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 (ACCOUNTING & FINANCE)

SUBJECT NAME: FINANCIAL ACCOUNTING - I

SEMESTER: I

PREPARED BY: PROF.M.PARTHIBAN

OBJECTIVES:

- To enable the students to understand the system of preparing financial statements for various types of organisation

- To familiarize the students with knowledge about financial reporting standards

OUTCOMES:

- The students will be able to analyse and prepare financial statement of different types of organisation

- The students will be aware of the various amendments in financial reporting

UNIT I: Preparation of Financial Statement Final accounts of sole trading concern-Adjustments-Receipts and Payments-Income and expenditure-Balance sheet of non trading organisation

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.

Note: Questions in Sec. A, B & C shall be in the proportion of 20:80 between Theory an

UNIT- 1 FINAL ACCOUNTS

INTRODUCTION

Asthetitlesays,itisthefinalstageofaccounting.Theprevious stages, journal or ledger or trial balance, are not disclosing anything about profit or loss and financial position. So, to know the profit or loss made during a particular period and financial position on a particular point of time, the final accounts areprepared.

Finalaccountsofatradingconcerncontainthreepartsnamely:TradingAccount,Profit and Loss Account and BalanceSheet.

Firsttwostatementsareconnectedwithprofitorlossandthelastoneisconnectedwith financial position. One important point to be noted at this juncture is that for all these statements, trial balance is the base and also like previous cases the information will move in a 'chain form'. The following chart will make itclear.

Trial Balance
- Trading account
- Profit and loss account
- Balancesheet

Capital and Revenue Items: A Trial Balance, as you know, contains a list of ledger balances. Some of them are revenue in nature and others are capital. If an item is recurring in nature and does not add permanently to the value of the business, it is known as revenue. Example of revenue items are: Salary, Rent, Commission, Discount, Purchases, Sales, PurchasesReturns,etc.Ontheotherhand,itemsofpermanentvalue,thebenefitsofwhichare not lost in one year, are capital item. They are: Land and Buildings, Furniture, Machinery, Proprietor'sCapital,SundryDebtors,SundryCreditorsetc.Capitalitemsareforpermanentuse andtheyreappearinthenextyearaccounts.Therevenueitemscontributefortheprofitorloss in a business and the accounts are closed at the end of the accountingperiod.

TRADING ACCOUNT

Trading Account gives the overall result of trading, i.e., purchasing and selling of goods. In other words, it explains whether purchasing of goods and selling them has proved to be

IMPORTANT POINTS REGARDING TRADING ACCOUNT

1. Stock: The term 'Stock' includes goods lying unsold on a particulardate.

The Stock may be two types:

(i) OpeningStock

(ii) ClosingStock

The term 'Opening Stock' means goods lying unsold with the businessman in the beginning of the accounting year. This is shown on the debit side of the Trading Account.

The term Closing Stock' includes goods lying unsold with the businessman at the end of the accounting year. It should be noted that stock at the end of the accounting year is taken after the books of accounts have been closed. The following journal entry is passed in the Journal Proper to record the amount of closing stock:

ClosingStockAccount Dr.
To Trading Account

TheamountofclosingstockisshownonthecreditsideoftheTradingAccountandas anassetinthe BalanceSheet.Thiswillbeexplainedlater.TheClosingStockattheendofthe accounting period will become the Opening Stock in the next year. The Opening Stock, is therefore, shown on the debit side of the TrialBalance.

2. Purchases:Theterm'Purchases'includesbothcashandcreditpurchasesofgoods.Theter m 'goods' (as already explained in an earlier chapter) means, items purchased for resale. Assets purchased for permanent use in the business such as purchase of plant, furniture, etc., are not included in the purchase of goods. Similarly, purchase of articles such as stationery meant for using in the business will also not be included in the item of purchases. The amount of purchases will be the net purchases made by the proprietor. The term 'net purchases' means total purchases of goods made by the businessman less the goods that he has returned back to the suppliers. In other words, purchases returns are deducted from the gross purchases made during the accountingperiod.

3. Sales: The term 'Sales' include both cash and credit sales. Gross sales will be shown in the inner column of the Trading Account out of which "sales returns" will be deducted. The net sales will then be shown in the outer column of the trading Account. Sales of assets like plant and machinery, land and buildings or such other assets which were purchased for using in the business, and not for sale, should not be included in the figure of 'sales' to be taken to the TradingAccount.

4. Wages: The amount of wages is taken as a direct expense and, therefore, is debited to the Trading Account. Difficulty arises in those cases when the Trial Balance includes a single amount for "wages and salaries". In such a case, the amount is taken to the Trading Account. However,iftheTrialBalanceshows"Salariesandwages"theamountistakentotheProfitand Loss Account. Wages paid for the purchase of an asset for long-term use in the business e.g., wagespaidforplantandmachineryor wagespaidforconstructionofabuildingshouldnotbe charged to the Wages Account. They should be charged (debited) to the concerned Asset Account.

5. Customsandimportduty:Incasethegoodshavebeenimportedfromoutsidethecountry,

customs and import duty may have to be paid. The amount of such duty should be charged (debited) to the TradingAccount.

6. Freight, carriage and cartage: Freight, Carriage and Cartage are taken as direct expenses incurred on purchasing the goods. They are, therefore, taken to the debit side of the Trading Account. The terms "Freight In", "Cartage In" and "Carriage In" have also the same meaning. However,"CartageOut""FreightOut"and"CarriageOut"aretheexpensesincurredonselling the goods. They are, therefore, charged (debited) to the Profit and LossAccount.

7. Royalty: Royalty is the amount paid to the owner for using his rights. For example, the royalty is paid by a "Lessee" of a coal mine to its owner for taking out the coal from the coal mine.Similarly,royaltyispaidtotheownerofapatentforusinghisright.Itisgenerallytaken as a direct expense and, therefore, is charged (debited) to the Trading Account. However, where royalty is based on sales, for example in the case of book publishing trade, it may be charged (debited) to the Profit and LossAccount.

8. Gas, electricity, water, fuel, etc.: All these expenses are direct expenses and, therefore, they are charged (debited) to the TradingAccount.

9. Packing materials: Packing Materials used for packing the goods purchased for bringing themtotheshoportoconvertthemintoasaleablestatearedirectexpensesand,therefore,they arecharged(debited)totheTradingAccount.However,packingexpensesincurredformaking the product look attractive or packing expenses incurred after the product has been sold away are charged (debited) to the Profit and Loss Account.

MANUFACTURING ACCOUNT

A productive unit or a manufacturing concern may like to know its cost of production. AnordinaryTradingAccountisnotsufficienttopin-pointcosts.Toascertaincost,wehaveto work out a working account or a manufacturing account or a production account. For detailed knowledge of the manufacturing account, it must be pointed out that we have to debit all the factoryorproductionexpenses,otherwiseknownasdirectexpenses,incurredintheproduction ofgoods.

IMPORTANT POINTS REGARDING MANUFACTURING ACCOUNT

1. Stocks: In case of manufacturer, there can be stocks of threetypes:

(i) Stock of raw materials: It includes stock of raw materials or finished components which might have been purchased by the manufacturer for using them in the products manufactured by him but still lyingunsold.

(ii) Stock of work-in-process: This is also termed as stock of work-in-progress. It includes goods in semi-finishedform.

(iii) Stock of finished goods. It includes stock of those goods which have beencompletely processed and are lying unsold at the end of an accounting period with the manufacturer. It also includes stock of those finished goods which might have been purchased by a manufacturer-cum-trader from outside parties, but still lying unsold with him at the end of the accountingperiod.

2. Raw materials consumed: It is customary to show in the Manufacturing Account, the value of raw materials consumed for manufacturing goods during a particular period.This is computed asfollows:

Opening Stock ofRaw Materials	----
Add Purchase ofRawMaterials	----
Less Closing Stock ofRawMaterials	----

For example, if the opening stock of raw materials is Rs.5,000, purchases of raw materials is Rs.20,000andclosingstockofrawmaterialsisRs.8,000,thevalueofrawmaterialsconsumed will be calculated asfollows:

	Rs.
Opening Stock of Raw Materials	5,000
Add Purchase of Raw Materials	20,000
	25,000
Less Closing Stock of Raw Materials	8,000
Raw Materials Consumed	17,000

3. Carriageinwards,etc.:Theexpensesincurredforbringingtherawmaterialstothefactor y or the octroi or customs duty paid by the manufacturer on the raw materials purchased or imported by him will also be charged (debited) to ManufacturingAccount.

4. Factory overheads: The term "Overheads" includes indirect material, indirect labour and indirect expenses. The term "Factory Overheads", therefore, stands for all factory indirect materials, indirect labour, and indirect expenses. For example, in the case of manufacturer of chairs, the cost of timber purchased will be taken as raw materials. However, the polishing material used by him will be taken as indirect material and will be taken as an item of factory overheads. Similarly, the wages paid to the carpenters who have been employed for making chairs will come as cost of direct labour since they are actively engaged in manufacturing the chairs.However,thesalariesofthesupervisororthewagesofthegate-keeperwillbetakenas indirect labour cost and come in the definition of factory overheads. Similarly, the carriage charges paid for bringing the raw materials to the factory are considered to be direct charges since they can directly be charged to the raw materials purchased. However, the rent for the factory, depreciation of the factory machines, insurance of the factory are all taken as indirect factory expenses and, therefore, covered under the category of factoryoverheads.

5. Costofproduction:TheManufacturingAccountgivesthecostofmanufacturingthegood s duringaparticularperiod.Thisiscomputedbydeductingfromthetotalofthedebitsideofthe Manufacturing Account, the total of the various items appearing on the credit side of the Manufacturing Account as shown in the proforma of the Manufacturing Account givenearlier in theChapter.

6. Sale of scrap: In manufacturing operations, certain scrap is unavoidable. It may or maynot have any sales value. In order to calculate the true cost of manufacturing the goods, it is necessary that the money realised on account of sale of scrap (or realizable value of the scrap in case it has not been sold) should be considered. The amount of scrap, is therefore, credited to the ManufacturingAccount.

PROFIT AND LOSS ACCOUNT

Since, in any business, it is the net profit or net loss that ultimately matters, the preparationoftheProfitandLossAccountasanadjuncttotheTradingAccountisanabsolute necessity. In fact, that is the main reason why the Trading and Profit and Loss Accounts are prepared together, and the gross profit or loss is transferred to the Profit and LossAccount.

It has been explained before that the Profit and Loss Account is prepared with a view to ascertain the net profit or net loss, which is the net difference between total expenses, and total income of the business for the period under review. Or, to state it differently, it is what remainsofthegrossprofitorlossafterchargingallexpensesandmakingnecessaryprovisions normally and properly attributable to the business. Hence, the procedure for preparing the Profit and Loss Account will be asfollows:

1. The Gross Profit or Loss will be brought down from the TradingAccount to the credit or debit side respectively of the Profit and LossAccount.
2. Debit the Profit and Loss Account and credit the various Nominal accountsforbringingthevariousexpensesofthebusinessproperintotheProfitand LossAccount.
3. Credit the Profit and Loss Account and debit the variousNominal Accounts for bringing the various business incomes intoaccount.
4. The difference between the two sides of the Profit and Loss Account will represent Net Profit or Net Loss. Since losses and gains have to be borne by the proprietor, the Profit and Loss Account will be closed by means of a credit to the latterincaseofnetprofitandadebitincaseofnetloss. It istoberememberedthat allbusinessexpensesotherthanthosetransferredtotheTradingAccountwillhave

   to be transferred to the Profit and Loss Account. Likewise, all business incomes will have to be brought into Profit and Loss Account after making adjustmentsand provisions, ifany.

BALANCE SHEET

Previously, it was pointed out that the term 'Final Account' covers, apart from the Trading Account and Profit and Loss Accounts, the Balance Sheet as well. Thus no final accountswouldbecompletefromthepracticalandutilitarianpointofviewwithouttheBalance Sheet. What is a Balance sheet? THE BALANCE SHEET IS A STATEMENT OF THE POSITION OF THE BUSINESS AFTER PREPARATION OF TRADING ANDPROFIT ANDLOSSACCOUNTSFORTHEPERIODUNDERREVIEW.Itisthefinalpictureofthe state of affairs of the business and, therefore, is primarily an attachment of the various ledger balancesaftertherevenueaccountshavebeenprepared;however,thestatementisputforward in a technical and analytical form so that it can be as informative and complete aspossible.

TheBalanceSheet,thoughnotanaccount,hastwosides.Inthelefthandsidethecapital andliabilitiesareshown andintherighthandsidetheassetsareshown.Itisimportanttonote that if a capital item is a credit balance it is shown as a liability and if a capital item is a debit balance it is shown as an asset. As the Balance sheet is not an account the items should not be shown with either To' or 'By' in the assets or liabilities side. A model Balance Sheet is given below.

Transactions Requiring Adjustments:

These are adjusted at the time of preparing financial statements. The purpose of making various adjustments is to ensure that the final accounts reveal the true profit or loss and the true financial position of the business. The items which usually need adjustmentsare:

1. Closingstock
2. Outstanding/expenses
3. Prepaid/Unexpired expenses
4. Accrued income
5. Income received inadvance
6. Depreciation
7. Baddebts
8. Provision for doubtfuldebts
9. Provision for discount ondebtors
10. Manager’scommission
11. Interest oncapital

- ClosingStock

Closing stock represents the cost of unsold goods lying in the stores at the end of the accounting period. The adjustment with regard to the closing stock is done by

(i) by crediting it to the trading and profit and loss account,and

(ii) By showing it on the asset side of the balance sheet. The adjustment entry to be recorded in thisregard is:

ClosingstockA/c	Dr.
To Trading A/c	

The closing stock of the year becomes the opening stock of the next year and is reflected in the trial balance of the next year.

- OutstandingExpenses

It is quite common for a business enterprise to have some unpaid expenses in the normal course of business operations at the end of an accounting year. Such items usually are wages, salaries, interest on loan, etc. When expenses of an accounting period remain unpaid at the end of an accounting period, they are termed as outstanding expenses. As they relate to the earning of revenue during the current accounting year, it is logical that they should be duly charged against revenue for computation of the correct amount of profit or loss. The entry to bring such expenses into account is:

ConcernedexpenseA/c Dr.
To Outstanding expense A/c

The above entry opens a new account called Outstanding Expenses which is shown on the liabilities side of the balance sheet. The amount of outstanding expenses is added to the total of expenses under a particular head for the purpose of preparing trading and profit and loss account.

- PrepaidExpenses

There are several items of expense which are paid in advance in the normal course of business operations. At theend of the accounting year, it is found that the benefits of such expenses have not yet been fully received; a portion of its benefit would be received in the next accounting year. This portion of expense is carried forward to the next year and is termed as prepaid expenses. The necessary adjustment in respect of prepaid expenses is made by recording the followingentry:

PrepaidexpenseA/c Dr.
To concerned expense A/c

The effect of the above adjustment entry is that the amount of prepaid part is deducted from the total of the particular expense, and the new account of prepaid expense is shown on the liabilities side of the balancesheet.

- AccruedIncome

It may also happen that certain items of income such as interest on loan, commission, rent, etc. are earned during the current accounting year but have not been actually received by the end of the same year. Such incomes are known as accrued income. The adjusting entry for accrued income is:

Accruedincome A/c Dr. To
Concerned incomeA/c

The amount of accrued income will be added to the related income in the profit and loss account and the new account of accrued income will appear on the asset side of the balancesheet.

Income Received inAdvance

Sometimes, a certain income is received but the whole amount of it does not belong to the current period. The portion of the income which belongs to the next accounting period is termed as income received in advance or an Unearned Income. Income received in advance is adjusted by recording the following entry:

Concerned income A/c Dr.
To Income received in advance A/c

The effect of this entry will be that the balance in the income account will be equal to the amount of income earned for the current accounting period, and the new account of income received in advance will be shown as a liability in the balance sheet.

- Depreciation

Depreciation is the decline in the value of assets on account of wear and tear and passage of time. It is treated as a business expense and is debited to profit and loss account. This, in effect, amounts to writing-off a portion of the cost of an asset which has been used in the business for the purpose of earning profits. The entry for providing depreciation is:

DepreciationA/c Dr.
To Concerned asset A/c

In the balance sheet, the asset will be shown at cost minus the amount of depreciation.

- BadDebts

Bad debts refer to the amount that the firm has not been able to realize from its debtors. It is regarded as a loss and is termed as bad debt. The entry for recording bad debt is:

BaddebtsA/c Dr.
To Debtors A/c

- Provision for Bad and DoubtfulDebts

It is quite possible that the whole of this amount may not be realised in future. However, it is not possible to accurately know the amount of such bad debts. Hence, we make a reasonable estimate of such loss and provide the same. Such provision is called provision for bad debts and is created by debiting profit and loss account. The following journal entry is recorded in this context:

Profit andLossA/c Dr.
To Provision for doubtful debts A/c

Provision for doubtful debts is also shown as a deduction from the debtors on the asset side of the balance sheet

- Provision for Discount onDebtors

A business enterprise allows discount to its debtors to encourage prompt payments. Discount likely to be allowed to customers in an accounting year can be estimated and provided for by creating a provision for discount on debtors. Provision for discount is made on good debtors who are arrived at by deducting further bad debts and the provision for doubtful debts. The following journal entry is recorded to create provision for discount on debtors:

Profit andloss A/c Dr.
To Provision for discount on debtors A/c

- Manager's Commission

The manager of the business is sometimes given the commission on the net profit of the company. The percentage of the commission is applied on the profit either before charging such commission or after charging such commission. In the absence of any such information, it is assumed that commission is allowed as a percentage of the net profit before charging such commission.

