MAR GREGORIOS COLLEGE
OF ARTS & SCIENCE

Block No.8, College Road, Mogappair West, Chennai – 37

Affiliated to the University of Madras
Approved by the Government of Tamil Nadu
An ISO 9001:2015 Certified Institution

DEPARTMENT OF COMMERCE

SUBJECT NAME: FINANCIAL ACCOUNTING

SUBJECT CODE: CPZ1A

SEMESTER: I

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OBJECTIVES:

- To enable the students to understand the system of preparing financial statements for various types oforganization
- To familiarize the students with knowledge about financial reportingstandards

OUTCOMES:

- The students will be able to analyze and prepare financial statement of different types of organization
- The students will be aware of the various amendments in financialreporting

UNIT I: Preparation of Financial Statement
Final accounts of sole trading Concern-Adjustments-Receipts and Payments-Income and Expenditure-Balance sheet of non-tradingorganization

UNIT II: Depreciation and Insurance Claims
Depreciation Accounting: Depreciation- Meaning –Causes-Types-Straight Line Method-Written down value method- Concept of useful life under Companies Act 2015
Insurance Accounting: Insurance claims –Calculation of Claim Amount-Average clause (Loss of stock only)

UNIT III: Single entry system
Meaning and Features of Single Entry-Defects-Difference between single entry and double entry system-Methods of calculation of Profit-Statement of Affairs Method-Conversion Method

UNIT IV: Rectification of Errors and Bank Reconciliation Statement
Classification of Errors – Rectification of Errors – Preparation of Suspense a/c. Bank Reconciliation Statement – Need and preparation.

UNIT V: Hire Purchase and Instalment System
Hire Purchase System- Default and Repossession-Hire purchase trading account Instalment System-Calculation of Profit.

UNIT-I

Final Accounts for Sole Trader

Introduction

This unit you have looked at different adjustment needed before the final accounts can be prepared. **The final accounts for a sole trader business are the Income Statement(Trading and Profit & loss Account) and the Balance Sheet.** The final accounts give a picture of the financial position of your business. It shows where or not your business has made a profit or loss during the accounting period and whether you are able to pay your debts as they become due. Let’s now have a look at the final accounts of a sole trader business.

Objectives

Upon the completion of this topic you should be able to;
1. understand how profit/loss is calculated,
2. calculate the cost of goods sold, gross profit and net profit.

3. transfer net profit and drawings to the capital account at the end of the period, and
4. prepare an Income Statement from a trial balance.

Final Accounts

After your trial balance is completed your final accounts are prepared. The final accounts of a sole trader business include the Income Statement (trading and Profit & loss account) and the balance sheet. Remember that your trial balance is the summary of the balances in all your accounts. Some of these balances (those from your nominal accounts) affect the profit and are transferred to the Income statement; the others (real and personal accounts) are transferred to your balance sheet. The Income Statement and the Balance Sheet are prepared at the end of each financial period to record how well the business operated during that financial period.

Income Statement

One of the most important financial statements of any business is the Income Statement. It is used to determine the following:

1. how profitable a business is being run; and
2. comparing the results received with the results expected.

The Income Statement can be divided into two sections the trading account and the Profit & loss account. The gross profit which is the amount of profit made before the expenses are deducted is calculated in the trading account. The purpose of the trading account is to determine the gross profit made from sales. Therefore the accounts that are directly related to buying and selling (trading) will [illegible] to the trading account.

The accounts directly related to trading are:

- Sales
- Purchase
- Sales Return
- Purchases Return
- Carriage Inwards

Gross profit is calculated as:

Gross Profit = Net Sales – Cost of Goods Sold (COGS)

Along with gross profit the net sales, cost of goods sold (COGS) and the cost of goods available for sale(COGAFS) is also calculated in the trading account:

Net Sales = Sales – Sales Return (Return Inwards)

Net sales are the total sales figure after allowances have been made for sales returned to the business.

COGS = Cost of goods available for sale (COGAFS) – Closing Stock

COGAFS = Opening Stock + (Purchases – Purchases Return) + Carriage Inwards

The net profit of your business is calculated in the Profit & loss account. Net profit is the balance of profit after allowance is made for revenue and expenses. It is calculated as:

Net Profit = Gross profit + Revenue – expenses

The revenue and expense charged to the Profit & loss account are those that are not directly related to trading but more to do with the running of the business. Some of these accounts are:

- Rent
- Telephone
- Carriage outwards
- Discount allowed
- Discount received
- Commission received
- Commission paid
- Salary

In Unit Two these accounts were closed off and transferred to the income statement. The income statement can be shown horizontally or vertically.

Balance Sheet

The other half of our final accounts is the Balance Sheet. The Balance Sheet is a financial statement showing the book values of the assets, liabilities and capital at the end of the financial period. It shows what the business owes and what it owns.
The assets of the business is divided into two categories and recorded as follows

1. **Non-Current Assets** are assets that:

- are expected to be of use in the business for long time;
- are to be used in the business; and
- were not bought only for the purpose of resale.

Non-current assets are recorded in the balance sheet starting with those assets that will in the business the longest down to those that will be kept for a shorter period. Example of non-current assets and the order of record are:

- Land and Buildings.
- Fixtures and Fittings.
- Machinery.
- Motor Vehicles.

2. **Current Assets** are recorded next. These are assets will change within the next twelve months. They are recorded as follows:

- Stock (goods bought for resale)
- Debtors.
- Cash at Bank.
- Cash in Hand.

3. **Non-current Liability** - Sometime referred to as long term liability are those debts that take more than a year to settle. This includes large loans and mortgages.

4. **Current Liability** - are debts that will be settled in one year or less. This includes creditors and small loans.

Example :1

SSSR Retailer		
Trial Balance as at 31 December 2019		
	Dr.	Cr.
	RS.	RS
Discount Allowed	410	
Discount Received		506
Carriage Inwards	309	
Carriage Outwards	218	
Return Inwards	1,384	

Return Outwards		810
Sales		120,320
Purchases	84,290	
Stock 31 December 2010	30,816	
Motor expenses	4,917	
Repairs to premises	1,383	
Pay	16,184	
Sundry expenses	807	
Rates and insurance	2,896	
Premises at cost	40,000	
Motor Vehicle at cost	11,160	
Provision for depreciation motors as at 31 December 2010		3,860
Debtors	31,640	
Creditors		24,320
Cash at bank	4,956	
Cash in hand	48	
Drawings	8,736	
Capital		50,994
Loan from P. Holland		40,000
Bad Debts	1,314	
Provision for bad debts as at 31 December 2010		658
	241,468	**241,468**

The following should be considered on 31 December 2011
1) Stock Rs.36,420
a) Expenses owing
b) Sundry expenses Rs.62
2) Motor expenses Rs.33
3) prepayments
a) Rates Rs.166
4) Provision for bad debts to be reduced to Rs.580
5) Depreciation for motors to be Rs.2,100 for the year
6) Part of the premises were let to a tenant who owed Rs.250 at 31 December 2011
7) Loan interest owing to P. Holland, Rs.4,000

Prepare the Income Statement and Balance Sheet as at 31 December 2019.

Horizontal presentation of the Income Statement and Balance Sheet

SSSR Retailer					
Income Statement					
for the year ended 31 December 2011					
	Rs.	Rs.		Rs.	Rs.
Opening Stock		30,816	Sales	120,320	
Add Purchases	84,290		Less Sales Returns	1,384	118,936
Less Purchases Return	810	83,480			
Add Carriage Inwards		309			
COGAFS		114,605			
Less Closing Stock		36,420			
COGS		78,185			
Gross Profit c/d		40,751			
		118,936			**118,936**
Less Expenses			Gross Profit b/d		40,751
Motor Expenses	4,917		Add Revenue		

Add Motor expenses owing	<u>33</u>	4,950	Discount Received	506	
Pay		16,184	Rent Receivable	250	
Carriage Outwards		218	Reduction in Provision for Bad Debts	<u>78</u>	<u>834</u>
Discount Allowed		410			41,585
Repairs to Premises		1,383			
Sundry Expenses	807				
Add sundry expenses owing	<u>62</u>	869			
Bad Debts		1,314			
Rates and Insurance	2,896				
Less prepaid rates and insurance	<u>166</u>	2,730			
Loan Interest		4,000			
Depreciation: Motor		2,100			
Net Profit		<u>7,427</u>			
		<u>41,585</u>			**<u>41,585</u>**

SSSR Retailer							
Balance Sheet							
as at 31 December 2011							
Non-Current Assets	Rs.	Rs.	Rs.	**Capital**	Rs.	Rs.	Rs.
Premises at cost			40,000	Balance as at 1 Jan 2011			50,994
Motor Vehicle at cost		11,160		Add Net Profit			<u>7,427</u>
Less Depreciation to date		<u>5,960</u>	<u>5,200</u>				58,421

			45,200	Less Drawings			8,736
Current Assets							49,685
Stock		36,420		**Non-Current Liability**			
Debtors	31,640			Loan from P. Holland			40,000
Less Provision for Bad Debts	580	31,060					89,685
Prepaid Expense		166					
Revenue owing		250		**Current Liabilities**			
Cash at bank		4,956		Creditors		24,320	
Cash in hand		48	72,900	Expenses owing		4,095	28,415
			118,100				**118,100**

Adjustment entries and accounting treatment of adjustments

1. Meaning of adjustment entries

Adjustment entries are the journal entries made at the end of the accounting period to account for items which are omitted in trial balance and to make adjustments for outstanding and prepaid expenses and revenues accrued and received in advance.

2. Purpose of adjustment entries

The main purpose of adjustment entries are to match current year revenue with the expenses incurred to earn these revenues. Other purposes are:

i. To exhibit true and fair view of profitability

ii. To exhibit true and fair view of financial status.

3. Need for adjustment entries

The need arises to pass adjusting entries for the following reasons:

i. To record omissions in trial balance such as closing stock, interest on capital, interest on drawings, etc.

ii. To bring into account outstanding and prepaid expenses.

iii. To bring into account income accrued and received in advance.

iv. To create reserves and provisions.

4. Adjustments and adjustment entries

The following are the common adjustments and adjustment entries which are made while preparing the final accounts.

i. Closing stock

ii. Outstanding expenses

iii. Prepaid expenses

iv. Accrued income

v. Income received in advance

vi. Interest on capital

vii. Interest on drawings

viii. Interest on loan

ix Interest on investment

x. Depreciation

xi. Bad debts

xii. Provision for bad and doubtful debts

xiii. Provision for discount on debtors

xiv. Income tax paid

xv. Manager's commission

(i) Closing stock

The unsold goods in the business at the end of the accounting period are termed as closing stock. As per AS-2 (Revised), the stock is valued at cost price or net realisable value, whichever is lower.

Adjusting entry

Particulars		L.F.	Debit ₹	Credit ₹
Stock (closing) A/c	Dr.		xxx	
To Trading A/c				xxx
(Closing stock brought into account)				

Presentation in final accounts

Tutorial note

Closing stock is the opening stock for the next accounting period. At the beginning of the next accounting period this entry is reversed to bring into account the opening stock.

Example

The value of closing stock shown as adjustment on 31st March, 2016 is Rs. 10,000. The

In the Trading Account	Shown on the credit side.
In the Balance Sheet	Shown on the assets side under current assets.

adjusting entry is:

Adjusting entry

Adjusting entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
2016 March 31	Stock - in trade (closing) A/c	Dr.		10,000	
	To Trading A/c				10,000
	(Closing stock brought into account)				

In final accounts, it is presented as follows:

Dr. Trading Account for the year ended 31st March, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
			By Closing stock		10,000

Balance Sheet as on 31st March, 2016

Liabilities	₹	₹	Assets	₹	₹
			Stock-in-trade		10,000

Tutorial note

If closing stock is already adjusted, adjusted purchases account and closing stock will appear in trial balance. Adjusted purchases account will be shown on the debit side of the trading account and closing stock will be shown on the assets side of the balance sheet.

(ii) Outstanding expenses

Expenses which have been incurred in the accounting period but not paid till the end of the accounting period are called outstanding expenses. In other words, if certain benefits or services are received during the year but payment is not made for the services received and utilised, these are termed as outstanding expenses. Outstanding expense account is a representative personal account and expense account is a nominal account.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Concerned expense A/c Dr. To Outstanding expense A/c (Expense outstanding adjusted)		xxx	xxx

Presentation in final accounts

In the Trading A/c or Profit and loss A/c	Amount outstanding is added to particular expense account in the trading account if it is direct expense and in the profit and loss account if it is an indirect expense.
In the Balance Sheet	Amount of outstanding expense is a current liability and is shown on the liabilities side of the balance sheet.

 If outstanding expenses account appears in the trial balance with credit balance, it means that journal entry has been made already for outstanding expenses. Hence, the outstanding expenses account will be shown only in the liabilities side of balance sheet. No adjustment is therefore necessary in expenses account as already expenses would have been adjusted.

 At the beginning of the next accounting period the above entry is reversed to bring into account outstanding expenses at the beginning so that it is reduced from amount of expense of next year.

Example

For the year 2017, rent is payable @ Rs. 2,000 p.m. and during the year Rs. 20,000 is paid on account of rent.

Total rent for the year 2017 is Rs. 24,000 i.e., 2,000 p.m. x 12 months. The difference between total rent payable and actual rent paid Rs. 4,000 (i.e. Rs. 24,000 - Rs. 20,000) is outstanding rent. The adjusting entry is:

Adjusting entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
2017 Dec 31	Rent A/c To Outstanding rent A/c (Rent outstanding adjusted)	Dr.		4,000	 4,000

Dr. Trading Account for the year ended 31st December, 2017 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Rent	20,000				
Add: Outstanding	4,000	24,000			

Balance Sheet as on 31st December, 2017

Liabilities	₹	₹	Assets	₹	₹
Rent outstanding		4,000			

(iii) Prepaid Expenses

Prepaid expenses refer to any expense or portion of expense paid in the current accounting year but the benefit or services of which will be received in the next accounting period. They are also called as unexpired expenses. Though these expenses are paid in the accounting period, they are not incurred during the accounting period. Prepaid expense account is a representative personal account. Expense account is a nominal account.

Adjusting entry

Particulars		L.F.	Debit ₹	Credit ₹
Prepaid expense A/c	Dr.		xxx	
To Concerned expense A/c				xxx
(Expense paid in advance adjusted)				

Presentation in final accounts

In Trading A/c or Profit and loss A/c	Amount prepaid is deducted from particular expense in the trading account or profit and loss account depending upon whether it is direct or indirect respectively.
In Balance Sheet	Amount of prepaid expense is shown on the assets side under current assets.

Tutorial note

- If prepaid expense already appears in trial balance it means that it is already adjusted and journal entry has already been made. Hence, prepaid expense is shown only in balance sheet.

- At the beginning of the next accounting period, the above entry is reversed to bring into account prepaid expenses at the beginning so that it is added to amount of expense of next year.

Example

Insurance premium of Rs. 6,000 for one year is paid on 1st January, 2016 and the accounting year closes on 31st March, 2016.

In this example, insurance premium has been paid in advance or prepaid for nine months, i.e.from 1st April to 31st December amounting to Rs. 4,500 (i.e., Rs. 6000 × 9/12). The adjusting entry is:

Adjusting entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
2016	Prepaid insurance premium A/c	Dr.		4,500	
March 31	To Insurance premium A/c				4,500
	(Insurance premium paid in advance adjusted)				

Dr.	Profit and loss account for the year ended 31st March, 2016				Cr.
Particulars	₹	₹	Particulars	₹	₹
To Insurance premium	6,000				
Less: Prepaid insurance	4,500	1,500			

Balance Sheet as on 31st March, 2016

Liabilities	₹	Assets	₹
		Insurance premium prepaid	4,500

(iv) Accrued income

Accrued income is income or portion of income which has been earned during the current accounting year but not received till the end of that accounting year. It generally happens in case of amount to be received on account of commission, interest, dividend, etc.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Accrued income A/c Dr.		xxx	
To Concerned income A/c			xxx
(Income accrued adjusted)			

Presentation in final accounts

In Profit and loss A/c	Amount accrued is added to particular income.
In Balance Sheet	Amount of accrued income is shown on the assets side under current assets.

Tutorial note

- If accrued income account appears in the trial balance with debit balance, it means that journal entry has been made already for accrued income. Hence, the accrued income account will be shown only in the assets side of balance sheet. No adjustment is necessary in income account as already it would have been adjusted.

- At the beginning of the next accounting period, the above entry is reversed to bring into account accrued income at the beginning, so that it is reduced from amount of income in the next year.

Example

A business has a fixed deposit of Rs. 1,00,000 with a bank for 12 months in the accounting period ending 31st March, 2018 @ 9% interest p.a. Interest received during the year was Rs. 6,750.

In this example, income earned is Rs. 9,000 (i.e., 1,00,000 × 9%). Income received is Rs. 6,750.Hence, the income earned but not received, is the accrued interest ie., Rs. 2,250 (9,000 - 6,750).

The adjusting entry is:

Adjusting entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 March 31	Accrued interest on fixed deposit A/c Dr. To Interest on fixed deposit A/c (Interest accrued but not received adjusted)		2,250	2,250

In final accounts, it is presented as follows:

Dr. Profit and loss account for the year ended 31st March, 2018 Cr.

Particulars	₹	₹	Particulars	₹	₹
			By Interest on fixed deposit	6,750	
			Add: Accrued interest	2,250	9,000

Balance Sheet as on 31st March, 2018

Liabilities	₹	Assets	₹
		Accrued interest on fixed deposit	2,250

v. Income received in advance

Income received in advance refers to income or portion of income received in an accounting year which is not earned in the accounting period. It is also known as unearned income or unexpired income. Though the amount is received in the current accounting year, the benefit is yet to be offered to the concerned person in the next accounting year.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Concerned income A/c Dr. To Income received in advance A/c (Income received in advance adjusted)		xxx	xxx

Presentation in final accounts

In Profit and loss A/c	Amount received in advance is deducted from particular income.
In Balance Sheet	Amount of income received in advance being current liability is shown on the liabilities side of the balance sheet.

Tutorial note

- If income received in advance account appears in the trial balance with credit balance, it means that journal entry has been made already for income received in advance. Hence, the income received in advance account will be shown only in the liabilities side of balance sheet. No adjustment is necessary in income account as already it would have been adjusted.

- At the beginning of the next accounting period, the above entry is reversed to bring into account income received in advance at the beginning, so that it is added to the amount of income in the next year.

Example

The trial balance as on 31st March, 2017 shows commission received as Rs. 7,500.

Adjustment: One-third of the commission received is in respect of work to be done in the next accounting year.

Commission received includes one-third of the commission for the next accounting period.Rs. 7,500 × 1/3, that is Rs. 2,500 is received in advance. The adjusting entry is:

Adjusting entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2017	Commission received A/c Dr.		2,500	
March 31	To Commission received in advance A/c			2,500
	(Commission received in advance adjusted)			

In final accounts, it is presented as follows:

Dr. Profit and loss account for the year ended 31st March, 2017 Cr.

Particulars	₹	₹	Particulars	₹	₹
			By Commission received	7,500	
			Less: Received in advance	2,500	5,000

Balance Sheet as on 31st March, 2017

Liabilities	₹	Assets	₹
Commission received in advance	2,500		

(vi) Interest on capital

According to separate entity concept business and proprietor are two separate entities. Capital contributed by proprietor is a liability to the business. Hence, interest may be provided on capital contributed by proprietor. It is treated as a business expense. The purpose is to know the true profit of the business.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Interest on capital A/c Dr.		xxx	
To Capital A/c			xxx
(Interest on capital provided)			

Transfer entry

Particulars	L.F.	Debit ₹	Credit ₹
Profit and Loss A/c Dr.		xxx	
To Interest on capital A/c			xxx
(Interest on capital transferred)			

Presentation in final accounts

In Profit and loss A/c	Amount of interest on capital is shown on the debit side.
In Balance Sheet	Amount of interest on capital is added to capital on the liabilities side of the balance sheet.

Tutorial note

Interest on capital is calculated on the opening balance of capital if there is no change in the capital account during the accounting year. If there is any additional capital introduced or capital withdrawn, then interest on capital is to be calculated proportionately on the balance outstanding.

Example

The trial balance prepared on 31st December, 2016 shows Capital of Rs. 5,00,000.

Adjustment: Provide interest on capital @ 4% p.a.

Interest on capital = Rs. 5,00,000 × 4/100 = Rs. 20,000. The adjusting entry is:

Adjusting entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2016 Dec. 31	Interest on capital A/c Dr. To Capital A/c (Interest on capital provided)		20,000	 20'000

Transfer entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2016 Dec. 31	Profit and Loss A/c Dr. To Interest on capital A/c (Interest on capital transferred)		20,000	 20,000

In final accounts, it is presented as follows:

Dr. **Profit and loss account for the year ended 31st December, 2016** Cr.

Particulars	₹	₹	Particulars	₹	₹
To Interest on capital		20,000			

Balance Sheet as on 31st December, 2016

Liabilities	₹	₹	Assets	Debit ₹	Credit ₹
Capital	5,00,000				
Add: Interest on Capital	20,000	5,20,000			

(vii) Interest on drawings

Drawings represent the amount or goods withdrawn by the proprietor from the business for his personal use. As business is separate from owner, interest charged on drawings, if any, is to be treated as business income.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Capital A/c Dr.		xxx	
To Interest on drawings A/c			xxx
(Interest on drawings provided)			

Transfer entry

Particulars	Debit ₹	Credit ₹
Interest on drawings A/c Dr.	xxx	
To Profit and loss A/c		xxx
(Interest on drawings transferred)		

Presentation in final accounts

In Profit and loss A/c	Amount of interest on drawings is shown on the credit side as it is an income / gain.
In Balance Sheet	Amount of interest on drawings is deducted from the capital on the liabilities side of the balance sheet.

Example

The trial balance on 31st March, 2016 shows capital as Rs. 1,50,000 and drawings as Rs. 10,000.

Adjustment: Charge interest on drawings at 4%.

Interest on drawings = Rs. 10,000 × 4/100 = Rs. 400. The adjusting entry is:

Adjusting entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2016 March 31	Capital A/c Dr. To Interest on drawings A/c (Interest on drawings provided)		400	 400

Transfer entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2016 Marh 31	Interest on drawings A/c Dr. To Profit and loss A/c (Interest on drawings transferred)		400	 400

In final accounts, it is presented as follows:

Dr. Profit and loss account for the year ended 31st March, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
			By Interest on drawings		400

Balance Sheet as on 31st March, 2016

Liabilities	₹	₹	Assets	₹	₹
Capital	1,50,000				
Less: Drawings	10,000				
	1,40,000				
Less: Interest on drawings	400	1,39,600			

(viii) Interest on loan

Business entities may have loans borrowed from banks and other financial institutions, private money lenders, etc. If any interest is payable on loan and not yet provided at the time of preparation of trial balance, it is necessary to provide for outstanding interest on loan. It is an outstanding expense.

Adjusting entry

Particulars		L.F.	Debit ₹	Credit ₹
Interest on loan A/c	Dr.		xxx	
To Outstanding interest on loan A/c				xxx
(Interest on loan outstanding)				

Presentation in final accounts

In Profit and loss A/c	Amount outstanding is added to interest on loan on the debit side.
In Balance Sheet	Amount of interest outstanding is added to loan on the liabilities side as it is payable along with the loan.

Tutorial note

- If the trial balance contains loan account specifying the percentage of interest and date of borrowing and interest paid appears in the trial balance, it is to be checked whether interest for the whole year is paid. If it is not paid, outstanding interest must be adjusted.

- Similar to any other expenses outstanding, this entry also will be reversed at the beginning of the next accounting period.

Example

Extracts from the trial balance as on 31st December, 2017 is given below:

Particulars	Debit ₹	Credit ₹
Loan @ 12% p.a.		5,00,000
Interest paid on loan	45,000	

Adjustment: Interest on loan is unpaid for three months.

Interest unpaid = Rs. 5,00,000 × 12/100 × 3/12 = Rs. 15,000. The adjusting entry is:

Adjusting entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
2017	Interest on loan A/c	Dr.		15,000	
Dec. 31	To Outstanding interest on loan A/c				15,000
	(Interest on loan outstanding provided)				

In final accounts, it is presented as follows:

Dr. Profit and loss account for the year ended 31st December, 2017 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Interest on loan	45,000				
Add: Outstanding	15,000	60,000			

Balance Sheet as on 31st December, 2017

Liabilities	₹	₹	Assets	₹	₹
Loan @12%	5,00,000				
Add: Interest outstanding	15,000	5,15,000			

(ix) Interest on investment

Business entities may have investments in outside securities carrying specified rate of interest. If interest is due but not yet received, adjustment is to be made for the same in the accounting records before preparation of final accounts. Interest receivable on any investments in the form of shares, deposits, etc. made outside the business is called accrued interest. It is an accrued income.

Adjusting entry

Particulars		L.F.	Debit ₹	Credit ₹
Accrued interest on investment A/c	Dr.		xxx	
To Interest on investment A/c				xxx
(Interest on investment due adjusted)				

Presentation in final accounts

In Profit and loss A/c	Amount accrued is added to interest on investment on the credit side.
In Balance Sheet	Amount of accrued interest being current asset is shown on the assets side of the balance sheet.

Example

Extracts from the trial balance as on 31st December, 2017 is given below:

Particulars	Debit ₹	Credit ₹
Investment @ 12%	1,00,000	
Interest received on investment		9,000

Adjustment: Provide for accrued interest on investment ` 3,000. The adjusting entry is:

Adjusting entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2017 Dec. 31	Accrued Interest on investment A/c Dr.		3,000	
	To Interest on investment A/c			3,000
	(Interest on investments accrued)			

In final accounts, it is presented as follows:

Dr. Profit and loss account for the year ended 31st December, 2017 Cr.

Particulars	₹	₹	Particulars	₹	₹
			By Interest on investment	9,000	
			Add: Accrued interest	3,000	12,000

Balance Sheet as on 31st December, 2017

Liabilities	₹	₹	Assets	₹	₹
			Investment @ 12%		1,00,000
			Accrued interest		3,000

(x) Depreciation

The decrease in book value of fixed assets due to usage or passage of time is called depreciation. It is a loss to the business. Therefore, it must be written off from the value of asset. Generally, a certain percentage on the value of the asset is calculated as the amount of depreciation.

Adjusting entry

Particulars		L.F.	Debit ₹	Credit ₹
Depreciation A/c	Dr.		xxx	
To Concerned fixed asset A/c				xxx
(Depreciation provided)				

Transfer entry

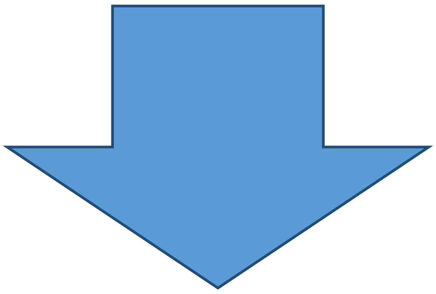
Particulars		L.F.	Debit ₹	Credit ₹
Profit and loss A/c	Dr.		xxx	
To Depreciation A/c				xxx
(Depreciation transferred)				

Presentation in final accounts

In Profit and loss A/c	Depreciation is shown on the debit side.
In Balance Sheet	Amount of depreciation is deducted from concerned fixed asset on the assets side.

Tutorial note

When depreciation already appears in trial balance, it means journal entry is already made and asset account has been already reduced to the extent of depreciation. Hence, depreciation will be shown only in profit and loss account.



Example

The trial balance prepared on 31st March, 2016 shows the value of buildings as Rs. 50,000.

Adjustment: Depreciate buildings @ 10% p.a.

Amount of depreciation = Rs. 50,000 x 10/100 = Rs. 5,000. The adjusting entry is:

Adjusting entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
2016	Depreciation A/c	Dr.		5,000	
Mar. 31	To Buildings A/c				5,000
	(Depreciation on buildings provided)				

Transfer entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
2016	Profit and Loss A/c	Dr.		5,000	
Mar. 31	To Depreciation A/c				5,000
	(Depreciation transferred)				

In final accounts, it is presented as follows:

Dr. Profit and loss account for the year ended 31st March, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Depreciation on buildings	5,000				

Balance Sheet as on 31st March, 2016

Liabilities	₹	₹	Assets	₹	₹
			Buildings	50,000	
			Less: Depreciation	5,000	45,000

(xi) Bad debts

When it is definitely known that amount due from a customer (debtor) to whom goods were sold on credit, cannot be realised at all, it is treated as bad debts. In other words, debts which cannot be recovered or irrecoverable debts are called bad debts. It is a loss for the business and should be charged against profit.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Bad debts A/c Dr.		xxx	
To Sundry debtors A/c			xxx
(Bad debts written off)			

Transfer entry
(If provision for bad and doubtful debts account is not maintained)

Particulars	L.F.	Debit ₹	Credit ₹
Profit and Loss A/c Dr.		xxx	
To Bad debts A/c			xxx
(For transfer of bad debts)			

Transfer entry
(if provision for bad and doubtful debts account is maintained)

Particulars	L.F.	Debit ₹	Credit ₹
Provision for bad and doubtful debts A/c Dr.		xxx	
To Bad debts A/c			xxx
(Bad debts transferred)			

Presentation in final accounts

In Profit and loss A/c	Amount of bad debt is shown on the debit side.
In Balance Sheet	Amount of bad debts is deducted from sundry debtors on the assets side.

Tutorial note

- When bad debts already appears in the trial balance it means journal entry is already made, i.e., debtors is already reduced. Hence, bad debt is taken only to debit side of profit and loss account.

- If there is bad debt in trial balance as well as in adjustments, total bad debt is debited in profit and loss account. Additional bad debt only is deducted from debtors in the balance sheet.

Example

The trial balance as on 31st December, 2016 shows sundry debtors as Rs. 1,02,000.

Adjustment: Write off Rs. 2,000 as bad debts. The adjusting entry is:

Adjusting entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
2016	Bad debts A/c	Dr.		2,000	
Dec. 31	To Sundry debtors A/c				2,000
	(Bad debts written off)				

Transfer entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
2016	Profit and Loss A/c	Dr.		2,000	
Mar. 31	To bad debts A/c				2,000
	(Bad debts transferred to profit and loss A/c)				

In final accounts, it is presented as follows:

Dr. Profit and loss account for the year ended 31st December, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Bad debts	2,000				

Balance Sheet as on 31st December, 2016

Liabilities	₹	₹	Assets	₹	₹
			Sundry debtors	1,02,000	
			Less: Bad debts	2,000	1,00,000

(xii) Provision for bad and doubtful debts

Provision for bad and doubtful debts refers to amount set aside as a charge against profit to meet any loss arising due to bad debt in future. At the end of the accounting period, there may be certain debts which are doubtful, i.e., the amount to be received from debtors may or may not be received. The reason may be incapacity to pay the amount or deceit.

In general, based on past experience, the amount of doubtful debts is calculated on the basis of some percentage on debtors at the end of the accounting period after deducting further bad debts (if any). Since the amount of loss is impossible to ascertain until it is proved bad, doubtful debts are charged against profit and loss account in the form of provision. A provision for doubtful debts is created and is charged to profit and loss account. When bad debts occur, it is transferred to provision for doubtful debts account and not to profit and loss account.

This is according to the convention of conservatism. Moreover, according to matching principle, all costs related to earning revenue in a period must be charged in the relevant period itself. Hence, it is appropriate that provision is created in the current year against debtors of current year.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Profit and loss A/c Dr.		xxx	
To Provision for bad and doubtful debts A/c			xxx
(Provision for bad and doubtful debts created)			

Presentation in final accounts

In Profit and loss A/c	Amount of provision for bad and doubtful debts is shown on the debit side.
In Balance Sheet	Amount of provision for bad and doubtful debts is deducted from sundry debtors on the assets side.

Example

The trial balance prepared on 31st December, 2016 shows sundry debtors as Rs. 1,50,000.

Adjustment: Provide 5% for bad and doubtful debts on sundry debtors.

Provision for bad and doubtful debts = Rs. 1,50,000 x 5/100 = Rs. 7,500. The adjusting entry is:

Adjusting entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
2016	Profit and loss A/c	Dr.		7,500	
Dec. 31	To Provision for bad and doubtful debts A/c				7,500
	(Provision for bad and doubtful debts made)				

In final accounts, it is presented as follows:

Dr. Profit and loss account for the year ended 31st December, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Provision for bad and doubtful debts	7,500				

Balance Sheet as on 31st December, 2016

Liabilities	₹	₹	Assets	₹	₹
			Sundry debtors	1,50,000	
			Less: Provision for bad and doubtful debts	7,500	1,42,500

Tutorial note

When provision already exists and appears in trial balance, the accounting treatment is as below:

- If the provision required at the end plus the bad debts written off, is higher than the existing provision, the difference amount will be created as provision in the current year and will appear on the debit side of profit and loss account.

- If the provision required at the end plus bad debts written off, is lesser than the existing provision, the excess is written back and will appear on the credit side of profit and loss account.

The journal entries are:

(a) For bad debts written off

Bad debts A/c Dr. xxx

To Debtors A/c xxx

(b) For transferring bad debts

Provision for doubtful debts A/c Dr. xxx

To Bad debts A/c xxx

(c) For creating provision to the extent of difference

Profit and Loss A/c Dr. xxx

To Provision for doubtful debts A/c xxx

(d) For writing back provision to the extent of difference

Provision for doubtful debts A/c Dr. xxx

To Profit and Loss A/c xxx

(xiii) Provision for discount on debtors

Cash discount is allowed by the suppliers to customers for prompt payment of amount due either on or before the due date. A provision created on sundry debtors for allowing such discount is called provision for discount on debtors. This provision is a charge against profit and hence profit and loss account is debited.

Provision for discount on debtors is made on the basis of past experience at an estimated rate on sundry debtors. Discount should be calculated on sundry debtors after deducting bad debts and provision for bad debts.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Profit and loss A/c Dr.		xxx	
To Provision for discount on debtors A/c			xxx
(Provision for discount on debtors created)			

Presentation in final accounts

In Profit and loss A/c	Amount of provision for discount on debtors is shown on the debit side.
In Balance Sheet	Amount of provision for discount on debtors is deducted from sundry debtors on the assets side.

Tutorial note

i. Provision for discount on debtors is calculated on the balance of debtors after deducting bad debts and provision for doubtful debts. This is because provision for discount is to be expected only on good book debts. When the amount realisable itself is doubtful, provision for discount is not to be made. Similar to bad debts and provision for doubtful debts, here also discount allowed to debtors must be transferred to provision for discount on debtors account if a provision exists.

ii. When provision already exists and appears in trial balance, the accounting treatment is as below:

- If the provision required at the end plus the discount allowed, is higher than the existing provision, the difference amount will be created as provision in the current year and will appear on the debit side of profit and loss account.

- If the provision required at the end plus discount allowed, is lesser than the existing provision, the excess is written back and will appear on the credit side of profit and loss account.

The presentation in the balance sheet is as below:

Debtors xxx

Less Bad debts (in adjustments) xxx

Less Provision for doubtful debts (end) (adjustment) xxx/xxx

Less Provision for discount on debtors (end) (adjustment) xxx/xxx

Balance to be shown in balance sheet xxx

Example

The trial balance for the year ended 31st March, 2016 shows sundry debtors as Rs. 50,000.

Adjustment: Create a provision for discount on debtors @ 1%.

Provision for discount on debtors = Rs. 50,000 x 1/100 = Rs. 500. The adjusting entry is:

Adjusting entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
2016	Profit and loss A/c	Dr.		500	
March 31	To Provision for discount on debtors A/c				500
	(Provision for discount on debtors made)				

In final accounts, it is presented as follows:

Dr. Profit and loss account for the year ended 31st March, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Provision for discount on debtors		500			

Balance Sheet as on 31st March, 2016

Liabilities	₹	₹	Assets	₹	₹
			Sundry debtors	50,000	
			Less: Provision for discount on debtors	500	49,500

(xiv) Income tax paid

As per the Indian Income Tax Act, 1961, business income of the sole proprietor is not assessed and taxed separately. It is the sole proprietor who is assessed to tax for his total income including the business income. Hence, income tax paid by the business is not a business expenditure and is treated as drawings.

Adjusting entry

Particulars		L.F.	Debit ₹	Credit ₹
Drawings A/c	Dr.		xxx	
To Bank A/c				xxx
(Income tax of the proprietor paid)				

Presentation in final accounts

Trading / Profit and loss account	Not shown.
In Balance Sheet	Shown as deduction from capital on the liabilities side. Shown as a deduction from bank balance on the assets side.

Example

Trial balance of Sibi as on 31st December, 2017 shows the capital as Rs. 1,05,000 and cash at bank as Rs. 80,000.

Adjustment: Income tax paid Rs. 15,000. The adjusting entry is:

Adjusting entry

Date	Particulars		L.F.	Debit ₹	Credit ₹
2017 Dec. 31	Drawings A/c	Dr.		15,000	
	To Bank A/c				15,000
	(Income tax paid)				

In final accounts, it is presented as follows:

Balance Sheet as on 31st December, 2017

Liabilities	₹	₹	Assets	₹	₹
Capital	1,05,000		Cash at bank	80,000	
Less: Drawings (income tax)	15,000	90,000	Less: Income tax	15,000	65,000

(xv) Manager's commission

Sometimes the manager is given commission as a percentage on profit of the business. It may be given at a certain percentage on the net profit before charging such commission or after charging such commission. Calculation procedure is explained below:x

$$\text{Commission} = \text{Net profit before charging commission} \times \frac{\text{Rate of commission}}{100}$$

$$\text{Commission} = \text{Net profit before charging commission} \times \frac{\text{Rate of commission}}{(100 + \text{Rate of commission})}$$

The purpose of giving such commission may be to motivate the managers to work with their full potential, to reward the managers for their efficiency and to retain the efficient managers by rewarding them sufficiently. Such commission can be calculated only at the end of the accounting period after calculating net profit. Hence, it remains outstanding at the end of the accounting period.

