (600) |
| **Less :** Stock of stationery at end of the year *i.e.,* on 31st Dec. 2015 | (300) |
| Amount to be debited to income and expenditure account for the year 2014 | 2,900 |

6. Rajendra consigned goods costing Rs. 50.000 to Srikanth.

The recurring and non recurring expenses on the same amounted to Rs. 10,000 and 8.000 respectively. Srikanth sold 3/4th of the goods for Rs. 35,000. Ascertain the value of unsold stock.

**Ans :**

**Calculation of valuation of unsold stock**

| Particulars | Amount (`) |
|---|---|
| Cost of 1/4th goods consigned 50,000 × 1/4 | 12,500 |
| Add : Non Recurring expenses 8000 × 1/4 | 2,000 |
| Value of unsold stock | 14,500 |

7 Explain limitations of Single entry system. **(Unit-IV, Q.No. 4)**

8 What do you understand by the term of legacy? **(Unit-V, S.Q.No. 4)**

**SECTION - B (12 × 5 = 60 M)**

*Answer all the Questions*

9. (a) On 1st January 2015 Mohan goods sold worth Rs.25,000 to Pradeep. Mohan draws on Pradeep three bills for Rs. 8,000, Rs. 10,000 and Rs.7,000. These bills were for one month, 2 months and 3 months respectively. The first bill was endorsed to his creditor Adarsh. The second bill was discounted with bank for Rs. 9875 and the third bill was sent to the bank for collection. On the due date all the bills were duly met by Pradeep. Pass Journal entries to the books of Mohan Pradeep and Adarsh.

**Ans :**

**Journal Entries in the Books of Mohan**

| Date<br>2015 | Particulars | LF | Debit<br>` | Credit<br>` |
|---|---|---|---|---|
| 1 Jan | Pradeep a/c Dr.<br>To sales a/c<br>(Being goods sold to pradeep) | | 25,000 | <br>25,000 |
| 1 Jan | Bill receivable a/c Dr.<br>To sudesh a/c<br>(Being three bill for ` 8,000, ` 10,000 and ` 7,000) | | 25,000 | <br>25,000 |
| 1 Jan | Adarsh a/c Dr.<br>To Bill receivable a/c<br>(Being the first bill for ` 8,000 was endorsed to Adarsh a/c) | | 8,000 | <br>8,000 |
| 1 Jan | Bank a/c Dr.<br>Discount a/c Dr.<br>To bill receivable a/c<br>(Being the bill discounted with bank) | | 9,875<br>125 | <br><br>10,000 |
| 1 Jan | Bill sent to bank for collection a/c Dr.<br>To bill receivable a/c<br>(Being the bill sent to bank for collection) | | 7,000 | <br>7,000 |
| 4 April | Bank a/c Dr.<br>To bill sent for collection<br>(Being the bill collected by bank on due dates) | | 7,000 | <br>7,000 |

**Journal Entries in the Books of Pradeep**

| Date<br>2015 | Particulars | LF | Debit | Credit |
|---|---|---|---|---|
| 1 Jan | Purchases a/c Dr.<br>To Mohan a/c<br>(Being goods purchased from praveen) | | 25,000 | <br>25,000 |
| 1 Jan | Praveen a/c Dr.<br>To Bills payable a/c<br>(Being 3 bills accepted) | | 25,000 | <br>25,000 |
| 4 Feb. | Bills payable a/c Dr.<br>To bank a/c<br>(Being bill honouredon due date) | | 8,000 | <br>8,000 |
| 4 March | Bills payable a/c Dr.<br>To bank a/c<br>(Being bill honoured on due date) | | 10,000 | <br>10,000 |
| 4 April | Bills payable a/c Dr.<br>To bank a/c<br>(Being bill honoured on due date) | | 7,000 | <br>7,000 |

**Journal Entries in the Books of Adarsh**

| Date 2015 | Particulars | LF | Debit | Credit |
|---|---|---|---|---|
| 1 Jan | Bill receivable a/c Dr. | | 8,000 | |
| | To Mohan a/c | | | 8,000 |
| | (Being receipt of endorsed bill by the endorser) | | | |
| 4 March | Bank a/c Dr. | | 8,000 | |
| | To bill receivable a/c | | | 8,000 |
| | (Being the amount of bill received) | | | |

OR

(b) Explain difference between. Trade bills and accommodation bills. **(Unit-I, Q.No. 13)**

10. (a) Laxman sent 200 machines on consignment to Varun the cost of each machine was Rs. 300 but the consignor proposed the proforma invoice at 25% above the cost. Laxman spent Rs. 2000 on packing. While taking delivery of the machines Varun had to spend Rs. 1000 ad freight octroi and cartage. By the end of the year Varun sold 180 machines @ 420 per machine. He paid Rs. 1500 as godown rent. He was entitled to a commission of 5% on sales. Prepare necessary Ledger Accounting in the books of Laxman.