Suppose the net profit of a business is Rs. 110 before charging commission. If the manager is entitled to 10% of the profit before charging such commission, the commission will be calculated as:

= Rs. 110 × 10/100 = Rs. 11

- Interest onCapital

Sometimes, the proprietor may like to know the profit made by the business after providing for interest on capital. In such a situation, interest is calculated at a given rate of interest on capital as at the beginning of the accounting year. If however, any additional capital is brought during the year, the interest may also be computed on such amount from the date on which it was brought into the business. Such interest is treated as expense for the business and the following journal entry is recorded in the books of account:

Interest oncapital A/cDr.
To Capital A/c

In the final accounts, it is shown as an expense on the debit side of the profit and loss account and added to capital in the balance

S. No	Transaction	Accounting Treatment

1	Closing Stock	1. Trading Account - Creditside 2. Balance Sheet - Asset side
2	Outstanding Expenses	1. Add with the concerned expenses 2. Show it as aliability
3	Prepaid Expenses	1. Deduct from concernedexpenses 2. Show it as anAsset
4	Outstanding Income	1. Add with the concernedincome 2. Show it as anAsset
5	Income Received in Advance	1. Deduct from the concernedincome 2. Show it as aliability
6	Depreciation	1. Debit P & LA/c 2. Deduct from the concernedAsset
7	Provision for Bad debts	1. Debit P & L A/c [after deducting old Reserve, if any] 2. Deduct from SundryDebtors.
8	Reserve for Discount on Debtors	1. Debit P & LA/c 2. Deduct from SundryDebtors
9	Reserve for Discount on Creditors	1. Credit P & LA/c 2. Deduct from SundryCreditors
10	Interest on Capital	1. Debit P & LA/c 2. Add with theCapital
11	Interest on Drawings	1. Credit P & LA/c 2. Deduct fromcapital
12	Transfer to Reserves	1. Debit P & LA/c 2. Show it as aliability
13	Stock Destroyed by Fire	1. Debit Trading Account with the whole value of loss caused byfire 2. Debit P & L A/c with the value of stock not compensated by InsuranceCompany. 3. Show as asset the amount of compensation given by the InsuranceCompany.
14	Write off Goodwill/Preliminary Expenses	1. Debit P & LA/c 2. Deduct from Goodwill/ PreliminaryExpenses
15	Goods Drawn for personal use by the proprietor	1. Deduct fromPurchases 2. Add with theDrawings
16	Goods Included in stock but not recorded in Books	1. Add with purchases 2. Add with Creditors
17	Goods under Sale or Return	1. Deduct from Sales (at selling price) Deduct from Debtors (at selling price) 2. Add with closing stock (at cost price)
18	Commission Payable on Net Profits	1. Debit P & L A/c 2. Show it as a liability (Appropriate calculation should be made to find out the commission payable depending on whether it is before charging commission or after charging commission)

ADUSTMENT ENTRIES

1	Closing stock A/C			
	Closing stock A/C	Dr.	XXX	
	To Trading A/C			XXX
2	Out standing Expenses			
	Expenses A/C	Dr.	XXX	
	To Expenses outstanding A/C			XXX
3	Prepaid Expenses			
	Prepaid Expenses A/C	Dr.	XXX	
	To Expenses A/C			XXX
4	Accrued Income/ Outsatnding Income			
	Accrued Income A/C	Dr.	XXX	
	To Income A/C			XXX
5	Income Received in Advance			
	Income A/C	Dr.	XXX	
	To Income Received in advnce A/C			XXX
6	Depreciation of Asset			
	Depreciation A/C	Dr.	XXX	
	To Asset A/C			XXX
7	Interest on Capital			
	Interest on Capital A/C	Dr.	XXX	
	To Capital A/C			XXX
8	Interest on Drawing			
	Capital A/C	Dr.	XXX	
	To Interest on drawing A/C			XXX
9	Bad debts			
	Bad debts A/C	Dr.	XXX	
	To Debtors A/C			XXX
10	Provision for Doubtful debts			
	Profit and loss A/c	Dr	XXX	
	To Provision for doubtful debts			XXX
11	Provision for discount on Debtors			
	Profit and loss A/c	Dr.	XXX	
	To Provision for discount on Debtors			XXX

12 Provision for discount on Creditors

Provision for discount on Creditors A/C Dr. XXX

To Profit and Loss A/C XXX

13 Loss of Stock by Accident, Fire,etc.

Abnormal loss A/C XXX

To Trading A/C XXX

Profit and loss A/c Dr. XXX

To Abnormal loss A/C XXX

Profit and loss A/c Dr. XXX

Insurance Company A/C Dr. XXX

To Abnormal loss A/C XXX

(Being Loss Recovered from Insurance company)

FORMAT OF A TRADING ACCOUNT

TRADING ACCOUNT
for the year ended --------------

Dr. Cr.

	Rs.	Rs.		Rs.	Rs.
To Opening stock			By Sales Less Sales Returns		
To Purchases			By Closing Stock		
Less Purchases Returns					
To Carriage on Purchases					
To Freight and Insurance					
To Duty and Clearing charges					
To Wages					
To Fuel, Coal, Gas, etc.					
To Factory Lighting					
To Factory Rent					
To Manufacturing Expenses					
To Gross Profit Transferred to P & L A/c					

Problem no 1: From the following particulars, prepare a Trading Account
for the year ended 31st December 1979.

Particulars	Debit	Credit
	Rs.	Rs.
Opening Stock (Stock on 1-1-79)	15,000	
Sales		42,000
Purchases	27,000	
Sales-Returns	2,000	
Purchases Returns		3,000
Wages	6,000	
Carriage Inwards	1,600	
Freight and Insurance	400	

The closing stock (stock on 31-12-79) has been ascertained to be Rs. 18,000.

Solution : 1

TRADING ACCOUNTING FOR THE YEAR ENDED 31.12.1979					
PARTICULARS	AMOUNT	AMOUNT	PARTICULARS	AMOUNT	AMOUNT
To Opening stock		15,000	By Sales	42,000	
To Purchases	27,000		Less: Sale return	2,000	40,000
Less: Purchase return	3,000	24,000	By Closing stock		18,000
To Wages		6,000			
To Carriage Inwards		1,600			
To Freight and Insurance		400			
To Gross profit(B/F)		11,000			
		58,000			58,000

FORMAT OF A PROFIT AND LOSS ACCOUNT

Profit and Loss Account for the year ended 31st December, . .

Dr. Cr.

	Rs.		Rs.
To Salaries		By G.P. transferred from Trading A/c	
To Rent, Rates &Taxes			
To Printing and Stationery		By Discount (Cr.)	

To Postage and Telegram		By Interest (Cr.)	
To Insurance		By Commission (Cr.)	
To Repairs and Renewals			
To Interest			
To Trade Expenses			
To Stable Expenses			
To Travelling Expenses			
To Commission			
To Discount			
To Advertisement			
To Packing Expenses			
To Bad debts			
To Carriage Outwards			
To Net Profit transferred to Capital A/c			

Problemno 2: Prepare Trading Account from the following information			
Opening stock	3,00,000		
Sales	6,00,000		
Coal & Fuel	50,000		
Carriage inwards	60,000		
Wages	1,30,000		
Purchases	3,00,000		
Sales return	50,000		
Import duty	50,000		
Closing stock	3,80,000		

Solution : 2

TRADING ACCOUNTING FOR THE YEAR ENDED					
PARTICULARS	AMOUNT	AMOUNT	PARTICULARS	AMOUNT	AMOUNT
To Opening stock		3,00,000	By Sales	6,00,000	
To Purchases		3,00,000	Less: Sales return	50,000	5,50,000
To Coal & Fuel		50,000	By Clasing stock		3,80,000
To Carriage inwards		60,000			
To Wages		1,30,000			
To Import duty		50,000			
To Gross profit		40,000			

		9,30,000			9,30,000

Format of Balance sheet

Capital and Liabilities		Rs.	Assets	Rs.
Capital Account	----	----	Goodwill	----
ADD Net profit	-----	----	Land andBuilding	----
ADD Interest on coapital				
LESS Drawing				
LESS Interest on Drawing				
Loan Account		----	Plant andMachinery	----
Sundry Creditors		----	Fixtures	----
Bank Over draft		----	PatentRights	----
Bills Payable		----	ClosingStock	----
			Sundry Debtors	----
			Bills Receivable	----
			Cash at Bank	----
			Cash in Hand	----

PROBLEM - 3

Write up a Balance Sheet with the information supplied. Capital Account Rs.36,000; Drawings Rs.9,000; Cash Rs.1,350; Debtors Rs. 40,100, B/R 7,500 B/P Rs.6,000; Fixtures and furniture Rs.6,750; Bank Rs.18,750; Loan from Shylock Rs.9,000; S. Creditors Rs.64,500; Land & Building Rs. 21,000; Closing Stock Rs. 18,200; Net Profit Rs. 7,150.

SOLUTION: 3

Balance Sheet as on 31 December 1973

Liabilities	Rs.	Rs.	Assets	Rs.
Capital	36,000		Cash	1,350
Add: Net profit	7,150		Bank	18,750
	43,150		Debtors	40,100
Less: Drawings	9,000	34,150	Bills Receivable	7,500
Bills Payable		6,000	Fixtures and furniture	6,750

Loan		9,000	Land abd building	21,000
S. Creditors		64,500	Closing stock	18,200
		1,13,650		1,13,650

Problem : 4 From the following balances extracted from the books of M/s Rajendra Kumar Gupta & Co., prepare a Trading and Profit and Loss Account.

	Rs.			Rs.
Opening Stock	1,250		Plant and Machinery	6,230
Sales	11,800		Returns Outwards	1,380
Depreciation	667		Cash in hand	895
Commission (Cr.)	211		Salaries	750
Insurance	380		Debtors	1,905
Carriage Inwards	300		Discount (Dr.)	328
Furniture	670		Bills Receivable	2,730
Printing Charges	481		Wages	1,589
Carriage Outwards	200		Returns Inwards	1,659
Capital	9,228		Bank Overdraft	4,000
Creditors	1,780		Purchases	8,679
Bills Payable	54 1		Petty cash in hand	47
			Bad Debts	180

The value of stock on 31st December,1992 was Rs.3,700.
Dr.
Solution:4

TRADING AND PROFIT AND LOSS ACCOUNT

PARTICULARS	AMOUNT	AMOUNT	PARTICULARS	AMOUNT	AMOUNT
TO Opening stock		1,250	By Sales	11,800	
TO Purchase	8,679		Less: Return inwards	1,659	10,141
Less: Return out ward	1,380	7,299	By Closing stock		3,700
To Carriage Inwards		300			
To Wages		1,589			
To Gross Profit (B/F)		3,403			
		13,841			13,841
To Depreciation		667	By Gross profit b/d		3,403
To Insurance		380	By Commission (Cr.)		211
To Printing Charges		481			

To Carriage Outwards		200			
To Salaries		750			
To Discount (Dr.)		328			
To Bad Debts		180			
To Net profit		628			
		3,614			3,614

Problem: 5

From the following Trial Balance of Mr.Shyam as at 31st December 1993, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st December 1993 and a Balance Sheet as at the date, after making necessary adjustments. Also give journal entries for adjustments.

TRIAL BALANCE

Name of the Account	Debit Rs.	Credit Rs.
Mr.Shyam's Capital Account		80,000
Mr.Shyam's Drawings Account	6,000	
Plant and Machinery (balance on 1st Jan. 1993)	20,000	
Plant and Machinery (additions on 1st July 1993)	5,000	
Stock on 1st January 1993	15,000	
Purchases	82,000	
Returns Inwards	2,000	
Sundry Debtors	20,600	
Furniture and Fixtures	5,000	
Freight and Duty	2,000	
Carriage outwards	500	
Rent, Rates and Taxes	4,600	
Printing and Stationery	800	
Trade Expenses	400	
Sundry Creditors		10,000
Sales		1,20,000
Returns outwards		1,000
Postage and Telegrams	800	
Provision for Doubtful Debts		400
Discounts		800
Rent of premises sub-let for year to 30th June 1994		1,200
Insurance Charges	700	
Salaries and Wages	21,300	
Cash in Hand	6,200	
Cash at Bank	20,500	
	2,13,400	2,13,400

ADJUSTMENTS

1) Stock on 31st December 1993 was valued atRs.14, 600.

2) Write off Rs.600 as baddebts.

3) The provision for Doubtful Debts is to be maintained at 5 % on SundryDebtors.

4) Create a Provision for Discounts on Debtors and on Creditors at 2%.

5) Provide for depreciation on Furniture and Fixture at 5 % p.a and
on Plant and Machinery at 20 %p.a.

6) Insurance Prepaid was Rs.100.

7) A fire occurred on 25th December,1993 in the godown and stock of the value of Rs.5,000 was destroyed. It was fully insured and the Insurance Company admitted the claim infull.

Trading and Profit and Loss account

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening stock		15,000	By sales	1,20,000	
To Purchases	82,000		Less: Sales return	2,000	1,18000
Less: Purchase returns	1,000	81,000	By Closing stock		14,600
To Freight and Duty		2,000	By Insurance Co. (Goods destroyed)		5,000
To Gross profit transferred to P&L a/c		39,600			
		1,37,600			1,37,600
Carriage outwards		500	By Gross profit		39,600
Rent, Rates and Taxes		4,600	Discounts		800
Printing and Stationery		800	By Discount on creditors 10,000X2/100		200
Trade Expenses		400	By Rent Received in advance		1,200
Postage and Telegrams		800			
To Bad dedts (New)	600				
Add: New Provision for Doubtful Debts	1,000				
	1,600				
Less: Old Provision for Doubtful Debts	400	1,200			
To Provision for discount on Debtors		380			
Insurance Charges Less: Prepaid	700 100	600			
Salaries and Wages		21,300			
To Depreciation: Furniture 5000X5/100	250				

Plant Machinery 20,000 X20/100 5000 X20/100 X 6/12	4,000 500	4,750			
		5,870			
		41,200			41,200

Working:

Debtors	20,600	
Less Bad debts		600
	20,000	
Less: New Provision		
20,000X 5/100		1,000
	19,000	
Less: Discount on Debtors		
19,000 X2/100		380

Balance sheet

Liabilities	Amount	Amount	Assets	Amount	Amount
Capital Add: Net Profit	80,000 5,870		Cash in hand		6,200
	85,870		Cash at bank		20,500
Less: Drawing	6,000	79,870	Sundry debtors Less: Bad debts	20,600 600	
Sundry Creditors Less: Discount on Creditors	10,000 200	9,800		20,000	
Rent Received in Advance		600	Less: New Provision for doubtful debts	1,000	
				19,000	
			Less: Discount on Debtors	380	18,620
			Plant and Machinery Less: Depreciation	25,000 4,500	20,500
			Furniture Less: Depreciation	5,000 250	4,750
			Insurance company a/c		5,000
			Closing stock		14,600
			Insurance Prepaid		100
		90,270			90,270

JOURNAL ENTRIES

1993 Dec31	BadDebtsa/c Dr. To Sundry Debtors (The amount written off as bad debts)		Rs. 600	Rs. 600
Dec 31	Provision for doubtfulDebts a/c Dr. To Bad Debts a/c (The transfer of bad debts to the provision for doubtful Debts)		600	 600
Dec 31	Profit andLossA/c Dr. To provision for doubtful Debts A/c (The amount required to make up the provision up to Rs.1, 000 @ 5% on 20,000 as under :) Provisionrequired 1,000 Add:BadDebts 600 1,600 Less: Existing Provision 400 1,200		1,200	 1,200
Dec 31	Profit andLoss a/c Dr. To Provision for Discount on Debtors a/c (The amount required as provision for discount on debtors at 2% on 19,000)		380	 380
Dec 31	Reserve for Discount onCreditorsa/c Dr. To Profit and Loss a/c (The amount expected to be earned as discount on creditors 2% on 10,000)		200	 200
Dec 31	Depreciationa/c Dr. To Plant & Machinery a/c To Furniture and fixtures a/c (The amount written off as depreciation is as follows :) Machinery:20%on 20.000 4,000 20% on 5,000 for 6 months 5004,500 Furniture.: 5 % onRs. 5,000 Rs. 250		4,750	 4,500 250
Dec 31	Insurance Prepaid a/c Dr. To Insurance a/c (The Insurance Premium paid in advance)		100	 100
Dec 31	Insurance Co. a/c Dr. To Trading a/c (Being the value of stock destroyed by fire will be recovered from the Insurance co.,)		5,000	 5,000
Dec 31	Rent Received a/c Dr. To Rent Received in Advance Account (The rent for premises sublet from 1st Jan. 1974 to 30th June 1974 already received in Advance)		600	 600

Problem:6

From the following trail balance prepare the trading and profit and loss account.

bit balances	nount	edit balances	nount
sh in hand	540	es	8,780
rchases	675	turn Outwards	500
ges	480	pital	000
rriage inward	40	editors	00
ening Stock	60		
chinery	000		
odwill	00		
aries	000		
urance	00		
btors	500		
awings	45		
sh at bank	30		
turn inwards	0		
el	30		
rriage outward	00		
ildings	000		
	6,580		6,580

Additional information:

A)Depreciate machinery at 10%

b) Salary outstanding Rs.3,000

c) Create a resrerve for bad and doubtful debt @ 5 % on debtors.

d) Closing stock is valued @ Rs.10,000

e) Insurance prepaid Rs.400

7. Calculate purchases: Cost of goods sold Rs. 4,00,000; Opening stock Rs. 50,000; Closing stock Rs. 60,000

Cost of goods sold = opening stock+ Purchase- Closing sock

4, 00,000 = 50,000+ Purchase - 60,000

4,00,000- 50,000+60,000= Purchase

Purchase =4,10,000

8. Find out Gross Profit. Opening stock Rs. 80,000 Sales Rs. 1,80,000 Closing stock Rs. 1,20,000 Purchase Rs. 60,000 Wages Rs. 20,000

Trading account

Particulars	Amt	Particulars	Amt
To Opening stock	80,000	By sales	1,80,000

To Purchases	60,000	Closing Stock	1,20,000
To wages	20,000		
To Gross profit	1,40,000		
	3,00,000		3,00,000

9. Find out gross profit. (a) Opening stock Rs. 80,000 (b) Sales Rs. 11,24,000 (c) Purchase Rs. 7,44,000 (d) Closing stock Rs. 1,00,000

10. From the following Trial balance as on 31st December 2000,prepare Trading and Profir and Loss Account and Balance sheet as on date.

Particulars	Amount	Amount
Stock as on 1.1.2000	5,840	
Cash in hand	192	
Drawings	2,840	
Rent	480	
Machinery	3,800	
Tax	600	
Provision for Bad debts		420
Bad debts	888	
Capital		17,000
Interest		320
General Expenses	1,760	
Bank overdraft		960
Purchases	41,448	
Debtors	16,800	
Sales		47,624
Creditors		8,000
Sales Returns	840	
Purchse Return		1,164
	75,488	75,488

Adjustments:

(a) Depreciation on machinery at 10% p.a

(b) Rent outstanding Rs. 500

(c) Tax Prepaid Rs. 100

(d)Provision for bad debts is to be increased to 5% of debtors

(e)Closing stock Rs. 3,500

Dr. Trading and Profit and Loss Account for the year ended 31.12.2000

Cr.