Adjusting entry

Particulars	L.F.	Debit ₹	Credit ₹
Manager's Commission A/c Dr.		xxx	
To Outstanding Manager's commission A/c			xxx
(Manager's commission on profit provided)			

Transfer entry

Particulars	L.F.	Debit ₹	Credit ₹
Profit and loss A/c Dr.		xxx	
To Manager's commission A/c			xxx
(Commission on profit transferred)			

Presentation in final accounts

In Profit and loss account	Commission being an indirect expense is shown on the debit side of profit and loss account.
In Balance Sheet	Commission outstanding being a current liability is shown on the liabilities side of the balance sheet.

Example

On 31st March, 2017, Net profit before charging commission is Rs. 11,000.

The manager is entitled to receive 10% as commission on the profit before charging such a commission.

Commission = 11,000 x 10/100 = Rs. 1,100. The adjusting entry is:

Adjusting entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2017	Manager's Commission A/c Dr.		1,100	
March 31	To Outstanding Manager's commission A/c			1,100
	(Manager's commission on profit provided)			

Transfer entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2016	Profit and Loss A/c Dr.		1,100	
Mar. 31	To Manager's commission A/c			1,100
	(Manager's commission transferred to profit and loss A/c)			

In final accounts, it is presented as follows:

Adjusting entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2017	Manager's Commission A/c Dr.		1,100	
March 31	To Outstanding Manager's commission A/c			1,100
	(Manager's commission on profit provided)			

Transfer entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2016	Profit and Loss A/c Dr.		1,100	
Mar. 31	To Manager's commission A/c			1,100
	(Manager's commission transferred to profit and loss A/c)			

Dr. Profit and loss account for the year ended 31st March, 2017 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Manager's commission		1,100			
To Net profit (transferred to capital a/c)		9,900			

Balance Sheet as on 31st March, 2017

Liabilities	₹	₹	Assets	₹	₹
Manager's commission outstanding		1,100			

Example

On 31st March, 2017, Net profit before charging commission is Rs. 11,000.

Adjustment: Provide manager's commission at 10% on the profit after charging such Manager's commission.

Manager's commission = $11{,}000 \times \dfrac{10}{(100+10)}$ = ₹ 1,000. The adjusting entry is.

Adjusting entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2017 March 31	Manager's commission A/c Dr.		1,000	
	To Outstanding Manager's commission A/c			1,000
	(Commission on profit provided)			

Transfer entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
2016 Mar. 31	Profit and Loss A/c Dr.		1,000	
	To Manager's commission A/c			1,000
	(Manager's commission A/c transferred to profit and loss A/c)			

Dr. **Profit and loss account for the year ended 31st March, 2017** Cr.

Particulars	₹	₹	Particulars	₹	₹
To Manager's commission		1,000			
To Net profit (transferred to capital a/c)		10,000			

Balance Sheet as on 31st March, 2017

Liabilities	₹	₹	Assets	₹	₹
Manager's commission outstanding		1,000			

Receipts and Payments& Income and Expenditure Balance sheet of non-tradingorganization

Accounting for Non-Trading Organisations

Learning Objectives

After studying this unit, you will be able to:

- ✓ *Understand the meaning of Receipts and Payments Account and Income and Expenditure Account and see the difference between these twoAccounts.*
- ✓ *Learn how to prepare Receipts and PaymentsAccounts.*
- ✓ *Identify main sources of Income and learn the technique of preparing Income and Expenditure Account from Receipts and PaymentsAccount.*
- ✓ *Preparing BalanceSheet.*

INTRODUCTION

Non-profitmakingorganisationssuchaspublichospitals,publiceducational institutions, clubs, etc., generally prepare Receipts and Payments Account and income and Expenditure Account to show periodic performance & Balance Sheet to show financial position at the end of the accountingperiod.

In this Unit, we shall discuss the technique of preparing Receipts and Payments Account, Income and Expenditure Accounts and Balance Sheet of Non Profit or Non-trading organisations. Also we shall discuss and illustrate thetechniqueofpreparingIncome&ExpenditureAccountfromReceiptsand Payments Account. It may be mentioned that Income and Expenditure Account is just similar to profit and Loss Account prepared for the profit makingorganisations.

In case of income and Expenditure Account, the excess of expenditure over Income is treated as surplus. In non-profit making organisations, total cash receipts and total cash payments are highlighted through Receipts and Payments Account.

Meaning of Non-tradingOrganisations:

The organisations whose main objectives are not to earn profit but to provide valuable services to its member and to the society are known as non-trading organisations. These organizations are involved in promoting welfare of society. Their charters prohibit the payment or provision of dividend. The example of such organisations are sports clubs, social clubs, educational institutions, libraries, hospital, religious trust, temples, churches, mosques and gurudwaras etc.

Characteristics of Non-trading Organisations:

- *The main objective of such concern is not to earn profit but providing services to its members andsociety.*
- *The main sources of revenues are Subscriptions money and Donation donations from member andsocieties.*
- *A non-profit organisation is governed and managed by elected member in the same way a business corporation is managed by a board of director.*
- *A non-profit organization employs the same accrual basis of accounting used by businessenterprises.*
- *NonProfitOrganisationspreparereceiptsandpaymentsaccount,income and expenditures account and balancesheet.*

Accounting procedures of Non-tradingOrganisation

Non-trading organizations can keep and maintain their accounting records under single entry system or double entry system. The small sizes of organizationsfollowsingleentrywhereasthelargesizeoforganizationsfollow double entry system. A Non Trading organisation prepares at the year end, the following three financialstatements:

A. Receipt and paymentaccount
B. Income and expenditureaccount
C. Balance sheet

8.2 Meaning of receipt and paymentaccount

It is summary of cash receipts and cash payments. It is real account. It is prepared at the end of the accounting period. All the cash receipts arerecorded on the debit side and all the payments are recorded on the credit side of receipts and payments account.

Cashbookconsistsofentriesofreceiptandpaymentinachronologicalorder, while the receipts and payment is a summary of total cash receipts and payments. Receipt and payment account starts with opening balance of cash and bank and ends with closing balance of cash and bank. It does not take into account outstanding amount in receipts and payments account. The Receipts and payments may be of capital and revenue nature. These may relatetothecurrentorlastornextyear,solong,astheyareactuallyreceived or paid must appear in thisaccount.

8.3 Characteristics of receipts and paymentaccount:

The main characteristics or attributes are as follows:

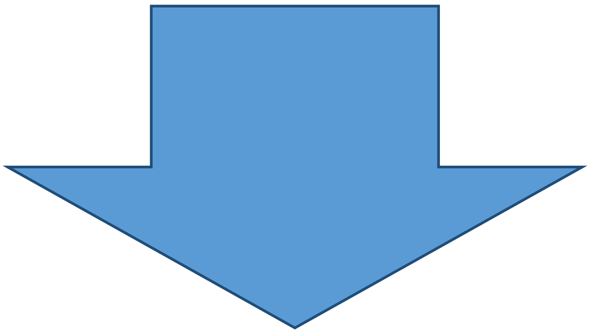
- *It is a summary of cash transactions. Like a cash book records cash receipts on debit side and payments on the creditside.*
- *Itincludescashandbankingtransactionswhetherthesearerelatedwith previous or current or subsequent yea₹*
- *Itrecordsallreceiptsandpaymentswhetherrelatedtocapitalorrevenue nature.*
- *It starts with opening balance of cash in hand and cash atbank.*
- *It ends with closing balance of cash in hand cash atbank.*
- *Itdoesnotincludenon-cashtransactionslikeDepreciationoroutstanding expenses orrevenue.*
- *It is not based on accrual basis ofaccounting.*

Limitations of receipts and paymentaccount:

The limitations of receipts and payments are follows:

- *It is not able to find surplus and deficit of theorganizations.*
- *It does not account income and expenses on accrualbasis.*
- *It does not differentiate capital and revenue receipts andpayments.*
- *It does not record non-cash items such as depreciation or outstanding expenses.*

FORMAT OF RECIPTS AND PAYMENT ACCOUNT



XYZ ………			
Receipts and Payment Account For the Year ended ……, 20XX			
Receipts	**Amount**	**Payments**	**Amount**
To Balance/d:		By Rent and Taxes	……………
Cash ………		By Utilities Expense	……………
Bank ………	……………	By Wages and Salaries	……………
To Subscriptions:		By Postage and Stationary	……………
Last Year ……….		By Newspapers and magazines	……………
Current Year ……….		By Bar Stock/Refreshment	……………
Next Year ………..	……………	By Travelling and Fare	……………
To Entrance Fees To	To Grant from Govt. and others To		……………By Repairs and Maintenance
Admission Fees	Tournament fees/Fund		
To Loaker Rent	To Sale procced from assets		
To Life Membership Fees To General/Special	To Sale procced from newspaers To		……………By Upkeep of ground
Donation To	sales of sport materials		
Legacy/EndowmentFund	To Interest/Dividend		……………By
	To Match/tournament fees		Interest

and Bank Charges	……………
……………By Honorarium Expenses	……………
……………By Entertainment Expense	……………
……………By Match/tournament expennse	……………
……………By Annual Expense	……………
……………By Charity and Releif Expense	……………
……………By Sport Material	……………
……………By Assets (book or furniture etc.)	……………
……………By Investment in Securities	……………
……………By Other Expenses	……………
……………By Balance c/d:	……………

To Sale Bar/Refreshment To Other Receipts	……………	Cash
	……………	Bank
	………….	

Preparation of Receipts and Payment Account from giveninformation

Example 1.

From the following information of Red Cross Society, prepare Receipts and Payments Account for the year ended Dec. 31, 2019.

CashinhandonJan.1,2019₹35,000andCashatBankonJan.1,2019,₹50,000.

DonationReceivedduringtheyear₹25,000&Subscriptionreceivedis₹20,000.

UtilitiesChargesPaid₹5,000;SalaryPaid₹45,000andOutstandingSalaryis₹5,000 Honorarium paid to trainer ₹15,000 and Rent Paid₹7,500.

LifemembershipFeesreceived₹15,000andInterestReceivedonGovt.Bond₹1,000 Purchaseofcomputerbycheck₹30,000andPurchaseofFurnitureforCash₹4,000 Entrance Fees Received₹10,000.

Purchase of Supplies Material for Cash ₹6,000 and Purchase of Government Bond

₹20,000.

Payment to Petty Cashier ₹500.

Cash in Hand Dec.31,2019 ₹8,000andCashinBankDec.31,2019₹15,000.

Solution

Red Cross Society
Receipts and Payment Account
For the year ended Dec. 31, 2019

Receipts		Amount	Payment		Amount
To Balance b/d:			By Utilities		5,000
Cash	35,000		By Salaries		45,000
Bank	50,000	85,000	By Computer		30,000
To Donation		25,000	By Petty Cash		500
To Subscription		20,000	By Furniture		4,000
To Life Membership fees		15,000	By Supply		6,000
To Interest on Bond		1,000	By Bonds		20,000
To Entrance Fees		10,000	By Rent		7,500
			By Balance c/d:		
			Cash -	8,000	
			Bank-	15,000	23,000
		1,56,000			1,56,000

8.4 Meaning of Income and expenditureaccount

Income and expenditure account is a nominal account. It is just like a profit and loss account. It is prepared to find out the amount of surplus or deficit made during the accounting period. It records all the expenses and losses on thedebitsideandalltherevenueandgainsonthecreditside.Itaccountsfor only revenue nature of expenditure and income. It shows only current year incomes and expenditure whether they are received or not. It excluded previous year and next year income and expenditures. In other words, incomes and expenditures have to be adjusted for both outstanding and prepaid items on matching principles ofaccounting.

According to F.G. Williams, “An income and expenditure account is prepared to show all the revenue income for the period whether actually received or accruedandalltherevenueexpendituresfortheperiodwhetheractuallypaid or accrued that is not yetpaid.'

8.5 Characteristics of income & expenditureaccount

- *It records only revenue nature of expenses andincomes.*
- *It records incomes, expenses and losses and gains which related to current accountingyear.*
- *It records all the expenses and losses on the debit side and all the incomes and gains on the creditside.*
- *Both cash and non-cash items such as salaries paid and depreciation incurred are taken intoaccount.*
- *It is prepared on the basis of accrualconcept.*

3.11 Format of Income and Expenditure Account

XYZ ………			
Income and Expenditure Account			
For the Year ended ……, 20XX			
Expenditure	**Amount**	**Incomes**	**Amount**
To Salaries & wages expense ………		By Subscription received ……….	
Add: O/S Salariesatend ………		Add: Subs. DueatEnd ……….	
Less: Preaid salaryatend ……….	………….	Add: Adv. Subs. at Beg. ……….	
To Rent and Taxes	………….	Less: Adv. Sub. at End. ……….	
To Postages & Stationaries	………….	Less: Sub. DueatBeg. ………..	…………
To Stock/Refreshment consumed	………….	By Entance & admission fees	…………
To Travelling & fare expense	………….	By Loker Rent	…………
To Repairs & maintenance expense	………….	By Life Membership Fees	…………
To Newspaper & Magzines	………….	By Donation	…………
To Upkeep of ground expense	………….	By Grant from Govt (revenue)	…………
To Interest & bank charges	………….	By Match or tournament fees	…………
To Honorarium expenses	………….	By Refreshment receipts	…………
To Entertainment expense	………….	By Profit on sale of assets	…………
To Match/tournament expennse	………….	By Sale of newspaers &magzines	…………
To Annual Expense	………….	By sales of sport materials	…………
To Loss on sale of assets	………….	ByInterest received ……….	
To Charity & releif expense	………….	Add:Accruedinterest ……….	…………
To Utilities expense	………….	By Other Inomces	…………
To Other expense	………….	By Deficit	
To Surplus (Excess of income over Exp.)	………….	(Excess of exp. Over income)	…………
	………….		………….

Items or terminologies relating to Non-trading organisations and their treatment in final accounts- Income and Expenditure and BalanceSheet.

Subscriptions:

Subscriptions are the amounts received from the members of non-profit organisations to maintain their membership. These are main source of revenue of the organisations. These are received periodically i.e., monthly or annually.Theannualsubscriptionsfeesduefrommembersareshownonthe credit side of income and expenditure account and on accruals basis of accounting and on the debit side of receipts and payments account on the basis of cash basis of accounting. Let us see an example for treatment of subscriptions in final accounts of anNPO.

Example 2

A charitable trust received subscriptions of ₹ 20,000 for the year ended Dec.31, 2019 and it was shown on the debit side of receipts and payments account. The additional information is provided as follows.

- Subscriptionreceivedincludes₹2,000for2020and₹3,000for2018.
- Subscription Outstanding on Dec. 31, 2019 is ₹4,000.
- Subscriptionreceivedinadvancein2018is₹1,500thatissubscription for2019.

You are required to show above information in income and expenditure account and balance sheet of the trust for the year 2019.

Solution.

The above information will be shown in Income and Expenditure for the year ended Dec.31 and Opening Balance Sheet as on Jan. 1, 2019 and closing Balance Sheet as on Dec. 31, 2019.

Charitable Trust…..			
Income & Expenditure Account			
For the Year Ended Dec. 31, 2019			
Expenditure	**Amount**	**Income**	**Amount**
		BySubscriptionReceived ... ₹20,000	
		Add: O/S Subs. at theend (2019). ....₹4,000	
		Add: Advance Subs. atbeg. (2018)...₹1,500	
		Less:AdvanceSubs.atend(2019)...₹3,000	
		Less: O/S Subs. at theend (2018). ....₹2,000	**₹ 20,500**

Charitable Trust…..			
Balance Sheet (Closing Balance Sheet)			
For the Year Ended Dec. 31, 2019			
Assets		**Liabilities**	
Current Assets:		**Current Liabilities:**	
Accrued Subscription	₹ 4,000	Advance Susbscription	₹ 3,000

Charitable Trust…..			
Balance Sheet (Opening Balance Sheet)			
As on Jan. 1, 2019			
Assets		**Liabilities**	
Current Assets:		Current Liabilities:	
Accrued Subscription	₹ 2,000	Advance Subscription	₹ 1,500

The amount of subscription to be shown in Income and expenditure account can be computed as Working Note as follows.

Subscription received in 2019:	₹ 20,000
Less: advance subscription received for 2020	- (3,000)
Less: Arrears of subscription received for 2018.	- (2,000)
Add: Subscription received in advance in 2018	+ 1,500
Add: Outstanding subscription at end for 2019	+ 4,000
Subscription to be shown for the year 2019	₹ 20,500

Note: The accounting treatment for items like locker rent or any other item are done in final account in the same way as it is done for subscription.

Donations:

Donation is the amount received from individuals, firms, company or any other body as a gift. It is shown on the receipts side of receipt and payment account. Donation can be divided into two types:

a. **GeneralDonation:**

This donation is not received for specific purpose. Therefore, it can be used foranypurpose.Generaldonationistreatedasrevenuereceiptsandcredited to income and expenditure account. Whether the donation is a capital or revenuereceipts,itdependsupontherulesandregulationoftheorganization and treated accordingly. In case of large amount of general donation, it is to be treated as capital receipt and shown on the liability side of balance sheet andincaseofsmallamountofgeneraldonation,itistobetreatedasrevenue receipts and shown in the credit side of income and expenditureaccount.

b. **SpecificDonation:**

The donations which is received for specific purpose is known as specific donations such as donation for building, pavilion, tournaments, medical or educational or laboratory equipment. Specific donation is treated as capital receipts and shown on the liability side of balance sheet.

Legacy:

It is also a specific donation. The amount which is left to the organization by the will of deceased person is called legacy. In other words, it refers to the amountthatisdonatedunderawillonthedeathofdonor.Legacyisgenerally treated as capital receipt and shown in the liability side of balancesheet.

Life membership Fees:

Generally, the members are required to make the payment in a lump sum only once which enables them to be the member for whole of the life. Life member are not required to pay the annual membership fees. Life membershipfeesisacapitalreceiptsandshownintheliabilitysideofbalance sheet.

Entrance or Admission Fees:

Thefeewhichiscollectedfromthenewmemberatthetimeoftheiradmission is known as entrance admission fees. The entrance fees are generally treated as revenue receipts and credited to the income and expenditureaccount.

Admissionfeesarepaidbymembersonlyonceattimeofbecomingamember. Hence,itistreatedasacapitalreceiptbysomeorganizations.Whetherthe

entrance fees are to be treated as capital or revenue receipt, they are decided by the rules and regulations of the organizations.

Grants:

The financial assistance received for general purpose from central, state and local government, other organization is known as grant. For example, government schools, college and universities and hospitals get government grantsorhelptomeettheexpensesoftheiroperatingactivities.Therecurring grants received from government is treated as revenue receipts and so credited to income and expenditureaccount.

Government grants received for specific purposes like construction of buildings, library or hospitals etc. are treated as capital receipts and so such grants are transferred to such funds and shown in balance sheet. Therefore, general grants are treated as revenues receipts and shown on credit side of incomeandexpenditureaccount.However"specificgrantsmustbetreatedas capital a receipt which is shown in the liability side of balancesheet.

Honorarium:

Honorariumreferstotheremunerationtobepaidtooutside(notanemployee) for their specific services like guest lecturer, special trainer ad showing stage performance and concernetc.

Endowment fund:

The fund which arises from a gift. It is relatively large amount of money advancedtotheconcernandplacedinfixeddepositsorinvestedinsecurities. The endowment fund is a capital receipt and shown on the liability side of balancesheet.

Sale Proceeds of Newspapers, Magazines and sports materials:

The amount receipts from sale of newspapers, magazines and sport material is treated as revenue receipts and credit to income and expenditure account.

Sale of old Assets:

Amount received from sale of old assets is capital receipts. The book value of the assets sold is deducted from the relevant assets in the balance sheet. Profit on sale of old assets credited to income and expenditure account and loss on sale of old asset debited to income and expenditure account.

Bar Stock/Refreshment

Non-Profitorganisationlikesportsclubduringthematchentertainmentsells cold drinks, coffees, tea, water, snacks and others refreshment items to the audience which are known as bar stocks or refreshment. The purpose of sellingsuchrefreshmentitemsisnotearningprofitsbutprovidingtheviewers necessaryrefreshmentitemsduringtheentertainmentsothattheycanenjoy maximum.

The buying and selling of refreshment items is of trading nature. So, the sports club can also prepare bar trading account in order to determine *Bar TradingProfit*whichcanbeshowninincomeandexpenditureaccountonthe credit side. Contrary to it, the bar consumed can be shown on the debit side and receipts from sale of bar can be shown on the credit side of income and expenditure account. The opening stock of bar is shown in opening balance sheet and the closing stock of bar is shown in closing balancesheet.

Example 3

Super Star is a non-profit organisation and it books of accounts are closed on Dec. 31 each year. The following information is available for the 2019.

Items	01-Jan	31-Dec
Stock of refreshment	₹ 1,900	₹ 2,100
Creditor for refreshment	₹ 400	₹ 500

Payment made to creditors for refreshment during the year ₹ 5,500 and Refreshment sold during the year is ₹12,000. Wages Expense ₹ 2,000 and Bar Expense ₹ 500.

You are required to find out refreshment purchased during the year and prepare Bar refreshment trading account as on Dec. 31, 2019.

Creditord for Bar Refreshment Account			
To Bank A/c	₹ 5,500	By Balance b/d	₹ 400
To Balance c/d	₹ 500	By Purchase of Bar Refreshment	₹ 5,600
	₹ 6,000		₹ 6,000
Bar Refreshment Trading Account			
To Opening Balance	₹ 1,900	By Sale of Bar Refreshment	₹ 12,000
To Purchase of Bar Refreshment	₹ 5,600	By Closing Stock	₹ 2,100
To Bar Wages	₹ 2,000		
To Bar expenses	₹ 500		
To Bar Surplus	₹ 4,100		
	₹ 14,100		₹ 14,100

Notes:

1) *The creditors for any other expenses are prepared in same manner as creditors for bar refreshment account to determine current yearexpenses.*
2) *The trading surplus for any activities are prepared in same manner as for bar refreshment account.*

Special Fund:

Sometimes special funds are created to meet specific purposes such as Sport fund, Prizedistributionfund,TournamentfundandDevelopmentfunds.Tournamentfund iscreatedforconductingtournament,prizefundiscreatedforgivingprizes, developmentfundiscreatedforconstructionpurposesofbuildingsandgroundsetc. All such funds are shown on the liabilities sides of the balancesheet.

All the income and receipts related to special funds are added to such fund balance and all expenses related to such funds are deducted from fund balance on the liabilities side of the balance sheet. If there is deficit balance in special fund, then such deficit is shown on the debit side of income and expenditure account.

Example 4 A

Kolkata Knight Riders Sport Club has the following items as on March 31, 2019.

MatchFund₹1,00,000;MatchExpenses₹1,20,000;SaleofMatchtickets₹50,000.Show how you will deal with the above items when preparing final accounts of KKR Sport club.

Solution.

Matchfundisspecialfund.Therefore,thefollowingaccountingtreatmentisdonein the balance sheet of KKR SportClub.

KKR Sport Club				
Balance Sheet				
For the Year Ended M arch 31, 2019				
Laibiliti es		Amount	Assets	Amount
Match Fund:	₹ 1,00,000			
Add: Sale of Match tickets	50,000			
Less: Match Expenses	1,20,000	**₹ 30,000**		

Example 4 B

Kolkata Knight Riders Sport Club has the following items as on March 31, 2019. MatchFund₹1,00,000;MatchExpenses₹2,50,000;SaleofMatchtickets₹50,000;Match

fund Investment ₹ 1,00,000 and Donation for Match ₹ 60,000.

Show how you will deal with the above items when preparing final accounts of KKR Sport club.

Solution.

Match Fund	₹ 1,00,000
Add: Donation for Match	60,000
Add: Sale of match tickkets	50,000
	₹ 2,10,000
Less: Match Expenses	2,50,000
Deficit to be shown in income & Expe nditure account	**₹ -40,000**

Capital Fund:

Capital fund denotes excess of total assets over total outside liabilities. Surplus of income and expenditures account is added and deficit of income and expenditures account deducted to capital fund. Capital fund is usually made up by special donations. Legacies, capitalization of admission fees and life membership fees etc.

Preparation of income and expenditure account from receipt and payment account:

Following steps are followed for preparing income and expenditures account:

a. *Opening and closing balance of cash in hand and cash at bank areignored.*
b. *All capital receipts and capital payment are not recorded in income and expenditure account. These are directly recorded in the balancesheet.*
c. *All revenue receipts for the current year are credited to the income and expendituresaccounttogetherwithaccruedincomeifanygiveninadjustments.*
d. *All revenue payments for current year are debited to income and expenditureaccountincludingoutstandingexpensesgiveninadjustmentsifany.Allrevenue non-cash expenses like depreciation, and bad debts on account of non-receipt of subscription, and losses on sale of fixed assets are also debited to income and expenditureaccount.*
e. *If income side amount is more than expenditure side, the excess is known assurplus or excess of income and expenditure. On the other hands, if the total expenses exceeds total income, the shortage is known as deficit or excess of expenditure overincome.*
f. *Thesurplusisaddedtocapitalfundbutthedeficitisdeductedfromcapitalfund on liability side of balance sheet at the end of currentyear.*

Balance Sheet:

Balance sheet is the statement that shows resources held in the form assets and the liabilities owed on a particular date by a non-trading organisation. It is prepared at the end of accounting year to show the financial position of non-trading or profit organisations as well as business organisation.

Opening Balance Sheet:

Opening balance sheet is summary of assets and liabilities in the beginning of the year. Itis prepared for calculating opening capital fund. It is prepared from the additional information and receipts and payment account. All the assets and liabilities of last year are taken into account in the preparation of opening balance sheet. Opening capital fund is the difference between the amount of assets and liabilities.

Format of BalanceSheet

XYZ Trust/Organisation			
Balance Sheet			
For the Year ended Dec. 31, 201X			
Liabilities	**Amount**	**Assets**	**Amount**
Capital Fund*		**Non Current Assets:**	
Add:Capital Receipt:		Playground	
(i) Donation		Building	
(ii) Life membershi fees		Less: Accum. Dep:	....
(iii) Entrance Fees		Plant & Machinery	
(iv) Legacy		Add:Purchase	
Add: Surplus		Less: Sale	
Less: Deficit	....	Less: Accum. Dep:	....
Restrcited or Special Donaion:		Furniture	
Donation for Building	....	Less: Depreciation	....
Donation for Equipment	....	MotorVehicles	
Donation fo Books	....	Less: Depreciation	....
Donation for Matches	....	Other Equipments	
Restrcited or Specific Fund:		Less: Depreciation	....
Tournament Fund	....	Library Books	
Construction/building Fund	....	Less: Depreciation	
Endowment Fund	....	**Investment:**	
Prize Fund	....	Investment in Bonds &	
Government Grants	....	Securites	....
Non Current Liabilities:		Fixed Deposits	....
Bank Loan	....	**Current Assets:**	
Current Liabilities:		Stock of Material & Supply	....
Outstanding Expense	....	Prepaid Expense	....
Advance Subscription	....	Debtors	....
Advance Income	....	Accrued Subscription	....
Creditors	....	Accrued Incomes	....
Bank Overdraft	....	Cash at Bank	....
Other current Liabilities	....	Cash in Hand	....
	....		....

Additional information oradjustments:

Adjustments are unrecorded events or transactions of non-trading organisation. Since every transaction have two sides effect according to accounting principle. Every adjustment, therefore, has two sides effect on finalaccountofnon-tradingorganisationthatisonincomeandexpenditures account and balance sheet. These adjustments are related to the following items:

- ✓ *Outstandingexpenses*
- ✓ *Prepaidexpenses*

- ✓ *Accrued income/income earned but notreceived*
- ✓ *Advanceincomes*
- ✓ *Last year'sexpenses:*
- ✓ *Last year's incomes:*
- ✓ *Revenue and capitalexpenditure*
- ✓ *Profit or Loss on sale ofassets*
- ✓ *Depreciation on fixedassets*
- ✓ *Receipts from sale of newspaper, magazines andperiodicals*

Adjustment for Outstanding Expenses

The expenses which are incurred but not paid during the accounting period are called outstanding expenses. These are the expenses from which services or goods have been received but amount is not yet paid. Current year outstanding expenses are shown in income and expenditure account.

Adjustment for Prepaid Expenses:

The expenses which has been paid in advance but its benefits is yet to be received for goods or services. In other words, prepaid expenses related to future accounting period. Prepaid expenses at beginning is added and at end deducted from expenses of current year expense and balance is shown in income and expenditure account. It is current assets and shown in balance sheet.

Adjustment for Accrued incomes/outstanding incomes

The income earned but not received is known as accrued incomes. The adjustmentofoutstandingincomesistoshowsuchincomeforcurrentperiod and also present such income under the balance sheet as currentassets.

Advance income/ unearned incomes

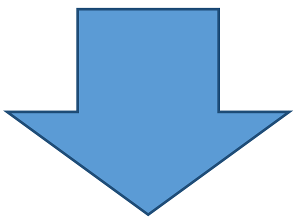
The income which is not earned but received in advanced is known asadvance income. For example, subscription received in advance for next year or future period of time. Such unearned income is subtracted from subscription money received on the basis of matching principles and are to beshownascurrentliabilitiesifsuchincomeisexpectedtobeexpiredwithin oneyear.

Adjustment for Last year Expenses

1. OutstandingExpense

The expenses which were incurred in previous year but could not be paid in inthepreviousyear.Suchexpensesareexpectedtobepaidduringthecurrent year.

2. Last year prepaidexpense



The expenses paid in advance in the previous year though not incurred in last year. These are expected to be incurred in current year. Thus, it is to be shown as current year expense in income and expenditure account and current assets in beginning balance sheet.

Adjustment for Last year income

1. Accruedincome

The income earned in the last year but not received, such income would be receivedduringthecurrentyear.Thus,accruedincomeoflastyearifreceived in current year is to be subtracted from current year such revenue inincome and expenditure account and to be shown in beginning balance sheet as currentassets.

2. Advance income of lastyear

The income which was received but not earned in last year is known as advance income of last year. The advance income received in last year is actually income of current year and therefore it is shown in current year incomeandexpenseaccountandascurrentliabilityinthebeginningbalance sheet.

Capitalization of revenue incomes

Sometimes the revenue income like entrance fees, general donation etc. may be transferred to capital fund partially or fully.

Profit or loss on sale of fixed assets

If selling price of the assets is more than its books value on the date of sale, thentheexcessofsellingpriceoverthebookvalueisknownasprofitonsales of fixed assets. Such profit on sale of assets is shown on the credit side as profitonsaleofassetsandthebookvalueofassetstogetherwithaccumulated depreciationisremovedfrombalancesheet.Ontheotherhand,ifsellingprice is less than the book value of assets, then the shortage is known as loss on sale of fixed assets. Such losses are shown on the debit side of income and expenditureaccount.

Depreciation Expense

Thereductioninvalueoffixedassetsduetoitsuseorwearandtearisknown as depreciation expense. It is revenue expenses and it is shown on the debit side of income and expenditure account. Due to depreciation expenses,there is reduction in the value of fixed assets. Thus, the accumulated depreciation is subtracted from fixed assets and net fixed assets is shown in the closing balancesheet.Theassetsheldinthebeginningofthecurrentyeararareshown in the beginning balancesheet.

Receipts from sale of newspapers, magazines and periodical

The amount receipts from sale of newspapers, magazines and periodical are treated as revenue receipts as these are recurring in nature so credit to incomeandexpenditureaccount.Thoughthesereceiptsareinsignificantstill they are presented in the final accounts of non-trading and profit organisation. These items are different from the books which are treated as assets and capitalexpenditure.

Example 5

The following Receipts and Payment account is prepared by Red Cross Society for the year ended Dec. 31, 2019.

Red Cross Society
Receipts and Payment Account
For the year ended Dec. 31, 2019

Receipts	Amount	Payment	Amount

To Balance b/d:		By Utilities Expense	5,000
Cash 35,000		By SalariesExpense	45,000
Bank 50,000	85,000	By Honorarium	15,000
To Donation	25,000	By Computer	30,000
To Subscription	20,000	By Rent Expense	7,500
To Life Mem.fee	15,000	By Furniture	4,000
To Interest on Bond	1,000	By Supply	6,000
To Entrance Fees	10,000	By Bonds	20,000
		By Balance c/d:	
		Cash- 8,500	
		Bank- 15,000	23,000
	1,56,000		1,56,000

Additional Information:

- SubscriptionReceivedincludes₹2,000for2020and₹3,000for2018.
- Subscription Outstanding on Dec. 31, 2019 is ₹4,000
- Subscription received in advance in 2018 is ₹1,000 that is subscription for 2019.
- Computer was Purchased on April 1, 2019 and Furniture on 1 July2019.
- The Society had other fixed assets ₹150,000 as on Jan. 12019.
- Depreciation Rate on Fixed Assets and Furniture is 10% per year and on Computer 15% perYear.
- The Govt. Bonds is purchased on 1 July 2019 and rate of interest is 12% per year.
- OutstandingSalaryis₹5,000for2019andDonationisgeneralDonation.

From the above information Prepare Income and Expenditure account of Red Cross Society.

Solution.

Red Cross Society
Income and Expenditure
Account For the year ended
Dec. 31,2019

Expenditure		Amount	Income		Amount
To Utilities Expense		₹ 5,000	By Subscription*		₹ 20,000
To Salaries Expense	45,000		By Donation		25,000
Add: O/S salary	5,000	50,000	By interest received	1,000	
To Honorarium		15,000	Add: Accrued Interest	200	1,200
To Rent Expense		7,500	By Deficit (Excess of		
To Supply Expense		6,000	Expense over Income)		54,850
To Depreciation Expense					
Other F Assets	15,000				
Furniture	300				
Computer	2,250	17,550			
		₹1,01,050			₹1,01,050

Working Notes.

Computation of Subscription:

Subscription received in 2019:		₹20,000
Less: advance subscription received for 2020	-	(3,000)
Add: Outstanding subscription at end for 2019	+	4,000
Less: Arrears of subscription received for 2018.	-	(2,000)
Add: Subscription received in advance in 2018	+	1,000

Computation of Depreciation:

DepreciationonotherFixedAssets=₹150,000×10%×1=₹15,000
Depreciation on Furniture = ₹4,000 × 10% × 9/12 = ₹300 Depreciation
on Computer = ₹30,000 × 15% × 6/12 = ₹2,250
TotalDepreciation=₹15,000+300+2,250=₹17,550

Example 6

The following Receipts and Payment account of recreation club for the year ended Mar. 31, 2018.

Recreation Club
Receipts and Payment Account
For the year ended Mar. 31,2018

Receipts	Amount	Payment	Amount
To Balance b/d	₹ 31,000	By Charity Expense	₹ 10,000
To Subscription	1,80,000	By Salaries Expense	2,20,000
To Legacy	40,000	By Printing & stationery	6,000
To Endowment Fund	2,00,000	By Postage	1,000
To Locker Rent	50,000	By Rent Expense	15,000
To Interest on Investment	15,000	By Upkeep of ground	20,000
To Procced from Sports	45,000	By Sports Materials	100,000
To Sale of newspapers	5,000	By Internet & telephone	34,000
		By Investment in security	150,000
		By Balance c/d:	10,000
	5,66,000		5,66,000

Additional Information:

(i) The assets and liabilities were asfollows:

Items	Mar.31, 2017	Mar.31, 2018
Land & Building	₹ 5,00,000	₹ 5,00,000
Furniture and Fittings	₹ 50,000	₹ 40,000
Outstanding Subscriptions	20,000	₹ 14,000
Advance Subscriptions	₹ 5,000	₹ 14,000
Stock of Sport Materials		₹10,000

(ii) Legacies received is to becapitalised.

(iii) Investment in securities was made on May 1, 2018 at 12 % interest peryear.

(iv) Stock of sport material is used during the year is₹90,000.

(v) Depreciation is charged on Furniture on Straight line method @ 20% peryear.

Prepare Income and Expenditure account and Balance sheet for the year ended March 31, 2018.