**Ans :**

**Dr.** **Consignment A/c** **Cr.**

| Particulars | ` | Particulars | ` |
|---|---|---|---|
| To goods sent on consignment a/c | 75,000 | By Varun a/c - Sales | 75,600 |
| To cash a/c - expenses | 2,000 | By stock resolve a/c | 15,000 |
| To Varun a/c - expenses | 1,000 | By consignment stock a/c | 7,950 |
| To Varun a/c rent | 1,500 | | |
| To Varun a/c - commission | 3,780 | | |
| To stock a/c reserve | 1,500 | | |
| To Profit and Loss a/c | 13,770 | | |
| | 98,550 | | 98,550 |

**Dr.** **Varun A/c** **Cr.**

| Particulars | ` | Particulars | ` |
|---|---|---|---|
| To consignment sales a/c | 75,600 | By consignment a/c expenses | 1,000 |
| | | By consignment a/c rent | 1,500 |
| | | By consignment stock commission | 3,780 |
| | | By balance | 69,320 |
| | 75,600 | | 75,600 |

**Working Notes**

**Valuation of Closing Stock**

| | Invoice Price | Cost Price |
|---|---|---|
| Price of 20 machines | 7,500 | 6,000 |
| | ($20\times300$ + 25%) | ($20 \times 300$) |
| **Add:** Proportionate Expenses | | |
| Consignor = $\left[\frac{2000}{200}\times 20\right]$ | 200 | 200 |
| Consignee = $\left[\frac{1000+1500}{200}\times 20\right]$ | 250 | 250 |
| | 7,950 | 6,450 |

Loading in stock = 7,950 – 6,450 = `1,500

Loading in goods sent on consignment = ` 75,000 – ` 60,000 = ` 15,000

OR

(b) Explain difference between sale and consignment. **(Unit-II, Q.No. 2)**

11. (a) A and B entered into a joint venture to purchase and sell timber. The profits and losses were to be shared equally A financed the venture and B under took the sale. B is entitled to a commission of 5% on the sale proceeds. A purchased goods to the value of Rs. 1,20,000. He also paid towards freight Rs. 3200 and advances 1000 to B to meet the expenses of joint venture. B paid for carriage Rs. 700 sales made by B amounted Rs. 1,55,000 the remaining stock agreed value Rs. 7000. Prepare Joint Venture Account and B's Account in the books of A.

**Ans :**

**In the books of A**

**Joint Venture Account with 'B'**

**Dr.** **Cr.**

| Particulars | ` | Particulars | ` |
|---|---|---|---|
| To bank - purchases | 1,20,000 | By B - sales | 1,55,000 |
| To bank - expenses | 3,200 | By B - Stock taken over | 2,700 |
| To 'B' - expenses | 700 | | |
| To 'B' - commission | 7,750 | | |
| To profit and loss a/c | | | |
| A – 13,025 | | | |
| B – 13,025 | 26,050 | | |
| | 1,57,700 | | 1,57,700 |

**Dr.** **'B' a/c** **Cr.**

| Particulars | ` | Particulars | ` |
|---|---|---|---|
| To bank – advance | 1000 | By Joint venture expenses | 700 |
| To joint - venture sales | 1,55,000 | By joint venture commission | 7,750 |
| To joint venture stock | 2,700 | By joint venture profit by bank | 1,50,250 |
| | 1,58,700 | | 1,58,700 |

OR

(b) A, B and C entered into a joint venture and agreed to divide the profits in the ratio of 3 : 2 : 1. They purchased by auction several New machine for Rs. 150000. A contributing Rs. 90,000, B Rs 40,000 and C Rs. 30,000 for carrying on the transactions relating to the venture. A Joint Bank Account was opened. The sold all the machines for Rs. 375000. A spent Rs. 3400 and B and C spent Rs. 2500 each in the connection with the venture.

Show the Joint Venture Account and other Ledger Accounts.

**Dr.** **Joint Venture a/c** **Cr.**

| Particulars | ` | Particulars | ` |
|---|---|---|---|
| To joint bank a/c | 1,50,000 | By joint bank a/c | 3,75,000 |
| To A – expenses | 3,400 | | |
| To B – expenses | 2,500 | | |
| To C – expenses | 2,500 | | |
| To Profit to | | | |
| A – 1,08,300 | | | |
| B – 72,200 | | | |
| C – 36,100 | 2,16,600 | | |
| | 3,75,000 | | 3,75,000 |

**Dr.** **Capital a/c** **Cr.**

| Particulars | A (`) | B(`) | C(`) | Particulars | A (`) | B(`) | C(`) |
|---|---|---|---|---|---|---|---|
| To joint bank a/c | 2,01,700 | 1,14,700 | 68,600 | By joint bank a/c | 90,000 | 40,000 | 30,000 |
| | | | | By joint venture expenses | 3,400 | 2,500 | 2,500 |
| | | | | By joint venture profit | 1,08,300 | 72,200 | 36,100 |
| | 2,01,700 | 1,14,700 | 68,600 | | 2,01,700 | 1,14,700 | 68,600 |

**Dr.** **Joint Bank a/c** **Cr.**

| Particulars | (`) | Particulars | (`) |
|---|---|---|---|
| To joint venture | 3,75,000 | By joint venture | 1,50,000 |
| To A | 90,000 | By A | 2,01,700 |
| To B | 40,000 | By B | 1,14,700 |
| To C | 30,000 | By C | 68,600 |
| | 5,35,000 | | 5,35,000 |

12. (a) A Trader keeps his books on single entry system. His financial position.

| Particulars | As on 31st March 2014 | As on 31st March 2015 |
|---|---|---|
| Cash in hand | 40,000 | 30,000 |
| Bank overdraft | 6,000 | 10,000 |
| Stock in Trade | 30,000 | 47,000 |
| Bills Receivable | 20,000 | 40,000 |
| Bills Payable | 10,000 | 10,000 |
| Sundry Debtors | 41,000 | 43,000 |
| Furniture | 30,000 | 30,000 |
| Plant | 2,00,000 | 3,00,000 |

Total drawing during the year amount Rs. 15,000. He introduced further capital of Rs. 60,000 during the year. Depreciate all fixed assets at 10% p.a. Ascertain the result of business preparing the required statement.