Particulars	Amount	Amount	Particulars	Amont	Amount
To Opening stock		5,840	By Sales	47,624	
To Purchases	41,448		Less: Sales Return	840	46,784
Less: Purchase Return	1,164	40,284	By Closing stock		3,500
To Gross Profit		4,160			
		50,284			50,284
To Rent	480		By Gross Profit b/d		4,160
Add: Out standing	500	980	By Interest		320
To Tax	600				
Less: Prepaid	100	500			
To Bad debts(old)	888				
Add: New Bad debts	Nil				
Add: New Provision B.D (16,800X5/100)	840				
	1,728				
Less: Old Provision B.D	420	1,308			
To General Expenses		1,760			
To Depreciation on machinery (3,800X10/100)		380			
			By Net Loss		448
		4,928			4,928
		Balancesheet			
Liabilities			Assets		
Capital	17,000		Cash in hand		192
Less: Net loss	448		Machinery	3,800	
	16,552		Less: Depreciation	380	3,420
Less: Drawings	2,840		Debtors	16,800	
		13,712	Less: Provision	840	15,960
Bank overdraft		960	Tax Prepaid		100
Rent outstanding		500	Closing stock		3,500
Creditors		8,000			
		23,172			23,172

11. From the following balances Prepare a Trading and Profit and Loss account and a Balance sheet.

Particulars	Debit	Credit
Salaries	5,500	
Rent	1,300	
Cash	1,000	
Debtors	40,000	

Trade Expenses	600	
Purchases	25,000	
Advances	2,500	
Bank balance	5,600	
Creditors		9,500
Sales		32,000
Capital		30,000
Loans		10,000
Total	81,500	81,500

Adjustment:

(a) Closing Stock Rs.9,000

(b) One month's salary is outstanding

(c) One month's rent has been paid in advance

(d) Provide 5% for doubtful debts

Dr.	Trading and Profit and Loss Account for the year ended				Cr.
Particulars	Amount	Amount	Particulars	Amont	Amount
To Opening stock		-	By Sales		32,000
To Purchases		25,000	By Closing stock		9,000
To Gross Profit		16,000			
		41,000			41,000
To Salaries	5,500		By Gross Profit		16,000
Add: outstanding (5500/11)	500	6,000			
To Rent	1,300				
Less:Paid in advance(1300/13)	100	1,200			
To Trade expenses		600			
To Provision for doubt ful debts40,000 X5/100		2,000			
To Net profit		6,200			
		16,000			16,000
Balance sheet					
Capital	30,000		Cash		1,000
Add: Net profit	6,200		Bankbalance		5,600
		36,200	Debtors	40,000	
Creditors		9,500	Less: Provision	2,000	38,000
loans		10,000	Advances		2,500
Outstanding salary		500	Closing stock		9,000
			Prepaid rent		100

		56,200			56,200

12. The following is the Trial balance of Raj Agency as on 31st march 1995
Prepare Trading and Profit and Loss Account and Balance sheet.

PARTICULARS	AMOUNT	AMOUNT
Capital		1,00,000
Building	15,000	
Drawing	18,000	
Furniture	7,500	
Motor van	25,000	
Loan from Hari @12% interest		15,000
Interest paid	900	
Sales		1,00,000
Purchases	75,000	
Opening stock	25,000	
Establishment Expenses	15,000	
Wages	2,000	
Insurance	1,000	
Commission received		7,500
Sundry Debtors	28,100	
Bank balance	20,000	
Sundry ceditors		10,000
	2,32,500	2,32,500

Adjustment:

1)The value of stock on 31st march 1995 was Rs. 32,000

2)Outstanding wages Rs. 500

3) Prepaid Insurance Rs. 300

4)Commission received in advance Rs. 800

5)Allow interest on capital 10%

6)Depreciation on Building 2.5%, Furniture 10%, Motor van 10%

7) Interest on drawings Rs. 500

Trading and Profit and loss account for the year ending 31st March 1995					
Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening stock		25,000	By Sales		1,00,000
To Purchases		75,000	By Closing stock		32,000
To Wages	2,000				
Add: Outstanding	500	2500			
To Gtoss profit (B/F)		29,500			
		1,32,000			1,32,000
Interest	900		By Gtoss profit		29,500

Add: Outstanding 15,000X12/100	900	1,800	By commission	7,500	
To Establishment Expenses		15,000	Less: Received in advance	800	6,700
To Insurance	1,000		By Interest on drawings		500
Less: Prepaid	300	700			
To Interest on Capital (1,00,000X10/100)		10,000			
To Depreciation:					
Building 15,000X2.5/100		375			
Furnirure7,500 X10/100		750			
Motor van 25,000 X10/100		2,500			
To Net profit		5,575			
		36,700			36,700
BALANCE AHEET AS ON 31ST March 1995					
Liabilities	Amount	Amount	Assets	Amount	Amount
Capital	1,00,000		Bank balance		20,000
Add: Not profit	5,575		Building	15,000	
	1,05,575		Less: Depreciation	375	14,625
Add: Interest on capital	10,000		Furniture	7,500	
	1,15,575		Less: Depreciation	750	6,750
Less Drawings	18,000		Motor van	25,000	
	97,575		Less: Depreciation	2,500	22,500
Less: Interest on drawing	500		S. Debtors		28,100
		97,075	Closing stock		32,000
Loanfromhari	15,000		Prepaid insurance		300
Add: Interest outstanding	900	15,900			
S.Creditors		10,000			
Outstanding wages		500			
Received in advance		800			
		1,24,275			1,24,275

13. How will you show the following in Profit and loss account and Balance sheet

Bad debts (Trial balance)	10,000
Sudry Debtors	50,000
Provision for Doubtful debts (Trial balance)	2,000
Adjustment:	
Bad debts	5,000

Create Provision for doubtful debts on debtors 5%

Profit and Loss A /C					
To Old Bad debts	10,000				

Add: New Bad debts	5,000				
	15,000				
Add: New Prov. For Doubtful debts	2,250				
	17,250				
Opening Balance:				Rs.	
Lee Old Prov. For Doubtful debts	2,000				
		15,250			
Balance sheet					
Liabilities			Assets		
			Debtors	50,000	
			Less: Bad debts	5,000	
				45,000	
			Less: Provision	2,250	42,750

Debtors	50,000
Less: New bad debts	5,000
	45,000

45,000 X 5/100= 2,250

14. Pass necessary Adjustment entries for the following adjustment

1) Salaries outstanding Rs. 30,000
2) Prepaid Insurance Rs. 1,600
3) Interest accrued on investment Rs. 4,000
4) Commission received in advance Rs. 6,500
5) To provide 10% interest on capital of Rs. 1,50,000
6) Closing stock Rs. 2,00,000

NON PROFIT ORGANISATION

Cash in hand	500
Cash at bank	4500
Receipts: Subscriptions: 1994 -700 1995 -7000 1996 -2000	9700
Admission fee	1200
Donations	5000
Sale of old sports materials	900
Investments realized	4000
Payments:Investments purchased Rent paid Sports materials purchased General expenses Postage and stationery Salaries Closing cash balance	5000 1200 3000 800 100 2200 400

1. Following particulars taken out from the Cash Book of the Club:

RECEIPTS	Rs.	Rs.	PAYMENTS	Rs.	Rs
To balance b/d Cash in hand Cash at bank	 500 4,500	 5,000	By Investments purchased		5,000
To subscriptions 1994 1995	 700 7,000		By Rent paid		1,200

RECEIPT AND PAYMENTS ACCOUNT

1996	2,000	9,700			
To Admission fees		1,200	By Sports materials purchased		3,000
To Donations		5,000	By General expenses		800
Sale of old sports materials		900	By Postage and stationery		100
Investments realized		4000	By Salaries		2,200
			By Balance c/d Cash in hand Cash at bank (B/F)	 400 13,500	
		25,800			25,800

2. On 31/12/2000 subscription outstanding were Rs. 10,000 and received in advance for 2001 Rs. 8000.

During 2001, subscription received were Rs. 80,000 including Rs. 7,000 towards the dues of the year 2000. On 31/12/2001, total subscriptions outstanding were Rs. 12,000 and received in advance for 2002 Rs. 6,000. You are required to show

(i) Subscriptions to be credited to income and expenditure A/C and

(ii) Extract from balance sheet of 2001 showing the items relating to subscriptions.

INCOME AND EXPENDITURE ACCOUNT for 2001

EXPENDITURE	AMOUNT	INCOME	AMOUNT	
		By Subscription Less: Sub. Received for 2000 Add: Outstanding for 2001 12,000 – 3,000(10,000 -- 7,000) Less: Receive in advance Add: Received in advance in 2000 for2001	80,000 7,000 73,000 9,000 82,000 6,000 76,000 8000	 84,000

Previous year

Note: Current year Outstanding - Add Less
Current year received in advance – Less Add
Current year Accrued /Outstanding Income – Add Less
Current year Prepaid - Less Add

BALANCE SHEET for 2001

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Received in advance	6,000	Out standing Subscription 2000 3000 2001 9000	 12,000

3. Compute the expenditure to be shown in Income and Expenditure Account from the following

(A)	Sports materials purchased for cash	20,000
	Opening stock of sports materials	5,000
	Closing stock of sports materials	8,000
	Opening creditors for sports materials	7,000
	Cash paid to creditors for sports materials	22,000
	Closing creditors for sports materials	6,000
(B)	Stationery purchased during the year	40,000
	Opening stock of stationery	8,000
	Closing stock of stationery	9,000

EXPENDITURE		AMOUNT	INCOME	AMOUNT	
Closing creditors for sports material	6,000				
Add: Cash paid to creditors	22,000				
	28,000				
Less Opening creditors for sports material	7,000				
Credit purchase of sports material		21,000			
Cash purchase of sports material		20,000			
Add: opening stock of sports material		5,000			
		46,000			
Less: Closing stock of sports material		8,000			
Sports material consumed		38,000			

EXPENDITURE		AMOUNT	INCOME	AMOUNT	
Opening stock of stationery	8,000				
Add: Purchases	40,000				
	48,000				
Less: Closing stock of stationery	9,000				
	39,000	39,000			

4. How will the following appear in the final accounts of Regal Sports Club?

Sale of old sports material during 1999	700
Stock of sports materials on 31.12.1999	4,200
Stock of sports materials on 01.01.1999	21,000
Sports materials purchased during 1999	59,500

INCOME AND EXPENDITURE ACCOUNT

EXPENDITURE	AMOUNT	AMOUNT	INCOME	AMOUNT	AMOUNT
Opening stock of sports material	21,000		Sale of old Sports materials		700
Add: Purchases	59,500				
	80,500				
Less: Closing stock of stationery	4,200				
	76,300	76,300			

5. The Calcutta sports club gives you its Receipts and Payment s A/C for the year ended 31st Dec. 1988.

Receipts		Amount	Payments	Amount
To Cash in hand		150	By Ground men's fees	1,500
To Cash at bank		2,100	By Mowing machine	1,100
To Subscriptions		5,800	By Rent	500
To Tournament fund		1,500	By Salaries to coaches	3,600
To Life membership		2,000	By Tournament expenses	900
To Entrance fees		200	By Office expenses, postage etc.	2,400
To Donation for pavilion		3,000	By Sports equipment purchased	1,200
To Sale of grass		100	By Cash in hand	350
			By Cash at bank	3,300

Additional Details:

1. Subscriptions due on 31.12.1987 and on 31.12.1988 were Rs. 900 and Rs. 800 respectively.
2. Sports equipment on hand on 31st Dec. 1987 was Rs. 1,100. The value placed on the equipment on hand on 31st Dec. 1988 was Rs. 1,300.
3. The mowing machine was purchased on 1-7-1988 and is to be depreciated at 20% per annum
4. Office expenses include Rs. 300 1987 and Rs. 400 are still due for payment.
5. Tournament receipts and expenses are to be separated from general incomes and expenses.

Prepare Income and Expenditure A/C for the year 1988.

Income and Expenditure Account for the year ended 31-12-1988

Expenditures	Amount	Amount	Income	Amount	Amount
To Groundmen,s fees		1,500	By Subscription	5,800	
To Rent		500	Less: Outstanding for 1987	900	
To salaries		3,600		4,900	
To office expenses	2,400		Add: Outstanding for 1988 (C.Y)	800	5,700
Less: Amount for 1987	300		By Entrance fees		200
	2,100		By Sale of gross		100
Add: out standing for 1988	400	2,500			
To Depreciationn on sports equipment			By Deficit - Excess of Expenditure over Income		3,610
stock on 31-12-1987	1,100				
Add: Purchase	1,200				
	2,300				
Less: Stock on 1988	1,300	1,000			

To Depreciation on mowing machine (1,100X20/100X6/12)		110			
		9,210			9,210

6. The following is the Receipts and Payments account of
Kandan Recreation club for the year ended 31st March 2002

Receipts	Amount	Amount	Payments	Amount	Amount
To Balance b/d		7,000	By Salaries		28,000
to Subscriptions:			By General Expenses		6,000
2000-2001	5,000		By Electricity		4,000
2001-2002	20,000		By Books Purchased		10,000
2002-2003	4,000	29,000	By Periodicals purchased		8,000
To Rent for use of Conference			By loan Repaid		20,000
room		14,000	By Balance C/d		4,000
To Receipts from Entertaintment		28,000			
To sale of Old Magazines		2,000			
		80,000			80,000

Additional Information:

a) The club has 50 members, each paying 500 per annum as subscription;

b) Subscriptions outstanding on 31st march 2002: 6,000;
c) Salaries outstanding 2,000. salaries paid include 6,000 for 2000-2001;

d) On 01.04.2001, the Club properties were: building 2,00,000, Furniture & Fittings 20,000, and Books 20,000

e) Provide 10% depreciation on building and furniture.

Prepare Income and Expenditure Account for the year ending 31st March 2002 and a Balance sheet.

Income and Expenditure Account for the year ended 31-3-2002					
Expenditures	Amount	Amount	Income	Amount	Amount

To salaries	28,000		By Subsciption	20,000	
Add: Outstanding	2,000		Add: Outstanding (Annual subs.500X50= 25,000)	5,000	25,000
	30,000		By Rent for use of Conference		14,000
Less: Previous year salary	6,000	24,000	By Receipts from Entertaintment		28,000
Tp General Expenses		6,000	By sale of Old Magazines		2,000
To Electricity		4,000			
To Periodicals purchased		8,000			
To Depreciation					
Building 2,00,000 X10/100		20,000			
Furniture 20,000X 10/100		2,000			
To surplus- Excess of Income over Expenditure		5,000			
		69,000			69,000

Liabilities	Amount	Amount	Assets	Amount	Amount
Out standing salary		2,000	Cash in hand		4,000
Subscription Received in advance		4,000	Building	2,00,000	
Capital Fund	2,27,000		Less: Depreciation	20,000	1,80,000
Add: surplus- Excess of Income over Expenditure	5,000	2,32,000	Furniture& Fittings	20,000	
			Less: Depreciation	2,000	18,000
			Books	20,000	
			Add: Purchase during the year	10,000	30,000
			Out standing subscription For 2000-2001 for 2001-2002	1,000 5,000	6,000
		2,38,000			2,38,000

Balance sheet 31. 3.2001

salaries outstanding		6,000	Cash in hand		7,000
loan		20,000	subscription outstanding		6,000
			Books		20,000
Capital Fund (B/F)		2,27,000	Furniture& Fittings		20,000
			Building		2,00,000
		2,53,000			2,53,000

7. From the following details prepare Receipts and Payments Account

Opening Cash in hand	500
Opening Cash at bank	4,800
Furniture purchased	2,000
Tournament expenses	3,000
Subscription collected	11,000
Entertainment expenses	1,500
Entrance fees received	1,000
Periodicals purchased	1,200
Salary paid	3,000
Miscellaneous expenses	300
Rent paid	1,200
Cash in hand at the end	800

Receipts and Payments Accounts					
RECEIPTS	AMOUNT	AMOUNT	PAYMENTS	AMOUNT	AMOUNT
To Balance b/d			By Furniture		2,000
Cash in hand		500	By Tournament expenses		3,000
Cash at bank		4,800	By Entertainment expenses		1,500
To Subscription		11,000	By Periodicals		1,200
To Entrance fees		1,000	By Salary		3,000
			By Miscellaneous expenses		300
			By Rent		1,200
			By Balance C/d		
			Cash in hand		800
			Cash at bank B/F		4,300
		17,300			17,300

8. Prepare Receipts and payments account of a Club for the year ended 31st Dec. 1999 from the following particulars.

Opening balance of cash	4,00,000
Entrance fee received	8,000
Subscription received for 1999	16,000
Previous year subscription received	1,600
Paid salaries	2,000
Miscellaneous expenses	200
Rent paid	1,200
Purchase of cricket balls	500
Purchase of cricket bats	1,600

Stationery in cash	100

Receipts and Payments Accounts					
RECEIPTS	AMOUNT	AMOUNT	PAYMENTS	AMOUNT	AMOUNT
To Balance b/d		4,00,000	By salaries		2,000
ToEntrance fee received		8,000	By Miscellaneous expenses		200
To Subscription received for 1999		16,000	By Rent		1,200
To Previous year subscription received		1,600	By cricket balls		500
			By cricket bats		1,600
			By Stationery		100
			By Balance c/d		4,20,000
		4,25,600			4,25,600

9. From the following figures given bellow, prepare an income and expenditure account for 31.12.2007

Receipts	Amount	Payments	Amount
To balanceb/d cash in hand	200	By Salaries	4,800
Cash at bank	1,600	By Rent	500
To Subscription 2006	500	By Stationeries	200
2007	8,300	By Bicycles purchased	300
2008	600	By National savings certificates	3,000
To Sale of investments	2,000	By Help to poor students	2,000
To sale of old furniture (Bank value Rs. 400)	300	By Balance C/d Cash in hand	300
		Cash at bank	2,400
	13,500		13,500

Subscription for 2007 still receivable were Rs. 700, The interest due on National Savings Certificate Rs. 100 and Rent outstanding Rs. 60.

RECEIPTS AND PAYMENTS ACCOUNT

Introduction:

The basic objective of any trading institution dealing in sale of goods or services is to earn profits. Therefore, such trading institutions prepare their accounting records in sucha wayastorevealnotonlytrueprofitorlossesbutalsotheprecisefinancialpositionforeach accounting period. However, there are certain institutions which do not deal in purchasing orsellingofgoodsbutdealinserviceswithorwithoutprofitmotive.Thesearenon-trading entities. Charitable institutions like hospitals, educational institutions, clubs, etc., are non- trading institutions which do not carry on any trading and do not have making of profit as one of their objectives. They do not prepare a trading and profit and loss Account. However, they maintain a Cash Book and, on the basis of entries made in it, prepare a summary of the cash transactions. When presented in an account form, this summary is called Receipts and PaymentsAccount.