Solution

Recreation Club
Income & ExpenditureAccount
For the year ended Mar. 31, 2018

Expenditure	Amount	Income	Amount
To Salaries Expense	₹2,20,000	By Subscriptions (W.N1)	₹1,65,000
To Charity Expense	10,000	By Locker Rent	50,000
To printing & stationary	6,000	By Proceeds from sports	45,000
To Postage Expense	1,000	By Sale of newspapers	5,000
To Ren Expense	15,000	By Int.onInvest. 15,000	
To Upkeep of ground	20,000	Add: Accrued	
To Sports material used	90,000	Interest-(W. N2) 1,500	16,500
To Internet & telephone	34,000	By Deficit	124,500
To Depreciation on Furniture	10,000		
	₹4,06,000		₹4,06,000

Recreation Club
Balance Sheet

For the year ended Mar. 31, 2018

Liabilities	Amount	Assets	Amount
Capital Fund (W.N3)₹ **5,96,000**		Land $ Building	₹5,00,000
Add:Legacy **₹40,000**		Furniture & Fit.50,000	
Less:Deficit **₹124,500**	₹ 5,11,500	Less:Dep.Exp. 10,000	40,000
Endowment Fund	2,00,000	Investment in security	150,000
Advance Subscriptions	14,000	Stock of Sport Materials	10,000
		Accrued Interest	1,500
		Accrued subscription	14,000
		Cash	10,000
	₹7,25,500		₹7,25,500

UNIT II

Depreciation and Insurance Claims

Depreciationisaallowableexpensesingeneralaccountingpurposesand incometaxaccountingpurposes.Butitdiffercategoricallyfromotherconventional expensesbecausedepreciationchargedoesnotoccuranyoutflowofbusinessfund. This chapter deals with the different methods of depreciation with their meritsand demeritssothatafirmisinapositiontochoosethebestmethod.

The periodical amount of depreciation is affected by the following factors[1].

1. the cost of theasset;
2. the life of theasset;
3. the expected residual value of theasset;
4. and,bythemethodofdepreciationselectedforamortisationofthe asset which must be systematic andrational.

Costofassetmeansthebasicacquisitioncostoftheassetplusallincidental expenseswhicharerequiredtotheassetintouse.Theincidentalexpenseslikefreight, importduty,Brokerage,legalexpensesandinstallationchargesarealsoformapartof costofasset.Therearesomecontroversiesregardingrepairsandmaintenancecost.In general,heavyrepairsandmaintenancecostwhichincreasesthelifeoftheassetor keeptheassetinitsusablestate[2]arealsotobecapitalised.

Theusefullifeofanassetistheperiodoftimeduringwhichthefirmexpects tousetheassetforearningrevenue'.Itisnotaneasytasktoestimateanaccuratelife oftheasset.Theusefulservicelifeofanassetmaycometoanendwhetherasaresult ofphysicalcausesorasaresultofchangingeconomicsignificanceorboth[4].Ronald Maobservedthat“thelifeoftheassetistheshorterofthelifedeterminedby(a) physicalwearandtear,takingthemaintenancepolicyofthefirmintoaccount,(b) obsolescence,and(c)whereamachinehasbeeninstalledtoexploitawastingasset, theperiodofexploitationorinthecaseofamachinewithaspecialisedfunctionthe perioddeterminedbytheeffectiveandsufficientdemandforitsproducts.”The physical, engineering life of the asset can be determined with a fair degree of accuracy, but technological obsolescence and demand for a product cannot be determinedeasily.So,insteadofexactworkinglifeonlytheprobableusefulperiod may be assumed through rational approach like, past experience, quality of asset, expert’sopinion,consultingasset’smanual,statisticaltoolsforforecasting etc.

Salvagevalueofanassetreferstotheamountthatcanbeexpectedtorealise fromdisposaloftheassetattheendsofitsusefullife.Thatmeansitisthedifference betweenthecostoftheassetandthetotaldepreciationduringitslife.Expectingafew cases,salvage valuesofretiredassetsarenotofanygreatsignificance.Stillan incorrectestimateofthesalvagevalue,howeversmallitmaybecannotbutresult incorrect measure of the periodicaldepreciation[6].

Oncethecostoftheasset,usefullivesandthesalvagevaluearedetermined theproblemofdepreciationisreducedtooneoffindingasuitablebasisofallocation ofthecostoftheassetlesssalvagevalueovertheperiodsthatuseservicesofthe asset.Ingeneralaccountingpractice,thechoiceofmethodofallocatingthecostofa tangible fixed asset over its effective life i.e. depreciation should depend upon the patterns of expected benefits obtainable in each period from its use. The main problemofthisapproachisthatthereisnodependablewaytomeasurethequantum ofservicethatcanbereceivedfromtheassetoveritsexpectedservicelife.Inactual practicewhathappenisthattheaccountantselectsamethodtobeusedasthebasis for allocating the depreciablecost.

Sometimes, accountant are guided by a management's policy relating tothe allocationofcostoffixedasset.Inallthecases,however,theproblemboilsdownto thequestionofselectingamethodwhichhastobesystematicandrational[7].

AninterimreportonanAICPAaccountingresearchstudyondepreciationby CharlesW.Lamden,reportedthatthefocusofmuchofthedissatisfactionisonthe varietyofcostallocation methodsadmissibleundergenerallyacceptedaccounting

principles. The only requirement is that the allocation method be 'systematic and rational'.

Thereisawidevarietyofdepreciationmethodinuseandallthesemethodsare baseduponcertainimplicitassumptionsthoughtheyallseektodistributethecostof theassetoveritsusefullife.Thesemethodscanbeclassifiedunderthefollowing groups[9]:

i) Constant ChargeMethod

Thismethodisbasedontheassumptionthatdepreciationisafunctionoftime andtheservicepotentialwhichisassumedtodeclinebyanequalamountineach period. Straight line method falls under thiscategory.

ii) Variable ChargeMethod

Itisbasedontheassumptionthatdepreciationisavariablechargeratherthan afixedcost.Underthismethod,itisassumedthatthevalueofanassetdeclinesasa functionofuseratherthanthroughthepassageoftime[10].Usagemethode.g.service- hours method, output method fall under thisgroup.

iii) Declining ChargeMethod

Depreciationunderthismethodassumesthattheamountofservicepotential of an asset declines each year. This method is called accelerated method of depreciation'[1].Herethepatternofallocationofcostissuchthathigheramountof depreciation is charged in the initial years and lower amount of depreciation inthe lateryears.Thisisbasedontheassumptionthatthereislargercashinflowsinthe earlieryearsthanitisinlateryears.Higherdepreciationintheinitialyearshasaplus pointinit.Sinceitactsasagreatertaxshield.Diminishingbalancemethod,sum-of- years'-digitsmethod,doubledecliningbalancemethodareallfallunderthiscategory.

iv) Increasing ChargeMethod

Thismethodisbasedonpresentvalueoffuturecashflowtakingintoaccount thetimevalueofmoney[l2].Thismethodischaracterisedbythecompoundintereston

theinvestmentoftheamountchargedfordepreciationforensuringcashflowtomeet thereplacement costoftheasset.Anotherassumptionunderthismethodisthe maintenanceofcapital.Annuitymethod,sinkingfundmethodareincludedunderthis group.

v) MiscellaneousMethod

Thismethodcomprisesthosewhichdonotfallwithintheambitoftheabove statedcategories.Itdependsonarbitrarymethodsofallocationoranycombinationof time or use basis. Group or composite method, replacement method, revaluation method are included in thisgroup.

CharlesW.Lamden[l]'indicatedthatthesystematicandrationalcriteriamight haveallowedawidevarietyofmethods.Inpractice,however,fourbasicapproaches have been followed:

i) Straight — line apportionment overtime, that is a uniform amount of amortisedcostforeachperiodintheestimatedlifeofthepropertyunit.

ii) Reducingcharge methods which produce decreasing amount of amortisedcostoverthelifeofthepropertyunit.

iii) Productionandrevenuemethodswhichamountsofamortisedcostthat varydirectlywiththevolumeofproductionortheamountofrevenue.

iv) Compound interest methods which produce increasing amounts of amortisedcostoverthelifeofthepropertyunit.

Accountants' Encyclopaedia[14]classified depreciation method under the following categories:

1. Methodsproducingauniformchargeineachfinalyear

    a) Straight linemethod
    b) Annuitymethod

2. Methodsproducingadecreasingchargeineachfiscalyear(acceleratedmethods)

    a) Fixedpercentageondecliningbalance—scientificmethods
    b) Fixed percentage ondeclining balance — unscientific method (Income tax method)
    c) Sum-of-years'-digitsmethodorReducingfractionmethod

3. Methodsproducingafluctuatingchargeineachfiscalyearviz.

    a) Unit or productionmethod
    b) Working hoursmethod
    c) Inventory or RevolutionMethod

4. Method producing on increasing charge each fiscalyear

    a) Sinking fund method

Grant and Norton classified the depreciation accounting method other than straight line method in the following categories :'

1. Consistent methods based ontime

(a) Methodsgivingsmallerwrites-offthanstraightlineinearlyyearsoflife.

(i) Sinking fund or present worthmethod

(ii) Retirementmethod

(iii) Replacementmethod

(b) Methodsgivinglargerwrite-offthanstraightlineinearlyyearsoflife.

(i) Declining balancemethod

(ii) Sum-of-years' digitsmethod

(iii) Multiple straight-linemethod

2. Consistent methods based onuse

(a) Productionmethod

(b) Combinationoftheproductionandstraightlinemethod

3. Irregularmethods

(a) Retirement reservemethod

(b) Arbitrary write-offs determined annually bymanagement

(c) Per cent of revenuemethods

(d) Periodicappraisals.

Thus in the accounting literature several methods of allocation of cost (depreciation) have been suggested. In actual practice however, the following methods are in use'[6].

1. Straight linemethod
2. Usagemethod
   a) Outputmethod
   b) Working-hoursmethod
   c) Mileagemethod
3. Decreasing chargemethod
   a) Diminishing balancemethod
   b) Double declining balance method
   c) Sum-of-the-years'-digitsmethod
4. Interestmethods
   a) Annuitymethod
   b) Sinking fundmethod
5. Other methods
   a) Revaluationmethod
   b) Group or compositemethod
   c) Discounted cash flowmethod

d) Replacementmethod.

Someofthewellknownmethodsofdepreciationaccounting'‹arebriefly explained in the discussion that follows:

STRAIGHT LINE METHOD

Underthismethod,anequalamountisprovidedeachyearfordepreciationof eachassetuntiltheassethasbeenwrittendowntoniloritsscrapvalueattheendof theestimatedlifeoftheasset[17].Thenameofthismethodisderivedfromthefactif thesuccessiveannualdepreciationoverthelifeoftheassetareplottedonagraph,the resultwillbeastraightlinewithaslopeequaltotheannualdepreciation.Thismethod isalsocalled‘FixedInstallmentMethod’becauseauniformamountofdepreciationis chargeeachyear''.Theformulaoftheannualdepreciationunderthemethodis:

$$D = \frac{C - S}{}$$

Where,

D = Annual depreciation. C

= Cost of the asset

S=Salvageorscrapvalue

n=Estimatedlifeofyears.

This method can be recommended only when the following conditions are satisfied.

a) The asset is expected to render an uniform service through outits estimated usefulhfe[19].

b) Annualrepairsandmaintenancecostsareassumedtoremainconstant over its life[20].

c) Theassetisexpectedtoearnanequalamountofrevenueeachyear throughout itslife.

d) Theampuntofdepreciationisafunctionoftimeonly.

Repair Cost''

Tomulify,thehighershutdownandrepaircostsinthelaterpartoftheasset’s life,apartialrectificationofthismethodispossiblebyestimatingthetotalamountof repaircostoverthelifeoftheasset.Thedepreciationandrepairsareaccountedforas a unit. The annual cost would thenbe

$$\frac{\text{Cost—Estimatedsalvagevalue+Repaircost}}{\text{Estimated Life inYears.}}$$

Merits

There are several merits of the method

a) Thismethodisnotonlysimpletounderstandbutalsoeasytocalculate.

b) Thebookvalueofanassetcanbefullywrittenoff.

c) The life of the certain assets sometimes depend on contracts like leaseholdproperty,patents,trademarksetc.Insuchcasethismethodis very muchappropriate.

d) Effectivelifeofanassets,scrapvalue,repairsandmaintenancecost, rateofinterestetc.cannotbemeasuredwithcertainty.So,nosingle methodcanweightallthefactorsatatimewithequalimportancefor fixing the amount of depreciation. From this view point, thismethod appearsmostreasonableassomefavourableimpactofsomefactorsare offset by unfavourable effects ofothers.

Demerits

As against the advantages enumerated above, the straight-line method has some disadvantages also. Some of the disadvantages are :

a) Thismethoddoesnottakeintoaccounttheinterestoncapitalinvested on theassets[22].

b) Underthismethodtheamountofdepreciationcanneverbeequaltothe valueofservicesrenderedfromtheasset.Anassetisexpectedtorender moreeffectiveservicesduringearlierperiodthanlaterperiodofits usefullifeasit’sefficiencydecreasesovertimes.

c) Thechargefordepreciationremainsconstantyeartoyearbuttherepair andmaintenanceexpensesmaygoupwiththeassetgrowingolderand older.

d) Therecoveryof‘RealCapital’isnotpossibleunderthismethodasthe amountofdepreciationremainsthesameyearafteryear.Onlythe historical cost isrecovered.

e) Thismethodsignoresthetimevalueofmoney[2]andinflationfactor.

DIMINISHING BALANCE METHOD

Inthismethod,depreciationischargedatafixedpercentageeachyeartothe netassetbalance(i.e.costlessaccumulateddepreciation).Thedepreciationchargesis higher at the early stages than the later stages i.e. the amount of depreciation decreasesgraduallyalthoughthedepreciationrateisfixed.Thismethodisalsoknown as‘DecliningBalanceMethod’,‘WrittenDownValueMethod’[24]etc.

Formula

Let,

C= Original cost of theasset.

D= Depreciablevaluei.e.totaldepreciationduringtheservicelifeofasset. S=

Scrapvalueorresidualvalue(S=C—D).

n= Estimated life of the asset.

r= Rate of depreciation in decimalterm

V= Bookvalue(i.e.costlessdepreciation)(i.e.$V_1.V_2.V...V$,berespectively, thebookvalueattheendoftheperiod1,2,3.......................n)

d , dt, dt ....d be respectively the amount of depreciation at the end of period 1,2,3, ... n

Straight Line method

In this method, an equal amount is written off every year during the working life of the asset to nil or its residual value at the end of its useful life.

SLM: The underlying assumption of this method is that the particular asset generates

Depreciation =	Cost of Asset-Scrap Value Useful Life

equal utility during its lifetime.

Example

Cost of machinery: 18000 Installation Charges:2000 Useful Life of Asset: 5 Years

Calculate Depreciation as per SLM

Depreciation =	20000-0

Depreciation = 4000 p.a.

Various methods of depreciation are generally classified as follows:

1. Straight Line Method:

This method assumes that depreciation is a function of time rather than use. This method is based on the assumption that each accounting period receives same a benefits from using the assets. It allocates an equal amount of depreciation in each accounting periods of the service life of the assets. Therefore, it is called Straight Line Method.

The formula for calculating depreciation charge for each accounting period is:

$$\text{Annual Depreciation} = \frac{\text{Acquisition cost} - \text{Estimated scrap value}}{\text{Estimated Life in Years}}$$

Advantages:

(i) It is simple in use.

(ii) It realistically matches cost and revenue and determine income of each period easily.

(iii) There is no change either in the rate or the amount of depreciation over the useful life of the assets. Such a procedure provides for improved comparability.

Disadvantages:

(i) It ignores the cost of capital.

(ii) It is based on the wrong assumption of equal utility of the assets during the useful life.

(iii) It is also wrong to consider depreciation as a function of time rather than use.

(iv) The maintenance of asset is generally costly in the later years with the result that deductions from the revenue would be greater in later years than in the earlier years.

The journal entry for recording depreciation is

Depreciation A/c Dr.

To Asset A/c

Illustration 1:

ABC Ltd. acquires a machine on 1st July, 2007 at a cost of Rs. 2, 80,000 and spent Rs. 20,000 on its installation. The firm writes off depreciation at 10% of the original cost every year. The books are closed on 31st December every year. Prepare machinery A/c for 3 years.

Solution: Machinery A/c

Date	Particulars	(₹)	Date	Particulars	(₹)
2006	To Bank	2,80,000	2006	By Depreciation A/c	15,000
July 1	To Bank (installation Expe.)	20,000	Dec. 31	By Balance c/d	2,85,000
		3,00,000			3,00,000
2007			2007		
Jan. 1	To balance b/d	2,85,000	Dec. 31	By Depreciation A/c	30,000
			Dec. 31	By balance c/d	2,55,000
		2,85,000			2,85,000
2008			2008		
Jan. 1	To balance b/d	2,55,000	Dec. 31	By Depreciation A/c	30,000
			Dec. 31	By balance c/d	2,25,000
		2,55,000			2,55,000

Sale of Asset:

If the asset is disposed of in the middle of the year, the amount realized should be credited to the asset a/c for the time it has been in use. Any balance left in the account of asset will be profit or loss and should be transferred to P&L A/c.

Illustration 2:

On 1st Jan. 2009, a company purchased a machine costing Rs. 5, 00,000. Its estimated working life is 20 years at the end of which it will fetch Rs. 20,000. Additions are made on 1 January, 2010 and 1 July, 2011 to the value of Rs. 80,000 (scrap value Rs. 4000) and Rs. 40,000 (scrap value Rs. 2,000) respectively. The life of both the new machines is 20 years. Show machine a/c for first four years.

Solution: **Machine A/c**

2009	Particulars	(₹)	2009	Particulars	(₹)
Jan. 1	To Bank	5,00,000	Dec. 31	By Depreciation	24,000
			Dec. 31	By Balance c/d	4,76,000
		5,00,000			5,00,000
2010			2010		
Jan. 1	To balance b/d	4,76,000	Dec. 31	By Depreciation	27,800
Jan. 1	To Bank	80,000	Dec. 31	By balance c/d	5,28,200
		5,56,000			5,56,000
2011			2011		
Jan 1	To balance b/d	5,28,200	Dec. 1	By Depreciation	
July 1	To Bank	40,000		(24,000 + 2800 + 950)	28,750
			Dec. 1	By Balance c/d	5,39,450
		5,68,200			5,68,200

2009	Particulars	(₹)	2009	Particulars	(₹)
2012			2012		
Jan. 1	To Bal b/d	5,39,450	Dec. 31	By Depreciation	
				(24,000 + 3300 + 1900)	29,700
			Dec. 31	By Balance c/d	5,09,750
		5,39,450			5,39,450

Note:

In case, no method of depreciation has been stated in an examination problem, it is appropriate to use straight line method.

Illustration 3:

ADVERTISEMENTS:

Rubal Ltd. purchased a machine costing Rs. 3,00,000 on 1st April, 2000 and an additional machine on 1st Oct., 2000 costing Rs. 2,00,000 and on 1 July, 2001 costing Rs. 1,00,000.

On 1st Jan. 2002, one third of Machine purchased on 1st April, 2000 was sold at Rs. 30,000.

Prepare machine A/c for 3 years, it is given that depreciation is charged @ 10% p.a. on straight line method.

Solution: **Machine A/c**

2000	Particulars	(₹)	1998	Particulars	(₹)
April 1	To Bank	3,00,000	Dec. 31	By Depreciation (22,500 + 5,000)	27,500
Oct. 1	To Bank	2,00,000	Dec. 31	By Balance c/d	4,72,500
		5,00,000			5,00,000
2001			2001		
Jan. 1	To balance b/d	4,72,500	Dec. 31	By Depreciation (30000 + 20000 + 5000)	55,000
July 1	To Bank A/c	1,00,000			
			Dec. 31	By balance c/d	5,17,500
		5,72,500			5,72,500
2002			2002		
Jan. 1	To balance b/d	5,17,500	Jan. 1	By Bank	30,000
				By P&L A/c (loss)	52,500
			Dec. 31	By Depreciation	50,000
				By Balance c/d	3,85,000
		5,17,500			5,17,500

2. Diminishing Balance Method:

Under this method, a fixed percentage is applied to book value of the assets (cost of assets). In other words, the depreciation is calculated on the reducing balance (assets cost-depreciation) and not on the original cost. The procedure is that depreciation calculated is deducted from the cost of assets and balance known as the written down value. The written down value at the end of the estimated useful life of the assets should equal the estimated salvage or scrap value.

The formula for determining the rate of depreciation in diminishing balance method is as follows:

Rate of depreciation = 1 – n√s/c

Advantages:

1. It is easy to use.

2. There is same weight-age, in totality, on profit and loss A/c, of depreciation.

3. It facilitates replacement of fixed assets as it makes more funds available at an early stage.

4. This method is permissible under the Income Tax Act.

5. The higher depreciation is charged in the earlier years when the machine is most efficient compared to later years.

Disadvantages:

1. Under this method, value of asset can never be zero.

2. It is difficult to calculate proper rate of deprecation.

ADVERTISEMENTS:

3. There is no provision of interest on capital invested in use of assets.

Illustration 4:

Y Ltd. Co. purchased a machine costing Rs. 3, 00,000 on 1st January, 2007. The depreciation is to be charged at 20% p.a. on Diminishing Balance method.

Write up Machinery A/c for first four years.

Solution: **Machinery A/c**

2007	Particulars	(₹)	2007	Particulars	(₹)
Jan. 1	To Bank	3,00,000	Dec. 31	By Depreciation	60,000
			Dec. 31	By Balance c/d	2,40,000
		3,00,000			3,00,000
2008			2008		
Jan. 1	To balance	2,40,000	Dec. 31	By Depreciation	48,000
			Dec. 31	By balance c/d	1,92,000
		2,40,000			2,40,000
2009			2009		
Jan. 1	To balance b/d	1,92,000	Dec. 31	By Depreciation	38,400
			Dec. 31	By balance c/d	1,53,600
		1,92,000			1,92,000
2010			2010		
Jan. 1	To balance b/d	1,53,500	Dec. 31	By Depreciation	30,720
			Dec. 31	By Bal. c/d	1,22,880
		1,53,500			1,53,600

Illustration 5:

ADVERTISEMENTS:

X Ltd. bought a machinery for Rs. 30,000 on 1st April, 2007. One more machine was purchased on Oct. 1st, 2007 costing Rs. 20,000. On July 1st, 2008, a new machinery for Rs. 10,000 was added to the existing machinery. On 1st January, 2009, one third of the machinery which was installed on April 1st, 2007 was sold for Rs. 3,000. Show the machinery A/c in the books of X Ltd. The rate of depreciation is 10% on reducing balance method.

Solution: **Machinery A/c**

Date	Particulars	(₹)	Date	Particulars	(₹)
2007			2007		
April 1	To Bank	30,000	Dec. 31	By Depreciation	2,750
Oct. 1	To Bank	20,000		By Balance c/d	47,250
		50,000			50,000
2008			2009		
Jan. 1	To Balance b/d	47,250	Dec. 31	By Depreciation	3,225
July 1	To Bank	10,000	Dec. 31	By Balance c/d	52,025
		57,250			57,250

Date	Particulars	(₹)	Date	Particulars	(₹)
2009			2009		
Jan. 1	To balance b/d	52,025	Jan. 1	By Depreciation	3,000
			Jan. 1	By P&L A/c (loss)	5,325
			Dec. 31	By Depreciation	4,370
			Dec. 31	By balance c/d	39,330
		52,025			52,025

Illustration 6:

A machine is purchased for Rs. 3, 00,000 and its estimated useful life is 3 years with scrap value Rs. 30,000. It is decided to depreciate the machine by diminishing balance method. Find out the rate of depreciation p.a.

Solution:

$S = ₹\ 30{,}000 \qquad C = ₹\ 3{,}00{,}000 \qquad n = 3$

$$r = 1 - n\sqrt{\frac{s}{c}} = 1 - 3\sqrt{\frac{30{,}000}{3{,}00{,}000}}$$

$$= 1 - 3\sqrt{\frac{1}{10}}$$

$$= 1 - \left(\frac{1}{10}\right)^{1/3}$$

$$= 1.0 - .464$$

$$= .536$$

$$= 53.6\%.$$

Illustration 7:

ADVERTISEMENTS:

A Company had bought machinery for Rs. 2, 00,000 including a boiler worth Rs. 20,000. The Machinery Account had been credited for depreciation on the reducing installment system for the past four years at the rate of 10 per cent. During the fifth year, the boiler became useless on account of damage to some of its vital parts. The damaged boiler is sold in the very beginning of the fifth year for Rs. 4,000. Write up the Machinery Account for all these five year.

Solution:

Dr. **Machinery Account** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1st year	To Bank A/c	2,00,000	1st year	By Depreciation A/c	20,000
				By Balance c/d	1,80,000
		2,00,000			2,00,000
2nd year	To Balance b/d	1,80,000	2nd year	By Depreciation A/c	18,000
				By Balance c/d	1,62,000
		1,80,000			1,80,000
3rd year	To Balance b/d	1,62,000	3rd year	By Depreciation A/c	16,200
				By Balance c/d	1,45,800
		1,62,000			1,62,000
4th year	To Balance b/d	1,45,800	4th year	By Depreciation A/c	14,580
				By Balance c/d	1,31,220
		1,45,800			1,45,800

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
5th year	To Balance b/d	1,31,220	5th year	By Bank –Sale	4,000
				By P&L A/c* (Loss on Sale of boiler)	9,122
				By Dep. A/c**	11,810
				By Balance c/d	1,06,288
	Total	1,31,220			1,31,220

Working Notes:

	₹
* Loss on Sale.	20,000
Cost of boiler	
Less: Depreciation for four years	
(₹ 2,000 + ₹ 1,800 + ₹ 1,620 + ₹ 1,458)	6,878
Book Value at the beginning of 5th year	13,122
Less: Sale Proceeds	4,000
Loss on Sale of boiler	9,122

* **Depreciation for 5th year:**

Balance of remaining machinery at the beginning of 5th year

= ₹ 1,31, 220 – ₹ 13,122

= ₹ 1,18,098

Hence, Depreciation for the 5th year @ 10%

= ₹ 11,810 (to the nearest rupee)

Illustration 8:

On 1st April, 2000, a firm purchased a machinery for Rs. 2, 00,000. On 1st October, 2000, additional machinery costing Rs. 1, 00,000 was purchased. On 1st October, 2001, the machinery purchased on 1st April, 2000 was sold for Rs. 90,000. On 1st October, 2002, new machinery was purchased for Rs. 2, 50,000, while the machinery purchased on 1st October, 2000 was sold for Rs. 85,000 on the same day.

The firm provides depreciation on its machinery @10% per annum on original cost. It closes its books of accounts on 31st March every year. Show machinery account for three accounting years ending 31st March, 2003.

Solution:

Dr. **Machinery Account** Cr.

Date	Particulars	Amount (₹)	Date	Particulars		Amount (₹)
2000			2001			
April 1	To Bank A/c	2,00,000	March 31	By Dep. A/c ₹ 2,00,000 @10%	20,000	
Oct. 1	To Bank A/c	1,00,000		₹ 1,00,000 @ 10% for 6 months	5,000	25,000
				By Balance c/d		2,75,000
		3,00,000				3,00,000
2001			2001			
April 1	To Balance b/d	2,75,000	Oct. 1	By Bank A/c (Sale)		90,000
				By Dep. A/c ₹ 2,00,000 @ 10% for 6 months		10,000

Date	Particulars	Amount (₹)	Date	Particulars		Amount (₹)
				By Profit and Loss A/c (Loss on Sale*)		80,000
			2002 March 31	By Dep. A/c ₹ 1,00,000 @10%	10,000	
				By Balance c/d		85,000
		2,75,000				2,75,000
2002 April 1st	To Balance b/d	85,000	2002 Oct. 1	By Bank A/c		85,000
Oct. 1st	To Bank A/c	2,50,000	2003 March 31	By Dep. A/c ₹ 1,00,000 @ 10% for 6 months		5,000
	To P&L A/c Gain on Sale*	5,000		By Dep. A/c ₹ 2,50,000 @ 10% for 6 months		12,500
				By Balance c/d		2,37,500
		3,40,000				3,40,000

Working Notes:

* Calculation of Loss on Sale of Machinery purchased on 1st April, 2000

		₹
Cost		2,00,000
Less: Depreciation [1.4.2000–31.3.2001]		20,000
		1,80,000
Less: Depreciation [1.4.2001–30.9.2001]		10,000
		1,70,000
Less: Sale Proceeds		90,000
Loss		– 80,000

* Calculation of Profit on Sale of Machinery purchased on 1st October, 2000

	₹	₹
Cost		1,00,000
Less: Depreciation	₹	
[1.10.2000–31.3.2001]	5,000	
[1.4.2001–31.3.2002]	10,000	
[1.4.2002–30.9.2002]	5,000	20,000
Book Value on 1.10.2002		80,000
Sale Proceeds		85,000
∴ Profit on Sale of Machinery (₹ 85,000 – ₹ 80,000)		+ 5,000

Illustration 9:

Mr. X purchased a second hand machinery on 1.2.2003 for Rs. 50,000; paid Rs. 11,000 for its over-hauling and Rs. 5,000 for its installation which was completed by 31.3.2003. The company provides depreciation on its machinery at 15% on diminishing balance method from the date it was put to use and closes its books on 31st December every year. On 1.10.2004, a repair work was carried out on the machine and Rs. 5,000 were paid for the same. The machine was sold on 31.10.2005, for a sum of Rs. 11,000 and an amount of Rs. 1,000 was paid as dismantling charges.

Prepare machinery account from 2003 to 2005.

Solution:

Dr. **Machinery Account** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2003			2003		
Feb. 1	To Bank A/c	50,000	Dec. 31	By Depreciation A/c (15% on ₹ 66,000 for 9 months)	7,425
Mar. 31	To Bank A/c [₹ 11,000 + ₹ 5,000]	16,000		By Balance c/d	58,575
		66,000			66,000
2004			2004		
Jan. 1	To Balance b/d	58,575	Dec. 31	By Depreciation A/c (15% on ₹ 55,175)	8,786
				By Balance c/d.	49,789
		58,575			58,575
2005			2005		
Jan. 1	To Balance b/d	49,789	Oct. 31	By Depreciation A/c (15% on ₹ 49,789 for 10 months)	6,223
				By Bank A/c	10,000
				By Profit & Loss A/c (Loss) (*Balancing fig.*)	33,566
		49,789			49,789

Working Notes:

i. Repair cost is not capitalized since it is a routine expense and it does not increase the capacity of the machine.

ii. Cost of dismantling has been deducted from the sale price for calculating loss on sale of machine.

Illustration 10:

ABC Ltd. purchased second hand machinery on 1st April, 2006 for Rs. 3, 70,000 and installed it at a cost of Rs. 30,000. On 1st October, 2007 it purchased another machinery for Rs. 1, 00,000 and on 1st October, 1998, it sold off the first machine purchased in 2006, for Rs. 2, 80,000. On the same date it purchased a machinery for Rs. 2, 50,000. On 1st October, 2009, the second machinery purchased for Rs. 1, 00,000 was sold off for Rs. 20,000.

In the beginning depreciation was provided on Machinery at rate of 10% p.a. on the original cost each year on 31st March. From the year 2007-2008, however, the company changed the method of providing depreciation and adopted the written down value method, the rate of Depreciation being 15%.

Give machinery A/c for the period 2006-2010.

Solution: Working:

(i) *Machine sold on 1st October, 2008*

w.d.v. on April 1, 2008	3,06,000
Less: Dep. @ 15% p.a. for 6 months	22,950
	2,83,050
Less: Sale	2,80,000
Loss	3,050

(ii) *Machinery Sold in 1st October, 2009*

W.D.V. on April 1, 2009	78,625
Less: Dep. @ 15% p.a. for 6 months	5,897
	72,728
Less: Sale	20,000
Loss	52,728

Machinery A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2006			2007		
April 1	To Bank	3,70,000	March 31	By Depreciation A/c	40,000
April 1	To bank	30,000	March 31	By Balance c/d	3,60,000
		4,00,000			4,00,000
2007			2008		
April 1	To balance b/d	3,60,000	Mar. 1	By Depreciation A/c (54000 + 7500)	61,500
Oct. 1	To Bank	1,00,000	Mar. 1	By Balance c/d (3,06,00 + 92,500)	3,98,500
		4,60,000			4,60,000
2008			2009		
April 1	To balance b/d	3,98,500	Oct. 1	By Bank	2,80,000
Oct. 1	To Bank	2,50,000	Oct. 1	By Dep.	22,950
			Oct. 1	By P&L A/c (Loss)	3,050
			2009		
			Mar. 31	By Depreciation A/c (13875 + 18750)	32,625
			Mar. 31	By Balance c/d (78,625 + 231,250)	3,09,875
		6,48,500			6,48,500
2009			2009		
April 1	To Balance b/d	3,09,875	Oct. 1	By Bank	20,000
			Oct. 1	By Depreciation	5,897
				By P&L A/c (Loss)	52,728
			2010		
			Mar. 31	By Depreciation	34,688
			Mar. 31	By Balance c/d	1,96,562
		3,09,875			3,09,875

Illustration 11:

On 1st January, 2000, Asha Ltd. purchased machinery for Rs. 12, 00,000 and on 30 June, 2001, one more machine of worth Rs. 2, 00,000. On 31 March, 2002, one of the original machinery which had cost Rs. 50,000 was found to have become obsolete and was sold as scrap for Rs. 7,000. It was replaced on that date by a new machine costing Rs. 80,000. Depreciation is to be provided @ 15% p.a. on W.D.V. method. Accounts are closed on 31 December every year. Show machinery A/c for 3 years.

Solution:

Machinery A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2000			2000		
Jan. 1	To Bank	12,00,000	Dec. 31	By Depreciation A/c	1,80,000
			Dec. 31	By Balance c/d	10,20,000
		12,00,000			12,00,000

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2001			2001		
Jan. 1	To Balance b/d	10,20,000	Dec. 31	By Depreciation	1,68,000
June 30	To Bank	2,00,000	Dec. 31	By Bal. c/d	10,52,000
		12,20,000			12,20,000
2002			2002		
Jan. 1	To Balance b/d	10,52,000	Mar. 31	By Bank (sale)	7,000
March 31	To Bank	80,000	Mar. 31	By Depreciation A/c	13,50
			Dec. 31	By P&L A/c (Loss)	27,770
				By Depreciation (1,52,380 + 9000)	1,61,280
				By Bal. c/d	9,34,300
		11,32,000			11,32,000
2003 Jan. 1	To Balance b/d	9,34,300			

Illustration 12:

Y Ltd. company purchased a second hand machinery on 1st January, 2009 for Rs. 3,70,000 and immediately spent Rs. 20,000 on its repairs and Rs. 10,000 for installation. On 1st July, 2010, it purchased another machine for Rs. 1, 00,000.

On 1st July, 2011, it sold off the first machine for Rs. 2, 50,000 and bought another for Rs. 3, 00,000 Depreciation was provided on the machine @ 10% on original cost annually on 31st December. With effect from 1st January, 2012, the company changed the method of providing Depreciation and adopted the W.D. V. method and rate of Depreciation was 15% p.a.

Prepare machinery A/c for 4 years.

Solution: Machinery A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2009			2009		
Jan. 1	To Bank	3,70,000	Dec. 31	By Dep. A/c	40,000
	To Bank	30,000	Dec. 31	By Balance c/d	3,60,000
		4,00,000			4,00,000
2010			2010		
Jan. 1	To Balance b/d	3,60,000	Dec. 31	By Dep. (40000 + 5000)	45,000
July 1	To Bank	1,00,000	Dec. 31	By Balance c/d	4,15,000
		4,60,000			4,60,000
2011			2011		
Jan. 1	To Balance b/d	4,15,000	July 1	By Depreciation	20,000
July 1	To Bank	3,00,000	July 1	By Bank	2,50,000
			July 1	By P&L A/c (Loss)	50,000
			Dec. 31	By Depreciation (10,000 + 5000)	25,000
			Dec. 31	By Balance c/d (78,625 + 231,250)	3,70,000
		7,15,000			7,15,000
2012			2012		
Jan. 1	To Balance b/d	3,70,000	Dec. 31	By Depreciation	55,500
				By Balance c/d	3,14,500
		3,70,000			3,70,000

Illustration 13:

M Ltd. which depreciates its machinery @ 10% p.a. according to D.B.M. (Diminishing Balance Method), had on 1st April, 2006 Rs. 4, 86,000 balance in its machinery A/c. During 2004 the year ended 31st March, 2007, the machinery purchased on 1st April, 2004 for Rs. 60,000 was sold for Rs. 40,000. On 1st October, 2006 and a new machinery costing Rs. 70,000 was purchased and installed on the same date, installation charges Rs. 5000.

The Company wants to change its method of depreciation from W.D.V to Straight line method w.e.f. 1st April, 2004 and adjust the difference before 31st March, 2007, the rate of Depreciation remaining the same as before.

Show Machinery A/c for the year ended 31st March, 2007.

Solution: In the books of M. Ltd.

Machinery A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2006			2006		
April 1	To Balance b/d	4,80,000	Oct. 1	By Bank	40,000
			Oct. 1	By P&L A/c (Loss)	6,170
Oct. 1	To Bank	70,000			
Oct. 1	To Bank	5,000	2007	By Depreciation	60,180
			Mar. 31	By P&L A/c (Dep.)	5,400
				By balance c/d	4,49,250
		5,61,000			5,61,000

Working:

(*i*) Machinery sold on Oct. 1st, 2006

Cost on April, 2004	60,000
Less: Dep. for 2004–05	6,000
	54,000
Less: Dep. for 2005–06	5,400
	48,600
Less: Dep. for 06–07 for 6 months	2,430
	46,170
Less: Sale	(40,000)
Loss	6,170

(*ii*) Additional Depreciation

Cost of Machinery on April 1st, 2004	
$4,86,000 \times \frac{10}{9} \times \frac{10}{9}$	₹ 6,00,000
Less: Book Value of Machinery	
Sold on October 1 2006	₹ 60,000
Book value on April 1st, 2004	₹ 5,40,000
Dep. for 2004–05 & 2005–06 @ 10% p.a. (54,000 + 54,000)	1,08,000
Less: Dep. for 2004–05, 2005–06	
Already charged under W.D.V (54,000 + 48,600)	1,02,600
Difference	5,400

(*iii*) Dep. for 2006–07

On Machine sold	2,430
On New Machine	3,750
On old Machinery	54,000
	60,180

Illustration 14:

Manoj Ltd. purchased a Computer Costing Rs. 80,000 on January 2000. The expected life is 5 years and scrap value Rs. 5000. Find the annual depreciation for 5 years by sum-of- years-digit methods.