**Ans :**

**Statement of affairs as on 31/3/2014 and 31/3/2015**

| Liabilities | 31/3/14 | 31/3/15 | Assets | 31/3/14 | 31/3/15 |
|---|---|---|---|---|---|
| Bank over draft | 6,000 | 10,000 | Cash in hand | 40,000 | 30,000 |
| Bill payable | 10,000 | 10,000 | Stock in trade | 30,000 | 47,000 |
| Capital (bal. fig.) | 3,45,000 | 4,70,000 | Bills receivable | 20,000 | 40,000 |
| | | | Sundry debtors | 41,000 | 43,000 |
| | | | Furniture | 30,000 | 30,000 |
| | | | Plant | 2,00,000 | 3,00,000 |
| | 3,61,000 | 4,90,000 | | 3,61,000 | 4,90,000 |

**Statement of profit and loss for the year**

| Particulars | ` |
|---|---|
| Capital as on 31/3/15 | 4,70,000 |
| **Add:** Drawings | 15,000 |
| | 4,85,000 |
| **Less:** Additional capital | 60,000 |
| | 4,25,000 |
| **Less:** Capital as on 31/3/14 | 3,45,000 |
| **Less:** i) Depreciation on furnitures = 3000 | 80,000 |
| ii) Depreciation on plant | |
| Machinery for 1 year = 2000 | |
| Machinery for 6 months = 5000 | 10,000 |
| (1,00,000 × 10% × 1/2) | |
| Profit | 70,000 |

**Statement of Affairs as on 31/3/2015**

| Liabilities | | ` | Assets | | ` |
|---|---|---|---|---|---|
| Bank overdraft | | 10,000 | Cash in hand | | 30,000 |
| Bills payable | | 10,000 | Stock in trade | | 47,000 |
| Capital | 3,45,000 | | Bills receivable | | 40,000 |
| (+) profit | 70,000 | | Sundry debtors | | 43,000 |
| (–) Drawings | 15,000 | | Furniture | 30,000 | |
| (+) Additional capital | 60,000 | | (–) Depreciation | (3,000) | 27,000 |
| | | 4,60,000 | Plant | 3,00,000 | |
| | | | (–) dep | (7,000) | 2,93,000 |
| | | 4,80,000 | | | 4,80,000 |

(b) Ram keep has book on single entry system the position of his business as on 1st.

April 2013 was as follows.

**On abstract of cash book is given below**

| Receipts | Amount (Rs.) | Payments | Amount (Rs.) |
|---|---|---|---|
| To Cash from | 45,000 | By Bank of OD (on | 10,000 |
| Debtor | 55,000 | 1.4.2014) | 55,000 |
| To Cash Sales | | By Expenses | 3,000 |
| | | By Drawing | 20,000 |
| | | By Sundry Creditors | 3,000 |
| | | Payments | 9,000 |
| | 1,00,000 | By Cash in hand | 1.00,000 |
| | | By Cash at Bank | |

**Closing balances**

Stock Rs. 30000 debtors Rs. 75000 creditors 80,000. Depreciation on furniture 10%. Premises 15%. Prepare Trading and Profit & Loss Accounts for the year end 31st March, 2015 and Balance Sheet as on the date.

**Ans :**

**Note:** The sufficient information is not provided above the problem.

13. (a) The following is the Receipt and Payment Account of Hospital for the year ended 31.3.2015

| Receipts | Amount (Rs.) | Payments | Amount (Rs.) |
|---|---|---|---|
| To Balance b/d | 5,600 | By Paid for medicine | 24,000 |
| To Subscription | 45,600 | By Salaries | 22,000 |
| To Donations | 11,600 | By Sundry Expenses | 400 |
| To Charity Show | 8,000 | By Equipment | 12,000 |
| | | By Charity Show | 800 |
| | | By Honorarium | 8,000 |
| | | By Balance c/d | 3,600 |
| | 70,800 | | 70,800 |

**Additional Information :**

| Particular | As on 1-4-2014 (Rs.) | As on 31-3-2015 (Rs.) |
|---|---|---|
| Subscription due | 1,000 | 2,000 |
| Stock of Medicine | 8,00 | 6,000 |
| Value of Equipment | 16,000 | 21,000 |
| Value of Building | 80,000 | 72,000 |

Donations are to be capitalized. Prepare income and expenditure for the year ended on 31 -3-2015 and show Balance Sheet as on date.

**Ans :**

**Dr.** **Income and expenditure account for the year ended 31-3-2015** **Cr.**

| Expenditure | Amount (`) | Income | Amount (`) |
|---|---|---|---|
| To Medicines (WN-l) | 18,800 | By Subscriptions (WN-2) | 46.600 |
| To Salaries | 22,000 | By Charity show | 8,000 |
| To Sundry Expenses | 400 | By Deficit | 10,400 |
| To Charity show | 800 | (Excess of expenditure | |
| To Honorarium | 8,000 | over income) | |
| To Depreciation on Equipment (WN-3) | 7,000 | | |
| To Depreciation on Building (WN-4) | 8,000 | | |
| | **65,000** | | **65,000** |

**Balance sheet as on 1-4-2014**

| Liabilities | Amount (`) | Assets | Amount (`) |
|---|---|---|---|
| Capital Fund (bal.figure) | 1,03,400 | Subscription Due | 1,000 |
| | | Stock of Medicine | 800 |
| | | Value of Equipment | 16,000 |
| | | Value of Building | 80,000 |
| | | Cash | 5,600 |
| | 1,03,400 | | 1,03,400 |