Receipts and Payments Account is prepared at the end of the accounting period from the cash book. The cash book contains a record of cash receipts and cash payments in a chronological order while Receipts and payments Account is a summary of total cash receipts and total cash Payments received and made under different heads during a particular period.

Features of Receipts and Payments Account: The main features of the Receipts and Payments Account can be summarized as follows:

(i) It is a RealAccount

(ii) Itcommenceswiththebalanceofcashandbankinthebeginningoftheaccounting period.

(iii) All cash receipts and payments irrespective of the fact whether they are of capital or revenue nature or whether they relate to the current year or not are entered init.

(iv) Only actual receipts and payments areentered.

(v) The balance in the account will show the closing balance of cash in hand and at bank. However, if the credit side exceeds the debit side, it represents the net bank overdraft.

INCOME AND EXPENDITURE ACCOUNT

Introduction

ReceiptsandPaymentsAccountbyitselfdoesnotindicatethefinancialpositionofany non-trading institution since a large cash balance can result from the sale of an asset; the balance will quickly disappear if current expenses exceed the current income. For the purpose of knowing the exact financial position of the institution, it is necessary to compare current expenseswithcurrentincomesandtocompileassetsandliabilities.Forthis,wehavetoprepare an Income and Expenditure Account and a BalanceSheet.

An Income and Expenditure Account is a revenue account of a non-trading institution and may be considered as equivalent to the Profit and Loss Account of a trading concern. It performsthesamefunctionsandiscompiledandconstructedonpreciselythesameprinciples. Its salient features are summarized asfollows:

i) It is a nominalaccount.
ii) Items of revenue nature alone are dealt with in the account, but they are not confined merely to the actual cash transacted during the period covered byit.
iii) All incomes and gains, whether received or accrued, are credited and expense and losses, whether paid or incurred, are debited toit.
iv) Any advance receipt of income or payment of expense is dulyadjusted.
v) The final balance of the account, after due adjustments of accruals, pre-payments, provisions, depreciation, etc., represents an excess of income over expenditure or excess of expenditure over income for the relevantperiod.

The *Balance sheet* of a non-trading concern is prepared in the usual way and contains particularsofallassetsandliabilitiesoftheinstitutiononthedateonwhichitisprepared.The excess of assets over the liabilities is termed as Capital Fund or General Fund. The Capital Fundismadeoupofexcessofincomeoverexpenditureandotherincomesorsurpluseswhich might have been capitalized by the institution from time to time. Sometimes two Balance Sheets may have to beprepared,

i) Balance Sheet in the beginning of the accounting year to ascertain the amount of capital in the beginning of the accounting year,and
ii) Balance Sheet at the end of the accounting year to show the financial position of the Institution as on thatdate.

The following points should be remembered while preparing Income and Expenditure account. They are:

1. Entrance Fee.
2. Subscriptions.
3. LifeMembership.
4. Donations.

1. Entrance Fee: Entrance Fee is generally considered as an item of income. As such, it is credited to the Income and Expenditure Account. However, some people argue that entrance feeisofanon-recurringnatureandthereforetheyfavourcapitalizingtheentrancefee,inwhich case it is added to the Capital Fund directly and not credited to the Income and Expenditure Account. But in the absence of any specific instructions in the question, students are advised to treat it as an item ofincome.

2. Subscriptions: Subscription is a source of income to a non-trading concern. While the Receipts and Payments Account records the actual subscriptions received, the Income and Expenditure Account records only the subscriptions which relate to the Accounting period, whetherreceivedornot.Thereforenecessaryadjustmentsshouldbemadetofindouttheactual amount of income from subscription to be recorded to the accountingperiod.

3. Life Membership: In case of life membership, members have to pay fee only once in their lifetime.It isareceiptofnon-recurringnatureandshouldbeaddedtothecapitalfundandnot credited to the Income and ExpenditureAccount.

4. Donations: The amount of donation received by a non-trading institution may be treated eitherasanincomeormaybecapitalizedandtakentoBalanceSheetdependinguponwhether it is a specific donation or a generaldonation.

When any donation is received for any specific purpose, it is considered as a specific donation; (eg) donation for instituting a prize, donation for construction of a building. The amount of such donation cannot, therefore, be used for any other purpose. It should be taken to the Balance Sheet on the liabilities side and be used only for purpose for which it is meant, irrespective of the amount.

A donation not received for a specific purpose is termed as a general donation. Its treatment depends upon the amount received. If the donation is of a substantial amount, it shouldbetakentotheBalanceSheetontheliabilitiesside.However,iftheamountofdonation is small, it can be safely taken to the Income and ExpenditureAccount.

Difference between Receipts & Payments Account and Income & ExpenditureAccount:

Receipts and Payments Account		Income & Expenditure Account	
1	It is a summary of cash book and hence receipts are shown on the debit side and payments on the credit side.	1	Itissimilartoprofit&lossaccountoftrading concernandincomesappearonthecreditside and expenses on the debitside.
2	It commences with opening cash balance.	2	Without any opening balance.
3	It includes both capital and revenue receipts andpayments	3	Excludes all the capital receipts and payments.
4	It ignores accrued incomes and expenses as it deals only withthe actual receipts and payments.	4	Deals with all income earned and the expenses incurred for the year actually received and paid or merely accrued.
5	It includes the items pertaining to preceding, current andsucceeding years.	5	Confinestotheitemsofcurrentyearonlyand hence the accrued items of the precedingyear and prepayments for the succeeding yearare excluded.
6	It is usually based on cash system which suggests the absence of double entry and balance sheet	6	Adopts mercantile system which suggests the presence of double entry and balance sheet.
7	Difference between the two sides representscashattheclose,unless a Bank overdraft, and iscarried forward to the next year.	7	Difference denotes a surplus or deficit, depending upon the excess of income over expenditure or vice-versa and is merged with the capital fund.

UNIT- 2 DEPRECIATION ACCOUNTING

Introduction:

Theconceptofdepreciationiscloselylinkedtotheconceptofbusinessincome.Intherevenue generating process, the use of long term assets tends to consume their economic potential. At somepointoftimetheseassetsbecomeuselessandaredisposedofandpossiblyreplaced.The economic potential so consumed represents the expired cost of these assets and must be recovered from the revenue of the business in order to determine the income earned by the business. Depreciation may, therefore, be defined as that portion of the cost of the assets that is deducted from revenue for assets services' used in the operation of abusiness.

Definition: In order to have a clear understanding about the concept of depreciation, it will be useful to quote definitions given by some prominent writers.

AccordingtoPickles,"Depreciationisthepermanentandcontinuingdiminutionint he quality, quantity or value of anasset".

The Institute of Chartered Accountants of England and Wales defines depreciation as "that part of the cost of a fixed asset to its owner which is not recoverable when the asset is finally put out of use by him. Provision against this loss of capital is an integral cost of conducting the business during the effective commercial life of the asset and is not dependent upon the amount of profit earned."

According to Spicer and Pegler, "depreciation may be defined as the measure of the exhaustion of the effective life of an asset from any cause during a given period."

From the above definitions, it can be concluded that depreciation is a gradual decrease in the value of an asset from any cause.

CAUSES OF DEPRECIATION

The causes of depreciation are as follows:

1. Wear and tear: Assets get worn or torn out on account of constant use as is the case with plant and machinery, furniture, and fixtures used in afactory.

2. Exhaustion: An asset may get exhausted through working. This is the case with mineral mines, oil wells, etc. On account of continuous extraction of minerals or oil, a stage comes when the mine or well gets completely exhausted and nothing isleft.

3. Obsolescence: Some assets are discarded before they are worn out because of changed conditions. For example, an old machine which is still workable may have to be replaced by a newmachinebecauseofthelatterbeingmoreefficientandeconomical.Suchalossonaccount of new inventions or changed fashions is termed as loss on account ofobsolescence.

4. Efflux of time: Certain assets get decreased in their value with the passage of time. This is true in the case of assets like leasehold properties, patents or copyrights.

5. Accidents:Anassetmaymeetwithanaccidentand,therefore,itmaygetdepreciationininits value.

On the basis of the above causes, it can be said that depreciation, is the decrease or depletion in the value of an asset due to wear and tear, lapse of time, obsolescence, exhaustion and accidents,

Basic features of depreciation

1. The term depreciation is used only in respect of fixed assets. Of course, the current assets mayalsolosetheirvalue.Lossonaccountoffallintheirvalueistakencareofbyvaluingthem for Balance Sheet purpose at cost or market price whichever isless.

2. Depreciation is a charge against profits. This means that true profit of the business cannot be ascertained without chargingdepreciation.

3. Depreciationisdifferentfrommaintenance.Maintenanceexpensesareincurredforkeeping the machine in a state of efficiency. However, any degree of maintenance cannot assure that theassetwillneverreachastateofscrap.Ofcourse,

goodmaintenancedelaysthisstagebutit cannot absolutely preventit.

4. All fixed assets, with certain possible exceptions e.g. land, and antiques, etc., suffer depreciation although the process may be invisible orgradual.

DEPRECIATION ACCOUNTING

Depreciation Accounting is mainly concerned with a rational and systematic distribution of cost over the estimated useful life of the asset. According to the American Institute of Certified Public Accountants, Depreciation Accounting is "a system ofaccounting whichaimstodistributethecostorotherbasicvaluesoftangiblecapitalassetslesssalvage(if any)overtheestimatedusefullifeoftheunit(whichmaybeagroupof assets)inasystematic and rational manner. It is the process of allocation and not ofvaluation."

The objective of Depreciation Accounting is to absorb the cost of using the assets in differentaccountingperiodsinawaysoastogivethetruefiguresofprofitorlossmadebythe business.

Objectives of providing Depreciation

The following are the objectives of providing depreciation:

1. Ascertainment of true profits: When an asset is purchased, it is nothing more than a paymentinadvanceforanexpense.Forexample,ifabuildingispurchasedforRs.10,000 forbusinesspurposes,theeffectofsuchapurchasewillbesavinginthecostofrentinthe future. But, after a certain number of years, the building will become useless. The cost of the building is, therefore, nothing except paying rent in advance for a period of years. If the rent had been paid, it would have been charged as an expense for determination ofthe true profits, made by the business during a particular period. The amount paid for the purchaseofbuildingshould,therefore,bechargedoveraperiodoftimeforwhichtheasset would beserviceable.
2. Presentation of true financial position: The assets get depreciated in their value over a periodoftimeon accountofvariousfactors asexplainedbefore.Inordertopresentatrue state of affairs of the business, the

assets should be shown in the Balance Sheet, at their propervalues.

3. Replacement of assets: Assets used in the business need replacement after the expiry of their service life. By providing depreciation a part of the profits of the business is kept in thebusinesswhichcanbeusedforpurchaseofnewassetsontheoldfixedassetsbecoming useless.

Factors Affecting the Account of Depreciation

Following are the three important factors which should be considered for determining the amount of depreciation to be charged to the Profit and Loss Account in respect of a particular asset.

1. Cost of the asset: The cost of the asset includes the invoice price of the asset less anytrade discount plus all costs essential to bring the asset to a usable condition. It should be noted that financialcharges,suchasinterestonmoneyborrowedforthepurchaseoftheasset,shouldnot be included in the cost of theasset.

2. Estimatedscrapvalue:Thetermscrapvaluemeanstheresidualorthesalvagevaluewhich is estimated to be realised on account of the sale of the asset at the end of its useful life. In determining the scrap value, the cost to be incurred in the disposal or removing of the asset should be deducted out of the total realizablevalue.

3. Estimated useful life: This is also termed as economic life of the asset. This may be calculated in terms of years, months, hours, units of output or other operating measures such as kilometers in case of a taxi or atruck.

METHODS OF PROVIDING DEPRECIATION:

The following are the various methods of providing depreciation:

i) Fixed installment or Straight Line Method

ii) Diminishing Balance or Written Down ValueMethod

iii) Sum of the years [or Digits]Method

iv) AnnuityMethod

v) Sinking Fund or Depreciation FundMethod

vi) Insurance PolicyMethod

vii) RevaluationMethod

viii) DepletionMethod

ix) Machine Hour RateMethod

We will now discuss in detail each of the above Methods.

1. Fixed Installment or Straight LineMethod:

In this method, a suitable percentage of original cost is written off the asset every year throughout the effective life of the asset. Thus if an asset costs Rs. 50,000 and 10 percent depreciation is thought proper (over its useful life of 10 years), Rs. 5000 would be writtenoff every year. In this method, the amount of depreciation is arrived at asunder:

$$\text{Depreciation} = \frac{\text{Cost} - \text{Scrap Value}}{\text{Estimated Life in Years}}$$

Merits:

i) This method is very simple to understand and easy toapply.

ii) The value of the asset can be reduced to zero or to its scrap value under this method.

iii) This method is very suitable particularly in case of those assets which get depreciated more on account of expiry of period e.g., Lease-hold properties, patent Rights,etc.

Demerits:

i) This method does not take into account the effective utilization of the asset. The amount of depreciation charged in this method is same every year irrespective of the use of theasset.

ii) This method tends to report an increasing rate of return on investment in the asset on account of the fact that net balance of the asset account is taken. This is notjustifiable.

2. Diminishing Balance or Written Down ValueMethod

In this method, the rate or percentage of depreciation is fixed and depreciation is charged on the book value of the asset standing at the beginning of each year. Thus, the amount of depreciation goes on decreasing every year. For example, if the cost of an asset is Rs. 10,000 and the rate of depreciation is 10%, then the amount of depreciation to be charged in the first year will be Rs.1000 [10% on Rs.10,000]. In the second year, depreciation will be charged at 10% on the book value of the asset i.e., on Rs.9000 [i.e., 10000-1000] and so on.

Merits:

(i) This method is simple to understand and easy tofollow.

(ii) This method puts an equal burden for the use of the asset on each subsequent year. The amount of depreciation goes on decreasing for each subsequent year while the charge for repairs goes on increasing for each subsequent year. Thus, the increase in the cost of repairs for each subsequent year is compensated by decrease in the amount of depreciation for each subsequentyear.

Demerits:

(i) The value of the asset cannot be brought down to zero under thismethod.

(ii) The determination of a suitable rate of depreciation is also difficult under this method as compared to the Fixed Installment Method.

1. AnnuityMethod:

The three methods discussed above ignore interest factor. The Annuity Method takes care of this factor. Under this method, the depreciation is charged on the basis thatbesides losing the original cost of the asset, the business also loses interest on the amount used for buyingtheasset.The'interest'heremeanstheinterestwhichthebusinesscouldhaveearned otherwise if the money used in purchasing the asset would have been invested in some other form of investment. Thus, according to this method, such an amount is charged by wayofdepreciationwhichtakesintoaccountnotonlythecostoftheassetbutalsointerest thereon at an accepted rate. The amount of interest is calculated on the book value of the assetinthebeginningoftheyear.Theamountofdepreciationisuniformandisdetermined on the basis of the Annuity Table. An extract of the Annuity Table is shown in the Appendix. The following journal entries are passed in case depreciation is charged according to thismethod.

i) On purchase of an asset :AssetA/C Dr.
To Bank

ii) ForCharginginterest AssetA/C Dr.
To Interest A/C

iii) For charging Depreciation: Depreciation A/CDr.
To Asset A/C

Sinking Fund or Depreciation Fund Method:

Oneoftheobjectivesof providingfordepreciationistoprovideforreplacementofthe asset at the end of its useful life. In case of the four methods discussed earlier, the amount of depreciation charged from the Profit and loss Account continues to remain in the business. However, this amount may get invested in all sorts of assets in course of running the business thus making it difficult to buy a new asset in place of the old one. Depreciation Fund method takes care of such a contingency. According to this method, the amount charged by way of depreciation is invested in readily saleable securities carrying a certain rate of interest. The amountreceivedonaccountofinterestfromthesesecuritiesisalsoinvestedfromtimetotime together with the annual amount charged, by way of depreciation. At the end of the useful life oftheasset,whenreplacementisrequired,thesecuritiesaresoldawayandthemoneyrealized on account of the sale of the securities is used for purchase of a new asset. How muchamount istobeinvestedeveryyearsothatagivensumisavailableattheendofagivenperioddepends on the rate of interest. The Sinking Fund table shows how much is to be invested every year together with the interest earned so that at the end of the period one gets Re.1.

Merits

(i) Periodic depreciation together with realized interest is invested outside the business in liquid securities which readily provides ready money for replacing the oldasset.

(ii) Overall as also periodic depreciation is smaller than the asset's actual depreciable cost due to deduction ofinterest.

Demerits

(i) Sinking fund method assumes a constant rate of return on every periodic investment in identical securities. This is hardly true in this dynamic world whereratesdovarynowandthen.Thisupsetstheearlierperiodicallocatio n fordepreciation.

(ii) Thismethodputsanincreasingburdenontheprofitandlossofeachyearo n Account of a fixed charge for depreciation but increasing charging for repairs. The journal entries are asfollows:

3. Insurance PolicyMethod

This method is similar to the Depreciation Fund method. Instead of making investment, arrangements are made with the insurance company which will receive premium annually and pay at the end of the fixed period, the required amount with which the old asset can be replaced premium have to be paid at the beginning of each year. The annual premium is treated as the annual depreciation.

The following entries are passed:

A. First and subsequentyears:
On payment of insurance premium at the beginning of each year
(i) Depreciation Insurance Policy A/CDr.
To Bank
At the end of the year for providing depreciation:
(ii) Profit andLossA/C Dr.To Depreciation FundA/C

B. At the end of the lastyear:

On realization of money from the Insurance Co.,

(iii) BankA/C Dr.
To Depreciation Insurance Policy A/C

(iv) For transfer of profit on insurancepolicy

Depreciation InsurancePolicyA/C Dr.
To Depreciation Fund A/C

(v) For transfer of accumulated depreciation to the AssetA/C

DepreciationFundA/C Dr.
To Asset A/C

7. RevaluationMethod:

This method is used in case of loose tools, livestock, etc. At the end of every year, the loose tools in hand are valued properly and enough depreciation is written off to bring the value of theassetstoitsproperfigure.Suppose,afirmhadinthebeginningoftheyearloosetoolsworth Rs. 5000. During the year it purchased new tools costing Rs.2000 thus making a total of Rs. 7000. At the end of the year the loose tools are found to be worth Rs. 5500. Then the depreciation to be written off is Rs. 1500 (ieRs. 7000 -5500).