Solution:

$C = 80,000$ $\quad\quad S = 5000$ $\quad\quad N = 5$

$$\text{Annual Depreciation} = \frac{N(C - S)}{\text{Sum}}$$

$$\text{Where Sum} = \frac{N(N+1)}{2}$$

$$\text{Sum} = \frac{5(5+1)}{2} = 15$$

Year	*Calculation*	*Depreciation*
1.	$\frac{5(75,000)}{15}$	₹ 25,000
2.	$\frac{4(75,000)}{15}$	₹ 20,000
3.	$\frac{3(75,000)}{15}$	₹ 15,000
4.	$\frac{2(75,000)}{15}$	₹ 10,000
5.	$\frac{1(75,000)}{15}$	₹ 5,000

Illustration 15:

A bus was purchased by a Transport Company for Rs. 10, 00,000 on 1st January, 2000. The scrap value is estimated at the end of 5 years Rs. 1, 00,000. The rate of depreciation is 20% p.a. Calculate the annual Depreciation by Double Declining method.

Solution:

The rate of Depreciation = 20 x 2 = 40% p.a.

End of Year	Asset Cost at Beginning of Year	Amount of Depreciation
1	1,00,000	4,00,000
2	6,00,000	2,40,000
3	3,60,000	1,44,000
4	2,16,000	86,400
5	1,29,600	51,840

4. Unit of Production Method:

Under this method depreciation expense is allocated in proportion to the degree of asset used for production because estimation of useful life is done in terms of units of output or services hour and not a calendar time period. A machine can produce a limited number of quantity or run for a limited hour. As a result of this limitation, the depreciation is related to usage and not to time.

Under this method, the following is calculated:

Depreciation Per annum = Dep. expense Per unit x No. of units produced during the year

Or

Dep. expense per hour x No. of hours used during the year

Dep. per unit = Cost – Scrap value/Total estimated unit of output or service hrs.

Illustration 16:

X Ltd., bought a machine for Rs. 4, 00,000 expected to run 72,000 hrs. Its salvage value is estimated at Rs. 40,000. Calculate depreciation for an accounting year in which it was used for 20,000 hrs.

Solution:

Dep. per hour = 4, 00,000 – 40,000/72,000

= 3, 60,000/72,000 = Rs. 5

Dep. Amount for Accounting period

= 2, 0000 x 5 = Rs. 1, 00,000

5. Annuity Method:

The main disadvantages of the different methods are that they do not consider the interest on the capital invested on fixed assets. Annuity method deals with the effect of cost of capital in depreciation calculation. It makes treatment more explicit by showing the interest payment in the P&L A/c.

Under this system the capital sum is assumed to earn a certain rate of interest. The assets are, therefore, charged with interest along with actual payment; interest is calculated on the debit balance of the assets on the commencement of the year.

The following journal entry is made:

Assets A/c Dr.

To Interest A/c

At the same time, fixed amount is charged as a depreciation expense so that it eliminates the asset or brings down its salvage value, as the case may be. The important point to be noted is that the amount of depreciation to be charged every year must be calculated as to reduce the assets together with interest accumulated thereon to its salvage value at the end of the useful life of the assets.

Illustration 17:

X Ltd. acquires a lease costing Rs. 2, 00,000 on April 1st, 1997 for a term of 4 years. You find from annuity tables that in order to write off lease on the annuity method at 6% p.a. interest, the amount to be written off annually works out to be Rs. 2,88,591 for every rupee. Prepare lease A/c for 4 years. Books are closed on 31st March every year.

Solution:

Lease A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1997			1998		
April 1	To Bank	2,00,000	March 31	By Dep.	57,718
	To Interest (6% of ₹ 20,000)	12,000		By Bal. c/d	1,54,282
		2,12,000			2,12,000
1998			1999		
April 1	To Bal. b/d	1,54,282	March 31	By Dep.	57,718
	To Interest (6% of ₹ 1,54,282)	9,527		By Bal. c/d	1,05,821
		1,63,539			1,63,539

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1999			2000		
April 1	To Bal. b/d	1,05,821	Mar. 31	By Dep.	57,718
	To Interest (6% of ₹ 1,05,821)	6,349		By Bal. c/d	54,452
		1,12,170			1,12,170
2000			2000		
April 1	To Balance b/d	54,452	Mar. 31	By depreciation	57,718
	To Interest (*balancing fig.*)	3,266			
		57,718			57,718

Working:

Depreciation = Rs. 2, 00,000 x .288591

= Rs. 57,718.2

7. Sinking Fund Method:

Under this method, the amount of depreciation goes on accumulating till the asset is completely worn out. This method provides necessary cash to replace the asset at end of its useful life. The amount of depreciation is fixed and remains same for every year and is charged to P&L A/c.

The amount of depreciation is invested outside the business every year. The process of investing amount of depreciation and interest goes on till the time of replacement of asset. At the time of replacement all the investments are sold out and cash received, and the new asset purchased.

Journal Entries:

(a) At the end of first year.

(i) For setting aside amount of Depreciation

Depreciation A/c Dr.

To Sinking Fund A/c

(ii) For transfer of Depreciation A/c to P&L A/c

P&L A/c Dr.

To Depreciation A/c

(iii) For Investment of Amount

Sinking Fund Investment A/c Dr.

To Bank A/c

(b) Subsequent Year

(i) For receiving interest

Bank A/c Dr.

To sinking fund A/c

(ii) For setting aside amount of Depreciation

(iii) Depreciation A/c Dr.

To Sinking fund A/c

(iv) For transferring Depreciation A/c to P&L A/c

P&L A/c Dr.

To Depreciation A/c

(v) For investing amount of depreciation + interest received

Sinking fund investment A/c Dr.

To Bank A/c

(c) Last Year

(i), (ii) & (iii) entry remain same as in (b), but amount is not invested.

(iv) On sale of investment

Bank A/c Dr.

Sinking Fund A/c (if loss) Dr.

To Sinking Fund Investment A/c

To Sinking fund (in profit)

(v) On Sale of Asset

Bank A/c Dr.

To Asset A/c

(vi) Sinking Fund A/c balance is transferred to asset a/c and any balance left in the asset a/c is transferred to P&L A/c.

Illustration 18:

X Ltd. Bought a, machinery for Rs. 2, 00,000 on 1st January, 2000. The useful life was estimated at 3 years with a scrap value of Rs. 20,000. The Company uses Sinking Fund Investment Method, investment to carry 5% p.a. Interest. The sinking Fund Table shows that 31720 at 5% p.a. will in 3 years accumulate to Re. 1. Prepare Machinery A/c, Sinking Fund A/c & S.F. Investment.

Solution:

Machinery A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2002 Jan. 1	To Bal. b/d	2,00,000	2002 Dec. 31	By Sinking Fund A/c By cash	1,80,000 20,000
		2,00,000			2,00,000

Sinking Fund A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2000, Jan. 31	To Bal. c/d	57,097	2000, Dec. 31	By Dep. A/c	57,097
2001, Dec. 31	To Bal. c/d	1,17,053	2001, Jan. 31	By Bal. b/d	57,097
			Dec. 31	By Dep.	57,097
			Dec. 31	By Interest	2,859
		1,17,053			1,17,053
2002 Dec. 1	To Machinery A/c	1,80,000	2002 Jan., 31	By Bal. c/d	1,17,053
			Dec. 31	By Dep.	57,097
				By Interest	5,850
		1,80,000			1,80,000

Sinking Fund Investments A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2000, Jan. 1	To Bank	57097	2000, Dec. 31	By Bal. c/d	57,097
2002. Jan. 1	To Balance b/d	57097	2002, Dec. 31	By Bank	1,17,053
Jan. 1	To Bank	59,956			
		1,17,053			1,17,053

Illustration 19:

(Insurance Policy Method) Y Ltd. purchased a Machinery for Rs. 4, 00,000 on 1st January, 2007 to be replaced after 4 years. An Insurance Policy is taken to ensure availability of funds at the time of replacement, the annual premium being Rs. 90,000.

Prepare Machinery A/c, Dep. Fund A/c, Dep. Fund Policy A/c.

Solution:

Machinery A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2010 1 Jan.	To Bal. b/d	4,00,000	2010 Dec. 31	By Dep. Fund A/c	4,00,000

Depreciation A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2007 Dec. 31	To Bal. c/d	90,000	2007 Dec. 31	By Dep. A/c	90,000
2008 Dec. 31	To Bal. c/d	1,80,000	2008 Jan. 1	By Balance b/d	90,000
			Dec. 31	By Dep. A/c	90,000
		1,80,000			1,80,000
2009 Dec. 31	To Bal. c/d	2,70,000	2009 Jan. 1	By Bal. b/d	1,80,000
			Dec. 31	By Dep. A/c	90,000
		2,70,000			2,70,000
2010			2010		
Dec. 31	To Machinery A/c	4,00,000	Dec. 31	By Bal. b/d	2,70,000
			Dec. 31	By Dep. A/c	90,000
			Dec. 1	By Dep. Fund Policy A/c	40,000
		4,00,000			4,00,000

Depreciation Fund Policy A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2007 Jan. 1	To Bank	90,000	2007 Dec. 31	By Bal. c/d	90,000
2008 Jan. 1	To Bal. b/d	90,000	2008 Dec. 31	By Bal. c/d	1,80,000
	To Bank	90,000			
		1,80,000			1,80,000
2009 Jan. 1	To Bal. b/d	1,80,000	2009 Dec. 31	By Bal. c/d	2,70,000
	To Bank A/c	90,000			
		2,70,000			2,70,000
2010 Jan. 1	To Bal. b/d	2,70,000	2010 Dec. 31	By Bank	4,00,000
	To Bank A/c	90,000			
		40,000			
	To depreciation Fund (Profit)	40,000			
		4,00,000			4,00,000

Illustration 20:

General Manufacturers had a debit of balance of Rs. 8, 00,000 in their machinery account on 1.1.2000. The concern was charging depreciation @ 15% p.a. on diminishing balance. On 31.3.2000, a part of the machinery purchased on 1.1.1997 at a cost of Rs. 70,000 was sold for Rs. 45,000. New machinery was purchased for Rs. 80,000 on 1.7.2000 and Rs. 6,700 was spent for installation. On 31.12.2000 the concern decided to change the depreciation method from diminishing balance method to straight-line method. It was also decided to charge depreciation @ 10% p.a. under the new method. Prepare machinery account for the year 2000.

Solution: **Machinery A/c**

Dr.		(₹)	Cr.		(₹)
1.1.2000	To Balance b/d	8,00,000	31.3.2000	By Bank	45,000
31.3.2000	To Profit & Loss A/c (Profit on sale) (1)	3,623	31.12.2000	By Depreciation (3)	1,29,214
1.7.2000	To Bank	86,700	31.12.2000	By balance	8,21,964
31.12.2000	To Profit and Loss A/c (Excess depreciation charged) (2)	1,05,855			
		9,96,178			9,96,178

1. Calculation of Profit/Loss on sale of machinery

	(₹)
Cost of machinery sold	70,000
Depreciation for 1997	10,500
	59,500
Depreciation for 1998	8,925
	50,575
Depreciation for 1999	7,586
	42,989
Depreciation for 2000 (*i.e.*, for 3 months)	1,612
	41,377
Realisation from sale	45,000
Book value at the time of sale	41,377
Profit on sale of machinery	3,623

2. Additional/Excess depreciation due to change in the method of depreciation

	(₹)
Book value of of machinery on 1.1.2000	8,00,000
Book value on 1.1.1997 (8,00,000) × (100/85) × (100/85) × (100/85)	13,02,666
Cost of machinery	70,000
	12,32,666
Depreciation for 1997 under WDV	1,84,900
	10,47,766
Depreciation for 1998 under WDV	1,57,165
	8,90,601
Depreciation for 1999 under WDV	1,33,590
	7,57,011
Depreciation under WDV @ 15% p.a. (1,84,900 + 1,57,165 + 1,33,590)	4,75,655
Depreciation under SLM @ 10% p.a. for 3 years	3,69,800
Excess depreciation charged	1,05,855

3. Depreciation for 2000

	(₹)
Depreciation (on machinery sold) for 1997 for 3 months	1,612
Depreciation on remaining machinery purchased on 1.1.1996	1,23,267
Depreciation on newly purchased machinery for 6 months	4,335
	1,29,214

Illustration 21:

A limited company purchased on 1st January, 1998 a second-hand plant for Rs. 12,000 and immediately spent Rs. 8,000 on its overhauling. On 1st July in the same year additional plant costing Rs. 10,000 is purchased. On 1st July, 2000 the plant purchased on 1st January, 1998 having become obsolete is sold for Rs. 4,000 and on the same date fresh plant is purchased at a cost of Rs. 24,000.

Depreciation is provided @ 10% per annum on original cost on 31st December every year. In 2001, however, the company changes the method of providing depreciation and adopts the method of writing off 15% per annum on the diminishing balance method.

Show the Plant Account from 1998 to 2001.

Solution:

Dr. **Plant Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1998 Jan. 1	To Bank A/c ₹ (12,000 + 8,000)	20,000	1998 Dec. 31	By Depreciation A/c ₹ (2,000 + 500)	2,500
1998 July 1	To Bank A/c	10,000		By Balance c/d	27,500
		30,000			30,000
1999 Jan. 1	To Balance b/d	27,500	1999 Dec. 31	By Depreciation A/c	3,000
				By Balance c/d	24,500
		27,500			27,500
2000 Jan. 1	To Balance b/d	24,500	2000 July 1	By Bank A/c	4,000
2000 July 1	To Bank A/c	24,000		By Depreciation A/c	1,000
				By Profit & Loss A/c Loss* 11,000 ₹ (20,000 − 5,000 − 4,000)	
			Dec. 31	By Depreciation A/c ₹ (1,000 + 1,200)	2,200
				By Balance c/d	30,300
		48,500			48,500
2001 Jan. 1	To Balance b/d	30,300	2001 Dec. 31	By Profit & Loss A/c* (Additional Depreciation)	1,416
				By Depreciation A/c (15% on ₹ 28,884)	4,332
				By Balance c/d	24,552
		30,300			30,300
2002 Jan. 1	To Balance b/d	24,552			

Working Notes:

***1 Computation of Loss on Sale of machinery on 1.7.2000** ₹

	₹
Cost of machinery sold (as on 1.1.98)	20,000
Less: Depreciation @ 10% p.a. for $2\frac{1}{2}$ years on original cost	5,000
Book value as on 1.7.2000	15,000
Less: Realised Value	4,000
Loss on Sale of Machinery	11,000

*2 **Computation of Depreciation on change of method on additional plant:**

	S.L.M. @ 10% (₹)	W.D.V. @ 15% (₹)
Cost of machinery in use on 1.7.1998	10,000	10,000
Less: Depreciation for 1998	500	750
Book Value on 1.1.1999	9,500	9,250
Less: Depreciation for 1999	1,000	1,387
Book Value on 1.1.2000	8,500	7,863
Add: Addition to Machinery on 1.7.2000	24,000	24,000
	32,500	31,863
Less: Depreciation	2,200	2,979
Book value on 1.1.2001	30,300	28,884

∴ Additional Depreciation ₹ (30,300 – 28,884) = ₹ 1,416

W.D.V. of machinery as per new method on 1.1.2001 = ₹ 28,884.

Illustration 22:

On January 1, 2001 X Ltd. purchased a machine for Rs. 58,000 and spent Rs. 2,000 on its erection. On July 1, 2001, an additional machine costing Rs. 20,000 was purchased. On July 1, 2003 the machine purchased on 1.1.2001 was sold for Rs. 28,600 and on the same date a new machine was purchased at a cost of Rs. 40,000.

Depreciation was provided for annually on December 31, at the rate of 10% p.a. on written down value of the machinery. In 2004 the company decided to change the method of depreciation from Written down Value Method to Straight Line Method @ 5% p.a. with effect from 1st January, 2001. Prepare the Machinery Account from the first calendar years.

Solution:

Dr. **Machinery Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
01.01.01	To Bank A/c	58,000	31.12.01	By Depreciation A/c	7,000
01.01.01	To Bank A/c (erection charges)	2,000		By Balance c/d	73,000
01.07.01	To Bank A/c	20,000			
		80,000			80,000
01.01.02	To Balance b/d	73,000	31.12.02	By Depreciation A/c	73,000
				By Balance c/d	65,700
		73,000			73,000
01.01.03	To Balance b/d	65,700	01.07.03	By Bank A/c	28,600
01.07.03	To Bank A/c	40,000	01.07.03	By Depreciation A/c (on Machinery sold)	2,430
			01.07.03	By Profit & Loss A/c	17,570
			31.12.03	By Depreciation A/c	3,710
			31.12.03	By Balance c/d	53,390
		1,05,700			1,05,700
01.01.04	To Balance b/d	53,390	31.12.04	By Depreciation A/c	3,000
31.12.04	To P&L A/c* (Depreciation written back on account of change from WDV Method to Straight Line Method)	3,110		By Balance c/d	53,500
		56,500			56,500

Working Notes:

***, Calculation of Short/Excess Depreciation on Existing Machines**

Year A	Machine B	Cost C	WDV as on 1.1.04 D	Dep. under WDV E = C – D	Dep. under SLM F
2001	II	20,000	(20,000 × 95/100 × 90/100 × 90/100) = 15,390	4,610	(20,000 × 5% × 2½ = 2,500
2003	III	40,000	(40,000 × 95/100) = 38,000	2,000	(40,000 × 5% × ½ = 1,000
		60,000	53,390	6,610	3,500

Excess Depreciation provided

= Depreciation under Old Method – Depreciation under New Method

= Rs. 6,610 – Rs. 3,500 = Rs. 3,110.

Illustration 23:

The Plant and Machinery Account of a company had a debit balance of Rs. 1, 47,390 on April 1st, 2006. The company was incorporated in April, 2003 and has been following the practice of charging full year's depreciation every year on Diminishing Balance System @ 15%.

In 2006 it was, however, decided to change the method from Diminishing Balance to Straight Line with retrospective effect from April, 2003 and to give effect to the change while preparing the final accounts for the year ending 31st March, 2007, the rate of depreciation remaining same as before.

In 2006-07, new machinery was purchased at a cost of Rs. 50,000. All the other machines were acquired in 2003-04.

Show the Plant and Machinery Account from 2003-04 to 2006-07.

Solution:

Dr. **Plant and Machinery Account** Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
01.04.03	To Bank A/c*	2,40,000	31.03.04	By Depreciation A/c [15/100 × ₹ 2,40,000]	36,000
				By Balance c/d	2,04,000
		2,40,000			2,40,000
01.04.04	To Balance b/d	2,04,000	31.03.05	By Depreciation A/c [15/100 × ₹ 2,04,000]	30,600
				By Balance c/d	1,73,400
		2,04,000			2,04,000
01.04.05	To Balance b/d	1,73,400	31.03.06	By Depreciation A/c [15/100 × ₹ 1,73,400]	26,010
				By Balance c/d	1,47,390
		1,73,400			1,73,400
01.04.06	To Balance b/d	1,47,390	01.04.06	By Profit & Loss A/c* (Additional Depreciation)	15,390
	To Bank	50,000	31.03.07	By Depreciation A/c*	43,500
				By Balance c/d	1,38,500
		1,97,390			1,97,390

Working Notes: ₹

*1 *Calculation of Cost Price of Plant on 1st April, 2003:*

Let Cost Price on 1st April, 2003	100.00
Less: Depreciation (2003–04) [15% of ₹ 100.00]	15.00

		85.00
Less: Depreciation (2004–05) [15% of ₹ 85.00]		12.750
		72.250
Less: Depreciation (2005–06) [15% of ₹ 72.250]	(approx.)	10.828
		61.412

Cost Price on 1st April, 2003 $= \frac{100}{61.412} \times$ (₹) 1,47,390 = (₹) 2,40,000 (approx)

*2 *Calculation of Depreciation:*

	S.L.M. ₹	D.B.M. ₹
Cost (1.4.2003)	2,40,000	2,40,000
Less: Depreciation (2003–04)	36,000	36,000
	2,04,000	2,04,000
Less: Depreciation (2004–05)	36,000	30,600
	1,68,000	1,73,400
Less: Depreciation (2005–06)	36,000	26,010
	1,32,000	1,47,390

Difference on Account of change in method of Depreciation:
(₹ 1,47,390 – ₹ 1,32,000) = ₹ 15,390
∴ Additional Depreciation to be transferred to P&L A/c = ₹ 15,390

*3 *Calculation of Depreciation for 2006–07*

	₹
On Old Machinery	36,000
On New machinery [@ 15% of ₹ 50,000]	7,500
	43,500

Illustration 24:

M/s Hot and Cold commenced business on 1st April, 2002 when they purchased a new machinery costing Rs. 8, 00,000. On 1st October, 2003, they purchased another machinery for Rs. 6, 00,000 and again on 1st July, 2006, machinery costing Rs. 15, 00,000 was purchased. They adopted a policy of charging @ 20% p.a. on diminishing balance basis.

On April 1st, 2006, they, however, changed the method of providing depreciation and adopted the method of writing-off the machinery account at 15% p.a. under straight line method with retrospective effect from 1st April, 2002, the adjustment being made in the accounts for the year ended 31st March, 2007.

Show the Machinery Account for the year ending 31st March, 2007.

Solution: **Machinery Account**

Date	Particulars	₹	Date	Particulars	₹
2002	To Bank	8,00,000	2003	By Depreciation	1,60,000
April 1			March 31	By Balance c/d	6,40,000
		8,00,000			8,00,000
2003			2004		
April 1	To Balance b/d	6,40,000	March 31	By Depreciation	1,88,000
October 1	6,00,000	6,00,000		By Balance c/d	10,52,000
		12,40,000			12,40,000

Date	Particulars	₹	Date	Particulars	₹
2004			2005		
April 1	To Balance b/d	10,52,000	March 31	By Depreciation	2,10,400
				By Balance c/d	8,41,600
		10,52,000			10,52,000
2005			2006		
April 1	To Balance b/d	8,41,600		By Depreciation	1,68,320
				By Balance c/d	6,73,280
		8,41,600			8,41,600
2006			2007		
April 1	To Balance b/d	6,73,280	March 31	By Depreciation	3,78,750
July 1	To Bank	15,00,000		By Balance c/d	18,16,250
2007	To Profit and Loss A/c				
March 31	(Depreciation written back)	21,720			
		21,95,000			21,95,000

Working Notes:

Machine No. 1

Depreciation for 4 years:	SLM	4,80,000
	WDV	4,72,320
∴ Depreciation to be charged		7,680

Machine No. 2

Depreciation for 2½ years:	SLM	2,25,000
	WDV	2,54,400
Depreciation to be written back		29,400
Result: Depreciation to be written back in 2006–07		21,720

UNIT III

Single entry system

Introduction

Single entry system is a system of book keeping in which incomplete records are maintained. Under this system, records of only cash and personal accounts are maintained. There are no defined set of rules to be followed. It is particularly suitable for small businesses with a limited number of transactions. Accounts maintained under this system are known as incomplete double-entry records.

Many small businesses use a single entry system mainly for the convenience it offers. Although a single entry system records only the bare essentials, it is attractive for companies that:

- Have no or few employees (meaning a more detailed bookkeeping system would be impossible or too cost prohibitive to implement).
- Use “Cash basis accounting” over “Accrual accounting” (Accrual accounting records when a transaction occurs, not when the cash is exchanged).
- The firm has few financial transactions (Imagine that orthotic company, it’s likely they have only a half dozen transactions in a given day due to the nature of its business).
- Do not sell on credit or installment plans (meaning amounts are paid in full immediately).
- Have few physical assets like buildings, equipment and vehicles.

Advantages and Disadvantages of Single Entry System?

The advantages of a single entry system are as follows:

- Simplicity. The system is very simple to execute, very little needs to be recorded (meaning, a lot of time saved).
- Cost savings. A business does not need special software or complicated programs to develop a single entry system spreadsheet. They do not need staff with an accounting background, nor do they need to contact a professional accountant or bookkeeper for their services. This is because a single entry system does not need to self-balance.
- Convenience. A business is unlikely to become overdrawn on its bank account, since the balance is continually updated. At a glance, a small business owner can see their balance at any time.

Single entry records can even be written down, if updated and maintained properly. You may still see some very small businesses recording entries this way in a journal.

The disadvantages to a single entry system are considerable:

- Insufficient data to generate proper financial statements. You cannot generate the following from data entered via a single entry system:
- Inability to strategize. Without proper bookkeeping, such as that which a Double Entry system provides, management cannot properly assess the company’s financials and plan change for the future. This could affect revenue for the organization and its ability to continue to operate.
- Tax problems. A single entry system may help in general with bookkeeping, but it is not acceptable to tax authorities due to the incomplete nature of the data recorded.
- Theft. Criminal activity is less likely to be detected (this is because assets are not tracked).
- Errors. Mistakes are much more likely because the system does not need to self-balance. This means some mistakes in recording a transaction may take a long time to find, or are never discovered. An audit would have to be done manually, line by line.

The size of the business and the amount of income and expenses that it incurs will really help it determine whether a single entry system is appropriate or whether something more detailed is needed.

What Is the Difference Between Single Entry and Double Entry?

A single entry system records entries once, with only the most basic information. A double entry system requires a much more detailed bookkeeping process, where every entry has an additional corresponding entry to a different account. Consider the word “double” in “double entry” standing for “debit” and “credit”. The two totals for each must balance, otherwise there is an error in the recording.

Let’s work with an example. Suppose your orthotic company needed a new machine to build the shoe inserts, and its costs $12,000. In a single entry system, you would have just recorded the very basic information regarding this expense, such as the date and amount. With a double entry system, you would record the $12,000 as a debit to increase your “Equipment” expense account, and as a $12,000 credit to decrease your balance sheet (or cash remaining). As you can see, a double entry system requires more work and more organization from the outset.

A double entry system will also allow for detailed financial comparisons from year to year, so you can better track change in the company’s income or expenses. This system also provides better accuracy (by detecting errors more quickly) and is more effective in preventing fraud or mismanagement of funds.

There are real disadvantages to a double entry system too, but they must be weighed against the previously mentioned benefits to the company. The disadvantages are:

- The system is much more complex and harder to implement.
- Time-consuming. Every transaction needs to be entered twice, and double-checked.
- Costly. Business may need to go to the expense of hiring an accountant or bookkeeper or train staff to learn special software. As the company grows or sales increases, these costs will climb because more work will be required to enter and manage the numbers.
- Errors of omission can happen, meaning an entire transaction is not recorded. The total will still tally, because there is no way for the system to know the transaction is missing. That’s because it’s missing in both the credit and debit accounts.

When considering the type of bookkeeping entry system for a business, once must consider that a single entry system might be helpful to a small company that is trying to get off the ground, but that as it grows it will likely find itself in need of a double entry system. That is the time where a business would benefit from consulting an accountant or experienced bookkeeper, and to properly assess a few of the different types of double entry accounting software systems that are available.

A double entry system will provide complete records and allows for the creation of proper financial statements. Although it may free up business owners time to concentrate on other things, it can be costly. The pros usually outweigh the cons and because of its effectiveness, often a double entry system is required by law for public businesses.

Question 15:

Manu started business with a capital of ₹ 4,00,000 on 1st October, 2005. He borrowed from his friend a sum of ₹ 1,00,000. He brought further ₹ 75,000 as capital on 31st March, 2006, his position was:
Cash: ₹ 30,000; Stock: ₹ 4,70,000; Debtors: ₹ 3,50,000 and Creditors: ₹ 3,00,000.
He withdrew ₹ 8,000 per month during this period. Calculate profit on loss for the period.

ANSWER:

Statement of Affairs

for the year ending March 31, 2006

Liabilities	**Amount Rs**	**Assets**	**Amount Rs**
Creditors	3,00,000	Cash	30,000
Loan from Friend	1,00,000	Stock	4,70,000
		Debtors	3,50,000
Capital (*Balancing Figure*)	4,50,000		
	8,50,000		8,50,000

Statement of Profit and Loss

for the year ending March 31, 2006

Particulars	**Amount Rs**

Capital as on March 31, 2006	4,50,000
Add: Drawings (8,000 × 6)	48,000
	4,98,000
Less: Additional Capital Introduced	(75,000)
Adjusted Capital as on March 31, 2006	4,23,000
Less: Capital as on Oct.01, 2005	(4,00,000)
Profit made during the year 2005-06	**23,000**

Question 1:

Following information of an accounting year is given:
Opening Capital ₹ 60,000; Drawings ₹ 5,000; Capital added during the year ₹ 10,000 and Closing Capital ₹ 90,000. Calculate the Profit or Loss for the year.

ANSWER:

Statement of Profit or Loss

Particulars	**Amount (Rs)**
Capital at the end	90,000
Add: Drawings	5,000
	95,000
Less: Additional Capital Introduced	(10,000)
Adjusted Capital at the end	85,000
Less: Capital in the beginning	60,000
Net Profit for the year	**25,000**

Question 2:

Mayank does not keep proper records of his business, he gives you the following information:

	₹
Opening Capital	1,00,000
Closing Capital	1,25,000
Drawings during the year	30,000
Capital added during the year	37,500

Calculate the profit or loss for the year.

ANSWER:

Statement of Profit or Loss

Particulars	**Amount (Rs)**
Capital at the end	1,25,000
Add: Drawings	30,000
	1,55,000
Less: Additional Capital Introduce	(37,500)
Adjusted Capital at the end	1,17,500
Less: Capital in the beginning	1,00,000
Net Profit for the year	**17,500**

Question 3:

Capital of Ganesh Gupta in the beginning of the year was ₹ 70,000. During the year his business earned a profit of ₹ 20,000, he withdrew ₹ 7,000 for his personal use. He sold ornaments of his wife for ₹ 20,000, and invested that amount into the business. Find out his Capital at the end of the year.

ANSWER:

Capital at the end = Opening Capital + Additional Capital + Profit − Drawings

= 70,000 + 20,000 + 20,000 − 7,000 = Rs 1,03,000

Question 4:

Vikas maintains his books of account on Single Entry System. He provides following information from his books. Find out additional capital introduced in the business during the year 2017–18.

Opening Capital–₹ 1,30,000 Drawing during the year ₹ 50,000

Closing Capital–₹ 2,00,000 Profit made during the year ₹ 1,00,000

ANSWER:

Additional Capital = Capital at the End + Drawings − (Capital in the Beginning + Profit)

= 2,00,000 + 50,000 − (1,30,000 + 1,00,000)

= 2,50,000 − 2,30,000 = Rs 20,000

Question 5:

Mohan maintains books on Single Entry System. He gives you the following information:

	₹
Capital on 1st April, 2017	15,200
Capital on 31st March, 2018	16,900
Drawings made during the year	4,800
Capital introduced on 1st August, 2017	2,000

You are required to calculat the Profit or Loss made by Mohan.

ANSWER:

Statement of Profit or Loss

Particulars	**Amount (Rs)**
Capital as on March 31, 2018	16,900
Add: Drawings	4,800

	21,700
Less: Addition Capital Introduced	(2,000)
Adjusted Capital as on March 31, 2018	19,700
Less: Capital as on April 01, 2017	(15,200)
Profit made during the year 2017-18	**4,500**

Question 6:

Mahesh who keeps his books on Single Entry System sells goods at Cost plus 50%. On 1st April, 2017 his Capital was ₹4,00,000 and on 31st March, 2018 it was ₹3,50,000. He had withdrawn ₹20,000 per month besides goods of the sale value of ₹60,000. How much did he earn in 2017-18?

ANSWER:

Statement of Profit/Loss

Particulars	Amount (₹)
Closing Capital	1,32,000
Less: Opening Capital	(1,00,000)
Add: Drawings	24,000
Profit for the Year	**56,000**

Working Notes:

Closing Statement of Affairs

Dr. **Cr.**

Liabilities	Amount (₹)	Assets	Amount (₹)

Creditors	12,000	Cash	3,200
Loan from Brother	10,000	Stock	34,800
Capital (*Bal. Fig.*)	1,32,000	Debtors	31,000
		Plant	85,000
	1,54,000		**1,54,000**

Question 7:

Krishan started his business on 1st April, 2017 with a Capital of ₹ 1,00,000. On 31st March, 2018, his assets were :

	₹
Cash	3,200
Stock	34,800
Debtors	31,000
Plant	85,000

He owed ₹ 12,000 to sundry creditors and ₹ 10,000 to his brother on that date. He withdrew ₹ 2,000 per month for the private expenses. Ascertain his profit.

ANSWER:

Statement of Affairs

as on March 31, 2018

Liabilities	**Amount (Rs)**	**Assets**	**Amount (Rs)**
Sundry Creditors	12,000	Cash	3,200
Brother's Loan	10,000	Stock	34,800

Capital (*Balancing Figure*)	1,32,000	Debtors	31,000
		Plant	85,000
	1,54,000		**1,54,000**

Statement of Profit or Loss

for the year end March 31, 2018

Particulars	Amount (Rs)
Capital as on March 31, 2018	1,32,000
Add: Drawings (Rs 2,000 × 12)	24,000
	1,56,000
Less: Capital as on April 01, 2017	(1,00,000)
Profit made during the year 2017-2018	**56,000**

Question 8:

Ram Prashad keeps his books on Single Entry System and from them and the particulars supplied, the following figures were gathered together on 31st March, 2018:
Book Debts ₹ 10,000; Cash in Hand ₹ 510; Stock-in-Trade (estimated) ₹ 6,000; Furniture and Fittings ₹ 1,200; Trade Creditors ₹ 4,000; Bank Overdraft ₹ 1,000; Ram Prashad stated that he started business on 1st April with cash ₹ 6000 paid into bank but stocks valued at ₹ 4,000. During the year he estimated his drawings to be ₹ 2,400. You are required to prepare the statement, showing the profit for the year, after writing off 10% for Depreciation on Furniture and Fittings.

ANSWER:

Books of Ram Prashad

Statement of Affairs

as on March 31, 2018

Liabilities	Amount	Assets	Amount

	(Rs)			(Rs)
Trade Creditors	4,000	Book Debts		10,000
Bank Overdraft	1,000	Cash in Hand		510
Capital (*Balancing Figure*)	12,590	Stock		6,000
		Furniture and Fittings	1,200	
		Less: 10% Depreciation	120	1,080
	17,590			**17,590**

Statement of Affairs

as on April 01, 2017

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Capital (*Balancing Figure*)	10,000	Bank	6,000
		Stock	4,000
	10,000		**10,000**

Statement of Profit or Loss

for the year and March 31, 2018

Particulars	Amount (Rs)
Capital as on March 31, 2018	12,590
Add: Drawings	2,400
	14,990
Less: Capital as on April 01, 2017	(10,000)
Profit made during the year 2017-18	**4,990**

Question 9:

Shruti maintains her books of account from Incomplete Records. Her books provide the following information:

	1st April, 2015 (₹)	31st March, 2016 (₹)
Cash	1,200	1,600
Bills Receivable	…	2,400
Debtors	16,800	27,200
Stock	22,400	24,400
Investments	…	8,000
Furniture	7,500	8,000
Creditors	14,900	11,600

She withdrew ₹ 500 per month for personal expenses. She sold her Investments of ₹ 16,000 at 5% premium and introduced the amount into business.
You are required to prepare a Statement of Profit or Loss for the year ending 31st March, 2016.

ANSWER:

Statement of Profit/Loss

Particulars	Amount (₹)
Closing Capital	60,000
Less: Opening Capital	(33,000)
Less: Additional Capital	(16,800)
Add: Drawings	6,000
Profit for the Year	**16,200**

Working Notes:

Opening Statement of Affairs

as on April 01, 2015

Dr. **Cr.**

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	14,900	Cash	1,200
Capital (*Bal. Fig.*)	33,000	Debtors	16,800
		Stock	22,400
		Furniture	7,500
	47,900		**47,900**

Closing Statement of Affairs

Dr. **Cr.**

Liabilities	Amount Rs	Assets	Amount Rs
Creditors	11,600	Cash	1,600
Capital (*Bal. Fig.*)	60,000	Bills Receivable	2,400
		Debtors	27,200
		Stock	24,400
		Investments	8,000
		Furniture	8,000
	71,600		**71,600**

Question 10:

Hari maintains her books of account on Single Entry System. His books provide the following information:

Particulars		1st April, 2017 (₹)	31st March, 2018 (₹)
Furniture	....	2,000	2,000
Stock	....	28,000	30,500
Sundry Debtors	....	21,000	34,000
Cash	....	1,500	2,000
Sundry Creditors	....	17,500	19,000
Bills Receivable	....	...	3,000
Loan	....	...	5,000
Investments	....	...	10,000

His drawings during the year were ₹ 5,000 Depreciate furniture by 10% and provide a reserve for Bad and Doubtful Debts at 10% on Sundry Debtors.