**Balance Sheet as on 31-3-2015**

| Liabilities | | Amount (`) | Assets | Amount (`) |
|---|---|---|---|---|
| Capital Fund | 1,03,400 | | Subscription Due | 2,000 |
| Less: Deficit | 10,400 | 93,000 | Stock of Medicine | 6,000 |
| Donations | | 11,600 | Value of Equipment | 21,000 |
| | | | Value of Building | 72,000 |
| | | | Cash | 3,600 |
| | | 1,04,600 | | 1,04,600 |

**Working Notes**

**1. Calculation of Medicines Consumed**

| Particulars | Amount (`) |
|---|---|
| Opening Stock of Medicines | 800 |
| **Add:** Payments for Medicines | 24,000 |
| | 24.800 |
| **Less:** Closing Stock of Medicines | 6,000 |
| **Medicines Consumed** | **18,800** |

**2. Calculation of Subscriptions**

| Particulars | Amount (`) |
|---|---|
| Subscriptions received during the year | 45,600 |
| **Add:** Outstanding Subscriptions (31-3-2015) | 2,000 |
| | 47,600 |
| **Less:** Outstanding Subscriptions (1-4-2014) | 1,000 |
| **Subscriptions to be Taken in Income and Expenditure A/c** | **46,600** |

**3. Calculation of Depreciation on Equipment**

| Particulars | Amount (`) |
|---|---|
| Opening Value of Equipment | 16,000 |
| **Add:** Purchase of Equipment | 12,000 |
| | 28,000 |
| **Less**: Closing Value of Equipment | 21,000 |
| **Depreciation** | **7,000** |

**4. Calculation of Depreciation on Building**

| Particulars | Amount (`) |
|---|---|
| Opening Value of Building | 80,000 |
| **Less:** Closing Value of Building | 72,000 |
| **Depreciation** | **8,000** |

(b) The following is the Receipts and Payments Accounts of the Ashok Nagar Association for the ended 31 December, 2015.

| Receipts | Amount (Rs.) | Payments | Amount (Rs.) |
|---|---|---|---|
| To Balance b/d | 13,800 | By Salary | 30,000 |
| To Subscription | 90,000 | By Building | 1,55000 |
| To Donations for Building | 80,000 | By Investment purchase | 20,000 |
| To Rent of Hall | 42,000 | By Printing | 22,000 |
| To Interest Received | 10,200 | By General expenses | 4,000 |
| | | By Balance c/d | 5,000 |
| | 2,36,000 | | 2,36,000 |

Balance Sheet as on 31 December 2014

| **Liabilities** | **Amount (Rs.)** | **Payments** | **Amount (Rs.)** |
|---|---|---|---|
| Capital Fund | 90,800 | Cash | 13,800 |
| Subscription Received in Advances | 2,000 | Investments | 50,000 |
| | | Building | 20,000 |
| | | Out stand subscription | 6,000 |
| | | Interest Receivable | 3,000 |
| | 92,800 | | 92,800 |

Adjustments:

(1) Subscription Received on 31 December, 2015 Rs,10,000

(2) Depreciation on building 10%

(3) Prepaid salary Rs. 2000

Prepare Income and Expenditure Account and Balance Sheet as on date.

**Ans :**

**Income and Expenditure Account of Ashok Nagar Association for Year Ended 31st December 2015**

**Dr.** **Cr.**

| **Expenditure** | | **Amount (`)** | **Income** | | **Amount (`)** |
|---|---|---|---|---|---|
| To Salary | 30,000 | | By Subscriptions | | 76,000 |
| **Less:** Prepaid Salary | 2,000 | 28,000 | By Rent of Hall | | 42,000 |
| To Printing | | 22,000 | By Interest received | 10,200 | |
| To General expenses | | 4,000 | **Less:** Receivable | 3,000 | 7,200 |
| To Depreciation on Building @ | 10% | 17,500 | | | |
| To Surplus | | 53,700 | | | |
| | | 1,25,200 | | | 1,25,200 |

### Balance Sheet of Ashok Nagar Association for Year Ended 31st December 2015

**Dr.** **Cr.**

| Liabilities | | Amount (`) | Assets | | Amount (`) |
|---|---|---|---|---|---|
| Capital fund | 90,800 | | Building | 20,000 | |
| **Add:** Surplus | 53,700 | 1,44,500 | Add: Purchase of Building | 1,55,000 | |
| Donation for building | | 80,000 | | 1,75,000 | |
| Subscription received in advance | | 10,000 | **Less:** Dep. @ 10% | 17,500 | 1,57,500 |
| | | | Investment | 50,000 | |
| | | | **Add:** Investment purchase | 20,000 | 70,000 |
| | | | Prepaid salary | | 2,000 |
| | | | Cash | | 5,000 |
| | | 2,34,500 | | | 2,34,500 |

**Working Notes**

#### Calculation of Subscription

| Particulars | Amount (`) |
|---|---|
| Subscription received during the year | 90,000 |
| **Add:** Subscription received in advance [31-12-2014] | 2,000 |
| | 92,000 |
| **Less:** Outstanding subscription for 2014 | 6,000 |
| | 86,000 |
| **Less:** Subscription received in advance for 2015 | 10,000 |
| Subscription to be credited in income and expenditure A/c | **76,000** |