8. Depletion Method: This method is most suitable for mines quarries, etc. from which a certain quantity of output is expected to be extracted. The value of mines depends only on the quantityofmineralsthatcanbeextracted.Whenthewholequantityistakenout,themineloses its value. Hence one can say that the mine depreciates according to the quantity mined. The rate of depreciation is worked out as so much per tonne. It is obtained by simply dividing the cost of the mine by the total quantity of mineral expected to be extracted. Thus, if a mine is acquiredatacostofRs.10,00,000andifitisexpectedthatatotalof8,00,000tonnesof

minerals will be extracted and then the depreciation rate will be Rs. 1.25 per ton, (i.e.), Rs. 10, 00,000 / 8, 00,000. The total depreciation to be written off will depend upon the quantity mined. If, in the above example, in the first year 30,000 tonnes are taken out, the depreciation will be 30,000 x Rs.1.25 or Rs 37,500. If, in the next year, the output is 40,000 tonnes, the depreciation will be 40,000 x Rs.1.25 or Rs. 50,000 and so on.

9. Machine Hour RateMethod:

This method is useful in case of machines. The life of the machine is fixed in terms of hours. Hourly rate of depreciation is worked out by the total number of hours for which the machine is expected to be used. Suppose, a machine costing Rs. 62,000 and having an estimated scrap valueofRs.2,000isexpectedtobeusedfor30,000hoursinall.Thehourlyrateofdepreciation is then Rs. 60,000 / 30,000 or Rs 2.00. Depreciation to be written off in a year will be ascertained by multiplying the hourly rate of depreciation by the number of hours that the machine actually works in the year. To continue the example, suppose the machine works for 1,000hoursinthefirstyearand1,500hoursinthenext.Thedepreciationforthefirstyearwill beRs.2,000(ieRs.2.00 X1,000) andRs.3,000inthenext.Thestudents canobservethatthis method is similar to the first method - fixed installmentmethod

Methods of providing depreciation

Straight line method

$$\text{Depreciation} = \frac{\text{Cost of the fixed asset – Estimated scrap value}}{\text{Number of years of expected life}}$$

Rate of depreciation= $\frac{\text{Amount of depreciation}}{\text{Cost of the fixed asset}}$ X 100

1. A firm purchased a machine for Rs, 1, 75,000 and spent installation charges Rs. 45,000. It's economic life is 10 years and estimated residual value after 10 years is Rs. 20,000. Charge depreciation by SLM.

Depreciation = $\frac{\text{Cost of the fixed asset – Estimated scrap value}}{\text{Number of years of expected life}}$

Cost of asset = 1,75,000+ 45,000=2,20,000

$= \frac{2,20,000- 20,000}{10}$

= 20,000

Rate of depreciation= $\frac{\text{Amount of depreciation}}{\text{Cost of the fixed asset}}$ X 100

$= \frac{20,000}{2,20,000}$ X 100

=9.09%

2. A company purchased a plant for Rs. 50,000. The useful life of the plant is 10 years and the residual value is Rs. 10,000. Find out the rate of depreciation under the straight line method.

Depreciation = $\frac{\text{Cost of the fixed asset – Estimated scrap value}}{\text{Number of years of expected life}}$

$\frac{50,000- 10,000}{10}$

= 4,000

Rate of depreciation= $\frac{\text{Amount of depreciation}}{\text{Cost of the fixed asset}}$ X 100

$= \frac{4000}{50,000}$ X 100

=8%

3. A machine purchased on 1st July 1983 at a cost of Rs. 14,000 and Rs. 1,000 was spent on its installation. The depreciation is written off at 10% on the original cost every year. The books are closed on 31st December each year. The machine was sold for Rs. 9,500 on 31st march 1986. Show the machinery account for all the years

Statement of Profit or Loss

Cost price of Machine 15,000

Less: Depreciation 1983

15,000X10/100X6/12 750

14,250

Less: Depreciation1984

15,000X10/100 1500

12,750

Less: Depreciation1985 1,500

11,250

Less: Depreciation 1986

15,000X10/100X3/12 375

Book value 10,875

Loss= Book value- Selling price

=10,875-9500 = 1,375

Dr. MACHINE ACCOUNT Cr.

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
1983 July, 1	To Bank (14,000+ 1,000)	15,000	1983 Dec. 31	By Depreciation A/c 15,000X10/100X6/12 By Balance C/d	 750 14,250
		15,000			15,000
1984 Jan, 1	To Balance b/d	14,250	1984 Dec.31	By Depreciation 15,000X10/100 By Balance C/d	 1,500 12,750
		14,250			14,250
1985 Jan,1	To Balance b/d	12,750	1985 Dec, 31	By Depreciation 15,000X10/100	 1,500

				By Balance C/d	11,250
		12,750			12,750
1986 Jan, 1	To Balance b/d	11,250	1986 March 31	By Depreciation 15,000X10/100X3/12 By Bank By Profit and Loss a/c Loss on sale of asset	 375 9,500 1,375
		11,250			11,250

4. A Machinery was purchased on 1st January 2010 at a cost of Rs. 28,000 and spent Rs. 4,000 on its installation. Depreciation is to be provided at 10% on the original cost. The books are closed on 31st December each year. The machinery was sold for 12,000 on 31st March 2013. Prepare the Machinery Account

Statement of profit or loss

Cost price of the Machinery(28,000+4,000)	32,000
Less: Depreciation – 2010 (32,000X10/100) Less Depreciation – 2011 Less: Depreciation= 2012	 3,200 28,800 3,200 25,600 3,200 22,400

Less: Depreciation- 2013 (32,000X10/100X3/12) Book value	 800 21,600

Loss: Book value – Selling price

21,600-12,000= 9,600

Machinery Account

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
2010 Jan, 1	To Bank	32,000	2010 Dec, 31	By Depreciation By Balance C/d	3,200 28,800
		32,000			32,000
2011Jan,1	To Balance b/d	28,800	2011 Dec, 31	By Depreciation By Balance C/d	3,200 25,600
		28,800			28,800
2012 Jan,1	To Balance b/d	25,600	2012 Dec, 31	By Depreciation By Balance C/d	3,200 22,400
		25,600			25,600
2013 Jan,1	To Balance b/d	22,400	2013 March,31	By Depreciation (32,000X10/100X3/12) By Bank By Profit and Loss a/c	800 12,000 9,600
		22,400			22,400

5. A new Machinery was purchased for 6, 00,000 on 1st April 2001. On 1st October 2002, another Machinery was purchased for 4, 40,000. On 30th September 2003, the Machinery purchased on 1st April 2001 was sold for Rs. 3, 40,000. Depreciation is to be provided at 10% per annum, under Straight Line Method. Accounts are closed on 31st March every year. Pass journal entries and prepare Machinery Account and Depreciation on Machinery Account for three years.

Current year : 1st April, 2001 to 31st March,2002
1st April, 2002 to 31st March,2003
1st April, 2003 to 31st March,2004
Statement of Profit or loss

Cost price of the Machinery Less: Depreciation 2001-2002 (6,00000X10/100)	6,00,000 60,000
 Less: Depreciation Apr.2002-Mar.2003	5,40,000 60,000
 Less: Depreciation Apr.2003-Mar.2004 (6,00,000X10/100X6/12)	4,80,000 30,000

Book value	4,50,000

Loss = Book value – Selling price

=4,50,000-3,40,000 = 1,10,000

Dr. MACHINERY ACCOUNT Cr.

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
1-4 2001	To Bank	6,00,000	31-3- 2002	By Depreciation By Balance c/d	60,000 5,40,000
		6,00,000			6,00,000
1-4-2002 1-10-2002	To Balance b/d To Bank	5,40,000 4,40,000	31-3- 2003	By Depreciation By Depreciation (4,40,000X10/100X6/12) By Balance c/d	60,000 22,000 8,98,000
		9,80,000			9,80,000
1-4-2003	To Balance b/d	8,98,000	30-9- 2003 31-3- 2004	By Bank By Profit loss account By Depreciation- 1st 6,00,000X10/100X6/12 By Depreciation - 2nd 4,40,000X10/100 By Balance c/d	3,40,000 1,10,000 30,000 44,000 3,74,000
		8,98,000			8,98,000
1-4-2004	To Balance b/d	3,74,000			

DEPRECIATION ACCOUNT

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
31-3-2002	To Machinery A/c	60,000	31-3- 2002	By Balance C/d	60,000
		60,000			60,000
31-3-2003	To Balance c/d To Machinery (60,000+22,000)	60,000 82,000	31-3- 2003	By Balance C/d	1,42,000
		1,42,000			1,42,000
31-3-2004	To Balance c/d To Machinery (30,000+44,000)	1,42,000 74,000	31-3- 2004	By Balance C/d	2,16,000
		2,16,000			2,16,000
31-3-2005	To Balance c/d	2,16,000			

6. A company, whose accounting year is the calendar year, purchased on 1st April 2000, machinery costing Rs.30,000. It purchased further machinery on 1st October, 2000 costing Rs.20,000 and on 1st July, 2001 costing Rs.10,000. On 1st January, 2002 one third of the machinery installed on 1st April, 2000 became obsolete and was sold for Rs.3,000. Show how machinery account would appear in the books of the company, it being given that machinery was depreciated at 10 % by fixed instalment method.

Accounting year: Jan 2000 to Dec. 2000

MACHINERY ACCOUNT

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
2000, April,1 Oct.1	To Bank To Bank	30,000 20,000	2000 Dec. 31	By Depreciation (30,000X10/100X9/12) (20,000X10/100X3/12) By Balance c/d	2,250 500 47,250
		50,000			50,000
2001 Jan. 1 July,1	To Balance b/d To Bank	47,250 10,000	2001 Dec. 31	By Depreciation (30,000X10/100) (20,000X10/100) (10,000X10/100X6/12) By Balance c/d	 3,000 2,000 500 51,750
		57,250			57,250
2002 Jan. 1	To Balance b/d	51,250	2002 Jan.1 Dec. 31	By Bank By Profit & Loss By Depreciation (20,000X10/100) (20,000 X10/100) (10,000X10/100) By Depreciation	3,000 5,250 2,000 2,000 1,000 38,000
		51,250			51,250

Date	Particulars	Debit	Credit
1-4-2000	Machinery A/c Dr To Bank A/c (Purchased Machinery purchased)	30,000	 30,000
1-10-2000	Machinery A/c Dr To Bank A/c (Purchased Machinery purchased)	20,000	 20,000
31-12-2000	Depreciation A/C Dr To Machinery A/C (Provide Depreciation at 10%)	2,750	 2,750
31-12-2000	Profit & loss A/C Dr. To Depreciation A/C (Depreciation is transferred to P&L A/C)	2,750	 2,750

1-7- 2001	Machinery A/c Dr To Bank A/c (Purchased Machinery purchased)	10,000	10,000
31-12-2001	Depreciation A/C Dr To Machinery A/C (Provide Depreciation at 10%)	5,500	5,500
31-12-2001	Profit & loss A/C Dr. To Depreciation A/C (Depreciation is transferred to P&L A/C)	5,500	5,500
1-1-2002	Bank A/C Dr. To Machinery A/C (Sale of Machinery)	3,000	3,000
1-1-2002	Profit & loss A/C Dr. To Machinery A/C (Loss on sale of machinery)	5,250	5,250
31-12-2002	Depreciation A/C Dr To Machinery A/C (Provide Depreciation at 10%)	5,000	5,000
31-12-2002	Profit & loss A/C Dr. To Depreciation A/C (Depreciation is transferred to P&L A/C)	5,000	5,000

Statement of Profit or Loss

Cost price of the Machinery (30,000X1/3) Less: Depreciation 2000(10,000X10/100X9/12)	10,000 750
 Less: Depreciation 2001 (10,000X10/100)	9,250 1,000
Book value	8,250

Loss = Book – Selling price

= 8,250 – 3,000 = 5,250

7. On 1-7-1980, Rajagopal purchased a secondhand car for Rs. 18,000 and spent Rs. 2,000 on its repairs. On 30-6-1983, the car was disposed off for a sum of Rs. 13,600. Assuming that the books are closed on Dec.31 each year end the depreciation is10% on diminishing balances, calculate the amount chargeable to profit & loss account for the year 1983

Cost price of the Machinery Less: Depreciation (20,000X10/100X6/12) - 1980	20,000 1,000
 Less: Depreciation 1981 (19,000X10/100)	19,000 1,900
 Less Depreciation – 1982 (17,100X10/100	17,100 1,710
 Less: Depreciation – 1983 (15,390 X10/100X6/12)	15,390 770

Book value Less : Selling price	14,620 13,600
Loss	1,020

MACHINERY ACCOUNT

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
1.7.80	To Bank	20,000	31.12.80	By Depreciation By Balance c/d	1,000 19,000
		20,000			20,000
1.1.81	To Balance c/d	19,000	31.12.81	By Depreciation By Balance c/d	1,900 17,100
		19,000			19,000
1.1.82	To Balance c/d	17,100	31.12.82	By Depreciation By Balance c/d	1,710 15,390
		17,100			17,100
1.1.83	To Balance c/d	15,390	30.6.83	By Depreciation By Bank By Profit & loss	770 13,600 1020
		15,390			15,390

WRITTEN DOWN VALUE METHOD

8. Abi& Co. purchased a machine on 1.1.1995 for Rs. 9,250 and immediately spent Rs. 750 on its erection. On 1.7.1996, it purchased another machine for Rs. 2,500 and 1.7.1997, it sold off the first machine purchased in 1995 for Rs. 7,000 and on the same date it purchased another machine for Rs. 6,250. On 1.7.1998 the second machine purchased for Rs. 2,500 was also sold off for Rs. 500. Depreciation was provided on the machinery on written down value basis at 10% p.a. Give machinery account for four years commencing from January 1, 1995.

MACHINERY ACCOUNT

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
1.1.95	To Bank	10,000	31.12.95	By Depreciation (10,000X10/100) By Balance c/d	1,000 9,000
		10,000			10,000
1.1.96 1.7.96	To Balance b/d To Bank	9,000 2,500	31.12.95	By Depreciation (9,000X10/100) (2,500X10/100X6/12) By Balance c/d	900 125 10,475
		11,500			11,500

1.1.97 1.7.97	To Balance b/d To Bank	10,475 6,250	1.7.97 31.12.97	By Bank By Depreciation By Profit & Loss By Depreciation (10,475-8,100= 2,375X10/100) (6,250X10/100X6/12) By Balance c/d	7,000 405 695 238 313 8,074
		16,725			16,725
1.1.98	To Balance b/d	8,074	1.7.98 31.12.98	By Bank By Depreciation By Profit & Loss By Depreciation (8074-2,137= 5,937X10/100) By Balance c/d	500 107 1,530 594 5,343
		8,074			8,074
1.1.99	To Balance b/d	5,343			

Statement of profit or loss

Cost of the asset Less: Depreciation -1995	10,000 1000	Cost of the asset Less: Depreciation- 1996 (2,500X10/100X6/12)	2,500 125
Less: Depreciation- 1996(9,000X10/100)	9000 900	Less: Depreciation – 1997 (2,375 X10/100)	2,375 238
Less Depreciation- 1997(8,100X10/100x6/12)	8,100 405	Less: Depreciation- 1998 (2,137X 10/100X6/12)	2,137 107
Book Value Less: Selling price	7,695 7,000	Book Value Less: Selling price	2030 500
Loss	695	Loss	1,530

9. Cosmos Enterprises Ltd. acquired a machine on 1st January 1992 at a cost of Rs. 18,000 and spent Rs.2,000 on its installation. The firm writes off depreciation at 10% of the original cost every year. Show the Machinery Account for three years.

Solution

Dr. MachineryAccount Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1992 Jan 1	To Bank To Bank (installation charges)	18,000 2,000	1992 Dec. 31	By Depreciation (10% on Rs.20,000) " Balance c/d	2,000 18,000
		20,000			20,000
1993 Jan 1	To Balance b/d	18,000	1993 Dec. 31	By Depreciation (10% on Rs.18,000) " Balance c/d	1,800 16,200

		18,000			18,000
1994 Jan.1	To Balance b/d	16,200	1991 Dec. 31	By Depreciation (10% on Rs.16,200) " Balance c/d	1,620 14,580
		16,200			16,200
1995	To Balance b/d	14,580			

(INSURANCECLAIMS)

FORMAT FOR INSURANCE CLAIMS

STEP 1: PREPARATION OF TRADING ACCOUNT FOR THE YEARENDING… Dr.			Cr.
PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Opening stock	XX		
To purchase LESS: Purchase returns	XX	By sales LESS: Sales return	XX
To carriage inwards	XX	By closing stock	XX

ToWages	XX	ADD: stock written off	
To manufacturing expense (factory expenses)	XX		
To custom duties or (clearance charges)	XX		
To coal, gas, water, power, fuel	XX		
To Wages and salaries	XX		
To Commission	XX		
To gross profit (b/f)	XX		
TOTAL	XX	TOTAL	XX

STEP 2: ASCERTAINMENT OF RATE OF GROSS PROFIT
RATE OFGROSSPROFIT = $\frac{\text{GROSSPROFIT}}{\text{NETSALES}}$ X 100

STEP 3: PREPARATION OF MEMORANDUM TRADING ACCOUNT FROM THE BEING OF THE YEAR TILL THE FIRE ACCIDENT DR. CR.			
PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Opening stock	XX		
To purchase LESS: Purchase returns / Drawings / Advertisement/unrecordedpurchase	XX	By sales LESS: Sales return / unrecorded sales / sale not dispatched/	XX
To carriage inwards	XX	By closing stock	XX
ToWages	XX		
To manufacturing expense (factory expenses)	XX	By gross loss	

To custom duties or (clearance charges)	XX		
To coal, gas, water, power, fuel	XX		
To Wages and salaries	XX		
To Commission	XX		
To gross profit (b/f)	XX		
TOTAL	XX	TOTAL	XX

STEP 4: ASCERTAINMENT OF "ACTUAL AMOUNT OF LOSS"	
PARTICULA RS	AMOUNT
Stock on the date of fire / closing stock	XX
LESS: Goods saved / salvaged goods / salvage value / scrap	XX
TOTAL	XXX
ADD: Expenses incurred for extinguishing fire, if any	XXX
ACTUAL AMOUNT OF LOSS	XXX

STEP 5: ASCERTAINMENT OF "CLAIM AMOUNT"
Amountofclaim = Policyamount X $\frac{\text{Actual loss of stock}}{\text{Stock on the date of fire / closing stock}}$

1. What is Insurance?

It is an agreement between Insured and Insurer to compensate the losses suffered due to uncertainties in future, for a consideration called premium.