Prepare the statement showing the profits for the year.

ANSWER:

Statements of Affairs

as on April 01, 2017

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Sundry Creditors	17,500	Furniture	2,000
Capital (*Balancing Figure*)	35,000	Stock	28,000
		Sundry Debtors	21,000
		Cash	1,500
	52,500		**52,500**

Statement of Affairs

as on March 31, 2018

Liabilities	**Amount (₹)**	**Assets**		**Amount (₹)**
Sundry Creditors	19,000	Furniture	2,000	
Loan	5,000	*Less*: 10% Depreciation	(200)	1,800
Capital (*Balancing Figure*)	53,900	Stock		30,500
		Sundry Debtors	34,000	
		Less: 10% Reserve for Doubtful	(3,400	30,600

		Debts)	
		Cash	2,000
		Bills Receivables	3,000
		Investments	10,000
	77,900		**77,900**

Statement of Profit or Loss

for the year ended March 31, 2018

Particulars	Amount (₹)
Capital as on March 31, 2018	53,900
Add: Drawings	5,000
	58,900
Less: Capital as on April 01, 2017	(35,000)
Profit made during the year 2017-18	**23,900**

Question 11:

A commenced business on 1st April, 2017 with a capital of ₹ 10,000. He immediately bought Furniture and Fixtures for ₹ 2,000. On 1st October, 2017, he borrowed ₹ 5,000 from his wife @ 9% p.a. (interest not yet paid) and introduced a further capital of his own amounting to ₹ 1,500. A drew @ ₹ 300 per month at the end of each month for household expenses. On 31st March, 2018 his position was as follows:
Cash in Hand ₹ 2,800; Sundry Debtors ₹ 4,800; Stock ₹ 6,800; Bills Receivable ₹ 1,600; Sundry Creditors ₹ 500 and owing for Rent ₹ 150. Furniture and Fixtures to be depreciated by 10%. Ascertain the profit or loss made by A during 2017–18.

ANSWER:

Statement of Affairs

as on March 31, 2018

Liabilities		Amount ₹	Assets		Amount ₹
Wife's Loan	5,000		Furniture and Fixture	2,000	
Add: Outstanding Interest			*Less*: 10% Depreciation	(200)	1,800
(5,000 × 9% × 6/12)	225	5,225	Cash in Hand		2,800
Sundry Creditors		500	Sundry Debtors		4,800
Rent Outstanding		150	Stock		6,800
Capital (*Balancing Figure*)		11,925	Bills Receivable		1,600
		17,800			**17,800**

Statement of Profit or Loss

for the year ended March 31, 2018

Particulars	Amount ₹

Capital as on March 31, 2017	11,925
Add: Drawings (Rs 1,200 × 3)	3,600
	15,525
Less: Additional Capital Introduced	(1,500)
Adjusted Capital as on March 31, 2017	14,025
Less: Capital as on April 01, 2016	(10,000)
Profit made during the year 2016-17	**4,025**

Question 12:

Kuldeep, a general merchant, keeps his accounts on Single Entry System. He wants to know the results, of his business on 31st March, 2018 and for that following information is available:

Particulars		1st April, 2017 (₹)	31st March, 2018 (₹)
Cash in Hand	....	1,50,000	1,75,000
Bank Balance	....	7,50,000	8,00,000
Furniture	....	1,00,000	1,00,000
Stock	....	5,00,000	6,50,000
Creditors	....	3,50,000	4,00,000
Debtors	....	2,50,000	3,00,000

During the year, he had withdrawn ₹ 5,00,000 for his personal use and invested ₹ 2,50,000 as additional cpaital. Calculate his profits on 31st March, 2018 and prepare the Statement of Affairs as on that date.

ANSWER:

Statement of Affairs

as on April 01, 2017

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Creditors	3,50,000	Cash in Hand	1,50,000
Capital (*Balancing Figure*)	14,00,000	Bank Balance	7,50,000
		Furniture	1,00,000
		Stock	5,00,000
		Debtors	2,50,000
	17,50,000		**17,50,000**

Statement of Affairs

as on March 31, 2018

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Creditors	4,00,000	Cash in Hand	1,75,000
Capital (*Balancing Figure*)	16,25,000	Bank Balance	8,00,000
		Furniture	1,00,000
		Stock	6,50,000

		Debtors	3,00,000
	20,25,000		**20,25,000**

Statement of Profit or Loss

for the year ended March 31, 2018

Particulars	Amount ₹
Capital as on March 31, 2017	16,25,000
Add: Drawings	5,00,000
	21,25,000
Less: Additional Capital Introduced	(2,50,000)
Adjusted Capital as on March 31, 2017	18,75,000
Less: Capital as on April 01, 2016	(14,00,000)
Profit made during the year 2016-17	**4,75,000**

Question 13:

Following information is supplied to you by a shopkeeper:

Particulars	1st April, 2017 (₹)	31st March, 2018 (₹)
Cash	6,000	7,000

Sundry Debtors	....	68,000	64,000
Stock	....	59,000	87,000
Furniture	....	15,000	13,500
Sundry Creditors	....	20,000	18,000
Bills Payable	....	15,000	11,000

During the year, he withdrew ₹ 2,500 per month for dometstic purposes. He also borrowed from a friend at 9% a sum of ₹ 20,000 on 1st October, 2017. He has not yet paid the interest.
A provision of 5% on debotrs for doubtful debts is to be made.
Ascertain the profit or loss made by him during the period.

ANSWER:

Statement of Affairs

as on April 01, 2017

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**

Sundry Creditors	20,000	Cash	6,000
Bills Payable	15,000	Sundry Debtors	68,000
		Stock	59,000
Capital (*Balancing Figure*)	1,13,000	Furniture	15,000
	1,48,000		**1,48,000**

Statement of Affairs

as on March 31, 2018

Liabilities		Amount (₹)	Assets		Amount (₹)
Sundry Creditors		18,000	Cash		7,000
Bills Payable		11,000	Stock		87,000
9% Loan from Friend	20,000		Furniture		13,500
Add: Interest Outstanding (2,000 × 9% × 6/12)	900	20,900			
Capital (*Balancing Figure*)		1,18,400			
			Sundry Debtors	64,000	
			Less: 5% Provision for Doubtful Debts	(3,200)	60,800
		1,68,300			**1,68,300**

Statement of Profit or Loss

for the year ended March 31, 2018

Particulars	Amount (₹)
Capital as on March 31, 2017	1,18,400
Add: Drawings (Rs 250 × 12)	30,000
	1,48,400
Less: Capital as on April 01, 2016	(1,13,000)
Profit made during the year 2016-17	**35,400**

Question 14:

Vikas is keeping his accounts according to Single Entry System. His capital on 31st December, 2015 was ₹ 2,50,000 and his capital on 31st December, 2016 was ₹ 4,25,000. He further informs you that during the year he gave a loan of ₹ 30,000 to his brother on private account and withdrew ₹ 1,000 per month for personal purposes. He used a flat for his personal purpose, the rent of which @ ₹ 1,800 per month and electricity charges at an average of 10% of rent per month were paid from the business account. During the year he sold his 7% Government Bonds of ₹ 50,000 at 1% premium and brought that money into the business. Prepare a Statement of Profit or Loss for the year ended 31st December, 2016.

ANSWER:

Statement of Profit/Loss	
Particulars	**Amount (₹)**
Closing Capital	4,25,000
Less: Opening Capital	(2,50,000)
Less: Additional Capital	(50,500)
Add: Drawings	65,760
Profit for the Year	**1,90,260**

Note: *Drawings include loan to brother, withdrawals in cash, rent and electricity charges.*

Question 16:

From the following information relating to the business of Mr. *X* who keeps books on Single Entry System, ascertaint the profit or loss for the year 2017–18:

Particulars	1st April, 2017 (₹)	31st March, 2018 (₹)
Machinery	8,000	8,000
Furniture	2,000	2,000
Stock	7,000	5,000
Sundry Debtors	4,000	4,500
Bank Balance	200 (Cr.)	1,800 (Dr.)
Sundry Creditors	5,000	3,500

Mr. *X* withdrew ₹ 4,100 during the year to meet his household expenses. He introduced ₹ 300 as fresh capital on 15th January, 2018. Machinery and Furniture are to be depreciated at 10% and 5% p.a. respectively.

ANSWER:

Statement of Affairs

as on April 01, 2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Bank Overdraft	200	Machinery	8,000
Sundry Creditors	5,000	Furniture	2,000
Capital (*Balancing Figure*)	15,800	Stock	7,000
		Sundry Debtors	4,000

	21,000		21,000

Statement of Affairs

as on March 31, 2018

Liabilities	Amount (₹)	Assets		Amount (₹)
Sundry Creditors	3,500	Machinery	8,000	
Capital (*Balancing Figure*)	16,900	*Less*: 10% Depreciation	(800)	7,200
		Furniture	2,000	
		Less: 5% Depreciation	(100)	1,900
		Stock		5,000
		Sundry Debtors		4,500
		Bank Balance		1,800
	20,400			**20,400**

Statement of Profit or Loss

for the year ended March 31, 2018

Particulars	Amount (₹)
Capital as on March 31, 2017	16,900
Add: Drawings	4,100
	21,000
Less: Additional Capital Introduced	(300)
Adjusted Capital as on March 31, 2017	20,700

Less: Capital as on April 01, 2016	(15,800)
Profit made during the year 2016-17	**4,900**

Question 17:

X, a retailer, has not maintained proepr books of accont but it has been possible to obtain the follwoing details:

Particulars		Last Year (₹)	This Year (₹)
Trade Creditors	....	6,270	5,890
Loan from Naresh	....	5,000	5,000
Stock	....	12,350	11,980
Cash in Hand	....	570	650
Shop Fittings	....	7,250	7,800
Trade Debtors	....	5,280	4,560
Bank Balance	....	3,990	4,130

Calculate the net profit for this year and draft the Statement of Affairs at the end of the year after noting that:
(a) Shop Fittings are to be depreciated by ₹ 780.
(b) *X* has drawn ₹ 100 per week for his own use.
(c) Included in the Trade Debtors is an irrecoverable balance of ₹ 270.
(d) Interest at 5% p.a. is due on the loan from Naresh but has not been paid for the year.

ANSWER:

Statement of Affairs

(Previous Year)

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Trade Creditors	6,270	Stock	12,350
Loan from Naresh	5,000	Cash in Hand	570
Capital (*Balancing Figure*)	18,170	Shop Fittings	7,250
		Trade Debtors	5,280
		Bank Balance	3,990
	29,440		29,440

Statement of Affairs

(Current Year)

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Trade Creditors		5,890	Stock		11,980
Loan from Naresh	5,000		Cash in Hand		650
Add: Outstanding Interest					
(5,000 × 5%)	250	5,250	Shop Fittings	7,800	
Capital (*Balancing Figure*)		16,930	*Less*: Depreciation	(780)	7,020
			Trade Debtors	4,560	
			Less: Bad Debts	(270)	4,290
			Bank Balance		4,130
		28,070			28,070

Statement of Profit or Loss

(Current Year)

Particulars	Amount (Rs)
Capital of the Current Year	16,930
Add: Drawings (Rs 100 × 52)	5,200
	22,130
Less: Capital of the Previous Year	(18,170)
Profit made during the Current Year	**3,960**

Question 18:

On 1st April, 2017, *X* started a business with ₹ 40,000 as his capital. On 31st March, 2018, his position was as follows:

Particulars	(₹)
Creditors	30,000
Bills Payable	10,000
Bank	10,000
Debtors	50,000
Stock	40,000
Plant	68,000
Furniture	12,000

During the year 2017–18, *X* drew ₹ 24,000. On 1st October, 2017, he introduced further capital amounting to ₹ 30,000. You are required to ascertain profit on loss made by him during the year 2017–18.

Adjustments:

(a) Plant is to be depreciated at 10%.

(b) A provision of 5% is to be made against debtors, Also prepare the Statement of Affairs as on 31st March, 2018.

ANSWER:

Statement of Affairs

for the year ended March 31, 2018

Liabilities	Amount (₹)	Assets		Amount (₹)
Creditors	30,000	Bank		10,000
Bills Payable	10,000	Debtors	50,000	
Capital (*Balancing Figure*)	1,30,700	*Less*: 5% Provision for Doubtful Debts	(2,500)	47,500
		Stock		40,000
		Plant	68,000	
		Less: 10% Depreciation	(6,800)	61,200
		Furniture		12,000
	1,70,700			**1,70,700**

Statement of Profit or Loss

for the year ended March 31, 2018

Particulars	Amount (₹)
Capital as on March 31, 2018	1,30,700
Add: Drawings	24,000
	1,54,700
Less: Additional Capital Introduced	(30,000)
Adjusted Capital as on March 31, 2018	1,24,700
Less: Capital as on April 01, 2017	(40,000)
Profit made during the year 2017-18	**84,700**

Question 19:

C maintains his books according to Single Entry System. Following figures were available from the books for the six months ended 31st December 2017:

Particulars	1st July, 2017 (₹)	31st Dec. 2017 (₹)
Plant and Machinery	1,50,000	1,40,000
Debtors	65,000	60,000
Cash and Bank Balances	25,000	31,000
Stock	40,000	45,000
Creditors	9,000	10,000

Adjustments:

(a) He had withdrawn ₹ 200 in the beginning of every month for household purposes.

(b) Depreciation on Plant and Machinery @ 10% p.a.

(c) Further Bad Debts ₹ 5,000 and Provision for Doubtful Debts to be created @ 2%.

(d) During the period, salaries have been prepaid by ₹ 500 while wages outstanding were ₹ 1,000.

(e) Interest on drawings to be reckoned @ 6% p.a.

You are required to prepare the Statement of Profit or Loss for the half year ended 31st December, 2017, followed by Revised Statement of Affairs as on that date.

ANSWER:

Statement of Affairs

as on July 01,2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	9,000	Cash and Bank balances	25,000
Capital (*Balancing Figure*)	2,71,000	Debtors	65,000

		Stock	40,000
		Plant and Machinery	1,50,000
	2,80,000		**2,80,000**

Statement of Affairs

as on December 31,2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	10,000	Cash and Bank balances	31,000
Outstanding Wages	1,000	Debtors	60,000
Capital (*Balancing Figure*)	2,65,500	Stock	45,000
		Prepaid Salary	500
		Plant and Machinery	1,40,000
	2,76,500		**2,76,500**

Statement of Profit or Loss

for the half year ended December 31,2017

Particulars	Amount (₹)
Capital at the end of the year	2,65,500
Add: Drawings made during the year	1,200
Adjusted capital at the end of the year	2,66,700
Less: Capital in the beginning of the year	2,71,000
Gross Loss (Profit before Adjustment)	**4,300**
Less: Interest on Drawings	21
Add: Depreciation on Plant and Machinery	7,000

Bad Debts	5,000
Provision for Doubtful Debts	1,100
Net Loss (Profit After Adjustment)	**17,379**

Statement of Affairs (After adjustments)

as on December 31, 2017

Liabilities		**Amount (₹)**	**Assets**		**Amount (₹)**
Creditors		10,000	Cash and Bank balances		31,000
Outstanding Wages		1,000	Debtors	60,000	
Capital	2,71,000		*Less*: Bad Debts	5,000	
Less: Net Loss	17,379			55,000	
Less: Drawings	1,200		*Less*: Provision for D.D.	1,100	53,900
Less: Interest on Drawings	21	2,52,400	Plant and Machinery	1,40,000	
			Less: Depreciation	7,000	1,33,000
			Stock		45,000
			Prepaid Salary		500
		2,63,400			**2,63,400**

Statement of Affairs (After adjustments)

as on December 31, 2017

Liabilities	**Amo unt (₹)**	**Assets**		**Amo unt (₹)**
Creditors	10,00 0	Cash and Bank balances		31,00 0
Outstanding Wages	1,000	Debtors	60,00	

				0	
Capital	2,71,000		*Less*: Bad Debts	5,000	
Less: Net Loss	17,379			55,000	
Less: Drawings	1,200		*Less*: Provision for D.D.	1,100	53,900
Less: Interest on Drawings	21	2,52,400	Plant and Machinery	1,40,000	
			Less: Depreciation	7,000	1,33,000
			Stock		45,000
			Prepaid Salary		500
		2,63,400			**2,63,400**

Working Notes:

WN1: Depreciation on plant and machinery would be charged for six months only i.e., Rs 7,000 (1,40,000×10×6100×12)(1,40,000×10×6100×12)

WN2: Amount of Provision for Doubtful Debts would be Rs 1,100 (2100×(60,000−5,000))(2100×(60,000−5,000))

WN3:

Calculation of Amount of Interest on Drawings:

Date	Amount	Months	Product
Jul. 01	200	6	1,200
Aug. 01	200	5	1,000
Sep. 01	200	4	800
Oct. 01	200	3	600
Nov. 01	200	2	400

Dec. 01	200	1	200
Total			**4,200**

Interest on Drawings =4,200×6×1100×12=Rs 21=4,200×6×1100×12=Rs 21

Question 20:

A firm sells goods at a Gross profit of 25% of sales. On 1st April, 2017 the Stock was ₹40,000; Purchases were ₹1,10,000 and the Stock on 31st March, 2018 was ₹30,000. What was the value of Sales?

ANSWER:

Cost of Goods Sold = Net Sales – Gross Profit
Cost of Goods Sold = Opening Stock + Purchases – Closing Stock
Cost of Goods Sold = 40,000 + 1,10,000 – 30,000 = ₹ 1,20,000
Gross Profit = 25% of Sales or 33.33% of COGS
Gross Profit = ₹ 40,000
Net Sales = Cost of Goods Sold + Gross Profit
Net Sales = 1,20,000 + 40,000 = ₹ 1,60,000

Question 21:

A firm sells goods at Cost *plus* 25%. Sales to credit customers (3/4 of total) was ₹ 1,80,000. His Opening and Closing Stocks were ₹ 20,000 and ₹ 15,000 respectively. Find out the value of Purchases.

ANSWER:

Credit Sales = ₹ 1,80,000 (3/4 of Total Sales)
Total Sales = ₹ 2,40,000
Gross Profit = 25% of Cost or 20% of Sales
Gross Profit = ₹ 48,000
Cost of Goods Sold = Net Sales – Gross Profit
Cost of Goods Sold = 2,40,000 – 48,000 = ₹ 1,92,000
Cost of Goods Sold = Opening Stock + Purchases – Closing Stock
1,92,000 = 20,000 + Purchases – 15,000
Purchases = ₹ 1,87,000

Question 22:

Calculate Stock in the beginning:

	₹
Sales	80,000
Purchases	60,000

Stock at the end	8,000
Loss on Cost	1/6

ANSWER:

Let cost be Rs 100
Loss = ₹ 16.67 (1/6 of 100)
Sale = ₹ 83.33 (100 – 16.67)
% Loss on Sale = 20% (16.67/83.33)
Loss on Sale = ₹ 16,000 (20% of 80,000)
Cost of Goods Sold = Net Sales + Loss on Sale
Cost of Goods Sold = 80,000 + 16,000 = ₹ 96,000
Cost of Goods Sold = Opening Stock + Purchases – Closing Stock
96,000 = Opening Stock + 60,000 – 8,000
Opening Stock = ₹ 44,000

Question 23:

Calculate the Stock at the end:

	₹
Stock in the beginning	20,000
Cash Sales	60,000
Credit Sales	40,000
Purchases	70,000
Rate of Gross Profit on Cost	1/3

ANSWER:

Rate of Gross Profit on Cost = 1/3
Rate of Gross Profit on Sale = 1/4
Total Sales = Cash Sales + Credit Sales
Total Sales = 60,000 + 40,000 = 1,00,000
Gross Profit = ₹ 25,000 (1/4 of 1,00,000)
Cost of Goods Sold = Net Sales – Gross Profit
Cost of Goods Sold = 1,00,000 – 25,000 = ₹ 75,000
Cost of Goods Sold = Opening Stock + Purchases – Closing Stock
75,000 = 20,000 + 70,000 – Closing Stock
Closing Stock = ₹ 15,000

Question 24:

Calculate the value of Closing Stock from the following information:

	₹
Purchases	93,000
Wages	20,000
Sales	1,20,000
Carriage Outwards	3,200
Opening Stock	16,000

Rate of Gross Profit 25% on Cost.

ANSWER:

Rate of Gross Profit on Cost = 1/4
Rate of Gross Profit on Sale = 1/5
Gross Profit = ₹ 24,000 (1/5 of 1,20,000)
Cost of Goods Sold = Net Sales – Gross Profit
Cost of Goods Sold = 1,20,000 – 24,000 = ₹ 96,000
Cost of Goods Sold = Opening Stock + Purchases + Direct Expenses – Closing Stock
96,000 = 16,000 + 93,000 + 20,000 – Closing Stock
Closing Stock = ₹ 33,000

Question 25:

Calculate Purchases:

	₹
Cost of Goods Sold	65,000
Stock in the beginning	4,000
Closing Stock	5,000

ANSWER:

Cost of Goods Sold = Opening Stock + Purchases – Closing Stock
65,000 = 4,000 + Purchases – 5,000
Purchases = ₹ 66,000

Question 26:

Calculate Sales:

Cost of goods sold ₹ 2,00,000

Rate of Gross Profit 20% on Sales

ANSWER:

Rate of Gross Profit on Sale = 1/5
Rate of Gross Profit on Cost = 1/4
Gross Profit = ₹ 50,000 (1/4 of 2,00,000)
Sales = Cost of Goods Sold + Gross Profit
Sales = 2,00,000 + 50,000 = ₹ 2,50,000

Question 27: Debtors in the beginning of the year were ₹ 30,000, Sales on credit during the year were ₹ 75,000, Cash received from the Debtors during the year was ₹ 35,000, Returns Inward (regarding credit sales) were ₹ 5,000 and Bills Receivable drawn during the year were ₹ 25,000. Find the balance of Debtors at th end of the year, assuming that there were Bad Debts during the year of ₹ 2,000.

ANSWER:

Debtors Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Balance b/d	30,000	Cash A/c	35,000
Sales A/c	75,000	Sales Return A/c	5,000
		Bill Receivable A/c	25,000
		Bad-Debts A/c	2,000
		Balance c/d	38,000
	1,05,000		**1,05,000**

Question 28:

Creditors on 1st April, 2017 were ₹15,000, Purchases on credit were ₹30,000, Cash paid to Creditors during 2017-18 was ₹20,000, Returns Outward (regarding credit purchases) were ₹1,000 and Bills Payable accepted during the year ₹10,000. Find the balance of Creditors on 31st March, 2018.

ANSWER:

Creditors Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Cash A/c	20,000	Balance b/d	15,000
Purchases Return A/c	1,000	Purchases A/c	30,000
Bills Payable A/c	10,000		
Balance c/d	14,000		
	45,000		**45,000**

Question 29:

Following information is given of an accounting year:
Opening Creditors ₹ 15,000; Cash paid to creditors ₹ 15,000; Returns Outward ₹ 1,000 and Closing creditors ₹ 12,000.
Calculate Credit Purchases during the year.

ANSWER:

Creditors Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Cash A/c	15,000	Balance b/d	15,000
Purchases Return A/c	1,000	Purchases A/c	13,000
Balance c/d	12,000		
	28,000		**28,000**

Question 30:

From the following information supplied by X, who keeps his books on Single Entry System, you are required to calculate Total Purchases:

₹

Opening balance of Bills Payable	5,000
Opening balance of Creditors	6,000
Closing balance of Bills Payable	7,000
Closing balance of Creditors	4,000
Cash paid to Creditors during the year	30,200
Bills Payable discharged during the year	8,900
Returns Outward	1,200
Cash Purchases	25,800

ANSWER:

Creditors Account

Dr. **Cr.**

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Cash A/c	30,200	Balance b/d	6,000
Purchases Return A/c	1,200	Purchases A/c	40,300
Bills Payable A/c	10,900		
Balance c/d	4,000		
	46,300		**46,300**

Total Purchases = Cash Purchases + Credit Purchases

Total Purchases = 25,800 + 40,300 = ₹ 66,100

Question 31:

Cash sales of a business in a year were ₹ 85,000, the Cost of Goods Sold (including direct expenses) was ₹ 97,000 and Gross Profit as shown by the Trading Account for the year was ₹ 1,29,000. Calculate Credit Sales during the year.

ANSWER:

Gross Profit = Net Sales – Cost of Goods Sold
1,29,000 = Net Sales – 97,000
Net Sales = ₹ 2,26,000
Credit Sales = Total Net Sales – Cash Sales
Credit Sales = 2,26,000 – 85,000 = ₹ 1,41,000

Question 32:

From the following information, calculate Total Sales made during the period:

	₹
Debtors as on 1st April, 2017	20,400
Cash received from debtors during the year (as per Cash Book)	60,800
Returns Inward	5,400
Bad Debts	2,400
Debtors as on 31st March, 2018	27,600
Cash Sales (as per Cash Book)	56,800

ANSWER:

Debtors Account

Dr. **Cr.**

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Balance b/d	20,400	Cash A/c	60,800
Sales A/c	75,800	Sales Return A/c	5,400
		Bad-Debts A/c	2,400
		Balance c/d	27,600
	96,200		**96,200**

Total Sales = Cash Sales + Credit Sales

Total Sales = 56,800 + 75,800 = ₹ 1,32,600

Question 33:

Calculate Total Sales from the following information:

	₹
Bills Receivables as on 1st April, 2017	7,800
Debtors as on 1st April, 2017	30,800
Cash received on maturity of Bills Receivable during the year	20,900
Cash received from Debtors	70,000
Bad Debts written off	4,800
Returns Inward	8,700
Bills Receivable dishonoured	1,800
Bills Receivable on 31st March, 2018	6,000
Debtors as on 31st March, 2018	25,500
Cash Sales during the year	15,900

ANSWER:

Debtors Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Balance b/d	30,800	Cash A/c	70,000
Bill Receivable A/c	1,800	Sales Return A/c	8,700
Sales A/c	97,300	Bad-Debts A/c	4,800
		Bill Receivable A/c	20,900
		Balance c/d	25,500

	1,09,000		**1,09,000**

Total Sales = Cash Sales + Credit Sales

Total Sales = 15,900 + 97,300 = ₹ 1,13,200

Question 34:

From the following information, ascertain the opening balance of Sundry Debtors and the closing balance of Sundry Creditors:

	₹
Sundry Creditors as on 31st March, 2017	20,600
Sundry Debtors as on 31st March, 2018	37,400
Stock as on 31st March, 2017	26,000
Stock as on 31st March, 2018	24,000
During the year ended 31st March, 2018:	
Purchases	1,10,000
Discount allowed by creditors	800
Discount allowed to customers	1,100
Cash paid to sundry creditors	95,000
Bills Payable issued by them	14,000
Bills Receivable received from customers	16,500
Cash received from customers	1,30,000
Bills receivable dishonoured	1,900

ANSWER:

Debtors Account

Dr. **Cr.**

Particulars	Amount	Particulars	Amount

	(₹)		(₹)
Balance b/d	43,100	Cash A/c	1,30,000
Bill Receivable A/c	1,900	Discount Allowed A/c	1,100
Sales A/c	1,40,000	Bill Receivable A/c	16,500
		Balance c/d	37,400
	1,85,000		**1,85,000**

Cost of Goods Sold = Opening Stock + Purchases – Closing Stock

Cost of Goods Sold = 26,000 + 1,10,000 – 24,000 = 1,12,000

Gross Profit=3070×1,12,000=Rs 48,000Gross Profit=3070×1,12,000=Rs 48,000

Sales = Cost of Goods Sold + Gross Profit

Sales = 1,12,000 + 48,000 = ₹ 1,60,000

Credit Sales = 1,60,000 – 20,000 = ₹ 1,40,000

Creditors Account

Dr. **Cr.**

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Cash A/c	95,000	Balance b/d	20,600
Discount Received A/c	800	Purchases A/c	1,10,000

Bills Payable A/c	14,000		
Balance c/d	20,800		
	1,30,600		**1,30,600**

Question 35:

Roshan, whose accounts are maintained by Single Entry System, acquired a retail business on 1st April, 2017. He had ₹40,000 of his own and he borrowed ₹ 20,000 from his wife. He paid ₹15,000 for Goodwill, ₹5,000 for Furniture and ₹35,000 for Stock.
Total cash received by him during the financial year from the Debtors was ₹2,30,000. His payments were:

	₹
Purchases	1,56,000
Salary and Wages	21,400
Trade Expenses	7,200
Rent:	
For business premises	5,920
For private house	2,960
Payments made for domestic purposes and drawings	26,400

At the end of the year, the Stock was ₹37,500. He owed ₹13,500 to Creditors for goods and his customers owed to him ₹15,000. Provide 5% for Depreciation on Furniture, Interest at 5% on wife's Loan and ₹1,000 for Doubtful Debts.
Prepare the Cash Account, the Profit and Loss Account for the year ended 31st March, 2018 and the Balance Sheet at the close of the year.

ANSWER:

Trading Account for the year ended 31st March, 2018

Dr. **Cr.**

Particulars	Amount	Particulars	Amount

	(₹)		(₹)
Opening Stock	35,000	Sales	2,45,000
Purchases: Cash 1,56,000		Closing Stock	37,500
Credit 13,500	1,69,500		
Gross Profit c/d	78,000		
	2,82,500		**2,82,500**

Profit and Loss Account

for the year ended March 31, 2018

Dr. **Cr.**

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Salary and Wages	21,400	Gross Profit b/d	78,000
Trade Expenses	7,200		
Rent for Business Premises	5,920		
Provision for Doubtful Debts	1,000		
Depreciation on Furniture	250		
Interest on wife's loan	1,000		
Net Profit t/d to Capital	41,230		
	78,000		**78,000**

Balance Sheet

as on March 31, 2018

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Creditors	13,500	Cash Balance	15,120

Wife’s Loan from Wife	20,000		Stock		37,500
Add: O/s Interest	1,000	21,000	Furniture	5,000	
Capital	40,000		*Less*: Depreciation	250	4,750
Less: Drawings	29,360		Debtors	15,000	
	10,640		*Less*: Provision for Doubtful Debts	1,000	14,000
Add: Net Profit	41,230	51,870	Goodwill		15,000
		86,370			**86,370**

Cash Account

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Capital	40,000	Goodwill	15,000
Wife’s Loan	20,000	Furniture	5,000
Debtors	2,30,000	Stock	35,000
		Purchases	1,56,000
		Salary and Wages	21,400
		Trade Expenses	7,200
		Rent for Business Premises	5,920
		Drawings(2,960+26,400)	29,360
		Balance c/d	15,120

	2,90,000		**2,90,000**

Working Notes

Dr. **Creditors Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Balance c/d	13,500	Purchases-Credit (B/F)	13,500
	13,500		**13,500**

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

Particulars	Amount (₹)	Particulars	Amount (₹)
Sales A/c (B/F)	2,45,000	Cash	2,30,000
		Balance c/d	15,000
	2,45,000		**2,45,000**

Question 36:

Vijay commenced business as foodgrains merchant on 1st April, 2017 with a capital of ₹4,00,000. On the same day, he purchased furniture for ₹80,000. From the following particulars obtained from his books which do not conform to Double Entry principles, you are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2018 and the Balance Sheet as on that date:

₹

Sales (including Cash Sales ₹2,00,000)	5,00,000
Purchases (including Cash Purchases ₹1,20,000	4,00,000
Vijay's Drawings (in cash)	40,000
Salaries to Staff	48,000
Bad Debts written off	4,000
Trade Expenses paid	16,000

Vijay used goods of ₹12,000 for private purposes during the year. On 31st March, 2018, his Debtors amounted to ₹1,40,000 and Creditors ₹80,000. Stock-in-Trade on that date was ₹1,60,000.

ANSWER:

Trading Account

for the year ended March 31, 2018

Dr. **Cr.**

Particulars		**Amount (₹)**	**Particulars**	**Amount (₹)**
Purchases	4,00,000		Sales	5,00,000
Less: Drawings	12,000	3,88,000	Closing Stock	1,60,000
Gross Profit		2,72,000		
		6,60,000		**6,60,000**

Profit & Loss Account

for the year ended March 31, 2018

Dr. **Cr.**

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**

Salary	48,000	Gross Profit	2,72,000
Trade Expenses	16,000		
Bad Debts	4,000		
Net Profit	2,04,000		
	2,72,000		**2,72,000**

Balance Sheet

as on March 31, 2018

Dr. **Cr.**

Liabilities		**Amount (₹)**	**Assets**		**Amount (₹)**
Capital	4,00,000		Cash in Hand		2,56,000
Less: Drawings	52,000		Debtors	1,40,000	
Add: Net Profit	2,04,000	5,52,000	*Less*: Bad Debts	4,000	1,36,000
Creditors		80,000	Furniture		80,000
			Closing Stock		1,60,000
		6,32,000			**6,32,000**

Cash Account

Dr. **Cr.**

Particulars	**Amount**	**Particulars**	**Amount**

	(₹)		(₹)
Capital A/c	4,00,000	Creditors A/c	2,00,000
Debtors A/c	1,60,000	Drawings A/c	40,000
Sales A/c	2,00,000	Furniture A/c	80,000
		Purchases A/c	1,20,000
		Salaries A/c	48,000
		Trade Expenses A/c	16,000
		Balance c/d	2,56,000
	7,60,000		**7,60,000**

Debtors Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Sales A/c	3,00,000	Cash A/c	1,60,000
		Balance c/d	1,40,000
	3,00,000		**3,00,000**

Creditors Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Cash A/c	2,00,000	Purchases A/c	2,80,000
Balance c/d	80,000		

	2,80,000		**2,80,000**

Question 37:

Following information is obtained from the books of Vinay, who maintained his books of account under Single Entry System:

I. Receipts for the year ended 31st March, 2018:	**₹**
From Debtors	88,125
Cash Sales	20,625
Paid by Vinay	12,500
	1,21,250
2. Payments during the year:	
New plant bought	3,125
Drawings	7,500
Salaries	5,625
Wages	33,625
Interest paid	375
Rent paid	6,625
Light and power	2,375
Sundry Expenses	10,625
Sundry Creditors	38,125
	1,08,000

Vinay banks all receipts and makes payments by means of cheque.

Assests and Liabilities	As at 31st March,2017 (₹)	As at 31st March, 2018 (Rs)
Sundry Creditors	12.625	12,000
Sundry Debtors	18,750	30,625
Bank	3,125	?
Stock	31,250	15,625
Plant	37,500	36,575

From the above information, prepare Trading and Profit and Loss Account for the year ended 31st March, 2018 and Balance Sheet as on that date.

ANSWER:

Trading Account

for the year ended March 31, 2018

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	31,250	Sales (1,00,000 + 20,625)	1,20,625
Purchases	37,500	Closing Stock	15,625
Light & Power	2,375		
Wages	33,625		
Gross Profit	31,500		
	1,36,250		**1,36,250**

Profit & Loss Account

for the year ended March 31, 2018

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
Depreciation on Plant	4,050	Gross Profit	31,500
Interest	375		
Rent	6,625		
Salary	5,625		
Sundry Expenses	10,625		
Net Profit	4,200		
	31,500		**31,500**

Balance Sheet

as on March 31, 2018

Dr. Cr.

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital	78,000		Bank	16,375
Less: Drawings	7,500		Closing Stock	15,625
Add: Additional Capital	12,500		Debtors	30,625
Add: Net Profit	4,200	87,200	Plant	36,575
Creditors		12,000		
		99,200		**99,200**

Balance Sheet

as on April 01, 2017

Dr. **Cr.**

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	12,625	Bank	37,500
Capital (*bal. fig.*)	78,000	Closing Stock	18,750
		Debtors	3,125
		Plant	31,250
	90,625		**90,625**

Bank Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Balance b/d	3,125	Creditors A/c	38,125
Capital A/c	12,500	Drawings A/c	7,500
Debtors A/c	88,125	Interest A/c	375
Sales A/c	20,625	Light & Power A/c	2,375
		Plant A/c	3,125
		Rent A/c	6,625
		Salaries A/c	5,625
		Sundry Expenses A/c	10,625
		Wages A/c	33,625
		Balance c/d	16,375

	1,24,375		**1,24,375**

Debtors Account

Dr. **Cr.**

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Balance b/d	18,750	Cash A/c	88,125
Sales A/c (*bal.fig.*)	1,00,000	Balance c/d	30,625
	1,18,750		**1,18,750**

Creditors Account

Dr. **Cr.**

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Cash A/c	38,125	Balance b/d	12,625
Balance c/d	12,000	Purchases A/c (*bal.fig.*)	37,500
	50,125		**50,125**

Question 38:

Surya does not keep a systematic record of his transactions. He is able to give you the following information regarding his assets and liabilities:

	31st March 2017 (₹)	**31st March, 2018 (₹)**

Creditors for goods	21,000	19,000
Creditors for expenses	1,500	1,800
Bills Payable	8,700	11,500
Sundry Debtors	35,000	34,000
Stock (At cost)	28,000	25,000
Furniture and Fittings	10,000	12,000
Cash	5,100	

Following additional information is also avialable for the year ended 31st March, 2018:

	₹
Bills Payable Issued	20,800
Cash Sales	15,000
Payment to Sundry Creditors	31,000
Expenses paid	6,600
Drawings	8,000

Bad Debts during the year were ₹900. As regards sale, Surya tells you that he always sells goods at Cost plus 25%. Furniture and Fittings are to be depreciated at 10% of the value in the beginning of the year.
Prepare Surya's Trading and Profit and Loss Account for the year ended 31st March, 2018 and his Balance Sheet on that date.