FACULTY OF COMMERCE

**B.Com (CBCS) II- Semester Examination**

**Model Paper -I**

**(Common Paper for General / Computer Applications / Advertising /Foreign Trade / Tax Practices and Honours Courses)**

# FINANCIAL ACCOUNTING-II

**Time : 3 Hours]** **[Max. Marks : 80**

**SECTION - A (5 × 4 = 20 M)**

**ANSWERS**

1. What is accommodation bills? **(Unit-I, SQA-6)**
2. Features of Consignment. **(Unit-II, SQA-2)**
3. What are the benefits of joint venture ? **(Unit-III, SQA-3)**
4. Features of single entry system? **(Unit-IV, SQA-2)**
5. Differences between single entry and double entry ? **(Unit-IV, Q.No.10)**
6. What is non-profit organizations? **(Unit-V, SQA-1)**
7. On the basis of the following information ascertain the Entrance Fees actually received in 2015.

| | |
|---|---|
| Entrance Fees as per Income and Expenditure A/c for 2015 | Rs. 20,000 |
| Entrance Fees received in advance on 31-12-2015 | Rs. 1,000 |
| Entrance Fees outstanding on 31-12-2015 | Rs. 4,800 |
| Entrance Fees in arrears on 01-01-2015 | Rs. 2,800 |

**(Unit-V, Prob-1)**

8. On 1.4.2015 A draws a bill on B for Rs 9,000 for 3 months. B accepts the bill and returns it to A. Pass Journal entries in the books of A in each of the following circumstances, assume that the bill is honoured on the due date:
   (i) A retains the bill till the due date
   (ii) A discounts the bill for Rs 8,750.
   (iii) A endorses the bill in favour of C.
   (iv) A sends the bill to the bank for collection. **(Unit-I, Illus-1)**

**SECTION - B (12 × 5 = 60 M)**

9. (a) How promissory note differs from bills of exchange. **(Unit-I, Q.No.7)**

OR

   (b) Balram purchased goods worth ` 4,800 on 1st April, from Raghuram and on the same date accepted a bill payable after 2 months. Three days later, Raghuram endorsed the bill to Sitaram in payment of his debt. On maturity, the bill was dishonoured by Balaram and Sitaram got it noted for ` 30. Ten days later Raghuram settled the account of Sitaram by paying him ` 2000 in cash. Fifteen days after the dishonour of the bill Balram paid ` 2,800 to Raghuram and requested him to draw another bill for the balance, plus ` 50 towards interest payable after two months. Raghuram accepted the proposal and drew the bill on Balram which was accepted by him. Before the maturity of the second bill, Balram became bankrupt and only 50 paise in a rupee was received from his estate in full settlement of his debt. Record the above transactions in the journals of Balram, Raghuram and Sitaram. **(Unit-I, Prob.14)**

10. (a) What are the books / Accounts maintained by consignor and consignee? Explain. **(Unit-II, Q.No.9)**

OR

(b) A consigned to B on 1st January 2013, 500 bales of cotton costing `100 per bale. Freight charges incurred in the consignment were ` 5,000. A drew a bill on B for ` 50,000 payable on 30th June, 2013 which B accepted. The bill was discounted by A with his banker on 31st Januray 2013 at 12% p.a B rendered Account Sales to A on 31st March 2013, showing sales of 300 bales for ` 80,000 and selling expenses of ` 5,000. B's Commission was 10%. On this date B remitted to A net amount due to him. On 31st May, 2013 B sold the balance stock for Rs. 30,000 after in curring expenses of Rs. 4,000. He remitted ` 20,000 to A. The balance being treated as commission earned by him. On 30th June 2013 the bill accepted by B was dishonoured by him and the amount due to the bank was paid off by A along with incidental charges of Rs.200. Pass Journal entries in the books of A. **(Unit-II, Prob.7)**

11. (a) What is the difference between joint venture and consignment ? **(Unit-III, Q.No.4)**

OR

(b) A and B enter into joint venture sharing profit 3/5th and 2/5th. A is to purchases timber in Madhya Pradesh and forward it to B in Delhi. A Purchases timber worth ` 10,000 and pays `1,000 as expenses. B received the consignment and immediately accepted A's draft for ` 8,000. A got it discounted for ` 7,850. B sold the timber for `16,000. He had to spend ` 350 for fire insurance and ` 300 for rent. Under the agreement he is entitled to a commission of 5% on sales.

Gives journal entries and ledger accounts in the books of A and B. **(Unit-III, Prob.3)**

12. (a) Distinguish between double entry and single entry system? **(Unit-IV, Q.No.3)**

OR

(b) Jones keeps his books by Single Entry method. On 1st May 2004 his financial position was as follows:-

Cash in hand ` 250; Cash at Bank ` 3,000, Stock in trade ` 7,500; Fixtures and Fitting ` 350; Sundry Debtors ` 9,800; Plant and Machinery ` 15,10 0; S.Creditors ` 9,000. During the year Jones withdrew from the business various sums amounting to ` 5,900. On 30th April 2005 his financial position was as follows:- Sundry Creditors ` 7,500; Plant and Machinery ` 18,100; Fixtures and Fittings ` 320. Sundry Debtors ` 13,300; Stock in trade ` 14,000; Cash in hand `150; Bank Overdraft ` 2,600. You are required to prepare a statement of profit and a closing Statement of Affairs. **(Unit-IV, Prob.2)**

13. (a) From the following particulars relating to Adarsh Commercial and Literary Society, prepare a Receipts and Payments Account, an Income and Expenditure Account and a Balance Sheet as at 31st December, 2005.