2. What is meant by FireClaims?

It is a kind of General insurance where an agreement is made between the industry (i.e., insured) and General Insurance Company (i.e., insurer) to indemnify the compensation for the loss of stock or profit due to fire accident, for a consideration called premium.

3. Who is anInsured?

Insured is a person/industry/asset, to whom/which the insurance is made. The compensation shall be received on happening of certain event determined i.e., death of a person or destroy of asset or properties.

4. Who isInsurer?

Insurer is an insurance company which pays the losses suffered by the insured on happening of certain event estimated in advance i.e., death of a person or destroy of asset or properties.

5. What is TradingAccount?

Trading Account is a ledger prepared to find out the Gross Profit of an accounting year.

It includes the trading activities done by an industry during a financial year.

6. When do we have to prepare the previous year's 'trading account underinsurance?

The previous year's trading account is prepared to find out the last year gross profit to help the calculation of Gross Profit during the year in which fire accident occurred, to find out the stock on the date of fireaccident.

7. What is Gross ProfitRatio?

Gross Profit Ratio is a ratio which shows the relationship between the Gross Profit and NetSales.

Net Sales = Total Sales – Return inwards.

8. How do you calculate Gross ProfitRatio?

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

9. What is Memorandum TradingAccount?

The Memorandum Trading Account is similar to usual trading account. It is prepared from the begin date of accounting year and till the date of fire accident. It is not prepared as per double entry system of booking.

10. What is meant bySalvage?

The value of stock saved from the fire accident is called salvaged stock. Sometimes it is also referred as scrap value or realizable value of stock. The saved stock should be deducted from the stock of the date offire

FIRE INSURANCE CLAIMS

1.A fire occurred at the premises of a trader on 31.5.94 destroying a great part of his goods. His stock at 1.1.94 was Rs. 60,000. The value of stocks salvaged was Rs. 13,500. The gross profit on sales was 30% and sales amounted Rs. 1,53,000 from January to date of fire, while for the same period the purchase amounted to Rs. 1,03,500. Prepare statement of claim.

Memorandum of Trading Account For the period

Particulars	Amount	Amount	Particulars	Amount	Amount
To opening stock To Purchases To Gross profit (1,53,00 x 30/100)		60,000 1,03,500 45,900	By Sales By Stock on the date of fire (b/F)		1,53,000 56,400
		2,09,400			2,09,400

Statement of Claim

Particulars	Amount
Stock on the date of fire Less: Salvaged	56,400 13,500
Claim to be lodged	42,900

2. A fire occurred in the premises of a merchant on 15.6.89 and a considerable part of the stock was destroyed. The value of stock saved was Rs. 4,500. The books disclosed that on 1.4.89 the stock was valued at Rs. 36,750. The purchases to the date of the fire amounted to Rs. 1, 04,940 and the sales Rs. 1, 56,500. On investigation it was found that during the past five years the average profit on sales was 36%. Calculate the claim to be made.

Particulars	Amount	Amount	Particulars	Amount	Amount
To opening stock To Purchases To Gross profit (156,500x 36/100)		36,750 1,04,940 56,340	By Sales By Stock on the date of fire (b/F)		1,56,500 41,530
		1,98,030			1,98,030

Statement of Claim

Particulars	Amount
Stock on the date of fire Less: Salvaged stock	41,530 4,500
Claim to be lodged	37,030

3. A fire occurred on 31.12.83 in the premises of a firm. From the books which were saved from fire, it was ascertained that:

Sales from 1.1.83 to 31.12.83 12, 80,000
Purchases from 1.1.83 to 31.12.83 8, 40,000
Stock on hand 31.12.82 2, 36,000

Gross profit for the past five years had averaged at 35% on sales. The value of stock salvaged was agreed at Rs. 30,000. Draft a statement showing the amount of the claim there was no average clause

Particulars	Amount	Amount	Particulars	Amount	Amount
To opening stock To Purchases To Gross profit (12,80,000 x35 /100)		2,36,000 8,40,000 4,48,000	By Sales By Stock on the date of fire (b/F)		12,80,000 2,44,000
		15,24,000			15,24,000

Statement of Claim

Particulars	Amount
Stock on the date of fire Less: Salvaged stock	2,44,000 30,000
Claim to be lodged	2,14,000

4. A fire occurred on September 30, 2001 in the godown of Mr.Anand. From the following figures ascertain the claim to be lodged:

Stock on January 1, 2001 17,000
Purchase from January 1, 2001 to date of fire 1, 70,000
Wages and other manufacturing expenses 17,000
Sales from January 1, 2001 to date of fire 2, 00,000

The rate of gross profit is Rs.25% on cost. The stock salvaged was valued at Rs. 4,000.

Memorandum of Trading Account For the period 2001

Particulars	Amount	Amount	Particulars	Amount	Amount
To opening stock To Purchases To Wages & Manufacturing To Gross profit (2,00,000 x 25/125)		17,000 1,70,000 17,000 40,000	By Sales By Stock on the date of fire (b/F)		2,00,000 44,000
		2,44,000			2,44,000

Statement of Claim

Particulars	Amount
Stock on the date of fire Less: Salvaged stock	44,000 4,000
Claim to be lodged	40,000

5. A fire occurred on 1.9.93 in the godown of Mr.Ganesan. From the following particulars find out the claim to be lodged:

Stock on 1.1.93 25,300

Purchase from 1.1.93 to date of fire	50,400	
Sales from 1.1.93 to date of fire		1,56,000
Manufacturing expenses and wages	60,000	
Goods taken by Ganesan at cost		2,500
The rate of gross profit on cost is	30%	
Value of salvaged stock		3,600

6. Goodluck traders have taken out a fire policy of Rs.2,40,000 covering its stock-in-trade. A fire occurs on 31st March 2008 and stock was destroyed with the exception of the value of Rs.62,040. Following particulars are available from the books of account of the firm :

	Rs.	
Stock on 31st December 2007		90,000
Purchases to the date of fire	3,90,000	
Sales to the date of fire	2,70,000	
Commission paid to the purchase	2%	
Carriage paid on purchase	2,400	
Average gross profit on cost	50%	

The policy was subject to average clause. You are required to arrive at the (a) Total loss of stock and (b) Amount of claim to be made against the insurance company.

When Gross profit Ratio is not given

7. The premises of a merchant caught fire on 1.10.92 and his stock was damaged. The stock was fully insured. The merchant had made up his accounts to 31st December each year. The following information was available.

Stock on 31.12.91	26,544	
Stock on 31.12.90	19,228	
Purchase from1.1.92 to the date of fire		70,000
Purchase up to 31.12. 91	90,516	
Sales up to 31.12.91	1,04,000	
Sales from 1.1.92 to the date of fire	1,00,000	

Additional information:

1. In may 1992 goods costing Rs. 5,000 were given as free samples for and advertising purpose. No entry was made in the books.
2. During 1992, a clerk had misappropriated unrecorded cash sales Rs. 2,000
3. The rate of gross profit is constant
4. The stock salvaged was Rs. 1,500

From the above information calculate the amount of claim.

Trading Account for the period31.12.91

Particulars	Amount	Amount	Particulars	Amount	Amount
To opening stock To Purchases To Gross profit		19,228 90,516 20,800	By Sales By Closing Stock		1,04,000 26,544
		1,30,544			1,30,544

$$\text{Gross profit Ratio} = \frac{\text{Gross profit}}{\text{Sales}} \times 100$$

$$= \frac{20{,}800}{} \times 100 = 20\%$$

1,04,000

Memorandum of Trading Account For the period 1992

Particulars	Amount	Amount	Particulars	Amount	Amount
To opening stock To Purchases Less: Free sample To Gross profit (1,02,000 x 20/100)	 70,000 5,000	26,544 65,000 20,400	By Sales Add: Unrecorded sales By Stock on the date of fire (b/F)	1,00,000 2,000	 1,02,000 9,944
		1,11,944			1,11,944

Statement of Claim

Particulars	Amount
Stock on the date of fire Less: Salvaged stock	9,944 1,500
Claim to be lodged	8,444

8. Fire occurred in the premises of X Ltd. on 10.10.84. All stock were destroyed except to the extent of Rs. 6,200. From the following figures ascertain the loss suffered by the company.

Stock 1.1.83	36,000	
Purchases less returns (during 1983)	1,45,000	
Sales less returns (during 1983)		2,00,000
Stock 31.12.83		22,500
Purchases less returns during 1984 upto the date of fire		1,46,000
Sales less returns during 1984 up to the date of fire	1,89,000	

It was the practice at the firm to value stocks at cost less 10%. Early in 1984, prices were raised by 5%.

Trading Account for the period31.12.83

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening stock (36,000 x 100/90) To Purchases To Gross profit		40,000 1,45,000 40,000	By Sales By Closing Stock (22,500 x 100/90)		2,00,000 25,000
		2,25,000			2,25,000

90% = 36,000
100%= ?

Gross profit Ratio = $\frac{\text{Gross profit}}{\text{Sales}}$ x 100

= $\frac{40,000}{2,00,000}$ x100 = 20%

Price were raised in the year 1984 by 5%

$\frac{20 + 5}{100 + 5} = \frac{25}{105} \times 100 = 23.81\%$

Memorandum of Trading Account For the period 1984

Particulars	Amount	Amount	Particulars	Amount	Amount
To opening stock To Purchases To Gross profit (1,89,000x 25/105) or (1,89,000 x 23.81/100)		25,000 1,46,000 45,000	By Sales By Stock on the date of fire (b/F)		1,89,000 27,000
		2,16,000			2,16,000

Statement of Claim

Particulars	Amount
Stock on the date of fire Less: Salvaged stock	27,000 6,200
Claim to be lodged (or) loss	20,800

9. A Merchant's godown caught fire on Nov. 3 1992 at night causing serious damage to stock. The following information is obtained from the books and records salvaged.

Stock on 31.12.90	45,000
Stock on 31.12.91	50,000
Purchase from Jan. to Nov. 1992	4,40,000
Purchase during 1991	4,75,000
Sales during 1991	5,87,500
Sales from Jan. to Nov. 1992	4,00,000

Assuming that the rate of gross profit on sales has been the same in 1992 as in 1991, estimate the value of the stock in the godown at the time of fire.

9. A fire occurred on 15.10.89 in the godown of Mr.Ponnusamy. From the following particulars find out the loss of stock and claim to be lodged:

Stock on 1.1.88	30,600
Purchase during 1988	1,22,000
Sales during 1988	1,80,000
Stock as on 31.12.88	27,000
Purchase from 1.1.89 to 14.10.89	1,47,000
Sales from 1.1.89 to 14.10.89	1,50,000

The stocks were always valued at 90% of cost. The stock saved from fire was Rs. 18,000
The amount of policy was Rs. 63,000. There was an Average clause in the policy

Trading Account for the period31.12.88

Particulars	Amount	Amount	Particulars	Amount	Amount
To opening stock (30,600x100/90)		34,000	By Sales By Closing Stock		1,80,000 30,000

To Purchases To Gross profit		1,22,000 54,000	(27,000x 100/90) For 90%= We have 27,000 For100%= ?		
		2,10,000			2,10,000

$$\text{Gross profit Ratio} = \frac{\text{Gross profit}}{\text{Sales}} \times 100$$

$$= \frac{54{,}000}{1{,}80{,}000} \times 100 = 30\%$$

Memorandum of Trading Account For the period 1989

Particulars	Amount	Amount	Particulars	Amount	Amount
To opening stock (27,000x 100/90) To Purchases To Gross profit (1,50,000 x 30/100)		30,000 1,47,000 45,000	By Sales By Stock on the date of fire (b/F)		1,50,000 72,000
		2,22,000			2,22,000

Statement of Claim

Calculation of actual loss of stock

Particulars	Amount
Stock on the date of fire Less: Salvaged stock	72,000 18,000
Actual loss of stock	54,000

Calculation of claim under Average clause:

$$\text{Claim} = \frac{\text{Amount of policy}}{\text{Stock on date of fire}} \times \text{Actual loss of stock}$$

$$= \frac{63{,}000}{72{,}000} \times 54{,}000 = \text{Rs.}47,\ 250$$

A fire occurred in the premises of X Ltd., on 10-10-91. All stocks were destroyed except to the extent of Rs. 6,200. From the following figures, ascertain the loss of stock suffered by the company: Rs. Stock on 1-1-90 40,000 Purchases during 1990 1,45,000 Sales during 1990 2,00,000 Stock on 31-12-90 25,000 Purchases during 1991 upto the date of fire 1,52,200 Sales during 1991 upto date of fire 1,89,000

UNIT- 3 Single Entry Systems

Definition: Single Entry System, is the oldest and most straightforward method of keeping records of financial transactions, which is rarely prevalent these days. In this system, only one side of the transaction is recorded, because of the absence of any prescribed rules and so the records maintained are more or less incomplete.

In a nutshell, single entry system of bookkeeping lacks the duality concept and so the financial transactions are recorded only once and not in their two-fold aspects, as debit and credit.

Characteristics of Single Entry System

- Maintenance of Cash Book: Cash Book is prepared and maintained, in which both business and personal transactions are included.
- Personal Accounts: Only personal accounts are created and maintained, whereas the real and nominal accounts are not given due weight, in this system.

- Original Vouchers: Under this system, original vouchers play an important role, as they help in gathering information about the date of transaction, amount, parties, discount (if any) and so forth.
- Final Accounts: In Single Entry System, it is quite difficult to prepare final accounts, due to unavailability of nominal and real accounts. So, to prepare the financial statement, the available information is analysed and converted into a double entry system, by determining the missing figures, after that Trading and Profit & Loss Account is prepared. Further, the figures of assets and liabilities are calculated from the information at hand, but they are also estimates. Hence, the Statement of Affairs is prepared in place of the Balance Sheet.
- Profit or Loss: Profit earned or loss sustained is estimated, out of the information available and so exact profits is not ascertained.
- Suitability: The system is appropriate for small businesses, like sole proprietorship business and partnership firms, as they maintain records of cash and credit transactions only.

Types of Single Entry System

1. Pure Single Entry System: In this method, only the personal accounts are maintained and there is no information present, concerning the sales and purchases, cash in hand, and bank balance.
2. Simple Single Entry System: In a simple single entry system, cash book is maintained along with the personal accounts and these are maintained as per double entry system of bookkeeping. Cash received or paid, from/to business debtors or creditors are merely written on the bills issued or received.
3. Quasi Single Entry System: In this system, subsidiary books such as sales book, purchases book, bills receivable book and bills payable book are maintained in addition to cash book and personal accounts.

Single Entry System is simple and easy to maintain as it does not need any professional accountant to keep the records up to date. And so this system is quite helpful for small businesses and trades operated solely by individuals. Further, the system is quite economical.

Advantages of Single Entry System:

(i) Since this system is very simple, anyone can maintain it without any adequate knowledge of accounting.

(ii) Limited accounts are to be opened under this system since the transactions relating to personal accounts are recognised only and not the Real and Nominal accounts.

(iii) Since the number of books is limited, expenses related to the keeping of records are also very nominal.

(iv) In the case of accounting for an event, i.e., household, social and festival etc., it is very helpful.

Disadvantages of Single Entry System:

(i) Arithmetical accuracy of the books of account is not possible since the Trial Balance cannot be prepared under this system.

(ii) It is also not possible to ascertain the correct amount of profit or loss of the firm—i.e., results from operation—since the nominal accounts are missing under this system.

(iii) Similarly, Balance Sheet cannot be prepared since the real accounts are not recognised. Therefore, the real financial position cannot be known at the end of the accounting period.

(iv) As arithmetical accuracy is not possible, possibility of committing fraud or manipulation is greater in comparison with Double Entry System.

(v) Any statistical information relating to the business or the comparison between the two firms or the interim accounts etc.—which help the management to take decision or to formulate policy in future—is not possible under this system.

(vi) Outsiders (e.g., Income-tax authorities, Bank etc.) do not rely on this system.

The major differences between single entry system and double entry system are as follows −

Single entry system	Double entry system
• Tells about cash, debtors and creditors cash balances only. • Records transactions related to business only. • Incomplete system of recording the transactions. • Can easily record fraud transactions. • Hard to find errors. • Persons accounts and cash accounts are included. • Not accepted by taxation department. • Takes lot of time in calculation profit/loss.	• Tells about every business financial entity. • Records all effects of transactions. • Complete system of recording the transactions. • Difficult to record fraud transactions. • Easy to identify errors. • All accounts are considered. • Accepted by taxation department. • Easy to calculate profit/loss. • Suitable to all types of business.

Single entry system	Double entry system
• Suitable for small business. • Cost of implementation is not required. • Reconciliation of accounts is not possible. • Special knowledge is not required in maintaining books. • Trail balance can’t be prepared. • Not suitable for tax purpose • Difficult to prepare financial statement • Difficult to tell about financial position	• Cost of implementation is required. • Reconciliation of accounts is possible. • Special knowledge is required in maintaining books. • Trail balance can be prepared. • Suitable for tax purpose. • Easy to prepare financial statements. • Can easily tell about financial position.

1. Find out profit from the following data

Capital at the beginning of the year	8, 00,000
Drawing during the year	1, 80,000
Capital at the end of the year	9, 00,000
Capital introduced during the year	50,000

Statement of Profit

Closing capital Add: Drawings	9,00,000 1,80,000
 Less: Additional capital	10,80,000 50,000
 Less: Opening Capital	10,30,000 8,00,000
Profit	2,30,000

2. Vishnu maintains books on single entry system. He gives you the following information :
Capital on March 31, 2008 Rs. 11,400
Capital on March 31, 2009 Rs. 12,675
Drawings made during the period : April 2008 to March 2009 Rs. 3,600
Capital introduced on October 31, 2008 Rs.1,500
You are required to calculate the profit made by Vishnu.