ANSWER:

Trading Account
for the year ended 31^{st} March, 2018

Dr. **Cr.**

Particulars	**Amount (₹)**	**Particulars**		**Amount (₹)**
Opening Stock	28,000	Sales: Cash	15,000	
Purchases	49,800	Credit	51,000	66,000
Gross Profit c/d	13,200	Closing Stock		25,000

	91,000		**91,000**

Profit and Loss Account

for the year ended March 31, 2018

Dr. **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
Bad Debts		900	Gross Profit b/d	13,200
Expenses	6,600			
Add: Closing Creditors for Expenses	1,800			
	8,400			
Less: Opening Creditors for Expenses	1,500	6,900		
Depreciation on Furniture and Fittings		1,000		
Net Profit t/d to Capital		4,400		
		13,200		**13,200**

Balance Sheet

as on March 31, 2018

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors for Goods	19,000	Cash Balance	4,600
Creditors for Expenses	1,800	Stock	25,000
Bills Payable	11,500	Debtors	34,000

Capital	46,900		Furniture and Fittings	12,000
Less: Drawings	8,000			
	38,900			
Add: Net Profit	4,400	43,300		
		75,600		**75,600**

Working Notes

Balance Sheet

as on March 31, 2017

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Creditors for Goods	21,000	Cash Balance	5,100
Creditors for Expenses	1,500	Stock	28,000
Bills Payable	8,700	Debtors	35,000
Capital (Balancing Figure)	46,900	Furniture and Fittings	10,000
	78,100		**78,100**

Cash Account

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Balance b/d	5,100	Expenses	6,600
Sales	15,000	Sundry Creditors	31,000
Debtors	51,100	Furniture and Fittings	3,000
		Bills Payable	18,000

		Drawings	8,000
		Balance c/d	4,600
	71,200		**71,200**

Dr. **Creditors for Goods Account** Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
Bills Payable	20,800	Balance b/d	21,000
Cash	31,000	Purchases-Credit (B/F)	49,800
Balance c/d	19,000		
	70,800		**70,800**

Debtors Account

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
Balance b/d	35,000	Bad Debts	900
Sales-Credit	51,000	Cash (Balancing Figure)	51,100
		Balance c/d	34,000
	86,000		**86,000**

Dr. **Bills Payable Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Cash (Balancing Figure)	18,000	Balance b/d	8,700
Balance b/d	11,500	Creditors for goods	20,800
	29,500		**29,500**

Dr. **Furniture and Fittings Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Balance b/d	10,000	Depreciation	1,000
Cash-Purchases (B/F)	3,000	Balance c/d	12,000
	13,000		**13,000**

<u>Computation of Cost of Goods Sold and Credit Sales</u>

COGS = Opening. Stock + Purchases – closing. Stock = 28,000 + 49,800 – 25,000 = 52,800

Gross Profit = 52,800 × 25/100= 13,200

Total Sales = COGS + Gross Profit = 52,800 + 13,200 = 66,000 Credit Sales = Total Sales – Cash Sales

= 66,000 – 15,000 = 51,000

Note: It has been assumed that a Drawings in cash of Amount ₹ 8,000 has been made by Surya during the year.

UNIT IV:

Rectification of Errors and Bank Reconciliation Statement

Introduction

Definition: Rectification of errors is a **procedure of revising mistakes in the entries.** These errors can be of two types, i.e, the errors committed on both sides in an entry that does not influence the trial balance and can be rectified by making a journal entry.

And another one is the errors that occur on one side of the trial balance and disturbs the trial balance are known as single-sided errors, which cannot be corrected by only passing journal entry, however, gets corrected by opening a suspense account. For understanding the rectification of errors, it is a must to understand the kinds of errors first. The kinds of errors can be understood below precisely.

Content: Rectification of Errors

Kinds of Errors

Following are the kinds of errors that occur:

1. Error of principle

Transactions are reported by means of Generally accepted accounting principle (GAAP). In case, principles are opposed or neglected, errors of principle arise in such transactions, which will not alter the trial balance.

Example 1: Credit sale of land reported in the sales book.

This is an error of principle as credit sale of assets doesn't need to be reported in subsidiary books. It has to be reported in Journal Proper. Amount used up-on enhancement of fixed assets has to be considered as a capital expenditure and not revenue expenditure.

- **Example 2:** Spent ₹ 20000 for extra accessory to an existent machine.

Reporting as repairs a/c debit is an error of principle. Alternatively, the machine account is to be debited. A corresponding error will not affect the trial balance but will bluff the financial accounts because of this wrong allocation of capital and revenue expenditure.

2. Clerical Errors

These errors arise because of mistakes made by attentive accounting clerks, which can be more classified into subsequent categories:

1. Error of Omission

When an entry is overlooked in the books of accounts, this kind of error occurs. This may be more clearly defined as:

- **Error of complete omission:** When an entry of amount is completely overlooked for reporting in the books of accounts, this class of error arises.
    - **Example:** Credit sale of ₹ 15000 to Ankit. If this transaction is neglected completely, such an error is known as an error of complete omission. This will not disturb the trial balance.

  Error of partial omission: When only one facet of the transaction is reported, this class of error arises. In the above, given example, one facet credit sales are reported duly in sales a/c, but the facet, Ankit's account is neglected while reporting, thus the error of partial omission derives. This will influence the trial balance.

2. Error of Commission: This kind of error appears due to diversified factors like incorrect recording, incorrect posting, incorrect balancing, etc. This may be classified further as follows:

- **Error of recording:** This error occurs when an entry is wrongly reported in the books of the original entry.
    - **Example:** Purchase of goods in credit from Nidhi for ₹ 14,500 reported in the books at 15,400.

  Error of posting: This error arises when facts reported in the books of original entry is recorded inappropriately in the ledger. This error may occur because of:
    - Reporting the correct amount in the incorrect side of an appropriate account.
    - Reporting the correct amount in the correct side of an inappropriate account.
    - Recording the incorrect amount in the correct side of an appropriate account.
    - Recording the incorrect amount in the incorrect side of an appropriate account.
    - Recording the incorrect amount in the correct side of an inappropriate account.
    - Reporting incorrect amount in the incorrect side of an inappropriate account.

  Error of casting: When an error is committed during the time of recording in a subsidiary book, this error occurs.
    - **Example:** If the total sum of ₹ 15,000 in a subsidiary book is incorrectly added up and posted as ₹ 18,000. This is an over-casting error. If it is inappropriately added up as ₹ 11,000, it is an under-casting error.

  Error of carrying forward: When a sum of one page is recorded inappropriately on the adjacent page, the error of carrying forward arises.
    - **Example:** Sum of cash book on page 114 of the ledger is ₹ 2,04,000. At the time of transmitting to the adjacent page 115, if it is reported as ₹ 2,40,000, this causes the relevant error.

3. Compensating Error

While two or more mistakes are committed, just like that the net outcome of these mistakes on the debits and credits of accounts is zero, these errors occur, which are termed as "compensatory errors".

- **Example:** If the purchase book is over-casted by ₹8,000 which outcomes in a surplus debit of ₹ 8,000 because of which shortfall of debit in sales return account arise. These kinds of mistakes compensate one another. One surplus of ₹ 8,000 is compensated by another deficit of ₹ 8,000. The net result is zero. Therefore, these kinds of errors do not influence the trial balance.

Now, let's understand how the rectification of error not influences the trial balance and how does it influence the trial balance.

Rectification of Errors that do not influence Trial Balance

By making corrected journal entry in the concerned accounts, these errors can be rectified, as these are the errors committed in two more accounts. The errors belonging to this category are:

1. Errors of complete omission
2. Errors of Principle

The process of rectifying such errors consist of the following steps:

1. Reverse the entry for cancelling the effect of wrong debit or credit.
2. Make a new entry with correct debit or credit.

The example of rectification of complete omission error by passing journal entry is shown below:

- **Illustration 1**

Credit sales to Anita ₹ 2,05,000 were not recorded in the sales book. Rectify the error.

- **Solution**

This type of error is known as the error of complete omission, the entry we have to make for rectifying such error will be:

The example of rectification of error of principle by passing journal entry is shown below:

- **Illustration 2**

Repairs to the building -1800, debited to building a/c treated as capital expenditure. Rectify the error.

- **Solution**

Repairs to the building is an expenditure of a revenue nature but mistakenly treated as capital expenditure. Thus, the correcting entry would be:

Rectification of Errors which Influences the Trial Balance

These kinds of errors do not get corrected by passing a single general entry, in addition with that the suspense account needs to be opened which is created to fill up the gap arrangement till error detected and rectified. When we use a suspense account, the following process is adopted to rectify errors.

1. Identify the affected account due to error.
2. Find the excess or shortage amount troubling the account.

3. If the difference is derived because of “excess debit amount” or “short credit amount”, credit the account with the difference amount.
4. If the difference is derived because of “excess credit amount” or “short debit amount”, debit the account with the difference amount.
5. The entry gets completed by debiting or crediting the suspense account.

Conclusion

Rectification of errors is the method of correcting errors made in entries on either one side or on both sides of the transaction, which can be identified by making a trial balance after passing all the journal entries.

Bank Reconciliation Statement

Definition: Bank reconciliation statement is a statement made by a firm **to obtain the balance of the passbook through the balance of cash book by making certain adjustments** or finding the balance of the cash book by taking the balance of passbook on a precise date.

It is prepared to understand the precise position of the transactions and to make sure that no blunder has committed, and clarify the reason behind the difference of the balances of the cash book and the passbook if any.

Generally, a businessman or a firm makes a transaction from their bank account for which a current account is opened in a bank with a firm’s name. However, all the transactions are recorded by both the firm and the bank in their records. But, it is not necessary that both will record the transaction on the same date as most of the banking transactions are made by Cheque which may take longer time to clear in a bank, but the firm will record it on the date of issue of Cheque.

Thus, before preparing the final books of accounts, **the firms prepare the Bank reconciliation statement to be sure about the correctness of the financial transactions took place during the year**.

Content: Bank Reconciliation Statement

What cashbook and passbook are?

- **Passbook:** A passbook is a bank’s recording statement in which they record the transactions of the clients, and a copy of it is allotted to a client in the form of the bank statement or a booklet.
- **Cashbook:** A cashbook is a book maintained by the firm to record all the cash and bank transactions occurred in a business in a financial year.

Format of Bank Reconciliation Statement

By taking the Debit balance of cash book

PARTICULARS	AMOUNT (₹)
Debit balance of cash book	xxx
(-) Entry done in cash book, but not recorded in passbook	(xxx)
(+) Cheque issued but not presented for payment	xxx
(+) Income received entered in passbook, but not in cashbook	xxx
(-) Bank charges not entered in cash book, but entered in passbook.	(xxx)
(+) Cheque directly deposited by the customer in a bank not recorded in the cash book	xxx
(-) Cheque deposited but dishonored.	(xxx)
(+) Amount paid directly to the authorities by the bank.	xxx
Credit balance of pass book (if positive balance)	xxxx
Debit balance of pass book (if negative balance)	(xxxx)

(In case of overdraft or negative balance of cash book, the opening balance should be recorded as negative balance, else assume the problem is that of debit cash balance type and treat accordingly)

By taking Credit balance of passbook

PARTICULARS	AMOUNT (₹)
Credit balance of pass book	xxx
(+) Cheque deposited but not cleared by bank	xxx
(-) Cheque expressed but not conferred for payment	(xxx)
(-) Income earned but listed in passbook only, not in cash book	(xxx)
(+) Bank charges listed in passbook but not in cash book	xxx
(-) Customer directly deposited the cheque in bank not entered in cash book.	(xxx)
(+) Cheque accumatted in the bank, dishonoured	xxx
(-) Amount directly paid to the authorities by the bank	(xxx)
Debit balance of cash book (if positive balance)	xxxx
Credit balance of cash book (if negative balance	(xxxx)

(In case of overdraft or negative balance of passbook, the opening balance should be recorded as negative balance, else assume the problem is that of credit cash balance type and treat accordingly)

Process of Preparing the Bank Reconciliation Statement

The bank frequently sends the statement to the customers displaying the position of their accounts. Generally, bank passbook is maintained through which bank notify their customer about their account balance and keep its copy at a bank to make sure that the balance of passbook should tally with the balance of the cashbook.

But, sometimes there are some differences even there was no mistake because of some reasons for which Bank reconciliation statement needs to be prepared for correcting these differences arriving because of some entries made in the cash book and not in the passbook. Similarly, some entries have recorded in passbook but not in the cash book.

Following procedure should be followed for preparing the Bank Reconciliation Statement:

1. Always prefer passbook as a base to match the transactions.
2. Take the bank statement of the firm from the bank for the current year and start matching transactions from the cash book maintained by the firm. The entry which is debited in the passbook must be credited to the cashbook, and vis-a-versa the entry which is credited in passbook should be debited in the cash book.
3. Identify the mismatch transactions and note them to make adjustments in it.
4. Identify the extra entries in the passbook that are not entered in the cash book such as bank interest received, amount directly deposited by the customers in the firm's bank account.
5. Take the balance of any of the book as a base and make relevant adjustments to match the balances of both the books. At last, the debit balance of the cash book should be equal to the credit balance of the passbook and vis-a-versa.

Importance of Bank Reconciliation Statement

Importance of the Bank Reconciliation Statement can be understood with the following points:

1. Detect fault: If there has been an error by the accountant while preparing cash book or by the bank, while preparing the customer's account in its book, they will be identified by preparing bank reconciliation statement.
2.Discover inappropriate moratorium in the clearance of Cheque: Due of various reasons the Cheque deposited in bank delayed for clearing which shows the difference in the cash book and bank balance for identifying such situations Bank reconciliation statement is helpful. It may be because of the outstation Cheque, which takes a long time for clearing the Cheque; if we prepare the Bank reconciliation statement, we can try to ascertain the undue delay.
3. Forbid extortion: If the accountant makes an entry in the cash book of the cash received, but not deposited the amount in the bank it becomes difficult for the proprietor to find the reason of the difference, but if the bank reconciliation statement is inclined, the fraud will easily be recognized.
4. Reach at an amend cash balance: With the help of Bank reconciliation statement, we arrive at the balance that should display in the balance sheet at the end of the year. We consider all the errors, income and expenses and pass necessary entries in the cash book and arrive at the correct bank balance.

Reasons for Differences in the cashbook and passbook balances

Following are the major reasons for differences in the cashbook and passbook balances:

1. **Cheque reported in cashbook but still not credited by the bank:** As soon as the Cheques get received, immediate entry is made in the cash book, but it may take a day or more to send Cheques to the bank, although the bank does not credit the customer's account until the Cheque are realized, and if the Cheque is of another bank it takes a long time for the realization. Meanwhile, the balance of the cash book and the passbook will differ.
2. **Cheque issued but not conferred for payment:** At the time of issue of Cheque, immediate entry is made in the cash book; still banks make no entry until the Cheque gets presented for the payment in the bank which shows the higher balance in the bank and less balance in the cash book.
3. **Bank charges:** The charges rendered for the bank's services are termed as bank charges and in case of the bank overdraft the bank also charges the interest. These bank charges and interest are enrolled in the passbook, and the entry gets listed in the cash book only when passbook is acknowledged.
4. **Explicit assortment by the bank:** The banks are generally allocated to gather interest among the securities or dividends on shares. The bank will credit the client's account as soon as the sum is received, but the entry by the client in the cash book must anticipate receipt of advice by the customer from the bank.
5. **Payments by the bank as per standing direction:** The bank can also generate payments as per the client's instructions or against any appropriate direction like payment on demonstrating the documents for goods supply for which letter of credit has been opened already. In such cases entries in the cash book are made on the certificate of advice from the bank.

Conclusion

Bank reconciliation statement is a statement prepared by the firm for identifying the cause of difference between the bank balance as per cash book and that shown in passbook on a particular date

Steps for Rectification

(1) LocatetheeffectofErroronDifferentAccounts.

(2) TheAccountshowingexcesscreditshouldbeDebited.

(3) TheAccountshowingexcessDebitshouldbeCredited.

(4) The Account showing short Debit should beDebited.

(5) The Account showing short Credit should beCredited.

Examples (with Explanation)

(I) When an account has wrongly been debited in place ofanother A/c.

- Rectification will be done by debiting the correct account and Crediting the A/c which was wronglydebited.

Example : Machinery purchased for Rs. 10,000 has been debited to Purchases A/c

Solution : Here two accounts are affected

- Machinery A/c is not debited hence its debit side is short by Rs. 10,000 whereas purchases A/c debited by mistake. Purchases A/c debit side is in excess by Rs.10,000.

- While rectifying this mistake Machinery A/c will be debited by Rs. 10,000 because it was not debited earlier and Purchases A/c will be credited because it waswrongly debited.

Rectifying Entry is

MachineryA/c	Dr.	10,000	
ToPurchasesA/c			10,000
(For purchases of machinery wrongly debited to Purchases A/c)			

(II) When an account has wrongly been Credited in place of another account.

Example : Rs. 5,000 received from the sale of old furniture has been Credited to Sales A/c.

Solution : This error also affects the two A/c

- Furniture A/c is not Credited hence its credit side is short by Rs.5,000.
- SalesA/ciscreditedbymistakeitscreditsideisexcessofRs.5,000.
- Therefore fore rectifying this mistake Sales A/c will be debited because it was wrongly Credited and Furniture A/c which was not Credited earlier will now be credited by Rs.5,000.

Hence Rectifying entry is

SalesA/c	Dr.	5,000	
ToFurnitureA/c			5,000
(Sales of old Furniture wrongly Credited to SalesA/c)			

(III) When there is a short debit in one A/c and a short Credit another A/c.

Example : Goods sold to Seema for Rs. 540 was entered in the Sales Book as Rs.450.

Solution :

- Here Seema's A/c is debited by Rs. 90 short and Sales A/c is credited by Rs.

90short.

(Instead of Rs. 540 by Rs. 450)

- Therefore rectification will be done by Debiting Seema's A/c and Crediting Sales A/c. Hence Rectifying entryis:

Seema	Dr.	90	
ToSalesA/		90	
(For Goods sold to Seema for Rs. 540 wrongly enteredRs.450)			

(IV) When there is an Excess Debit in one A/c and Excess Credit in anotherA/c.

Example : Goods purchased from Mohan for Rs. 300 was recorded in Purchases Book as Rs. 3,000.

Solution :

- Here Purchases A/c is Debited by Rs. 3,000 instead of Rs. 300, *i.e.*Rs. 2,700, more.
- Mohan's A/c is also Credited by Rs. 2,700more.
- Rectification will be done by debiting Mohan's A/c and Crediting purchases A/c by Rs. 2,700, i.e., the entry in the reversedirection.

Rectifying Entry

Mohan	Dr.	2,700	
ToPurchasesA/c			2,700
(For Purchase of goods from Mohan for Rs. 300 wrongly entered Rs.3,000)			

Problem :

Rectify the following Errors :

(1) Rs. 5,000 Paid for furniture purchased has been debited to purchases account.

(2) Wages paid Rs. 7,000 for installation of new machinery were recorded in wagesaccount.

(3) Goods sold to Hari Rs. 10,000 notrecorded.

(4) Rs. 2,500 received from Monu has been creditedto Sonu A/c.

(5) Rent paid Rs. 1,000 wrongly debited to LandlordAccount.

(6) Credit Purchase from Raman Rs. 15,000 were wrongly recorded in salesbook.

(7) CreditsalestoGeetaRs.8,.800wererecordedasRs,8,800

(8) GoodsRs.5,000withdrawnbyproprietorhasnotbeenrecorded.

Solution :

Error No.	*Particulars*		*L.F.*	*Dr. Rs.*	*Cr. Rs.*
1.	Furniture A/c	Dr.		5,000	
	To Purchases A/c				5,000
	(The furniture purchase wrongly debited to purchase A/c)				
2.	Machinery A/c	Dr.		7,000	
	To wages A/c				7,000
	(The wages for installation machinery wrongly debited to wates A/c				
3.	Hari	Dr.		10,000	
	ToSalesA/c				10,000
	(The goods sold to Hari not recorded.)				
4.	Sonu	Dr.		2,500	
	ToMonu				2,500
	(The amount wrongly credited to Sonu instead of Monu)				
5.	RentA/c	Dr.		1,000	
	ToLandlord				1,000
	(The rent paid but wrongly debited to landlord A/c)				
6.	PurchasesA/c	Dr.		15,000	
	Sales A/c	Dr.		15,000	
	To Raman				30,000
	(The Credit purchase but wrongly credit to sale A/c.				
7.	Geeta	Dr.		800	
	To sales A/c				800

	The Credit sales to Geeta Rs.8800 but recorded 8000			
8.	DrawingsA/c	Dr.	5,000	
	To Purchases A/c			5,000
	The goods withdraw by Proprietor for personal use			

(A) By passing Journal entries through SuspenseA/c.

(1) Rs. 5,000 paid to Mohit were entered in the cash Book but omitted to be posted to theledger.

(2) Rs. 5,000 paid to Mohit were debited to his A/c as Rs.500.

(3) Rs.5,000paidtoMohitweredebitedtohisA/casRs.50,000.

(4) Rs. 5,000 paid to Mohit were creditedto his A/c

(5) Rs.5,000paidtoMohitwerecreditedtohisA/casRs.500.

(6) Sales Book was overcast by Rs.2,000

(7) Sales Return Book undercast by Rs.4,000

(8) Purchase Return Book undercast by Rs.5,000.

Solution :

(A) Without opening a suspense A/c. These errors are rectified in the concernedledgerA/c,astheseerrorsbeforetrialBalance.

(1) Mohit's A/c will debited by Rs. 5,000 as it is a case of partial ommission.

(2) Mohit's A/c was debited Rs. 45,000 (5,000-500) therefore the rectification will be done by debiting Mohit's A/c by 4,500.

(3) Mohit's A/c was debited in excess by Rs. 45,000(50,000-5,000) therefore ratification will be done by crediting the Mohits A/c by Rs.45,000.

(4) Mohit's A/c was credited by Rs. 5,000 instead of debited by Rs. 5,000 therefore rectification will be done by debiting Mohit's A/c by Rs. 10,000(5,000+5,000)

(5) Mohit's A/c was wrongly credited by Rs. 500 instead ofdebiting it by Rs. 5,000, so rectification will be done by debiting the Mohit's A/c by5,500.

(6) Sales book overcast means sales A/c is credited is excess by Rs. 2,000. Hence rectification will be done by debiting sales A/c by 2,000.

(7) Sales Return Book total undercast by Rs. 4,000 means sales return A/c

is a debited short by Rs. 4,000 Hence rectification will be done by debiting sales Return A/c by4,000.

(8) Purchase Return Book undercast by Rs. 5,000 means purchase Return A/c is credited short by Rs.5,000.

Hence rectification will be done by crediting the purchase Return A/c by Rs. 5,000

(B) By opening suspenseA/c.

Rectifying Journal Entry

ErrorNo.	*Particulars*		*L.F.*	*Dr.Rs.*	*Cr. Rs.*
1.	Mohit	Dr.		5,000	
	To Suspense A/c				5,000
	(For cash paid to Mohit committed to be posted to his A/c)				
2.	Mohit	Dr.		4,500	
	To Suspense A/c				4,500
	(for Mohit A/c was debited with excess amount)				
3.	Suspense A/c	Dr.		45,000	
	To Mohit				45,000
	(fro Mohit A/c was debited with excess amount)				
4.	Mohit,	Dr.		10,000	
	To Suspense A/c				10,000
	(For posting to Mohit's A/c was done on wrong side				
5.	Mohit	Dr.		5,500	
	To Suspense A/c				5,500

UNIT V

Hire Purchase and Instalment System

Hire Purchase System

Definition: Hire Purchase System is a system in which the hirer (hire purchaser) buys a good from the seller (hire vendor) but does not make a full payment at one time. However, makes a lumpsum amount as a down payment and the remaining amount will be paid in installments by the hirer. It is somehow like an installment system but, the major difference in installment system and hire purchase system is the time of transfer of ownership.

The hire purchase system is generally imposed on the goods which have a good resale value in the market. Thus, in case hire purchaser fails to make an installment payment hire vendor has an option to repossess and resale the asset in the market to recover his cost and profit margin.

Content: Hire Purchase System

Contents

Parties Involved in the Hire Purchase System

1. Hirer: A "Hirer" in general terms implies the **buyer of a good** or a person who obtains a good from the owner or the seller under hire purchase system.

2. Hire Vendor: A "Hire Vendor" is an owner or **seller of the good** who delivers the goods to the hirer under a hire purchase system.

Formulas

1. To calculate the hire purchase price

2. To calculate Cash Price Installments

Hire Purchase Agreement

Hire purchase agreement contains the terms and conditions on which the purchaser and seller mutually agree to let the goods on hire. This agreement contains the following clauses:

- Vendor or seller gives the possession of goods to the hirer or hire purchaser with the condition that ownership will be transferred only when the hirer makes the payment of the last installment.
- Hirer has an option to terminate the agreement anytime if he/she don't want an asset or unable to pay the further installments. The installments paid till that date will be considered as rent for using an asset, and with the termination of the agreement, the hirer should return the asset to the vendor.

Contents of Hire Purchase Agreement

According to the **Hire Purchase Act, 1972 (Section 4)**, the following contents should be mandatorily mentioned in a hire purchase agreement:

1. Description of goods.
2. Selling price of the goods sold.
3. Actual cash price of the goods sold.
4. Date and time of agreement initiation.
5. Amount and number of installments to be paid by the hirer along with the rate of interest.
6. Last date till all installments should be paid off.
7. The name of the person to whom the installment is payable.

Advantages of Hire Purchase System

Following are some of the advantages of the hire purchase system:

1. Buying an asset becomes much easier for the hirer by making payments in easy installments.
2. After paying all the installments, the hirer can enjoy the ownership of the asset.
3. Hirer can claim the depreciation benefits on the hired assets.
4. Hirer can enjoy the tax benefits over the interest payable by them on hire purchased goods.
5. Hire purchase system is beneficial for the vendors too as it increases their sales volume.

Features of Hire Purchase System

Some of the relevant features of the Hire Purchase System are as follows:

1. **Act:** It is regulated by the Hire Purchase Act, 1972.
2. **Parties:** It is an agreement amidst hirer and hire vendor for hiring an asset.
3. **Claiming rights:** In case hirer fails to make a payment, hire vendor can sue or claim only for the return of the asset and not for the remaining due installment payments.
4. **Selling Rights:** Hirer cannot sell or mortgage the hired asset untill ownership gets transferred to the them.
5. **Loss bearer:** Hire vendor remains liable for any loss of goods untill ownership gets transferred to the hirer.

Accounting Treatment in the Hire Purchase System

In the books of Hire Vendor (Seller)

1. On the date of Purchase

- **Entry for sale of an asset**

Hire purchase A/c Dr. –

To Hire Sales A/c		–	
To Interest Suspense A/c		–	

- **Entry for cash down payment received**

Cash/ Bank A/c	Dr.	–	
To Hire Purchaser		–	

2. At the end of the first year and successive year

- **Entry for the due Interest**

Interest Suspense A/c	Dr.	–	
To Interest A/c		–	

- **Entry for the received installment**

Cash/ Bank A/c	Dr.	–	
To Hire Purchaser		–	

- **Entry for the depreciation on an asset**

No Entry

- **Entry for transferring depreciation and interest amount to Profit and loss Account**

Interest A/c	Dr.	–
To Profit/Loss A/c		–

3. At the time of Repossession

When the amount receivable from the hirer (hire Purchaser) is equal to the asset repossessed by the hire vendor.

- **The entry will be**

Goods Repossessed A/c	Dr.	–
To Hire Purchaser		–

The profit/ Loss on Repossession will be recorded as:

1. In case of Profit

Goods Repossessed A/c	Dr.	–
To Profit/Loss A/c		–

2. In case of Loss

Profit and Loss A/c	Dr.	–

To Goods Repossessed A/c –

When Repossession of asset is done on Agreed value

- **The entry will be:**

Goods Repossessed A/c Dr. –

To Hire Purchaser –

(With the Agreed value of an asset)

In the books of Hire Purchaser(Hirer)

1. On the date of Purchase

- **Entry for the purchase of the asset**

Asset A/c Dr. –

Interest Suspense A/c Dr. –

To Hire Vendor A/c –

- **Entry for cash down payment paid**

Hire Vendor A/c Dr. –

To Cash/ Bank A/c –

2. At the end of the first year and successive year

- **Entry for the due Interest**

Interest A/c Dr. –

To Interest Suspense A/c –

- **Entry for the installment paid**

Hire Vendor Dr. –

To Cash/ Bank A/c –

- **Entry for the depreciation on asset**

Depreciation A/c Dr. –

To Asset A/c –

- **Entry for transferring depreciation and interest amount to Profit and loss Account**

Profit and Loss A/c Dr –

To Depreciation A/c –

To Interest A/c –

3. At the time of Repossession

When the amount payable to the vendor is equal to the asset returned to the hire vendor.

- **The entry for it will be:**

Hire Vendor A/c Dr. –

To Asset A/c –

(With the amount payable to hire vendor)

If the amount payable is more than the book value of the asset, it will be treated as profit.

- **The entry for it will be:**

Asset A/c Dr. –

To Profit and loss A/c –

(With the amount of profit)

If the amount payable is less than the book value of the asset, it will be treated as a loss.

- **The entry for it will be:**

Profit and Loss A/c	Dr.	–
To Asset A/c		–
(With the amount of Loss)		

When an asset is returned at an Agreed Value

Hire Vendor A/c	Dr.	–
To Asset A/c		–
(With an Agreed value of an asset)		

Conclusion

Hire purchase system is a credit purchase system in which hirer buys goods from the hire vendor on credit and makes payment on installments. Although the hirer gets the possession of the goods from the date of the agreement; however, the ownership of the asset only gets transferred with the last installment payment, till then the hire vendor holds the right of ownership of the asset.

Keeping this in mind, the cash price of the machine can be calculated in the following manner:

	₹
Amount due on 31st March, 2012 just before payment of the fourth instalment	50,000
Less: Interest for the fourth year = ₹ 50,000 × 3/23	6,522
Amount due on 1st April, 2011	43,478
Add: Amount of the third instalment	50,000
	93,478
Less: Interest for the third year = ₹ 93,478 × 3/23	12,193
Amount due on 1st April, 2010	81,285
Add: Amount of the second instalment	50,000
	₹
	1,31,285
Less: Interest for the second year = ₹ 1,31,285 × 3/23	17,124
Amount due on 1st April, 2009	1,14,161
Add: Amount of the first instalment	50,000
	1,64,161
Less: Interest for the first year = ₹ 1,64,161 × 3/23	21,412
Amount due on 1st April, 2008 after down payment	1,42,749
Add: Down payment	50,000
Cash price	1,92,749

Alternatively, the present value at 15% per annum of one rupee received annually at the end of four years is Rs 2-85498. Thus, the present value of Rs 50,000 is Rs 50,000 x 2-85498 = Rs 1,42,749. To this, we add down payment of Rs 50,000. Therefore, the cash price is Rs 1,42,749 + Rs 50,000 = Rs 1,92,749.

Hire Purchase, Instalments and Lease: Problem and Solution # 2.

G acquired a plant delivered on April 1, 2010 on the following terms:

(i) Initial payment of Rs 40,000 immediately; and

(ii) 4 half-yearly instalments of Rs 30,000 each commencing September 30, 2010.

Interest is 10% with yearly rests. What is the cash price?

Solution :

If x is the cash price less down payment, the interest for the first year will be $x \times \frac{10}{100}$ and the amount due will be $x + \frac{10}{100}x - 60,000$.

Next year, the interest will be $\frac{10}{100}\left[x + \frac{10}{100}x - 60,000\right]$

Total amounts paid by way of instalments in respect of cash price if instalments total ₹ 1,20,000. Therefore,

$$1,20,000 = x + \frac{10}{100}x + \frac{10}{100}\left[x + \frac{10}{100}x - 60,000\right]$$

$$= x + \frac{1}{10}x + \frac{1}{10}x + \frac{1}{100}x - 6,000$$

$$1,26,000 = x + \frac{21}{100}x$$

$$= \frac{121}{100}x$$

$1,04,132 = x$.

The present value of the instalments is ₹ 1,04,132; adding the cash down payment of ₹ 40,000, the total cash price is ₹ 1,44,132.

Hire Purchase, Instalments and Lease: Problem and Solution # 3.

Delhi Tourist Service Ltd. purchased from Maruti Udvog Ltd. a motor van on 1st April 2009 the cash price being Rs 1,64,000. The purchase was on hire purchase basis, Rs 50.000 being paid on the signing of the contract and, thereafter, Rs 50,000 being paid annually on 31st March, for three years, Interest was charged at 15% per annum.

Depreciation was written off at the rate of 25 per cent per annum on the reducing instalment system. Delhi Tourist Service Ltd. closes its books every year on 31st March. Prepare the necessary ledger accounts in the books of Delhi Tourist Service Ltd.

Solution:

Dr. **Motor Van Account** Cr.

Date		Particulars	₹	Date	Particulars	₹
2009				2010		
Apr.	1	To Maruti Udyog Ltd.	1,64,000	Mar. 31	By Depreciation— 25% of ₹ 1,64,000	41,000
				„ „	By Balance c/d	1,23,000
			1,64,000			1,64,000
2010				2011		
Apr.	1	To Balance b/d	1,23,000	Mar. 31	By Depreciation— 25% of ₹ 1,23,000	30,750
				„ „	By Balance c/d	92,250
			1,23,000			1,23,000
2011				2012		
Apr.	1	To Balance b/d	92,250	Mar. 31	By Depreciation— 25% of ₹ 92,250	23,063
				„ „	By Balance c/d	69,187
			92,250			92,250
2012						
Apr.	1	To Balance b/d	69,187			

Maruti Udyog Ltd.

Date		Particulars	₹	Date	Particulars	₹
2009				2009		
Apr.	1	To Bank	50,000	Apr. 1	By Motor Van Account	1,64,000
2010				2010		
Mar.	31	To Bank	50,000	Mar. 31	By Interest Account— 15% of ₹ 1,14,000	17,100
„	„	To Balance c/d	81,100			
			1,81,100			1,81,100
2011				2010		
Mar.	31	To Bank	50,000	Apr. 1	To Balance b/d	81,100
				2011		
„	„	To Balance c/d	43,265	Mar. 31	By Interest Account— 15% of ₹ 81,100	12,165
			93,265			93,265
2012				2011		
Mar.	31	To Bank	50,000	Apr. 1	By Balance b/d	43,265
				2012		
				Mar. 31	By Interest Account— (balancing figure)	6,735
			50,000			50,000

Interest Account

		₹			₹
2010 Mar. 31	To Maruti Udyog Ltd.	17,100	2010 Mar. 31	By Profit & Loss A/c —transfer	17,100
2011 Mar. 31	To Maruti Udyog Ltd.	12,165	2011 Mar. 31	By Profit & Loss A/c —transfer	12,165
2012 Mar. 31	To Maruti Udyog Ltd.	6,735	2012 Mar. 31	By Profit & Loss A/c —transfer	6,735

Depreciation Account

		₹			₹
2010 Mar. 31	To Motor Van Account	41,000	2010 Mar. 31	By Profit & Loss A/c —transfer	41,000
2011 Mar. 31	To Motor Van Account	30,750	2011 Mar. 31	By Profit & Loss A/c —transfer	30,750
2012 Mar. 31	To Motor Van Account	23,063	2012 Mar. 31	By Profit & Loss A/c —transfer	23,063

Profit & Loss Account (relevant portions only)

		₹			
2010 Mar. 31	To Interest A/c	17,100			
" "	To Depreciation A/c	41,000			
2011 Mar. 31	To Interest A/c	12,165			
" "	To Depreciation A/c	30,750			
2012 Mar. 31	To Interest A/c	6,735			
" "	To Depreciation A/c	23,063			

If all the transactions are journalised, the journal entries will appear as follows:—

Journal

				Dr. ₹	Cr. ₹
2009 Apr.	1	Motor Van Account ... Dr. To Maruti Udyog Ltd. Cash price of motor van purchased on hire purchase basis credited to Maruti Udyog Ltd., hire-vendor.		1,64,000	1,64,000
"	"	Maruti Udyog Ltd. ... Dr. To Bank Down payment made to Maruti Udyog Ltd.		50,000	50,000

				₹	₹
2010 Mar.	31	Interest Account ... Dr. To Maruti Udyog Ltd. Interest @ 15% p.a. for one year on ₹ 1,14,000 due to Maruti Udyog Ltd.		17,100	17,100
"	"	Maruti Udyog Ltd. ... Dr. To Bank Payment of the first annual instalment to Maruti Udyog Ltd.		50,000	50,000
"	"	Depreciation Account ... Dr. To Motor Van Account Depreciation provided on Motor Van @ 25% per annum for the year.		41,000	41,000
"	"	Profit & Loss Account ... Dr. To Interest Account To Depreciation Account Transfer of Interest Account and Depreciation Account to Profit and Loss Account.		58,100	17,100 41,000
2011 Mar.	31	Interest Account ... Dr. To Maruti Udyog Ltd. Interest @ 15% p.a. for one year on ₹ 81,100 due to Maruti Udyog Ltd.		12,165	12,165
"	"	Maruti Udyog Ltd. ... Dr. To Bank Payment of the second annual instalment to Maruti Udyog Ltd.		50,000	50,000
"	"	Depreciation Account ... Dr. To Motor Van Account Depreciation provided on Motor Van @ 25% on the written down value, ₹ 1,23,000.		30,750	30,750
"	"	Profit & Loss Account ... Dr. To Interest Account To Depreciation Account Transfer of Interest Account and Depreciation Account to Profit and Loss Account.		42,915	12,165 30,750
2012 Mar.	31	Interest Account ... Dr. To Maruti Udyog Ltd. Interest due to Maruti Udyog Ltd. the amount necessary to make up the amount of instalment of ₹ 50,000.		6,735	6,735
"	"	Maruti Udyog Ltd. ... Dr. To Bank Payment of the last instalment to Maruti Udyog Ltd.		50,000	50,000
"	"	Depreciation Account Dr. To Motor Van Account Depreciation provided on Motor Van @ 25% on the written down value, ₹ 92,250.		23,063	23,063

				₹	₹
2012 Mar.	31	Profit & Loss Account ... Dr. To Interest Account To Depreciation Account Transfer of Interest Account and Depreciation Account to Profit and Loss Account.		29,798	6,735 23,063

Hire Purchase, Instalments and Lease: Problem and Solution # 4.