Balance Sheet as at 31st December 2004.

| **Liabilities** | **Rs.** | **Assets** | **Rs.** |
|---|---|---|---|
| Outstanding creditors | 425 | Cash at bank | 3,000 |
| Capital Fund:- | | Govt. Securities | 10,000 |
| Excess of Income over | | Accrued Interest | 125 |
| Expenditure | 15,575 | Outstanding Subscriptions | 400 |
| | | Library books | 1,000 |
| | | Furniture and Fittings | 1,475 |
| | 16,000 | | 16,000 |

The transactions for the year 2005 were :

Received form subscriptions ` 2,500; Proceeds of entertainment and lectures `1,000; received from interest on securities ` 475; entrance fees received ` 500; sale proceeds of old chairs ` 75.

Paid for rent ` 600; for Printing ` 150; for advertising ` 200, for petty disbursements ` 55; Purchase of Government securities ` 2,500; paid for outstanding creditors ` 425; for Furniture ` 400; for library books ` 300; for entertainment ` 750. On $31^{st}$ December 2005 the following liabilities were outstanding: for printing ` 75 and for rent ` 100. There were also outstanding on account of interest on securities ` 150 and subscriptions ` 325.

**(Unit-V, Prob.11)**

OR

(b) From the following Prepare the Income and Expenditure account for the year ended $31^{st}$ March 2005 and the Balance Sheet as at the date :

| 2004 | | ` | 2005 | | ` |
|---|---|---|---|---|---|
| Apr.1 | To Balance : | | $31^{st}$ | | |
| | Cash at Bank | 455 | Mar. | By Salaries | 3,600 |
| | Cash in Hand | 55 | | By Rent | 600 |
| 2005 | To Subscriptions | | | By Printing and | |
| $31^{sl}$ | (including ` 200 | | | Stationery | 145 |
| Mar. | for 2005-06 | 3,000 | | By Postage | 25 |
| | To Interest on | | | By Bicycle | |
| | Investments | | | (Purchase) | 95 |
| | (cost of invest- | | | By Plan Bonds | 680 |
| | ments ` 30,000) | 1,500 | | By Balance : | |
| | To Bank Interest | 10 | | Cash in hand | 12 |
| | To Sale of Scooter | 250 | | Cash at bank | 113 |
| | | 5,270 | | | 5,270 |

Subscriptions include `120 for 2003-04 Also rent includes ` 50 paid for March 2004 Subscriptions amounting to `150 are still to be collected for the year 2004-05 Rent for March 2005. ` 50 is still to be paid and ` 25 are outstanding against a stationery bill. The book value of the Scooter was ` 320. **(Unit-V, Prob.18)**

# FACULTY OF COMMERCE

## B.Com (CBCS) II- Semester Examination

## Model Paper -II

**(Common Paper for General / Computer Applications / Advertising /Foreign Trade / Tax Practices and Honours Courses)**

# FINANCIAL ACCOUNTING-II

**Time : 3 Hours]** **[Max. Marks : 80**

### SECTION - A (5 × 4 = 20 M)

**ANSWERS**

1. What is the difference between trade bills and accommodation bills. **(Unit-I, SQA-7)**
2. What is delcredere commission? **(Unit-II, SQA-5)**
3. Joint Bank Account **(Unit-III, SQA-4)**
4. The Transaction Approach. **(Unit-IV, SQA-3)**
5. Entrance or Admission Fees. **(Unit-V, SQA-8)**
6. Explain the objectives of non-profit organization ? **(Unit-V, SQA-10)**
7. On the basis of the following information ascertain the subscription received in 2013.

| | |
|---|---|
| Subscriptions as per Income and Expenditure account for 2013 | 45,000 |
| Subscriptions received in advance on 31-12-2013 | 1,800 |
| Subscriptions outstanding on 31-12-2013 | 7,200 |
| Subscriptions in arrears on 01-01-2013 | 3,600 |

**(Unit-V, Prob-3)**

8. On January 1, 2015 Saju accepted a bill, drawn on him by Rinku for Rs. 5,000 payable 4 months after sight, against his dues. Having surplus funds, Saju paid off the bill on 4th Feb. and was allowed a rebate of 6% p.a. Show Journal entries in the books of Saju and Rinku to record these transactions. **(Unit-I, Illus-4)**

### SECTION - B (12 × 5 = 60 M)

9. (a) Define promissory note? Explain the features of promissory note. **(Unit-I, Q.No.5)**

OR

(b) Vishwanath draws a bill on Jaganath for ` 1,400 for 4 months, which is accepted by Jaganath. Vishwanath discounts the same for ` 1,393. On maturity, Jaganath fails to hanour the bill and requests Vishwanath to draw a new bill for 4 months for the original amount of the bill plus interest at 5% p.a. plus discounting charges. Vishwanath agrees to the proposal. Make journal entries in the books of Vishwanath & Jaganath. **(Unit-I, Prob.11)**

10. (a) What is invoice price method? Explain. **(Unit-II, Q.No.14)**

OR

(b) Usha Limited sent 100 sewing machines on consignment basis to Varun. The cost of each machine was Rs. 300, but the consignor prepared the proforma invoice at 25% above the cost. The company spent ` 800 on packing. While taking delivery of the machines, Varun had to spend ` 950 as freight, octroi and cartage. By the end of the year Varun sold 80 Machines @ ` 410 per machine. He paid ` 1,100 as godown rent. He was entitled to a commission of 5% on sales. Prepare consignment account and Varun's account. **(Unit-II, Prob.7)**

11. (a) What is the difference between joint venture and partnership. **(Unit-III, Q.No.5)**