Statement of Profit

Closing capital Add: Drawings	12,675 3,600
 Less: Additional capital	16,275 1,500
 Less: Opening Capital	14,775 11,400
Profit	3,375

3. Sharma commenced business on 1st January 1990 with capital of Rs. 20,000. He immediately bought furniture & fixtures for Rs. 4,000. On 30th June 1990, he borrowed Rs. 10,000 from his wife @ 9% p.a. (interest not yet paid) and introduced a further capital for his own accounting to Rs. 3,000. Sharma withdrew at the rate of Rs. 600p.m at the end of each month for house hold expenses. On 31st December 1990, his position was as follows:

Cash in hand Rs. 5,600; Sundry debtors Rs. 9,600; Stock Rs. 13,600; Bills receivable Rs. 3,200; Sundry creditors Rs. 1,000 and owing for rent Rs. 300. Furniture and fixtures to be depreciated by 10%.

Statement of Affairs as on 31.12.1990

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Sundry creditors	1,000	Cash in hand	5,600
Loan from Wife	10,000	Sundry debtors	9,600
Interest on Loan Outstanding		Stock	13,600
10,000x9/100x6x12	450	Bills Receivable	3,200
Rent outstanding	300	Furniture & Fixtures 4,000	
Capital at the end (B/F)	23,850	Less: Depreciation 400	3,600
	35,600		35,600

Statement of profit or Loss

Capital at the end Add: Drawings (600x 12)	23,850 7,200
 Less: Additional capital	31,050 3,000
 Less: Opening capital	28,050 20,000
Profit	8,050

3. Amitabh keeps his books under single entry system. Assets and liabilities on 31-12-93 and 31-12-94
stood as follows:

31-12-93 31-12-94

	(Rs.)	(Rs.)
Cash	10	2,000
Bank balance	990	10,000
Stock	7,000	10,000
Sundry debtors	15,000	20,000
Furniture	3,000	3,000
Sundry creditors	3,000	6,000

He introduced an additional capital of Rs. 3,000 during 1994. He withdrew Rs. 7,000 for his domestic purpose. Find out the profit for 1994.

Statement of Affairs as on 1.1.1994

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Sundry creditors	3,000	Cash in hand	10
Capital at the end (B/F)	23,000	Bank balance	990
		Stock	7,000
		Sundry debtors	15,000
		Furniture	3,000
	26,000		26,000

Statement of Affairs as on 31.12.1994

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Sundry creditors	6,000	Cash in hand	2,000
Capital at the end (B/F)	39,000	Bank balance	10,000
		Stock	10,000
		Sundry debtors	20,000
		Furniture	3,000
	45,000		45,000

Statement of profit or Loss

Capital at the end Add: Drawings	39,000 7,000
 Less: Additional capital	46,000 3,000
 Less: Opening capital	43,000 23,000
Profit	20,000

4. 'Z' has kept his books under single entry system. His position as on 31.3.04 and 31.3.05 was as follows.

	31.3.04 Rs.	31.3.05 Rs.
Cash in hand	1,000	1,500
Cash at bank	1,500	10,000
Stock	1,00,000	70,000
Debtors	42,500	85,000
Furniture	10,000	10,000

Machinery	75,000	75,000
Creditors	1,25,000	1,45,000

During the year 2004-05, he introduced Rs. 25,000 as additional capital and withdrew Rs. 5,000 per month. Depreciate furniture by 5% and machinery 10% per year. Ascertain profit for the year ended 31.3.2005 and prepare a balance sheet as on that date.

Conversion method

Total Debtors account

Particulars	Amount	Particulars	Amount
To Balance b/d To Bills receivable (dishonored) To Bank (cheque dishonored) To Freight To Interest on overdue To Cash (refund for return) To Credit sales(either given or balancing figure)		By Cash received (either given or balancing figure) By Bank (Cheque received) By Bills receivable By Discounts allowed By Return inwards or sales return By Bad debts By Transfer to creditors By Balance c/d(either given or balancing figure)	

Total Creditors account

To cash paid(either given or balancing figure) To Bank To Bills payable To Discounts received To Return out wards purchase returns To Transfer from debtors To Balance c/d(either given or balancing figure)		By balance b/d By Bills payable (dishonored) By cash (refund for returns) By credit purchase(either given or balancing figure)	

Bills Receivable A/c

To Balance b/d (either given or balancing figure) To Sundry Debtors (B/R received during the year) (either given or balancing figure)		By Cash By sundry debtors (B/R Dishonored) By Balance c/d(either given or balancing figure)	

Bills payable A/c

To Cash		By Balance b/d (either given or	

To sundry Creditors		balancing figure)	
(B/P Dishonored)		By Sundry Creditors (Bills	
To Balance c/d(either given or		accepted) (either given or	
balancing figure)		balancing figure)	

5. From the following details find out the credit purchases and total purchases:

	Rs.		Rs.
Cash purchases	29,000	Bills payable paid during the year	10,500
Purchase returns	1,500	Allowances from creditors	800
Creditors (Opening)	20,000	Bills payable dishonored	300
Creditors (Closing)	18,000	Cash paid to creditors	25,000

Total Creditors account

To cash paid(either given or	25,000	By balance b/d	20,000
balancing figure)		By Bills payable (dishonored)	300
To Bank	800	By cash (refund for returns)	-
To Bills payable	10,500	By credit purchase(either given or	35,500
To Discounts received	-	balancing figure)	
To Return out wards purchase	1,500		
returns	-		
To Transfer from debtors	18,000		
To Balance c/d(either given or			
balancing figure)			
	55,800		55,800

6. Ascertain the credit sales by preparing total debtors account from the following information:
Rs.

Debtors as at 31.3.2002	28,000	Debtors as at 31.3.2001	24,000
Sales returns	1,000	Cash received from Debtors	74,800
Bills receivable drawn	26,000	Discount allowed	1,000
Bad debts	1,000	Cheque received from debtors	10,000
Bills receivable dishonoured	4,000	Cheques dishonoured	6,000

Total Debtors account

Particulars	Amount	Particulars	Amount
To Balance b/d	24,000	By Cash received	74,800
To Bills receivable (dishonored)	4,000	By Bank (Cheque received)	10,000
To Bank (cheque dishonored)	6,000	By Bills receivable	26,000
To Freight	-	By Discounts allowed	1,000
To Interest on overdue	-	By Return inwards or sales return	1,000

To Cash (refund for return) To Credit sales(b/f)	- 1,07,800	By Bad debts By Transfer to creditors By Balance c/d	1,000 - 28,000
	1,41,800		1,41,800

7. From the following particulars, prepare Bills receivable account and Total debtors account for the year ended 31.12.1992:

Total Debtors on 1-1-1992 36,000 Bills Receivable on 1-1-1992 10,000
Sales (including cash sales Rs. 20,000) made during the year 3,00,000
Cash received from debtors 2,00,000 Bills receivable on 31-12- 1992 15,000
Returns inwards 15,000 Discount allowed to debtors 10,000
Bad debts written off 3,000 Bills receivable endorsed to creditors 10,000
Cash received on bills matured 15,000

Bills Receivable A/c

Particulars	Amount	Particulars	Amount
To Balance b/d To Sundry Debtors (B/R received during the year) B/F	10,000 30,000	By Cash (on presentation of bills) By sundry debtors (B/R Dishonored) By Creditors (B/R Transferred to CRS) By Balance c/d	15,000 - 10,000 15,000
	40,000		40,000

Total Debtors account

Particulars	Amount	Particulars	Amount
To Balance b/d To Bills receivable (dishonored) To Bank (cheque dishonored) To Freight To Interest on overdue To Cash (refund for return) To Credit sales(3,00000-20,000)	36,000 - - - - - 2,80,000	By Cash received By Bank (Cheque received) By Bills receivable By Discounts allowed By Return inwards or sales return By Bad debts By Transfer to creditors By Balance c/d (B/f)	2,00,000 - 30,000 10,000 15,000 3,000 - 58,000
	3,16,000		3,16,000

8. From the following details find out the credit purchases and total purchases:

	Rs.		Rs.
Cash purchases	29,000	Bills payable paid during the year	10,500
Bills payable (Opening)	7,500	Bills payable (Closing)	2,500
Purchase returns	1,500	Allowances from creditors	800
Creditors (Opening)	20,000	Bills payable dishonored	300
Creditors (Closing)	18,000	Cash paid to creditors	25,000

Bills payable Account

To Cash To sundry Creditors (B/P Dishonored) To Balance c/d	10,500 300 2,500	By Balance b/d By Sundry Creditors(B/F)	7,500 5,800

	13,300		13,300

Sundry Creditors Account

To cash paid To Bank To Bills payable To Discounts received To Return out wards purchase returns To Transfer from debtors To Allowances from creditors To Balance c/d	25,000 - 5,800 - - 1,500 - 800 18,000	By balance b/d By Bills payable (dishonored) By cash (refund for returns) By credit purchase (B/F)	20,000 300 - 30,800
	51,100		51,100

9. From the following particulars prepare (a) Total Debtors A/c (b) Total creditors A/c (c) Bills receivable A/c (d) Bills payable A/c.

	1.1.92	31.1.92
Total debtors	40,000	70,000
Total creditors	15,000	15,000
Total bills receivable	16,000	16,000
Total bills payable	6,000	8,000

Transaction during the year:

Cash received from debtors	30,000	Discount allowed	6,000
Bad debts written off	3,000	Returns inwards	5,000
Cash sales	16,000	Cash purchases	7,000
Cash received against B/R	10,000	Cash paid against B/P	3,000
Cash paid to suppliers	10,000		

Including a payment of Rs. 1000 for purchasing machine)

Discount received from suppliers	600	Return outward	1,500
Bills payable dishonoured	600		

Total Creditors account

To cash paid 10,000- 1000 To Bank (Cheque paid) To Bills payable during the year To Discounts received To Return out wards purchase returns To Transfer from debtors To Balance c/d	9,000 - 5,600 600 1,500 - 15,000	By balance b/d By Bills payable (dishonored) By cash (refund for returns) By credit purchase (B/F)	15,000 600 - 16,100
	31,700		31,700

Bill Receivables Accounts

Particulars	Amount	Particulars	Amount
To balance b/d	16,000	By Cash	10,000

To Sundry Debtors (B/F)	10,000	By Sundry debtors (Bill dishonored) By Transfer to S. Creditors By Balance c/d	- - 16,000
	26,000		26,000

Bills Payable Account

To Cash To sundry Creditors (B/P Dishonored) To Balance c/d	3,000 600 8,000	By Balance b/d By Sundry Creditors (B/F)	6,000 5,600
	11,600		11,600

Total Sundry Debtors A/C

Particulars	Amount	Particulars	Amount
To Balance b/d To Bills receivable (dishonored) To Bank (cheque dishonored) To Freight To Interest on overdue To Cash (refund for return) To Credit sales(B/F)	40,000 - - - - - 84,000	By Cash received By Bank (Cheque received) By Bills receivable during the year By Discounts allowed By Return inwards or sales return By Bad debts By Transfer to creditors By Balance c/d(either given or balancing figure)	30,000 - 10,000 6,000 5,000 3,000 - 70,000
	1,24,000		1,24,000

Total Creditors account

To cash paid 10,000- 1000 To Bank (Cheque paid) To Bills payable during the year To Discounts received To Return out wards purchase returns To Transfer from debtors To Balance c/d	9,000 - 5,600 600 1,500 - 15,000	By balance b/d By Bills payable (dishonored) By cash (refund for returns) By credit purchase (B/F)	15,000 600 - 16,100
	31,700		31,700

10. From the following particulars extracted from the books of a trader kept under the single entry system, you are required to find out the figures for credit sales and credit purchases by showing the total debtors account and total creditors account.
Show also the bills receivable account and bills payable account.

	Rs.		RS
		Returns to suppliers	1,330

Total debtors on 1.1.2008	57,200	Bad debts written off	3,540
Bills receivable on 1.1.2008	4,000	Cash received against bills receivable	14,200
Total creditors on 1.1.2008	26,400	Payments made against bills payable	7,000
Bills payable on 1.1.2008	2,500	Bills receivable dishonored	1,100
Cash paid to creditors	70,250	Bad debts previously written off now recovered	1,000
Discount allowed by suppliers	2,650,	Cash sales during the year	15,800
Cash received from customers	1, 35,400	Cash purchases during the year	12,300
Discount allowed to customers	4,200	Total debtors on 31.12.2008	55,600
Returns from customers	1,625	Bills receivable on 31.12.2008	1,000
Total creditors on 31.12.2008	28,400		
Bills payable on 31.12.2008	3,000		

Total Sundry Debtors A/C

Particulars	Amount	Particulars	Amount
To Balance b/d To Bills receivable (dishonored) To Bank (cheque dishonored) To Freight To Interest on overdue To Cash (refund for return) To Credit sales(B/F)		By Cash received By Bank (Cheque received) By Bills receivable during the year By Discounts allowed By Return inwards or sales return By Bad debts By Transfer to creditors By Balance c/d(either given or balancing figure)	

Total Creditors account

To cash paid 10,000- 1000 To Bank (Cheque paid) To Bills payable during the year To Discounts received To Return out wards purchase returns To Transfer from debtors To Balance c/d	9,000 - 5,600 600 1,500 - 15,000	By balance b/d By Bills payable (dishonored) By cash (refund for returns) By credit purchase (B/F)	15,000 600 - 16,100
	31,700		31,700

Bill Receivables Accounts

Particulars	Amount	Particulars	Amount
To balance b/d To Sundry Debtors (B/F)	4,000 12,300	By Cash By Sundry debtors (Bill dishonored) By Balance c/d	14,200 1,100 1,000
	16,300		16,300

Bills Payable Account

To Cash	7,000	By Balance b/d	2,500

To sundry Creditors (B/P Dishonored) To Balance c/d	- 3,000	By Sundry Creditors (B/F)	7,500
	10,000		10,000

11. Mr. X keeps his books under single entry system. From the following, prepare Trading and P&L and Balance sheet as on 31.3.94 Cash book analysis shows the following:

Interest charges	100	Balance at bank as on 31.3.94	425
Personal withdrawals	2,000	Cash in hand as on 31.3.94	75
Staff Salaries	8,500	Received from Debtors	25,000
Other business expenses	7,500	Cash Sales	15,000
Payment to creditors	15,000		

	31.3.93	31.3.94
Stock on hand	9,000	10,220
Creditors	8,000	5,500
Debtors	22,000	30,000
Furniture	1,000	1,000
Office premises	15,000	15,000

Provide 5% Interest on X's Capital balance as on 1-4-93. Provide Rs.1, 500 for doubtful debts, 5% depreciation on all fixed assets. 5% group incentive commission to staff has to be provided for on net profit after meeting all expenses and the commission.

BALANCE SHEET AS ON 31.3.94

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Capital 32,600 Add: Net profit 15,895 48,495 Add: Int. on Cap 1,630 50,125 Less: Drawings 2,000 Creditors	 48,125		

TRADING AND PROFIT & LOSS ACCOUNT

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Opening stock To Purchases To Gross profit c/d (B/F)	9,000 12,500 36,720	By Sales Credit: 33,000 Cash: 15,000 By Closing stock	48,000 10,220
	58,220		58,220
To interest charges To Staff salaries To Other business expenses To Interest on capital	100 8,500 7,500	By Gross profit b/d	36,720

(32,600x 5/100) To Prov. For doubtful debts To Depreciation Furniture (1000x5/100) 50 Office premises (15000x5/100) 750 To Commission to staff (16,690x5/105) To Net profit (B/F)	1,630 1,500 800 795 15,895		
	36,720		36,720

Total Debtors A/C

Particulars	Amount	Particulars	Amount
To balance b/d To Credit sales (B/F)	22,000 33,000	By Cash By Balance c/d	25,000 30,000
	55,000		55,000

Total Creditors A/C

Particulars	Amount	Particulars	Amount
To cash To Balance c/d	15,000 5,500	By Balance b/d Credit purchases	8,000 12,500
	20,500		20,500

Statement of affairs as on 1.4.93

Liabilities	Amount	Assets	Amount
Bank O.D Creditors Capital (B/F)	6,400 8,000 32,600	Stock Debtors Furniture Office premises	9,000 22,000 1,000 15,000
	47,000		47,000

Working Notes

Cash Book

Particulars	Amount	Particulars	Amount
 To Debtors To Sales	 25,000 15,000	By Balance b/d (B/F) (bank o.d) By Interest charges By Drawings By Staff's Salaries By Other business expenses By Creditors By Balance C/d Bank balance 425 Cash in hand 75	6,400 100 2,000 8,500 7,500 15,000 500
	40,000		40,000

11. Rathinam keeps his books under single entry system. From the following information prepare trading and P & L account and Balance sheet as on 31-12-91.

Cash balance as on 1-1-91 Rs. 4,250

Assets and Liabilities

	31.12.1990 (Rs.)	31.12.1991 (Rs.)
Debtors	16,300	21,250
Stock	8,330	11,220
Furniture	850	850
Creditors	5,100	3,780

Other transactions:

	Rs.		Rs.
Cash received from debtors	52,680	Cash sales	1,275
Cash paid to creditors	37,400	Cash purchases	4,250
Salaries	10,200	Discount received	595
Rent and taxes	1,275	Discount allowed	255
Other expenses	1,530	Returns inwards	850
Drawings	2,550	Return outwards	680
Additional Capital	1,700	Bad debts	170

Adjustments: Write off depreciation of 5% on furniture. Create a reserve of 1% on debtors for doubtful debt

12. Mr. Jaya keeps his records under Single entry system. From the following prepare Trading and P & L Account and Balance sheet as on 31.3.91.

Cash book analysis shows the following:

	Rs.		Rs.
Interest charges	200	Cash sales	30,000
Drawings	4,000	Receipt from debtors	50,000
Staff salaries	17,000	Balance at Bank as on 31.3.91	4,850
Other business expenses	15,800	Cash in hand as on 31.3.91	150
Payment to creditors	30,000		

Further details available are:

	Rs.	Rs.
Stock on hand	18,000	20,440
Creditors	16,000	11,000
Debtors	44,000	60,000
Furniture	2,000	2,000
Office premises	30,000	30,000

Provide 5% interest on Jaya's capital balance as on 1.4.90. Provide Rs. 3,000 for doubtful debts, 5%depreciation on all fixed assets.