On 1st April, 2008, Ashok acquired machinery on hire purchase system from Modmac Ltd., agreeing to pay four annual instalments of Rs 60,000 each payable at the end of each year. There is no down payment. Interest is charged @ 20% per annum and is included in the annual instalments.

Because of financial difficulties, Ashok, after having paid the first and second instalments, could not pay the third yearly instalment due on 31st March, 2011, whereupon the hire vendor repossessed the machinery.

Ashok provides depreciation on the Machinery @ 10% per annum according to the written down value method. He closes his books of account every year on 31st March.

Show Machinery Account and the account of Modmac Ltd. for all the years in the books of Ashok. All workings should form part of your answer.

Solution :

Working Notes :

(i) **Calculation of interest and cash price**

Date of instalment	*Amount of instalment*		*Towards interest*	*Towards cash price*
	₹		₹	₹
31.3.2012	60,000	$\frac{20}{120} \times$ Rs. 60,000	10,000	50,000

	₹		₹	₹
31.3.2011	60,000	$\frac{20}{120} \times$ ₹ (50,000 + 60,000)	18,333	41,667
31.3.2010	60,000	$\frac{20}{120} \times$ ₹ (50,000 + 41,667 + 60,000)	25,278	34,722
31.3.2009	60,000	$\frac{20}{120} \times$ ₹ (50,000 + 41,667 + 34,722 + 60,000)	31,065	28,935
Total	2,40,000		84,676	1,55,324

(ii) *Calculation of depreciation* :

	₹
Cash price of machinery as per working note (i)	1,55,324
Less : Depreciation @ 10% p.a. for the year 2008–2009	15,532
	1,39,792
Less : Depreciation @ 10% p.a. for the year 2009–2010	13,979
	1,25,813
Less : Deprecation @ 10% p.a. for the year 2010–2011	12,581
	1,13,232

In the books of Ashok

Machinery Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
2009 Mar. 31	To Modmac Ltd.	28,935	2009 Mar. 31	By Depreciation Account	15,532
			" "	By Balance c/d	13,403
		28,935			28,935
2009 Apr. 1	To Balance b/d	13,403	2010 Mar. 31	By Depreciation Account	13,979
2010 Mar. 31	To Modmac Ltd.	34,722	" "	By Balance c/d	34,146
		48,125			48,125
2010 Apr. 1	To Balance b/d	34,146	2011 Mar. 31	By Depreciation Account	12,581
			" "	By Profit and Loss Account — Balance written off on repossession by Modmac Ltd.	21,565
		34,146			34,146

Modmac Ltd.

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
2009 Mar. 31	To Bank	60,000	2009 Mar. 31	By Machinery Account	28,935
			" "	By Interest Account	31,065
		60,000			60,000
2010 Mar. 31	To Bank	60,000	2010 Mar. 31	By Machinery Account	34,722
			" "	By Interest Account	25,278
		60,000			60,000

Hire Purchase, Instalments and Lease: Problem and Solution # 5.

Kareem Restaurant purchased from E.C. Ltd. a colour T.V. set on 1st October 2010 on the hire-purchase system. The cash price of the set was Rs 15,000. Terms of payment were Rs 1,50 down and Rs 4 000 half yearly over two years, the first instalment was to be paid on 31st March, 2011. Rate of interest was 12% per annum.

ADVERTISEMENTS:

Kareem Restaurant wrote off 15% depreciation per annum on reducing instalments basis and closed its books every year on 31st March. It could not pay the second instalment due on 30th September 2011 and as a consequence, EC Ltd. repossessed the T.V. set.

Prepare T'V Set Account and the hire vendor's account in Kareem Restaurant's ledger. Also calculate the loss suffered by Kareem Restaurant on repossession of T.V. set by E.C. Ltd. Make all calculations to the nearest rupee.

Solution :

First Method

In Kareem Restaurant's Ledger

T.V. Set Account

Dr.					*Cr.*
		₹			₹
2010 Oct. 1	To E.C. Ltd. (cash price)	15,000	2011 Mar. 31	By Depreciation A/c —for six months @ 15% p.a. on ₹ 15,000	1,125
			Mar. 31	By Balance c/d	13,875
		15,000			15,000
2011 Apr. 1	To Balance b/d	13,875	2011 Sept. 30	By Depreciation A/c. —for six months @ 15% p.a. on ₹ 13,875	1,041
			" "	By E.C. Ltd.— Amount not paid	11,322
			" "	By Profit & Loss A/c (balancing figure)	1,512
		13,875			13,875

E.C. Ltd.

Dr.					*Cr.*
		₹			₹
2010 Oct. 1	To Bank— down payment	1,150	2010 Oct. 1	By T.V. Set Account	15,000
2011 Mar. 31	To Bank— first instalment	4,000	2011 Mar. 31	By Interest Account —@ 12% p.a. on ₹ 13,850 for 6 months	831
" "	To Balance c/d	10,681			
		15,831			15,831

Date	Particulars	₹	Date	Particulars	₹
2011 Sept. 30	To T.V. Set Account —transfer on repossession	11,322	2011 Apr. 1	By Balance b/d	10,681
			Sept. 30	By Interest Account —@ 12% p.a. on ₹ 10,681 for 6 months	641
		11,322			11,322

The loss suffered by Kareem Restaurant is ₹ 1,512 in addition to ₹ 641 interest payable for the half year ended 30th September, 2011—total loss thus being ₹ 2,153.

Second Method

Dr. **T.V. Set Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
2010 Oct. 1	To E.C. Ltd.— down payment	1,150	2011 Mar. 31	By Depreciation A/c —on full cash price of ₹ 15,000 @ 15% p.a. for six months	1,125
2011 Mar. 31	To E.C. Ltd. (₹ 4,000—₹ 831)	3,169	Mar. 31	By Balance c/d	3,194
		4,319			4,319
2011 Apr. 1	To Balance b/d	3,194	2011 Sept. 30	By Depreciation A/c —for six months @ 15% per annum on ₹ 13,875	1,041
			Sept. 30	By Profit & Loss A/c —balance written off on repossession by E.C. Ltd.	2,153
		3,194			3,194

E.C. Ltd.

Date	Particulars	₹	Date	Particulars	₹
2010 Oct. 1	To Bank— down payment	1,150	2010 Oct. 1	By T.V. Set Account	1,150
2011 Mar. 31	To Bank— first instalment	4,000	2011 Mar. 31	By T.V. Set Account	3,169
			,, ,,	By Interest Account	831
		5,150			5,150

Hire Purchase, Instalments and Lease: Problem and Solution # 6.

On the basis of particulars given in the immediately preceding illustration, prepare important ledger accounts in E.C. Ltd.'s books of account. Assume that the estimated value of the T.V. set at the time of repossession was Rs 12.000 and after an expenditure of Rs 850 on repairs, repacking etc. to give the T.V. set a new-look, the company resold it on 6th December, 2011 for cash to one of its employees at a special discount of 10 per cent on cash price i.e., for Rs 13,500. Also assume E.C. Ltd. closes its books of accounts every year on 31st March.

Solution :

In the books of E.C. Ltd.

Kareem Restaurant

Dr.		₹			₹ Cr.
2010 Oct. 1	To Sales Account— cash price	15,000	2010 Oct. 1	By Bank— down payment	1,150
2011 Mar. 31	To Interest A/c —on ₹ 13,850 @ 12% p.a. for six months	831	2011 Mar. 31	By Bank— first instalment	4,000
			... ...	By Balance c/d	10,681
		15,831			15,831
2011 Apr. 1	To Balance b/d	10,681	2011 Sept. 30	By Goods Repossessed A/c— estimated value of T.V. set on repossession	12,000
Sept. 30	To Interest A/c —on ₹ 10,681 @ 12% p.a. for six months	641			
Sept. 30	To Profit & Loss A/c —profit on repossession of T.V. set	678			
		12,000			12,000

Goods Repossessed Account

Dr.		₹			₹ Cr.
2011 Sept. 30	To Kareem Restaurant— estimated value of T.V. set on repossession	12,000	2011 Dec. 6	By Cash— sale proceeds	13,500
?	To Bank, Wages, Material etc.— expenditure on repairs, repacking etc.	850			
2011 Dec. 6	To Profit & Loss Account —profit on resale	650			
		13,500			13,500

Hire Purchase, Instalments and Lease: Problem and Solution # 7.

X Transport Ltd. purchased from Delhi Motors 3 trucks costing Rs 5,00,000 each on the hire purchase system. Payment was to be made Rs 3,00,000 down and the remainder in 3 equal instalments together with interest @ 18% p.a. X Transport Ltd. wrote off depreciation @ 20% on the diminishing balances. It paid the instalment due at the end of the first year but could not pay the next.

Delhi Motors agreed to leave one truck with the purchaser, adjusting the value of the other 2 trucks against the amount due. The trucks were valued on the basis of 30% depreciation annually on diminishing balances. Prepare the necessary ledger accounts in the books of X Transport Ltd. for 2 years. Also show journal entries for all the transactions taking place on the date of default.

Solution:

First Method

Dr. **Trucks Account** *Cr.*

Year		₹	Year		₹
1	To Delhi Motors	15,00,000	Year 1 (end)	By Depreciation—20% on ₹ 15,00,000	3,00,000
				By Balance *c/d*	12,00,000
		15,00,000			15,00,000
Year 2	To Balance *b/d*	12,00,000	Year 2 (end)	By Depreciation	2,40,000
				By Delhi Motors—value of 2 trucks after 30% depreciation for 2 years	4,90,000
				By Profit and Loss A/c—balancing figure	1,50,000
				By Balance *c/d* (One truck, ₹ 5,00,000 *less* depreciation for 2 year @ 20%)	3,20,000
		12,00,000			12,00,000
Year 3	To Balance *b/d*	3,20,000			

Delhi Motors

Year		₹	Year		₹
1	To Bank	3,00,000	1	By Trucks	15,00,000
	To Bank	5,16,000		By Interest (18% p.a. on ₹ 12,00,000)	2,16,000
	To Balance *c/d*	8,00,000			
		17,16,000			17,16,000

Year		₹	Year		₹
2	To Trucks	4,90,000	2	By Balance b/d	8,00,000
	To Balance c/d	4,54,000		By Interest	1,44,000
		9,44,000			9,44,000
			Year 3	By Balance b/d	4,54,000

Journal entries for all the transactions at the end of the second year will be as follows :—

Journal

			Dr. ₹	Cr. ₹
End of Year 2	**Interest Account** ... Dr. To Delhi Motors Interest due to Delhi Motors for one year @ 18% p.a. on ₹ 8,00,000, the amount due on account of cash price of trucks.		1,44,000	1,44,000
" "	**Depreciation Account** ... Dr. To Trucks Account Depreciation provided on all the trucks for the year.		2,40,000	2,40,000
" "	**Delhi Motors** ... Dr. To Trucks Account Agreed value of two trucks taken back by Delhi Motors—cash price minus depreciation for two years @ 30% per annum.		4,90,000	4,90,000
" "	**Profit & Loss Account** ... Dr. To Trucks Account Loss suffered on account of repossession of two trucks by Delhi Motors transferred from Trucks Account to Profit & Loss Account—the amount of the loss being the excess of book value of the two trucks over the agreed value of the two trucks *i.e.* ₹ (10,00,000 – 2,00,000 – 1,60,000) – ₹ 4,90,000.		1,50,000	1,50,000
" "	**Profit & Loss Account** ... Dr. To Interest Account To Depreciation Account Transfer of Interest Account and Depreciation Account to Profit & Loss Account.		3,84,000	1,44,000 2,40,000

Second Method

Dr. **Trucks Account** Cr.

Year		₹	Year		₹
1	To Delhi Motors	3,00,000	1	By Depreciation A/c	3,00,000
	To Delhi Motors	4,00,000		By Balance c/d	4,00,000
		7,00,000			7,00,000
Year 2	To Balance b/d	4,00,000	Year 2	By Depreciation A/c	2,40,000
	To Delhi Motors—creating a liability for ₹ 4,54,000 ascertained by preparing Delhi Motors A/c as in Method I	4,54,000		By Profit & Loss A/c—loss, being the balancing figure	2,94,000
				By Balance c/d (Full cash price of the truck ₹ 5,00,000 *less* depreciation for 2 years)	3,20,000
		8,54,000			8,54,000
Year 3	To Balance b/d	3,20,000			

The figure of Rs 2,94,000 includes the loss of Rs 1,44,000 due to interest, entry for which has not been passed in Delhi Motors Account under the second method. Under the first method also, the total loss is Rs 2,94,000; Rs 1,50,000 appearing in Trucks Account and Rs 1,44,000 appearing by way of interest in Delhi Motors Account.

Delhi Motors

		₹			₹
Year 1	To Bank	3,00,000	Year 1 1	By Trucks Account	3,00,000
	To Bank	6,16,000		By Trucks Account	4,00,000
				By Interest Account	2,16,000
		9,16,000			9,16,000
Year 2	To Balance *c/d*	4,54,000	Year 2	By Trucks Account	4,54,000
			Year 3	By Balance *b/d*	4,54,000

Journal

			Dr. ₹	Cr. ₹
End of Year 2	Depreciation Account ... Dr.		2,40,000	
	To Trucks Account			2,40,000
	Depreciation provided on all the trucks for the year			
	Trucks Account ... Dr.		4,54,000	
	To Delhi Motors			4,54,000
	Creating a liability for ₹ 4,54,000 on the part of Delhi Motors.			
	Profit & Loss Account ... Dr.		2,94,000	
	To Trucks Account			2,94,000
	Loss suffered on novation of the contract due to default transferred from Trucks Account to Profit & Loss Account.			

Hire Purchase, Instalments and Lease: Problem and Solution # 8.

Continuing the above illustration, draw up accounts in the books of the hire-vendor assuming the trucks were reconditioned at an expense of Rs 75,000 and that they were sold for Rs 6,00,000 in the third year.

Solution :

X Transport Ltd.

		₹			₹
Year 1	To Sales	15,00,000	Year 1	By Bank	3,00,000
	To Interest	2,16,000		By Cash	6,16,000
				By Balance c/d	8,00,000
		17,16,000			17,16,000
Year 2	To Balance b/d	8,00,000	Year 2	By Goods Repossessed A/c (two trucks @ 30% depreciation for 2 years)	4,90,000
	To Interest	1,44,000		By Balance c/d	4,54,000
		9,44,000			9,44,000
Year 3	To Balance b/d	4,54,000			

Goods Repossessed Account

		₹			₹
Year 2	To X Transport Ltd.	4,90,000	Year 2	By Balance c/d	4,90,000
Year 3	To Balance b/d	4,90,000	Year 3	By Bank (sales)	6,00,000
	To Cash—expenses	75,000			
	To Profit & Loss A/c (profit)	35,000			
		6,00,000			6,00,000

Hire Purchase, Instalments and Lease: Problem and Solution # 9.

From the following particulars, calculate:

(i) Agreed value of two plants taken back by the hire vendor.

(ii) Book value of plant left with the hire purchaser.

(iii) Profit or loss to hire purchaser on two plants taken back by the hire vendor.

(iv) Profit or loss on plants repossessed, when sold by the hire vendor.

Particulars:

(a) X purchased three plants from Y on hire purchase basis, the cash price of each plant being Rs 1,00,000.

(b) The hire purchaser charged depreciation @ 20% on diminishing balance method.

(c) Two plants were seized by on hire vendor when second instalment was not paid at the end of the second year. The hire vendor valued the two plants at cash price less 30% depreciation annually charged at diminishing balance method.

(d) The hire vendor spent Rs 40,000 on overhauling of the plants and then sold them for a total sum of Rs 1,60,000.

Solution :

			₹
(i)	Price of two plants = ₹ 1,00,000 × 2		2,00,000
	Less : Depreciation for the first year @ 30%		60,000
			1,40,000
	Less : Depreciation for the second year = ₹ $1,40,000 \times \frac{30}{100}$		42,000
	Agreed value of plants taken back by the hire vendor		98,000
(ii)	Cash purchase price of one plant		1,00,000
	Less : Depreciation on ₹ 1,00,000 @ 20% for the first year		20,000
	Written drown value at the end of first year		80,000
	Less : Depreciation on ₹ 80,000 @ 20% for the second year		16,000
			₹
	Book value of plant left with the price purchaser		64,000
(iii)	Book value of one plant as calculated in working note (ii) above		64,000
	Book value of two plants = ₹ 64,000 × 2		1,28,000
	Value at which the two plants were taken back, calculated in working note (i) above		98,000
	Hence, loss on plant taken back = ₹ 1,28,000 – ₹ 98,000 = ₹ 30,000		
(iv)	Sale proceeds of plants repossessed	₹	1,60,000
	Less : Value at which plants were taken back	98,000	
	Overhauling charges	40,000	
			1,38,000
	Profit on resale		22,000

Hire Purchase, Instalments and Lease: Problem and Solution # 10.

Rapid Engineering Works sold to Pratap Industries a machine of the cash value of Rs 31,360 on hire purchase basis on 1st April, 2009. A sum of Rs 9,000 was paid at the time of delivery. The balance was payable in three equal annual instalments of Rs 9,000 each payable on 31st March of every year. Interest was charged @ 10% per annum. The purchaser charged 10% depreciation per annum on the diminishing balances of the machine.

Pratap Industries failed to pay the instalment due on 31st March, 2011. Rapid Engineering Works obtained the permission of the court to repossess the machine as a result of default by the purchaser and having completed all the statutory requirements took possession of the machine on 31st May, 2011. Prepare the necessary ledger accounts in the books of hire purchaser.

Solution :

In the books of Pratap Industries

Machinery Account

Dr.		₹			Cr. ₹
2009 Apr. 1	To Rapid Engineering Works — Cash price	31,360	2010 Mar. 31	By Depreciation Account — 10% of ₹ 31,360	3,136
			" "	By Balance c/d	28,224
		31,360			31,360
2010 Apr. 1	To Balance b/d	28,224	2011 Mar. 31	By Depreciation Account — 10% of ₹ 28,224	2,822
			" "	By Rapid Engineering Works	17,156
			" "	By Profit and Loss Account — Loss on default, balancing figure	8,246
		28,224			28,224

Rapid Engineering Works

Dr.		₹			Cr. ₹
2009 Apr. 1	To Bank — Down payment	9,000	2010 Apr. 1	By Machinery Account	31,360
2010 Mar. 31	To Bank — First instalment	9,000	2010 Mar. 31	By Interest Account — 10% of ₹ 22,360	2,236
" "	To Balance c/d	15,596			
		33,596			33,596

		₹			₹
2011 Mar. 31	To Machinery Account — Transfer of balance	17,156	2010 Apr. 1	By Balance b/d	15,596
			2011 Mar. 31	By Interest Account — 10% of ₹ 15,596	1,560
		17,156			17,156

Interest Account

Dr.					Cr.
2010		₹	2010		₹
Mar. 31	To Rapid Engineering Works	2,236	Mar. 31	By Profit and Loss Account — Transfer	2,236
2011 Mar. 31	To Rapid Engineering Works	1,560	2011 Mar. 31	By Profit and Loss Account — Transfer	1,560

Depreciation Account

Dr.					Cr.
2010		₹	2010		₹
Mar. 31	To Machinery Account	3,136	Mar. 31	By Profit and Loss Account — Transfer	3,136
2011 Mar. 31	To Machinery Account	2,822	2011 Mar. 31	By Profit and Loss Account — Transfer	2,822

Profit and Loss Account

Dr.					Cr.
2010		₹			
Mar. 31	To Interest Account	2,236			
"	To Depreciation Account	3,136			
		5,372			
2011					
Mar. 31	To Interest Account	1,560			
	To Depreciation Account	2,822			
	To Machinery Account — Loss on default	8,246			
		12,628			

Alternative Solution :

Machinery Account

Dr.					Cr.
2009		₹	2010		₹
Apr. 1	To Rapid Engineering Works — Down payment	9,000	Mar. 31	By Depreciation Account — 10% of ₹ 31,360	3,136
2010 Mar. 31	To Rapid Engineering Works — Instalment minus interest, ₹ 9,000–₹ 2,236	6,764	" "	By Balance c/d	12,628
		15,764			15,764

		₹			₹
2010 Apr. 1	To Balance b/d	12,628	2011 Mar. 31	By Depreciation Account — 10% of ₹ 28,224	2,822
			,, ,,	By Profit and Loss Account — Loss on Default	9,806
		12,628			12,628

Dr. **Rapid Engineering Works** Cr.

		₹			₹
2009 Apr. 1	To Bank — Down payment	9,000	2009 April 1	By Machinery Account	9,000
			2010 Mar. 31	By Machinery Account	6,764
2010 Mar. 31	To Bank — First instalment	9,000	,, ,,	By Interest Account — 10% of ₹ 22,360	2,236
		18,000			18,000

Note : Interest Account and Depreciation Account will be exactly the same as in the previous method.

Dr. **Profit and Loss Account** Cr.

		₹			
2010 Mar. 31	To Interest Account	2,236			
,, ,,	To Depreciation Account	3,136			
		5,372			
2011 Mar. 31	To Depreciation Account	2,822			
,, ,,	To Machinery Account — Loss on default	9,806			
		12,628			

Hire Purchase, Instalments and Lease: Problem and Solution # 11.

India Music Ltd. manufactures a two-in-one set for Rs 2,500 and sells both on cash basis and hire purchase basis. The cash price is Rs 4,000 and the hire purchase price is Rs 5,400, payment being made in four half-yearly instalments of Rs 1,350, the first instalment being paid at the end of the first six months. The sets are to be maintained free of -charge for two years. Past experience indicates that Rs 800 is the cost of maintenance of which Rs 300 is for the first year.

During 2009-10 1,200 sets were sold for cash and 3,000 sets were sold on the hire purchase system. The actual cost of maintenance in the first year was Rs 7,00,000 and in the second year Rs 15,60,000, and Rs 9,80,000 in the third year. Draft journal and cash book entries in the books of the company, assuming all instalments were received in time. Books are closed on 31st March every year.

Solution :

In will have to be assumed that all sets were sold at an average date of 30th September, 2007. The provision for maintenance will, therefore, be calculated as follows :—

			₹
From 1st Oct., 2009 to 31st March, 2010	4,200 × 150	₹	6,30,000
From 1st Apr., 2010 to 30th Sept., 2010	4,200 × 150	630,000	
From 1st Oct., 2010 to 31st March, 2011	4,200 × 250	10,50,000	16,80,000
From 1st April, 2011 to 30th Sept., 2011	4,200 × 250		10,50,000
			33,60,000

The interest for all the four half years is ₹ 1,400, *i.e.*, ₹ 5,400—₹ 4,000 per set. This must be allocated to the various periods in the ratio of amount outstanding, *viz.*, ₹ 5,400 for the first half year, ₹ 4,050 for the second half year, ₹ 2,700 for the third half year and ₹ 1,350 for the fourth half year. The ratio is 4 : 3 : 2 : 1. Hence, interest for the various half year is—

First half year	₹ 1,400 × 4/10 = ₹ 560;
Second half year	₹ 1,400 × 3/10 = ₹ 420;
Third half year	₹ 1,400 × 2/10 = ₹ 280; and
Fourth half year	₹ 1,400 × 1/10 = ₹ 140

Journal Entries

			Dr.	Cr.
			₹	₹
2009 Sept. 30	Hire Purchase Customers ... Dr.		1,20,00,000	
	To Sales			96,00,000
	To Maintenance Suspense Account			24,00,000
	Sale of 3000 sets on hire purchase—cash price being ₹ 4000 including ₹ 800 as maintenance over two years.			
2010 Mar. 31	Hire Purchase Customers ... Dr.		16,80,000	
	To Interest			16,80,000
	Interest due on 3,000 sets @ ₹ 560 per set for the first *half-year.*			

Date	Particulars		Dr. ₹	Cr. ₹
2010 Mar. 31	Profit and Loss Account ... Dr. To Maintenance Suspense Account The transfer to Profit and Loss Account of the excess of actual maintenance charges over the estimated amount.		70,000	70,000
Sept. 30	Hire Purchase Customers ... Dr. To Interest The interest due from hire purchase customers for the half-year @ ₹ 420 per set.		12,60,000	12,60,000
2011 Mar. 31	Hire Purchase Customers ... Dr. To Interest The interest due from hire purchase customers for the half year @ ₹ 280 per set.		8,40,000	8,40,000
Sept. 30	Hire Purchase Customers ... Dr. To Interest The interest due from hire purchase customers for the half year @ ₹ 140 per set.		4,20,000	4,20,000
" "	Maintenance Suspense Account ... Dr. To Profit and Loss Account The saving on maintenance over the three half-years beginning April 1, 1999.		1,90,000	1,90,000

Dr. **Cash Book** Cr.

Date	Particulars	₹	Date	Particulars	₹
2009 Sept. 30	To Sales—1,200 sets @ ₹ 3,200	38,40,000	2010 Mar. 31	By Maintenance Suspense A/c—actual cost	7,00,000
Sept. 30	To Maintenance Suspense A/c—1,200 sets @ ₹ 800	9,60,000			
2010 Mar. 31	To Hire Purchase Customers —3,000 sets @ ₹ 1,350	40,50,000			
2010 Sept. 30	To Hire Purchase Customers —3,000 sets @ ₹ 1,350	40,50,000	2011 Mar. 31	By Maintenance Suspense A/c—actual cost	15,60,000
2011 Mar. 31	To Hire Purchase Customers	40,50,000			
2011 Sept. 30	To Hire Purchase Customers	40,50,000	2011 Sept. 30	By Maintenance Suspense Accounts—actual cost	9,80,000

Note: The Maintenance Suspense Account will appear as under :—

Dr. **Maintenance Suspense Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
2010 Mar. 31	To Cash—actual cost	7,00,000	2009 Sept. 30	By Cash—@ ₹ 800 on 1,200 sets	9,60,000
" "	To Balance c/d	27,30,000		By Hire Purchase Customers—@ ₹ 800 on 3,000 sets	24,00,000
			2010 Mar. 31	By Profit and Loss A/c (excess of actual over estimate)	70,000
		34,30,000			34,30,000

Date	Particulars	₹	Date	Particulars	₹
2011 Mar. 31	To Cash—actual cost	15,60,000	2010 Apr. 1	By Balance b/d	27,30,000
" "	To Balance c/d	11,70,000			
		27,30,000			27,30,000
2011 Sept. 30	To Cash—actual cost	9,80,000	2009 Apr. 1	By Balance b/d	11,70,000
Sept. 30	To Profit and Loss A/c	1,90,000			
		11,70,000			11,70,000

Hire Purchase, Instalments and Lease: Problem and Solution # 12.

A trader fixes hire purchase price of his goods by adding 60% to the cost of the goods. Prepare Hire Purchase Trading Account to ascertain profit earned by the trader from his following hire purchase transactions:

	₹
Stock with hire purchase customers at hire purchase price in the beginning of the year	64,800
Goods sold on hire price basis during the year	2,61,360
Cash received from hire purchase customers during the year	84,000
Stock with hire purchase customers at hire purchase price at the end of the year	2,26,960

Solution :

Dr. **Hire Purchase Trading Account** *Cr.*

	₹		₹
To Hire Purchase Stock (Opening)	64,800	By Hire Purchase Stock Reserve (Opening)	24,300
To Goods Sold on Hire Purchase Account	2,61,360	By Goods Sold on Hire Purchase Account (Loading)	98,010
To Hire Purchase Stock Reserve (Closing)	85,110	By Bank (Instalments received)	84,000
To Profit and Loss Account (Profit)	37,200	By Hire Purchase Stock (Closing)	2,26,960
		By Instalments Due [Working Note (i)]	15,200
	4,48,470		4,48,470

Working Notes :

	₹
(i) Opening balance of hire purchase stock	64,800
Add : Goods sold during the year	2,61,360
	3,26,160
Less : Closing balance of hire purchase stock	2,26,960
Instalments falling due during the year	99,200
Less : Instalments received during the year	84,000
Instalments due at the end of the year	15,200

(ii) Opening balance of Hire Purchase Stock Reserve

$$= ₹\ 64,800 \times \frac{60}{160} = ₹\ 24,300$$

(iii) Loading in respect of goods sold during the year

$$= ₹\ 2,61,360 \times \frac{60}{160} = ₹\ 98,010$$

(iv) Closing balance of Hire Purchase Stock Reserve

$$= ₹\ 2,26,960 \times \frac{60}{160} = ₹\ 85,110.$$

Hire Purchase, Instalments and Lease: Problem and Solution # 13.

B Ltd., has a hire purchase department. Goods are sold on hire purchase at cost plus 60%. From the following particulars find out the profit or loss made in this department by preparing important ledger accounts:

		₹
2012 Mar. 31	Goods with hire purchase customers (at hire purchase price)	3,60,000

Also show journal entries for all the transactions.

Solution:

Working Notes:

(1) Opening balance of Hire Purchase Stock Reserve = ₹ 1,60,000 $\times \frac{60}{160}$ = ₹ 60,000

(2) Loading on goods sold during the year = ₹ 8,00,000 $\times \frac{60}{160}$ = ₹ 3,00,000

(3) Closing balance of Hire Purchase Stock Reserve = ₹ 3,60,000 $\times \frac{60}{160}$ = ₹ 1,35,000

(4) Closing Instalments Due will be calculated as follows:—

	₹	₹
Opening balance of Hire Purchase Stock		1,60,000
Opening balance of Instalments Due		10,000
Hire Purchase price of goods sold during the year		8,00,000
		9,70,000
Less:		
Cash received during the year	5,60,000	
Instalments unpaid in respect of repossessed goods	20,000	
Closing balance of Hire Purchase Stock	3,60,000	9,40,000
Closing balance of Instalments Due		30,000

Dr. **Hire Purchase Trading Account** Cr.

		₹			₹
2010 Apr. 1	To Hire Purchase Stock Account (opening balance)	1,60,000	2011 Apr. 1	By Hire Purchase Stock Reserve Account (opening balance) —Working Note No. 1	60,000
	To Instalments Due A/c (opening balance)	10,000			
Apr. 1 2011 to Mar. 31 2012	To Goods Sold on Hire Purchase Account	8,00,000	Apr. 1 2011 to Mar. 31 2012	By Bank	5,60,000
				By Goods Repossessed Account (estimated value)	3,000
2012 Mar. 31	To Hire Purchase Stock Reserve Account (closing balance) —Working Note No. 3	1,35,000	2012 Mar. 31	By Goods Sold on Hire Purchase Account (loading) —Working Note No. 2	3,00,000
" "	To Profit and Loss Account—transfer of profit	2,08,000	" "	By Hire Purchase Stock Account (closing balance)	3,60,000
			" "	By Instalments Due (closing balance) —Working Note No. 4	30,000
		13,13,000			13,13,000

Dr. **Hire Purchase Stock Account** *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2011 Apr. 1	To Balance *b/d*	1,60,000	2011 Apr. 1	By H.P. Trading A/c—transfer	1,60,000
2012 Mar. 31	To Hire Purchase Trading Account	3,60,000	2012 Mar. 31	By Balance *c/d*	3,60,000
2012 Apr. 1	To Balance *b/d*	3,60,000			

Instalments Due

Date	Particulars	₹	Date	Particulars	₹
2011 Apr. 1	To Balance *b/d*	10,000	2011 Apr. 1	By H.P. Trading A/c—transfer	10,000
2012 Mar. 31	To H.P. Trading A/c	30,000	2012 Mar. 31	By Balance *c/d*	30,000
2012 Apr. 1	To Balance *b/d*	30,000			

H.P. Stock Reserve Account

Date	Particulars	₹	Date	Particulars	₹
2011 Apr. 1	To H.P. Trading A/c —transfer	60,000	2011 Apr. 1	By Balance *b/d*	60,000
2012 Mar. 31	To Balance *c/d*	1,35,000	2012 Mar. 31	By H.P. Trading A/c	1,35,000
			2012 Apr. 1	By Balance *b/d*	1,35,000

Goods Sold on Hire Purchase Account

Date	Particulars	₹	Date	Particulars	₹
2012 Mar. 31	To Hire Purchase Trading Account —loading	3,00,000	Apr. 1 2011 to Mar. 31 2012	By Hire Purchase Trading Account	8,00,000
" "	To Trading Account —transfer of cost of goods sold	5,00,000			
		8,00,000			8,00,000

Goods Repossessed Account*

Date	Particulars	₹	Date	Particulars	₹
Apr. 1, 11 to Mar. 31 2012	To H.P. Trading A/c	3,000	2011 Mar. 31	By Balance *c/d*	3,000
2012 Apr. 1	To Balance *b/d*	3,000			

Journal

Date	Particulars		L.F.	₹	₹
2011 Apr. 1	Hire Purchase Trading Account ...	Dr.		1,70,000	
	To Hire Purchase Stock Account				1,60,000
	To Instalments Due Account				10,000
	Transfer of opening balances of Hire Purchase Stock Account and Instalments Due Account to Hire Purchase Trading Account.				
" "	Hire Purchase Stock Reserve Account ...	Dr.		60,000	
	To Hire Purchase Trading Account				60,000
	Transfer of opening balance of Hire Purchase Stock Reserve Account to Hire Purchase Trading Account				
Apr. 1 2011 to Mar. 31, 2012	Hire Purchase Trading Account ...	Dr.		8,00,000	
	To Goods Sold on Hire Purchase Account				8,00,000
	Hire purchase price of goods sold during the year on hire purchase basis.				
" "	Bank ...	Dr.		5,60,000	
	To Hire Purchase Trading Account				5,60,000
	Cash received during the year.				
" "	Goods Repossessed Account ...	Dr.		3,000	
	To Hire Purchase Trading Account				3,000
	Estimated value of goods repossessed.				
2012 Mar. 31	Goods sold on Hire Purchase Account ...	Dr.		3,00,000	
	To Hire Purchase Trading Account				3,00,000
	Loading in respect of goods sold on hire purchase basis during the year.				
" "	Hire Purchase Stock Account ...	Dr.		3,60,000	
	Instalments Due Account ...	Dr.		30,000	
	To Hire Purchase Trading Account				3,90,000
	Closing balances of Hire Purchase Stock Account and Instalments Due Account credited to Hire Purchase Trading Account.				
" "	Hire Purchase Trading Account ...	Dr.		1,35,000	
	To Hire Purchase Stock Reserve Account				1,35,000
	Creation of closing balance of Hire Purchase Stock Reserve.				
" "	Hire Purchase Trading Account ...	Dr.		2,08,000	
	To Profit & Loss Account				2,08,000
	Transfer of profit from Hire Purchase Trading Account to Profit & Loss Account.				

				₹	₹
2012 Mar 31	Goods sold on Hire Purchase Account ...	Dr		5,00,000	
	To Trading Account				5,00,000
	Transfer of balance of Goods Sold on Hire Purchase Account, being cost of goods sold on hire purchase basis, to Trading Account				

Hire Purchase, Instalments and Lease: Problem and Solution # 14.

From the following information extracted from the books of Excellent Finance Private Limited, prepare Hire Purchase Trading Account for the year ended 31-3-2011, showing the profit in respect of the hire purchase business of the company:

(i) Instalments due but not received on 1-4-2010, Rs 60,000.

(ii) Instalments due but not received on 31-3-2011, Rs 1,00,000.

(iii) Cash received during the financial year 2010-11 by way of a hire purchase instalments, Rs 80,00,000.

(iv) Value of stock 'out' on hire purchase as at 1-4-2010 at hire purchase price (loading, 20% above cost), Rs 2,40,000.

(v) (a) Cost price of trucks 'out' on hire purchase as at 31-3-2011, Rs 40,00,000.

(b) Total amount of instalments receivable in respect of v (a) above Rs 48,00,000.

(c) Total amount of instalments received and due upto 31-3-2011 in respect of v (a) above Rs 36,00,000.

(vi) Purchase of trucks during the financial year 2010-11, Rs 80,00,000.

(vii) Sale of trucks sold otherwise than on hire purchase basis (at a profit of 6.25% of cost thereof), Rs 8,50,000.

(viii) Body building charges in respect of trucks sold on hire purchase basis, Rs 4,00,000.

(ix) Interest paid was Rs 80,000 and unsold trucks on 31-3-2011 at cost price were Rs 1,60,000 (hire purchase price, Rs 1,92,000).