OR

(b) A enters into a joint venture with B. The following transactions took place during the course of venture.

| Particulars | A (`) | B (`) |
|---|---|---|
| Cash sent by | - | 3,000 |
| Cash received by | 3,000 | |
| Goods purchased by | 24,000 | 12,000 |
| Goods supplied from own stock | 6,000 | 3,000 |
| Expenses paid by | 4,380 | 2,190 |
| Goods sold by | 42,000 | 12,000 |
| Unsold stock taken by | 1,080 | 540 |

Prepare Joint Venture account and B' s account in the books of A, assuming the final settlement between A&B was made by a cheque. **(Unit-III, Prob.6)**

12. (a) What are the methods (Approaches) of single entry system? **(Unit-IV, Q.No.5)**

OR

(b) A trader has not kept proper books of account. The following balances are placed before you and you are requested to prepare statement of Profit and Loss for the year ended 31st March 2016 and a Statement of Affairs as at that date.

| Particulars | 1-4-2015 ` | 31-3-2016 ` |
|---|---|---|
| Cash in hand | 5,350 | 5,400 |
| Bank Overdraft | 45,000 | 40,000 |

| | | |
|---|---|---|
| Stock in Trade | 59,350 | 62,200 |
| Sundry Creditors | 38,600 | 37,200 |
| Sundry Debtors | 30,200 | 29,800 |
| Bills Receivable | 42,400 | 40,800 |
| Land and Buildings | 53,000 | 53,000 |
| Furniture and Fittings | 4,600 | 4,600 |
| Bills Payable | 62,000 | 58,000 |

Drawings during the year amounted to ` 6,000. Depreciation is to be calculated on Land and Buildings at 2 percent and Furniture and Fittings at 10 percent. Provide for Doubtful Debts at $2^m$ percent. **(Unit-IV, Prob.4)**

13. (a) What is difference receipts and payments accounts and income and expenditure account? **(Unit-V, Q.No.10)**

OR

(b) The Jai Bharat Sports Club gives you the following Receipts and Payments Account for the year ended 31st December 2005.

| Receipts | ` | Payments | ` |
|---|---|---|---|
| Cash in hand | 300 | Groundmen's Fee | 2,000 |
| Cash at Bank | 2,500 | Mowing Machine | 1,500 |
| Subscriptions | 8,000 | Rent | 1,000 |
| Tournament Fund | 3,000 | Salaries to Coaches | 4,000 |
| Life Membership Fees | 2,000 | Tournament Expenses | 1,200 |
| Entrance Fees | 500 | General Expenses | 2,800 |
| Donation for Pavilion | 4,500 | Sports Equipment Purchased | 1,500 |
| Sale of Newspaper | 200 | Cash in hand | 1,500 |
| Sale of Grass | 500 | Cash at Bank | 6,000 |
| | 21,500 | | 21,500 |

Subscriptions due on 31st December 2004, and on 31st December 2005. were ` 1,000 and ` 1,500 respectively. Subscriptions received also include subscription for 2006 ` 300. Sports Equipments on hand on 31st December 2004 was ` 1,200. The value placed on equipment on hand on 31st December 2005 is ` 1,300. The mowing machine was purchased on 1st July 2005 and is to be depreciated at 20% p.a. Prepare Income and Expenditure Account and Balance Sheet relating to 1988.

**(Unit-V, Prob.12)**

# FACULTY OF COMMERCE

## B.Com (CBCS) II- Semester Examination

## Model Paper -III

**(Common Paper for General / Computer Applications / Advertising /Foreign Trade / Tax Practices and Honours Courses)**

# FINANCIAL ACCOUNTING-II

**Time : 3 Hours]** **[Max. Marks : 80**

**SECTION - A (5 × 4 = 20 M)**

**ANSWERS**

1. Explain the advantages of bills of exchange? **(Unit-I, SQA-9)**
2. Differentiate between the normal loss and abnormal loss. **(Unit-II, SQA-6)**
3. What is joint venture? **(Unit-III, SQA-1)**
4. The Balance Sheet Approach. **(Unit-IV, SQA-4)**
5. Life Membership Fees. **(Unit-V, SQA-9)**
6. Prepare Receipts and Payments account

| | |
|---|---|
| Cash in hand | Rs. 4.000 |
| Subscriptions | Rs. 11,000 |
| Donations | Rs. 8,000 |
| Printing & Stationary | Rs. 1,000 |
| Entrance Fee | Rs. 2,000 |
| Rent paid | Rs. 3,000 |
| Outstanding Rent | Rs. 600 |
| Outstanding subscription | Rs. 2,500 |

**(Unit-V, Prob-4)**

7. Record the following transactions in the Bills Receivable and Bills Payable Books of a trader: -

   2015 Jan. 1 Received from Hari Kumar an acceptance of 2 months for Rs 1,000.

   5 Our acceptance to Ram Prasad at 3 months for Rs 4,000.

   15 Received from Benigopal an acceptance for 4 months for Rs 2,000.

   18 Discounted Hari Kumar's acceptance for Rs 980.

   19 Received from Rajagopal an acceptance for 2 months for Rs 6,000.

   20 Our acceptance to Jadav at 2 months for Rs 1,500.

   21 Renewed our acceptance to Ram Prasad by paying him cash Rs 2,000 and accepted a fresh bill of Rs 2,100 at 4 months Rs 100 being interest charged.

22 Benigopal's acceptance endorsed in favour of Rahaman in full settlement of a debt of Rs 2,250. **(Unit-I, Illus-1)**

8. How profit organizations differ with non-profit organizations? **(Unit-V, SQA-2)**

**SECTION - B (12 × 5 = 60 M)**

9. (a) Explain the advantages of bills of exchange? **(Unit-I, Q.No.4)**

OR

(b) On 1st July A sells goods to B for ` 10,000 and drew three bills on him. The first for ` 2,000 for one month, the second for ` 3,000 for 2 months and the third for ` 5,000 for three months. B accepts and returns these bills to A The first bill is retained by A till the date of maturity. The second bill is endorsed by A to his creditor C on 3rd July and third bill is sent to bank for collection on 4th July. On maturity all bills were dishonoured and noting charges paid were ` 10, and T 20 respectively. Give journal entries in the books of A, B and C. **(Unit-I, Prob.9)**

10. (a) What is the procedure for valuation of closing stock? **(Unit-II,Q.No.11)**

OR

(b) A of Ahmedabad sent 50 cases of goods to B of Bombay at ` 200 per case. Expenses on consignment incurred by the consignor amounted to ` 300. B worked as as Del Credere Agent. His ordinary Commission was 5% and Del Credere Commission $7^1/_2$%. In due course B sent Account sales giving the following information.

a) Sale proceeds of 40 cases ` 11,000
b) Stock of unsold goods on hand 10 cases.
c) Consignee's expenses amounted to `120
d) Consignee charged commission at agreed rates.
e) A bank draft for ` 8,000 was sent by B along with the account sales.

Show the necessary accounts in the books of A. **(Unit-II, Prob.3)**

11. (a) How accounting treatment will made if separate set of books is not maintained? **(Unit-III, Q.No.7)**

OR

(b) Varma and Manik, both building contractors, undertook a Joint Venture involving the construction of a school building. A Joint Bank Account was opened in which Varma deposited `. 50,000 and Manik deposited ` 25,000. The contract amount was ` 2,50,000. The result of Joint

Venture was to be shared as Varma 2/3 and Manik I/3rd. the details of the transactions were as under.

| | **Particulars** | ` |
|---|---|---|
| 1. | Salaries | 8,000 |
| 2. | Wages paid | 46,000 |
| 3. | Building materials purchased | 1,10,000 |
| 4. | Materials supplied by Varma | 9,000 |
| 5. | Materials supplied by Manik | 8,000 |
| 6. | Archiect's fees | 7,000 |
| 7. | Cartage | 12,000 |
| 8. | Concrete Mixer plant purchased | 25,000 |

The Stock of material on complection of the contract valued at ` 11,000 was taken over by Verma. Concrete Mixer plant was sold out for ` 20,000 Mr. Varma was to be paid ` 12,000 per annum against establishment expenses to be charged to the Joint Venture Account. The contract lasted for 8 months. Prepare Joint Venture Account, Joint Bank Account and accounts of Varma and Mani. **(Unit-III, Prob.12)**

12. (a) How do you ascertaining the profit from incomplete records? **(Unit-IV, Q.No.6)**

OR

(b) Hari keeps his books on single entry system. You are required to ascertain profit or loss made by him in the year 2015 from the following :

| Particulars | 31-12-2015 ` | 1-1-2015 ` |
|---|---|---|
| Stock in trade | 6,700 | 8,500 |
| S. Creditors | 5,400 | 4,000 |
| S. Debtors | 4,200 | 4,500 |
| Cash in hand | 200 | 150 |
| Bank overdraft | 3,200 | 5,000 |
| Bills Receivable | 1,050 | 2,000 |
| Fixtures & Fittings | 1,500 | 1,500 |
| Motor Van | 4,000 | 4,000 |
| Plant | 10,000 | 10,000 |

Total Drawings during the year amounted to ` 3,600. During the year, he has introduced further capital of ` 3,000. Depreciate fixtures at 10%, Plant at 20% and Motor Van ` 500. As regards S.Debtors, it is ascertained that ` 500 was irrecoverable and 5% were doubtful. There was a need for reserving ` 500 in respect of bills receivable. Also prepare the final Statement of Affairs. **(Unit-IV, Prob.5)**

13. (a) Explain the preparation of Income and Expenditure Account on basis of Receipt and payment A/c. **(Unit-V, Q.No.12)**

OR

(b) The following is the Receipts and Payments Account of the Ashok Nagar Association for the year ended 31st December 2005.

| **Receipts** | **Rs.** | **Payments** | **Rs.** |
|---|---|---|---|
| To Balance on 1-1-2005 | 3,000 | By Rent | 14,400 |
| To Entrance Fees | 5,500 | By Stationery | 2,870 |
| To Subscriptions 2004 | 2,000 | By Wages | 9,800 |
| To Subscriptions 2005 | 85,000 | By Billiard Tables | 39,000 |
| To Subscriptions 2006 | | By Repairs etc. | 5,410 |
| (advance) | 2,000 | By Interest | 6,200 |
| To Locker Rent | 1,600 | By Furniture | 2,000 |
| To Special Subscriptions | | By Books | 3,000 |
| for Dinner | 7,600 | By Fixed Deposit | 10,000 |
| | | By Dinner Expenses | 5,800 |
| | | By Balance on 31-12-2005 | 8,220 |
| | 1,06,700 | | 1,06,700 |

Locker rent ` 300 related to 2004 Rent ` 2,400 has been paid in advance.

Subscriptions ` 1,600 are unpaid for 2005.

From the above information you are required to prepare an Income and Expenditure Account for the year ended 31st December 2005 and Balance Sheet as on the date. **(Unit-V, Prob.14)**