Solution :

Dr. **Hire Purchase Trading Account** Cr.

	₹		₹
To Hire Purchase Stock –opening balance	2,00,000	By Bank — instalments received	80,00,000
To Instalments Due –opening balance	60,000	By Hire Purchase Stock — closing balance	10,00,000
To Goods Sold on Hire Purchase Account –cost of trucks sold	70,40,000	By Instalments Due — closing balance	1,00,000
To Bank –body building charges	4,00,000		
To Bank – interest	80,000		
To Profit and Loss Account –transfer of profit	13,20,000		
	91,00,000		91,00,000

Working Notes :

		₹
(*i*)	Opening balance of hire purchase stock at cost $= ₹\ 2,40,000 \times \frac{100}{120} = ₹\ 2,00,000$	
(*ii*)	Purchases of trucks during the year	80,00,000
	Less : Cost of trucks sold otherwise than on hire purchase basis. $₹\ 8,50,000 \times \frac{100}{106.25}$	8,00,000
		72,00,000
	Less : Cost of unsold trucks on 31-3-2009	1,60,000
	Cost of trucks sold on hire purchase basis	70,40,000
(*iii*)	*Hire purchase stock on 31st March, 2009* :	
	Amount of instalments receivable	48,00,000
	Less : Instalments received and due upto 31.3.2009	36,00,000
		12,00,000
	Less : Profit, $₹\ 12,00,000 \times \frac{20}{120}$	2,00,000
		10,00,000

Hire Purchase, Instalments and Lease: Problem and Solution # 15.

Krishna Agencies started business on 1st April, 2010. During the year ended 31st March, 2011, they sold under-mentioned durables under two schemes—Cash Price Scheme (CPS) and Hire Purchase Scheme (HPS).

Under the CPS, they priced the goods at cost plus 25% and collected it on delivery. Under the HPS, the buyers were required to sign a Hire-purchase Agreement undertaking to pay for the value of the goods including finance charges in 30 instalments, the value being calculated at cash price plus 50%.

The following are the details available at the end of 31st March, 2011 with regard to the products:

Product	*Nos. purchased*	*Nos. sold under CPS*	*Nos. sold under HPS*	*Cost per unit* ₹	*No. of instalments due during the year*	*No. of instalments received during the year*
TV Sets	90	20	60	16,000	1,080	1,000
Washing Machines	70	20	40	12,000	840	800

The following were the expenses during the year:

	₹
Rent	1,20,000
Salaries	1,44,000
Commission to Salesmen	12,000
Office Expenses	1,20,000

From the above information, you are required to prepare:

(a) Hire Purchase Trading Account, and

(b) Trading and Profit & Loss Account

Solution :

(a) *Dr.* **Hire Purchase Trading Account** *Cr.*

	₹	₹		₹	₹
To Goods Sold on Hire Purchase Account:			By Bank—Instalments collected:		
TV Sets:			TV Sets:		
60 × ₹ 30,000	18,00,000		1,000 × ₹ 1,000	10,00,000	
Washing Machines:			Washing Machines:		
40 × ₹ 22,500	9,00,000	27,00,000	800 × ₹ 750	6,00,000	16,00,000
To Hire Purchase Stock Reserve,			By Goods Sold on Hire Purchase Account		
₹ 9,90,000 × $\frac{875}{1875}$		4,62,000	— Loading		

To Profit and Loss Account			₹ 27,00,000 × $\frac{875}{1875}$		12,60,000
(Transfer of profit)		7,98,000	By Hire Purchase Stock [Working Note (iii)]		9,90,000
			By Instalments Due :		
			TV Sets:		
			80 × ₹ 1,000	80,000	
			Washing Machine:		
			40 × ₹ 750	30,000	1,10,000
		39,60,000			39,60,000

(*b*) **Trading and Profit & Loss Account**

Dr. **for the year ended 31st March, 2009** *Cr.*

	₹	₹		₹	₹
To Purchases:			By Sales:		
TV Sets:			TV Sets:		
90 × ₹ 16,000	14,40,000		20 × ₹ 20,000	4,00,000	
Washing Machines:			Washing Machines:		
70 × ₹ 12,000	8,40,000	22,80,000	20 × ₹ 15,000	3,00,000	7,00,000
To Gross Profit c/d		1,40,000	By Goods Sold on Hire Purchase:		
			TV Sets:		
			60 × ₹ 16,000	9,60,000	
			Washing Machines:		
			40 × ₹ 12,000	4,80,000	14,40,000
			By Stock at Shop:		
			TV Sets:		
			10 × ₹ 16,000	1,60,000	
			Washing Machines:		
			10 × ₹ 12,000	1,20,000	2,80,000
		24,20,000			24,20,000
		₹			₹
To Salaries		1,44,000	By Gross Profit b/d		1,40,000
To Rent		1,20,000	By Hire Purchase		
To Commission		12,000	Trading Account		
To Office Expenses		1,20,000	(profit on hire		
To Net Profit		5,42,000	purchase business)		7,98,000
		9,38,000			9,38,000

Working Notes:

(*i*) *Per unit cash price, hire purchase price and instalment amount:*

	Cost ₹	*Cash Price* ₹ (*125% of cost*)	*H.P. Price* ₹ (*150% of cash price*)	*Instalment Amount* ₹ (*H.P. Price / No. of instalments*)
TV Sets	16,000	20,000	30,000	1,000
Washing Machines	12,000	15,000	22,500	750

(ii) *Loading:*

If cost is ₹ 100, cash price is ₹ 125 and hire purchase price is ₹ 187.5. Thus, loading on hire purchase price of ₹ 187.5 is ₹ 87.5.

(iii) *Hire purchase stock on 31st March, 2009:*

	Total no. of instalments	*No. of instalments due in 2008-09*	*No. of instalments not due in 2008-09*	*Amount ₹*
TV Sets	1,800	1,080	720	7,20,000
Washing Machines	1,200	840	360	2,70,000
				9,90,000

(iv) *Stock (in numbers) at shop on 31st March, 2009:*

	Nos. purchased	*Nos. sold*	*Nos. remaining unsold*
TV Sets	90	20 + 60 = 80	10
Washing Machines	70	20 + 40 = 60	10

Hire Purchase, Instalments and Lease: Problem and Solution # 16.

Varun sells goods on hire purchase basis also. He fixes hire purchase price by adding 50% to the cost of the goods to him. The following are the figures relating to his hire purchase business for the year 2011-2012:

	₹
Balance of Hire Purchase Stock Account as on 1st April, 2011	84,000
Balance of Hire Purchase Debtors Account as on 1st April, 2011	2,100
Selling price of goods sold on hire purchase basis during the year	6,34,200

Cash received from customers during the year	6,46,800
Total amount of instalments that fell due during the year	6,48,900

One customer to whom goods had been sold for ₹ 8,400 paid only 5 instalments of ₹ 700 each. On his failure to pay the monthly instalment of ₹ 700 due on 4th March, 2012 the goods were repossessed on 27th March, 2012 after due legal notice.

Prepare ledger accounts on Stock Debtors System for the year ended 31st March, 2012.

Solution :

In the books of Varun

Hire Purchase Stock Account

Dr.	₹		*Cr.* ₹
To Balance b/d	84,000	By Hire Purchase Debtors Account — Instalments falling due	6,48,900
To Goods Sold on Hire Purchase Account	6,34,200	By Goods Repossessed Account — Six instalments on goods repossessed	4,200
		By Balance c/d	65,100
	7,18,200		7,18,200
To Balance b/d	65,100		

Hire Purchase Debtors Account

Dr.	₹		*Cr.* ₹
To Balance b/d	2,100	By Bank — Instalments received	6,46,800
To Hire Purchase Stock Account — Instalments falling due	6,48,900	By Goods Repossessed Account One instalment due but not received in respect of goods repossessed	700
		By Balance c/d	3,500
	6,51,000		6,51,000
To Balance b/d	3,500		

Goods Sold on Hire Purchase Account

Dr.	₹		*Cr.* ₹
To Hire Purchase Adjustment Account — Loading	2,11,400	By Hire Purchase Stock Account	6,34,200
To Trading Account — Transfer	4,22,800		
	6,34,200		6,34,200

Dr. **Hire Purchase Adjustment Account** Cr.

	₹		₹
To Hire Purchase Stock Reserve Account — Closing balance	21,700	By Hire Purchase Stock Reserve Account — Opening balance	28,000
To Profit and Loss Account — Transfer of profit	2,17,700	By Goods Sold on Hire Purchase Account	2,11,400
	2,39,400		2,39,400

Dr. **Hire Purchase Stock Reserve** Cr.

	₹		₹
To Hire Purchase Adjustment Account — Transfer	28,000	By Balance b/d	28,000
To Balance c/d	21,700	By Hire Purchase Adjustment Account	21,700
		By Balance b/d	21,700

Working Notes:

(i) Opening balance of Hire Purchase Stock Reserve

$$= \frac{50}{150} \times ₹\ 84,000 = ₹\ 28,000$$

(ii) Loading on goods sold on Hire Purchase

$$= \frac{50}{150} \times ₹\ 6,34,200 = ₹\ 2,11,400$$

(iii) Closing balance of Hire Purchase Stock Reserve

$$= \frac{50}{150} \times ₹\ 65,100 = ₹\ 21,700$$

Hire Purchase, Instalments and Lease: Problem and Solution # 17.

A joint stock company sells its product on hire purchase terms. It charges gross profit at 25% of selling price. The following particulars pertain to its hire purchase business during the year ended 31st March, 2012:

	₹ ('000)
Balances of 1st April, 2011 :	
Stock at shop	4,50
Stock out on hire, at hire purchase price	12,00
Instalments due, customers still paying	90
Cash received from customers during the year	48,00
Balances on 31st March, 2012 :	
Stock out on hire, at hire purchase price	18,60
Instalments due, customers still paying	1,30
Stock at shop	5,16

You are required to prepare :

(i) Hire Purchase Debtors Account

(ii) Hire Purchase Stock Account

(iii) Goods sold on Hire Purchase Account

(iv) Stock at Shop Account, and

(v) Hire Purchase Adjustment Account, showing profit earned.

Solution :

Dr. **Hire Purchase Debtors Account** Cr.

	₹ ('000)		₹ ('000)
To Balance b/fd	90	By Bank	
To Hire Purchase Stock Account		Cash received	48,00
— Instalments falling due,		By Balance c/d	1,30
balancing figure	48,40		
	49,30		49,30
To Balance b/d	1,30		

Dr. **Hire Purchase Stock Account** Cr.

	₹ ('000)		₹ ('000)
To Balance b/fd	12.00	By Hire Purchase	
To Goods Sold on Hire		Debtors Accounts	
Purchase Account		— Instalments falling due	48,40
— Hire Purchase price of goods		By Balance c/d	18,60
sold, balancing figure	55,00		
	67,00		67,00
To Balance b/d	18,60		

Dr. **Goods Solds on Hire Purchase Account** Cr.

	₹ ('000)		₹ ('000)
To Hire Purchase		By Hire Purchase	
Adjustment Account		Stock Account	55.00
— Loading	11,00		
To Stocks at Shop			
— Transfer of cost	44,00		
	55,00		55,00

Dr. **Stock at Shop Account** Cr.

	₹ ('000)		₹ ('000)
To Balance b/fd	450	By Goods Sold on	
To Purchases		Hire Purchase Account	
— Balancing figure	44,66	— cost of goods sold	44,00
		By Balance c/d	5,16
	49,16		49,16
To Balance b/d	5,16		

Dr. **Hire Purchase Adjustment Account** Cr.

	₹ ('000)		₹ ('000)
To Hire Purchase Stock		By Hire Purchase Stock	
Reserve — Closing	3.72	Reserve — Opening	2,40
To Profit and Loss Account		By Goods Sold on Hire Purchase	
— Transfer of profit	9,68	Account—Loading	11,00
	13,40		13,40

Working Notes

(i) Opening balance of Hire Purchase Stock Reserve Account
= 25/125 × ₹ 12,00 thousand = ₹ 2,40 thousand

(ii) Loading in respect of goods sold on hire purchase
= 25/125 × ₹ 55.00 thousand = ₹ 11.00 thousand

(iii) Closing balance of Hire Purchase Stock Reserve Account
= 25/125 × ₹ 18.60 thousand = ₹ 3,72 thousand

Hire Purchase, Instalments and Lease: Problem and Solution # 18.

Attempt the problem give as illustration no. 13 no Stock-Debtors systems:

Solution :

Dr. **Hire Purchase Stock Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
2011 Apr. 1	To Balance *b/d*	1,60,000	Apr. 1 2011 to Mar. 31, 2012	By Hire Purchase Debtors Account (balancing figure)	6,00,000
Apr. 1 2012 to Mar. 31, 2012	To Goods Sold on Hire Purchase A/c	8,00,000	2011 Mar. 31	By Balance *c/d*	3,60,000
		9,60,000			9,60,000

Hire Purchase Debtors Account

Date	Particulars	₹	Date	Particulars	₹
2011 Apr. 1	To Balance *b/d*	10,000	Apr. 1, 11 to Mar. 31 2012	By Goods Repossessed Account	20,000
Apr. 1, 2011 to Mar. 31, 2012	To Hire Purchase Stock Account	6,00,000	" "	By Bank	5,60,000
			2012 Mar. 31	By Balance *c/d*	30,000
		6,10,000			6,10,000
2012 Apr. 1	To Balance *b/d*	30,000			

Goods Sold on Hire Purchase Account

Date	Particulars	₹	Date	Particulars	₹
2012 Mar. 31	To Hire Purchase Adjustment Account (loading)	3,00,000	Apr. 1, 2011 to Mar. 31, 2012	By Hire Purchase Stock Account	8,00,000
" "	To Trading Account—transfer of cost	5,00,000			
		8,00,000			8,00,000

Hire Purchase Stock Reserve Account

Dr.					Cr.
Date	Particulars	₹	Date	Particulars	₹
2011 Apr. 1	To Hire Purchase Adjustment Account—transfer	60,000	2011 Apr. 1	To Balance b/d	60,000
2012 Mar. 31	To Balance c/d	1,35,000	2012 Mar. 31	By H.P. Adjustment A/c	1,35,000
			2012 Apr. 1	By Balance b/d	1,35,000

Goods Repossessed Account

Dr.					Cr.
Date	Particulars	₹	Date	Particulars	₹
Apr. 1 2011 to Mar. 31, 2012	To Hire Purchase Debtors Account	20,000	2012 Mar. 31	By Hire Purchase Adjustment Account (loss on repossession —balancing figure)	17,000
			" "	By Balance c/d (estimated value)	3,000
		20,000			20,000
2012 Apr. 1	To Balance b/d	3,000			

Hire Purchase Adjustment Account

Dr.					Cr.
Date	Particulars	₹	Date	Particulars	₹
2012 Mar. 31	To Goods Repossessed Account (excess of instalments due over estimated value of goods repossessed)	17,000	2011 Apr. 1	By Hire Purchase Stock Reserve A/c (opening)	60,000
" "	To Hire Purchase Stock Reserve Account (closing)	1,35,000	2012 Mar. 31	By Goods Sold on Hire Purchase Account	3,00,000
" "	To Profit & Loss Account —transfer of profit	2,08,000			
		3,60,000			3,60,000

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
2011 Apr. 1	Hire Purchase Stock Reserve A/c ... Dr. To Hire Purchase Adjustment A/c Transfer of opening of Hire Purchase Stock Reserve Account to Hire Purchase Adjustment Account		60,000	60,000
Apr. 1, 2011 to Mar. 31, 2012	Hire Purchase Stock Account ... Dr. To Goods Sold on Hire Purchase Account Hire purchase price of goods sold during the year.		8,00,000	8,00,000

Date	Particulars		₹	₹
Apr. 1, 11 to Mar., 31, 2012	Hire Purchase Debtors Account ... Dr. To Hire Purchase Stock Account Instalments falling due (including instalments which would never fall due because of repossession) during the year.		6,00,000	6,00,000
" "	Goods Repossessed Account ... Dr. To Hire Purchase Debtors Account Instalments due but not paid in respect of goods repossessed—assumption being that all the instalments in respect of the goods have been transferred from Hire Purchase Stock Account to Hire Purchase Debtors Account.		20,000	20,000
" "	Bank ... Dr. To Hire Purchase Debtors Account Amount received during the year from hire-purchase customers.		5,60,000	5,60,000
2012 Mar. 31	Hire Purchase Adjustment Account ... Dr. To Goods Repossessed Account Excess of instalments due over estimated value of repossessed goods, being loss on repossession, transferred from Goods Repossessed Account to Hire Purchase Adjustment Account.		17,000	17,000
" "	Goods Sold on Hire Purchase Account ... Dr. To Hire Purchase Adjustment Account Loading in respect of goods sold on hire purchase basis transferred from Goods Sold on Hire Purchase Account to Hire Purchase Adjustment Account.		3,00,000	3,00,000
" "	Hire Purchase Adjustment Account ... Dr. To Hire Purchase Stock Reserve Account Creation of Hire Purchase Stock Reserve in respect of closing balance of Hire Purchase Stock Account.		1,35,000	1,35,000
" "	Hire Purchase Adjustment Account ... Dr. To Profit and Loss Account Transfer of profit in respect of hire-purchase business from Hire Purchase Adjustment Account to Profit and Loss Account		2,08,000	2,08,000
" "	Goods Sold on Hire Purchase Account ... Dr. To Trading Account Transfer of cost of goods sold on hire purchase basis from Goods Sold on Hire Purchase Account to Trading Account.		5,00,000	5,00,000

Hire Purchase, Instalments and Lease: Problem and Solution # 19.

X Ltd. sells products on hire purchase terms, the price being cost plus 33 1/3%. From the following particulars for the year ended 31st March, 2012, prepare the necessary accounts on Stock- Debtors System to reveal the profit earned:

					₹
2011					
Apr.	1	Stock out on hire at hire purchase price	...	...	4,00,000
		Stock in hand, at shop	...	...	50,000
		Instalments due (customers still paying)	...	...	30,000
2012					
Mar.	31	Stock out on hire at hire purchase price	...	...	4,60,000
		Stock in hand, at the shop	...	...	70,000
		Instalments due (customers still paying)	...	...	50,000
		Cash received during the year	...	...	8,00,000

Solution:

(Figures in brackets indicate the steps that reveal results: first of all various accounts are prepared and missing figures inserted. This first figure to be ascertained is the total of instalments which become payable during the year).

Dr. **Hire Purchase Debtors Account** Cr.

		₹			₹
2011 Apr. 1	To Balance b/d	30,000	Apr. 1, 2011 to Mar. 31 2012	By Cash	8,00,000
Apr. 1 2011 to Mar. 31, 2012	To Hire Purchase Stock A/c—total of instalments which become due (balancing figure) (1)	8,20,000	2012 Mar. 31	By Balance c/d	50,000
		8,50,000			8,50,000
2012 Apr. 1	To Balance b/d	50,000			

Hire Purchase Stock Account

		₹			₹
2011 Apr. 1	To Balance b/d	4,00,000	Apr. 1, 2011 to Mar. 31, 2012	By Hire Purchase Debtors A/c (1)	8,20,000
Apr. 1, 2011 to Mar. 31, 2012	To Goods Sold on Hire Purchase Account —balancing figure (2)	8,80,000	2012 Mar. 31	By Balance c/d	4,60,000
		12,80,000			12,80,000
2012 Apr. 1	To Balance b/d	4,60,000			

Goods Sold on Hire Purchase Account

		₹			₹
2011 Mar. 31	To Hire Purchase Adjustment Account (loading)	2,20,000	Apr. 1, 2011 to Mar. 31, 2012	By Hire Purchase Stock Account (2)	8,80,000
" "	To Trading Account—cost of goods sold	6,60,000			
		8,80,000			8,80,000

Dr. **Hire Purchase Stock Reserve Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
2011 Apr. 1	To Hire Purchase Adjustment Account —transfer	1,00,000	2011 Apr. 1	By Balance b/d— 25% of ₹ 4,00,000	1,00,000
2012 Mar. 31	To Balance c/d	1,15,000	2012 Mar. 31	By H.P. Adjustment A/c —25% of ₹ 4,60,000	1,15,000
			2012 Apr. 1	By Balance b/d	1,15,000

Dr. **Hire Purchase Adjustment Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
2012 Mar. 31	To Hire Purchase Stock Reserve Account (closing)	1,15,000	2011 Apr. 1	By Hire Purchase Stock Reserve Account (opening)	1,00,000
" "	To Profit & Loss Account— transfer of profit	2,05,000	2010 Mar. 31	By Goods Sold on Hire Purchase Account (loading) —25% of ₹ 8,80,000	2,20,000
		3,20,000			3,20,000

Trading Account
for the year ended 31st March, 2012

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock	50,000	By Goods sold on Hire Purchase Account	6,60,000
To Purchases Account (balancing figure)	6,80,000	By Closing Stock	70,000
	7,30,000		7,30,000

Hire Purchase, Instalments and Lease: Problem and Solution # 20.

Home Comforts Ltd. commenced business on April 1, 2011. The business is to sell and refrigerators geysers both for cash and on hire-purchase basis. Information about terms is given below:

	Geysers ₹	Refrigerators ₹
Cash Price	5,000	15,000
Cost	4,000	12,000
Cash Down for hire-purchase	1,000	3,000
Monthly Instalment	500	1,500
Number of instalments	10	12

The company purchased goods costing ₹ 50 lakh in all and made cash sales totalling ₹ 43 lakh. Stock in hand on 31st March, 2012 was valued at ₹ 6 lakh. Hire Purchase transactions were as follows:

	Number sold	*Instalments collected*	*Instalments due (customers paying)*
Geysers	40	260	15
Refrigerators	20	110	10

3 geysers and 2 refrigerators on which only four instalments per piece had been collected were repossessed and were valued at a total sum of ₹ 16,000. This is not included in the figure of stock mentioned above. Prepare accounts showing the profit earned by the company.

Profit & Loss Account

Dr. for the year ended 31st March, 2012 *Cr.*

		₹			₹
	To Net Profit	4,58,310		By Gross Profit transferred from Trading Account	3,00,000
				By Hire Purchase Trading Account (profit on hire-purchase business)	1,58,310
		4,58,310			4,58,310

Notes. (1) Hire-purchase price (total) is ₹ 6,000 per geyser and ₹ 21,000 per refrigerator. Total sales (and cost) on this basis are :

	Hire purchase price ₹	Cost ₹
Geysers 40 @ ₹ 6,000	2,40,000	1,60,000
Refrigerators 20 @ ₹ 21,000	4,20,000	2,40,000
Total	6,60,000	4,00,000

(2) Cash collected :

	Refrigerators	geysers
Cash down	60,000	40,000
Instalments collected	1,65,000	1,30,000
	2,25,000	1,70,000

(3) Instalments not yet due :

Refrigerators :

Total instalments on 18 refrigerators	216
Less: instalments collected and due (120 minus 8 instalments on repossessed units)	112
Not yet due	104
Amount @ ₹ 1,500, 104 × ₹ 1,500	₹ 1,56,000

Geysers :

Total instalments on 37 sets	370
Less: Instalments collected and due (275 *less* 12)	263
Not yet due	107
Amount @ ₹ 500, 107 × ₹ 500	₹ 53,500
Total for both items, ₹ 156,000 + ₹ 53,500	₹ 2,09,500

(4) Hire Purchase Stock Reserve :

	Geysers ₹	Refrigerators ₹
Total amount due	6,000	21,000
Cost	4,000	12,000
Difference	2,000	9,000
Reserve required : ₹ $\frac{2,000}{6,000} \times 53,500$	17,833	
₹ $\frac{9,000}{21,000} \times 1,56,000$		66,857

Total : ₹ 17,833 + ₹ 66,857 = ₹ 84,690.

Note : A more sophisticated calculation would be as follows :

Geysers : Total amount due after deducting cash down payment	5,000
Cost after deducting cash down payment	3,000

Profit (and interest) included in ₹ 5,000	2,000
Reserve required : $₹\ 53,500 \times \frac{2,000}{5,000}$	21,400
Refrigerators: Total amount due after deducting cash down payment	18,000
Cost after deducting cash down payment	9,000
Profit (and interest) included in ₹ 18,000	9,000
Reserve required : $₹\ 1,56,000 \times \frac{9,000}{18,000}$	78,000
Total, ₹ 21,400 + ₹ 78,000	99,400

Alternative Solution: If stock-debtors system is followed, the ledger accounts will appear as follows:—

Dr. **Hire Purchase Stock Account** *Cr.*

Date	Particulars	₹	Date	Particulars	₹
Apr. 1, 2011 to Mar. 31, 2012	To Goods Sold on Hire Purchase A/c	6,60,000	Apr. 1, 2011 to Mar. 31, 2012	By Hire Purchase Debtors Account (balancing figure)	4,50,500
			2012 Mar. 31	By Balance *c/d*	2,09,500
		6,60,000			6,60,000
2012 Apr. 1	To Balance *b/d*	2,09,500			

Dr. **Hire Purchase Debtors Account** *Cr.*

Date	Particulars	₹	Date	Particulars	₹
Apr. 1, 2011 to Mar. 31, 2012	To Hire Purchase Stock Account	4,50,500	Apr. 1, 2011 to Mar. 31, 2012	By Cash/Bank	
				By Goods Repossessed Account (estimated value)	16,000
				By Hire Purchase Adjustment Account (loss on repossession)	17,000
			2012 Mar. 31	By Balance *c/d*	22,500
		4,50,500			4,50,500
2012 Apr. 1	To Balance *b/d*	22,500			

**Loss on repossession* :

		₹
Hire purchase price of 3 geysers	₹ 6,000 × 3 =	18,000
Hire purchase price of 2 refrigerators	₹ 21,000 × 2 =	42,000
	Total	60,000

Less:	Cash received	₹	
	In respect of 3 geysers, 3 (3,000 + 4 × 300)	= 9,000	
	In respect of 2 refrigerator, 2 (3,000 + 4 × 1,500)	= 18,000	
	Estimated value of repossessed goods	16,000	43,000
Loss on repossession			17,000

Dr. **Goods Sold on Hire Purchase Account** *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2012 Mar. 31	To Hire Purchase Adjustment Account (loading)	2,60,000	Apr. 1, 2011 to Mar. 31, 2012	By Hire Purchase Stock Account	6,60,000
" "	To Trading Account— transfer of cost	4,00,000			
		6,60,000			6,60,000

Dr. **Hire Purchase Stock Reserve Account** *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2012 Mar. 31	To Balance c/d	84,690	2012 Mar. 31	By Hire Purchase Adjustment Account	84,690
			2012 Apr. 1	By Balance b/d	84,690

Dr. **Hire Purchase Adjustment Account** *Cr.*

Date	Particulars	₹	Date	Particulars	₹
Apr. 1, 2011 to Mar. 31, 2012	To Hire Purchase Debtors A/c (loss on repossession)	17,000	2012 Mar. 31	By Goods Sold on Hire Purchase Account	2,60,000
2012 Mar. 31	To Hire Purchase Stock Reserve Account (closing)	84,690			
" "	To Profit & Loss Account (transfer of profit on hire purchase business)	1,58,310			
		2,60,000			2,60,000

Dr. **Goods Repossessed Account** *Cr.*

Date	Particulars	₹	Date	Particulars	₹
Apr. 1, 2011 to Mar. 31, 2012	To Hire Purchase Debtors Account	16,000	2012 Mar. 31	By Balance c/d	16,000
2012 Apr. 1	To Balance b/d	16,000			

Trading Account
for the year ended 31st March, 2012

Dr.	₹		Cr.	₹
To Purchase Account	50,00,000		By Sales	43,00,000
To Profit & Loss Account—transfer of gross profit	3,00,000		By Goods Sold on Hire Purchase Account	4,00,000
			By Closing Stock	6,00,000
	53,00,000			53,00,000

Profit & Loss Account
for the year ended 31st March, 2012

Dr.	₹		Cr.	₹
To Net Profit	4,58,310		By Trading Account —gross profit	3,00,000
			By Hire Purchase Adjustment Account (profit on hire-purchase business)	1,58,310
	4,58,310			4,58,310

Hire Purchase, Instalments and Lease: Problem and Solution # 21.

Easy Payment Ltd. Commenced business on April 1,2010 as suppliers of refrigerators. Ml sales were on hire purchases terms.

When the annual accounts for the year ended 31st March. 2011 were prepared, it was decided to take nedit for the gross profit, including interest, in proportion to the instalments collected.

Throughout 2010-11 and 2011-2012, the total price (including interest) charged to every customer was $0% above the cost the goods, or in the case of repossessed goods mentioned below, 50% above the value at which these goods were taken back into stock. The hire purchases contracts did not require any deposits but provided for payments to be spread over a period of 12 months, by twelve equal monthly instalments. The persona] accounts of .customers which were treated as memorandum records, were debited with the total price and credited with instalments received.

The following balances were extracted as on March, 31, 2010:

	₹	₹
Authorised and Subscribed Share Capital (₹ 10 fully paid shares)		3,50,000
Fixed Assets : Cost	1,00,000	
Depreciation to March 31, 2011		10,000
Hire purchase instalments *less* provision for unrealised profit, March 31, 2011	2,83,500	
Stock on March 31, 2011	66,000	
Purchases	5,90,000	
Cash received from customers		8,06,250
Balance at Bank	65,000	
Creditors		48,600
General Expenses	1,61,500	
Profit and Loss Account		51,150
	12,66,000	12,66,000

You are required to prepare:

(a) Trading and Profit and Loss Account for the year ended 31st March, 2012;

(b) The Balance Sheet as on March 31, 2012; and

(c) A summary of the Debtors Ledger Control Account for the year ended 31st March, 2012

Solution :

Before Trading A/c is prepared, it is necessary to prepare a statement showing closing stock, Thus—

	₹	₹
Opening stock		66,000
Purchases		5,90,000
		6,56,000
Less: Cost of sales : Sales	9,46,500	
Less: Sale of repossessed stock ₹ 16,000 +50%	24,000	
	9,22,500	
Less: 33 1/3% Profit	3,07,500	6,15,000
Closing stock, at cost		41,000

EASY PAYMENTS LTD.

Dr **Trading and Profit and Loss Account for the year ended March 31, 2012** **Cr.**

	₹	₹		₹	₹
To Opening Stock		66,000	By Sales (including Interest)	9,45,500	
To Purchases		5,90,000	*Less:* Unpaid instalments on goods taken into stock	24,000	9,22,500
To Gross Profit including Interest		3,07,000	By Closing Stock		41,000
		9,63,500			9,63,500
To General Expenses		1,61,500	By Gross Profit including Interest		3,07,500
To Reserve on unpaid instalments:			By Profit due to change in methods :		
12% on 5,41,500	64,980		33 1/3% on ₹ 4,25,250*	1,41,750	
Less: 12% on 4,25,250,* opg. Drs	51,030	13,950	*Less:* 12% on ₹ 4,25,250 (adjusted contra)	51,030	90,720
To Depreciation		10,000			
To Net Profit		2,12,770			
		3,98,220			3,98,220

Balance Sheet of Easy Payments Ltd. as on March 31, 2012

Liabilities		₹	Assets	₹	₹
Capital—Authorised & Subscribed:			Fixed Assets: Cost	1,00,000	
35,000 shares of ₹ 10 each, fully paid		3,50,000	*Less:* Depreciation written off to date	20,000	80,000
Profit & Loss Account :			Current Assets :		
Previous balance	51,150		Stock, at cost		41,000
This year's profit	2,12,770	2,63,920	Instalments unpaid	5,41,500	
			Less: Provision @ 12%	64,980	4,76,520
Sundry Creditors		48,600	Balance at Bank		65,000
		6,62,520			6,62,520

Summary of Debtors Ledger Control Account for the year ended 31st March, 2012

	₹		₹
To Balance *b/d*	4,25,250	By Cash	8,06,250
To Hire Purchase Sales	9,46,500	By Goods Repossessed A/c —instalments unpaid	24,000
		By Balance *c/d*	5,41,500
	13,71,750		13,71,750
To Balance *b/d*	5,41,500		

Hire Purchase, Instalments and Lease: Problem and Solution # 22.

Finance (P) Ltd. commenced operations on 1st April, 2011 and concentrated on hire purchase finance. The trial balance on 31st March, 2012 was as follows:

	Dr ₹	*Cr* ₹
20,000 Shares of ₹ 10 each		2,00,000
Office Expenses	20,000	
Preliminary Expenses	3,000	
Directors' Remuneration	5,000	
Office Equipment	12,000	
Sundry Debtors/Creditors	3,000	15,000
Hire Purchase Charges		1,26,000
Option to Purchase		1,980
H.P. Charges remitted on early redemption	170	
Option to Purchase on early redemption	20	
Commission paid	31,500	
Interest paid on Loan (upto January 31, 2012)	4,500	
Auditors' fee	5,000	
Loan @ 12%		2,50,000
Balance at Bank	62,530	
Balance due from H.P. Customers	4,46,260	
	5,92,980	5,92,980

You ascertain the following:

(i) All H.P. contracts are for 24 months, the first instalment being due in the month following the date of the contract;

(ii) The first 23 instalments are equal, the 24th is Rs 20 greater as it includes the Rs 20 for option to purchase;

(iii) A commission of 25% of hire purchase charges is paid to brokers who introduce the business; and

(iv) The summary of contracts entered into during the year ended 31st March, 2012 is as given below:

Month	*Cash Price*	*Deposit*	*H.P. Charges*	*Option to Purchase*	*Chargeable to Customers*
	₹	₹	₹	₹	₹
April, 2011	30,000	10,000	6,000	100	26,100
May, 2011	30,000	10,000	6,000	80	26,080
June, 2011	30,000	10,000	6,000	100	26,100
July, 2011	45,000	15,000	9,000	140	39,140
August, 2011	45,000	15,000	9,000	160	39,160
September, 2011	45,000	15,000	9,000	140	39,140
October, 2011	60,000	20,000	12,000	200	52,200
November, 2011	60,000	20,000	12,000	180	52,180
December, 2011	60,000	20,000	12,000	180	52,180
January, 2012	75,000	25,000	15,000	240	65,240
February, 2012	75,000	25,000	15,000	220	65,220
March, 2012	75,000	25,000	15,000	240	65,240
	6,30,000	2,10,000	1,26,000	1,980	5,47,980

(v) The H.P. charges and option to purchase remitted relate to a contract entered into in July, the total hire purchase charges on the contract being Rs 600.

(vi) Office Equipment is to depreciated by 15%.

(vii) All instalments have been paid on the due dates.

Prepare, working to the nearest Rs 10, the Trading and Profit and Loss Account for the year ended 31st March, 2012 and the relevant Balance Sheet. Ignore taxation. Follow the Sum of Digits Method.

Solution :

FINANCE (P) LTD.

Dr. **Trading and Profit and Loss Account for the year ended March 31, 2012** *Cr.*

	₹		₹
To Office Expenses	20,000	By Net Hire Purchase Charges	94,330
To Loan Interest	9,500	Less Provision for unexpired H.P.	
To Directors' Remuneration	5,000	Charges	64,920
To Auditors' Remuneration	5,000		
To Depreciation of Office Equipment	1,800		29,410
		By Loss, carried to Balance Sheet	11,890
	41,300		41,300

Balance Sheet of Easy Finance House as on 31st March, 2012

Liabilities	₹	₹	*Assets*	₹	₹
Capital	2,00,000		Office Equipment	12,000	
Less: Net Loss	14,890	1,85,110	*Less:* Depreciation	1,800	10,200
12% Loan		2,50,000	HP customers	4,46,260	
Outstanding Interest			*Less* : Option to Purchase	1,960	
on Loan for 2 months		5,000		4,44,300	
Trade Creditors		15,000	*Less* : Provision for Unexpired		
			H.P. Charges	674,920	3,79,380
			Trade Debtors		3,000
			Bank Balance		62,530
		4,55,110			4,55,110

Workings:

(*i*) Sum of the digits of the 24 months is 300, for the contract entered in March, the whole of the hire purchase charges have to be carried forward; for contracts in February the amount to be carried forward is 276/300 and so on.

(*ii*) H.P. charges earned and to be carried forward :

	H.P. Charges	*Commission at 25%*	*Net H.P. Charges*	*Proportion to be carried forward*	*Amount*
	₹'000	₹'000	₹'000		₹'000
April, 2011	6,000	1,500	4,500	91/300	1,370
May, 2011	6,000	1,500	4,500	105/300	1,580
June, 2011	6,000	1,500	4,500	120/300	1,800
July, 2011 (9,000-600)	8,400	2,100	6,300	136/300	2,860
August, 2011	9,000	2,250	6,750	153/300	3,440
September, 2011	9,000	2,250	6,750	171/300	3,850
October, 2011	12,000	3,000	9,000	190/300	5,700
November, 2011	12,000	3,000	9,000	210/300	6,300
December, 2012	12,000	3,000	9,000	231/300	6,930
January, 2012	15,000	3,750	11,250	253/300	9,490
February, 2012	15,000	3,750	11,250	276/300	10,350
March, 2012	15,000	3,750	11,250	300/300	11,250
	1,25,400	31,350	94,050		64,920
Add: H.P. charges contract entered into in July (Net)		450			
Less: H.P. charges remitted		170	280		
			94,330		

(*iii*) Option of Purchase (net) being as yet unearned, has been deducted from H.P. customers.

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