Balance sheet as on 31.3.91

Liabilities	Amount	Assets	Amount
Creditors	11,000	Cash in hand	150
Capitals 70,000 Add: Net profit		Cash at bank	4,850
		Stock	20,440
		Debtors	

32,340 1,02,340 Add: In on capital 3,500 1,05,840 Less: Drawings 4,000	1,01,840	60,000 Less: Doubtful debts 3,000	57,000
		Furniture 2,000 Less: Depreciation 100	1,900
		Premises 30,000 Less: Depreciation 1,500	28,500
	1,12,840		1,12,840

TRADING AND PROFIT AND LOSS ACCOUNT

Particulars	Amount	Particulars	Amount
To Opening stock To Purchases To Gross profit (B/F)	18,000 25,000 73,440	By sales Credit 66,000 Cash 30,000 By Closing stock	 96,000 20,440
	1,16,440		1,16,440
To Interest To Salaries To Other expenses To Interest on capital 70,000 x5/100 To Doubtful debts To Depreciation Fur 2000x5/100 Pre 30,000x5/100 To Net Profit	200 17,000 15,800 3,500 3,000 100 1,500 32,340	To Gross profit	73,440
	73,440		73,440

Statement of affairs as on 1.4.90

Liabilities	Amount	Assets	Amount
Creditors	16,000	Stock	18,000
Bank overdraft	8,000	Debtors	44,000
Capital (B/F)	70,000	Furniture	2,000
		Office premises	30,000
	94,000		94,000

Total Debtors A/C

Particulars	Amount	Particulars	Amount
To balance b/d	44,000	By Cash	50,000

To Credit sales (B/F)	66,000	By Balance c/d	60,000
	1,10,000		1,10,000

Total Creditors A/C

Particulars	Amount	Particulars	Amount
To cash To Balance c/d	30,000 11,000	By Balance b/d By Credit purchases (B/F)	16,000 25,000
	41,000		41,000

Dr. CASH BOOK Cr.

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Sales	30,000	By Balance b/d O/D (B/F)	8,000
To Debtors	50,000	By Interest charges	200
		By Drawings	4,000
		By Staff salaries	17,000
		By Other business expenses	15,800
		By Creditors	30,000
		By Balance C/d Bank Cash in hand	4,850 150
	80,000		

UNIT- 4 Rectification of errors

Error of Totaling or casting

1. Rectify the following errors.
   a) Purchases Book is over cast by Rs. 300(for the month of March)
   b) Sales Book has been under cast by Rs. 200.
   c) Purchase Returns Book has been over cast by Rs. 75
   d) Sales Returns Book has been under cast by Rs. 50

Explanation

Sl. No.	Nature of mistake	Effect of mistake	Rectification
a	Over cost of Purchase book	Excess Debit	Credit the purchase book
b	Under casting of sales book	Under Credit	Credit the Sales book
c	Over casting of Purchase returns book	Excess Credit	Debit the Purchase returns book
d	Under casting of Sales returns book	Under debit	Debit the Sales returns book

Rectification:
(a) Credit the purchase book with Rs. 300.
(b) Credit the Sales book with Rs. 200.
(c) Debit the Purchase returns book with Rs. 75.
(d) Debit the Sales returns book with Rs.50.

Error of carry forward
2. Rectify the following errors.

a) Purchase book is carried forward Rs. 350 less.
b) Sales book total is carried forward Rs. 500 more.
c) A total of Rs. 758 in the purchases book has been carried forward as Rs. 857.
d) The total of the sales book Rs. 755 on page 20 was carried forward to page 21 as Rs.557
e) Purchase return book was carried forward as Rs. 5,120 instead of Rs. 1,520

Sl. No.	Nature of mistake	Effect of mistake	Rectification
a	Carrying forward lower amount in purchase book	Under debit	Debit the purchase book
b	Carrying forward higher amount in sales book	Excess Credit	Debit the sales book
c	Carrying forward higher amount in Purchase book	Excess Debit	Credit the purchase book
d	Carrying forward lower amount in Sales book	Under credit	Credit the sales book
	Carrying forward higher amount in Purchase return book	Excess Credit	Debit the Purchase return book

Rectification:

a) Debit the purchase book with Rs. 350
b) Debit the sales book with Rs. 500
c) Credit the purchase book with Rs. 99
d) Credit the sales book with Rs. 198
e) Debit the Purchase return book with Rs. 3,600

Error of posting

3. Rectify the following

a) Purchase from Akila for Rs. 1,500 has been posted to the debit side of her account.
b) Sales to Vijay for Rs.1, 520 have been posted to his credit as Rs. 1,250.
c) Purchase from Chandra for Rs. 750 has been omitted to be posted to the personal A/C
d) Sales to Kandan for Rs. 780 has been posted to his account as Rs. 870

Answer:

Rectification:

a) Credit Akils's a/c with Rs. 3,000
b) Debit Vijay a/c with Rs. 2,770
c) Post Rs. 750 to the Credit of Chandra a/c
d) Credit the kandan a/c with Rs. 90

One sided error

4. Rectify the following error in the books of Kamal & co

a) The total of the purchases book has been under cast by Rs. 300.
b) A payment of Rs. 1,500 for salaries (to Sundar) has been posted twice to salaries account.
c) The total of bills receivable book Rs. 1,000 has been posted to the credit of bills receivable account.
d) The returns inward book has been under cast by Rs. 75.
e) A sum of Rs. 400 written off as depreciation on machinery has not been credited to the machinery account.
f) Discount allowed to RamyaRs. 125 has not been entered into discount column of the cash book but it has been posted to his personal account.
g) An amount of Rs. 252 for a credit sale to Harish, although correctly entered in the sales book, has been posted as Rs. 225.

Rectification:

a. Debit the purchase book with Rs. 300
b. Credit the salaries a/c with Rs. 1,500
c. Debit Bills receivable a/c with Rs.2,000
d. Debit the Return inwards book with Rs. 75
e. Post Rs.400 to the credit side of Machinery a/c
f. Debit the Discount allowed with Rs. 125
g. Credit the sales book with Rs. 27

5. Rectify the following errors.

a) Sales to Sridhar Rs. 152, posted to his account as Rs.125.
b) Purchased goods from ManoharRs. 550, credited as Rs. 505
c) Received bills receivable from SeenuRs. 1,000 posted as Rs. 100.
d) Purchased furniture from Raghu Rs. 404 on credit debited as Rs. 440.
e) Discount allowed Rs. 64 to Anbu credited to his account as Rs. 46.
f) Discount received Rs. 37 from Babu posted to his account as Rs. 39.
g) Purchased furniture on cash for Rs. Rs. 2,000 was not posted.

6. Rectify the following error:

i. Sales to X Rs. 6,250 were recorded as Rs. 5,125.
ii. Sales to X Rs. 5,100 were recorded as Rs. 6,000
iii. Rent paid Rs. 6,375 was recorded in the cash book as Rs. 6,260.
iv. Sales to XRs. 10,000 posted to Y's account.
v. Sales to A Rs. 10,000 debited to B's account.

7. Rectify the following errors:

a) Sold old machinery for Rs. 825 passed through day book.
b) Rs. 1,100 paid as salary to manager has been debited to his personal a/c
c) Rs. 2,750 spent for repairs of machinery has been posted to machinery a/c
d) Stock worth Rs. 1,375 purchased from Azar have been omitted to be recorded in the books.
e) A machinery costing Rs. 14,300 has been debited to purchase a/c
f) Purchase old furniture for Rs. 4,000 wrongly debited to purchase a/c
g) Sold machinery for Rs. 6,000 but wrongly credited to sales a/c

8. Rectify the following errors:

a. A cheque for Rs. 750 received from Laxman was credited to the account of Ram and debited incorrectly to cash account.
b. A sum of Rs. 1,000 drawn by proprietor for personal use was debited to travelling expenses a/c
c. A sale for old land for Rs. 7,000 had been credited to sales a/c
d. Rs. 10,000 paid as rent to the landlord was debited to landlord's personal a/c
e. Stock worth Rs. 2,500 taken away by the proprietor had been omitted to be recorded in the books.

9. Rectify the following errors
Sales book was overcast by Rs. 40

Purchased furniture Rs. 600 was passed through purchase book and from there, furniture account was posted as Rs.60
Sold goods to rajanRs. 11 was posted as Rs. 110
Purchase book overcast by Rs. 16
Purchase returns book was carried forward as Rs.24 instead of Rs. 22
Sold goods Rs.40 entered in the sales as Rs 400
Show suspense account. Pass necessary journal entries also.

Rectifying Entry

Particulars	Debit	Credit
Sales A/C Dr To Suspense A/c (Over cast of sales book rectified)	40	40
Furniture a/c Dr To Purchase a/c (Wrong recording of Furniture in purchase book now rectified)	600	600
Suspense a/c To Furniture a/c (Under posting of furniture a/c noe rectified by Rs. 540)	540	540
Suspense a/c To Rajan a/c (Under posting now rectified by Rs. 99)	99	99
Suspense a/c To Purchase a/c (Over casting of purchase book now rectified)	16	16
Purchase return a/c Dr. To Suspense a/c (Carrying forward error now rectified)	2	2
Sales a/c Dr To Customer a/c (Entry in the sales book by excess amount now rectified)	360	360

Dr. Suspense A/c Cr.

Particulars	Amount	Particulars	Amount
To furniture To Rajan a/c To Prchase a/c	540 99 16	By Sales By Purchase Return By Balance difference in trial balance	40 2 613
	655		655

10. . Rectify the following errors by using suspense account.
Purchase book overcast by Rs. 5,000
Purchase returns book was under cast by Rs. 200
Sold goods to raja was not posted to his account Rs. 110
Sales book was undercast by Rs. 665

10. A book keeper failed to balance his trial balance, the credit side exceeding the debit side by Rs. 1750. The amount was entered in a suspense account. Later the following errors were discovered

1. Goods worth Rs 6200 sold to rahim were correctly entered in the sales book but posted to rahim's account as Rs. 2600
2. A Credit balance of Rs. 7550 of rent receivable account was shown as Rs. 5,700
3. A total of return outward book Rs 2000 was not posted to ledger
4. Goods worth Rs. 1000 purchased from ravi were wrogly entered in the sales book the a/c of ravi a/c correctly credited
5. The sales book was under cast by Rs. 1000
6. The total of the credit side of David's a/c was over cast by 1000

Give journal entry and prepare suspense a/c

Particulars	Debit	Credit
Rahim a/c Dr. To Suspense a/c (Being sold to rahimRs. 6200 wrongly posted as 2,600 now rectified with by Rs	3,600	 3,600
Suspense a/c Dr. To Rent receivable a/c (Credit balance of Rs. 7550 of rent receivable account was shown as Rs. 5,700 now retified)	1,850	 1,850
Suspense a/c Dr. To Return outwards a/c (Being A total of return outward book Rs 2000 was not posted to ledger now rectified)	2000	 2000
Purchase a/c Dr Sales a/c Dr. To Suspense a/c (Goods worth Rs. 1000 purchased from ravi were wrongly entered in the sales book the a/c of ravi a/c correctly credited now rectified)	1000 1000	 2000
Suspense a/c Dr. To sales a/c (The sales book was under cast by Rs. 1000 now rectified)	1000	 1000
David a/c Dr. To suspense a/c (The total of the credit side of David's a/c was over cast by 1000 now rectified)	1000	 1000

Suspense A/C

Particulars	Amount	Particulars	Amount
To Rent receivable	1850	By Rahim a/c	3,600
To Return outwards	2000	By Purchase a/c	1000

To sales To Difference in Trial balance	1000 1,750	By Sales a/c By Davida/c	1000 1000
	6,600		6,600

RECTIFICATIONS OF ERRORS

Due to the imperfection of human beings, it is inevitable that errors would exist in the accounting records. Although it may be difficult to eliminate errors completed, however they can be reduced to the barest minimum. To reduce errors in accounting records, what should be done, among other measures, is to engage the services of well trained personnel to maintain accounting records.

Types of Book-keeping Errors

There are two types of book-keeping errors, namely:

(a) errors that do not affect the agreement of the Trial Balance; and

(b) errors that affect the agreement of the Trial Balance.

I. Errors Not Affecting the Agreement of the Trial Balance

These are errors that despite the existence, the trial balance would still agree. They consist of the following:

Error of Original Entry

This is an error in which a wrong figure (amount) is used to observe correct double- entry. For example, a sum of N25, 000 received from a Debtor may be written as N52, 000

Which is subsequently debited to the cash book and credited to the Debtor's account?

This example is an error of transposition.

Error of Complete Omission

This is an error involving failure to post a transaction completely into the relevant accounts,that is, no account is debited and no account credited. This may be due to the loss of the source document. For example, a purchase invoice may be misplaced as a result of which it was notrecorded in the purchases day book causing the transaction not to be debited to purchases accountnor credited to the supplier's account.

Error of Principle

This is an error whereby a transaction is posted to the wrong class of accounts. For example, the cost of office furniture may be wrongly debited to office expenses account (an account belonging to the class of nominal accounts) instead of office furniture account (an account belonging to the class of real accounts).

Error of Commission

This is an error involving the posting of a transaction to a wrong account within correct class of accounts. For example, payment to a creditor named Auwal may be wrongly debited tothe account of another creditor named Awwal. Both names are almost identical in spellingand both accounts, of course, belong to the class of Creditors accounts.

Error of Complete Reversal of Entry

This is an error involving the complete reversal of the normal double-entry for a transaction. For example the payment by cheque for salaries may be wrongly debited to
bank account, as well as, wrongly credited to salaries account.

Compensating Errors

This is a situation in which errors occurred in such a way that by coincidence they Cancel one another. For example, the under cast of the debit side of cash book by, say N25, 500 would be cancelled out if, sales account is understated by the same amount, i.e. N25, 500.

II. Errors Affecting the Agreement of the Trial Balance

These are errors the existence of which would cause the Trial balance not to agree. They consist of the following:

Error of Over or Under Cast

This is an error involving wrong addition of figures. For example if the sales day bookis wrong casted, the total of credit sales posted to the credit side of sales accounts in the ledger will be greater than or less than the actual figure, thereby affecting the agreement of the Trial Balance.

Error of partial reversal of entry (Error of Misplacement)

This is an error involving reversal of one leg of the double- entry for a transaction. For example, the double-entry for the payment of wages in cash is: debit wages account, credit cash account. If wages account is correctly debited but cash account is also debited, thisamounts to an error of partial reversal of entry — the reversal of the credit entry of the cash account. This error always results in the two legs of a double-entry appearing on the same side,either both entries will be on the credit side or both on the debit side, as in the case of this example.

To correct this error, the amount involved would be doubled, and the correct entry observed in the account in which the entry was reserved.

Error of Omission or Misstatement of Old Account Balance

This is the omission or misstatement of old account(s) balances, i.e. balance b/d from the previous period, thereby leading to less than the correct amount in the accountand consequently affecting the agreement of the Trial Balance.

Error of Partial Omission

This is an error whereby one aspect of the double-entry for a transaction is posted without posting the corresponding entry. For example, where rents is paid in cash, and rent account was credited but cash account entry was omitted, leading to one leg in, one leg out. This type of error will affect the agreement of the trial balance.

Error of Omitting Journal Totals

If the totals in the journals (purchases, sales, return outwards or return inwards) are notPosted to the relevant accounts, the balancing figures in the affected accounts would be wrong, resulting in the disagreement of the trial balance. For example if the total sales from the sales journal is N55, 000 and that has not been posted to sales account, the sales account figure will be less by the same amount, thereby leading to the disagreement of the Trial Balance.

Error of Extraction

This is an error which results, as book-keepers extract (draw) trial balance fromthe ledger account balances. The balances may be correct but, but on extracting them to the trial balance, error may be committed. For example cash account balance of N35, 000 wastaken to the Trial Balance as but N53, 000. This error would cause the debit side of the trial balanceto be greater than the credit side. Extraction error is usually an error of transposition leading to overcast or under cast of the amount involved.

Error of Slide

Error of slide mostly results to overcast or under cast. For example crediting a supplier's account with N54, 000 instead of N45,000 is an error of slide or specifically error of overcast and debiting machinery account with N26,000 instead of N62,000 is an error of slide or specifically error of under cast. These types of errors affect the agreement of the Trial Balance.

Error of Misplacing Ledger Balance

After balancing off ledger accounts, the balances are taken to the relevant sides of trial Balance. While taking the balances to the trial balance, the book-keeper might recorda debit balance on the credit column of the trial balance and vice versa. For example sales balance of N7, 000 might be recorded on the debit column instead of the credit column of the Trial Balance.

Suspense Account

When a Trial balance does not balance and there is no time or it is inconvenient toimmediately locate and correct the errors because the final accounts are urgently required, the Trial balance can be made to balance by inserting the balancing figure and describing it as Suspense Account. In other words, a Suspense Account is an account created in order to make a disagreed trial balance agree, by showing the difference in the disagreed trial balance. For example, if the total of the debit balances is greater than the total of the credit balances, a suspense account is to be created and credited with the difference in order to 'force the trialBalance to agree'.If the Suspense account balance is a debit, it shall be classified as a current asset in thebalance sheet while it shall be classified as a current liability if it is a credit balance. Suspenseaccount must however not be carried in the books for an unreasonable length of time. The creation of suspense account is just a temporary measure taken by a bookkeeper pending the discovery of the mistake(s) or error(s) that led to the disagreement in the trial balance. As soon as the book-keeping errors causing the disagreement of the trial balance totals are discovered and corrected, the suspense account would automatically close itself. In other words, the only way Suspense Account can be eliminated is to locate and correct the errors that necessitated its creation in the first place.

In closing the suspense account all the errors whose second entries are not known are to be recorded in it, debit or credit side. The errors that are corrected through suspense accounts are errors affecting the agreement of the Trial Balance. As all the errors are corrected, the two sides of the account, inclusive of the sundry error, would be equal, thereby closing the Suspense Account.Suspense account is not relevant while correcting book-keeping errors that do not affectthe agreement of the trial balance. It is however, necessary while correcting errors

affecting the agreement of the trial balance. This is because, in correcting those errors, it would be clear as to where the first entry will go but, it would not be clear as to where the second entry will go and, for that reason, suspense account is to stand for the unknown account, receiving the
second entry.

Entries Required to Correct Errors

As mentioned above, with respect to the first type of errors (i.e. those that do not affectthe agreement of the Trial balance), they do not necessitate the creation of Suspense Accountbecause they do not cause the Trial balance not to balance. For this reason, the double- entries needed to correct these errors are not passed through the Suspense Account.On the other hand, the second types of errors cause the Trial balance not to agree and therefore necessitate the creation of Suspense Account. Therefore, double-entries made to correct such errors are passed through Suspense Account so that after all such errors have been corrected, the Suspense Account balance disappears.

Correction of Errors after Final Accounts Had Been Drawn Up

Where final accounts had already been prepared before effecting correction of errors, it would be necessary, in addition to the entries to correct the errors, to;

(a) reverse the values of the balance sheet items affected by the errors; and

(b) recalculate the net profit obtained in the Profit and Loss Account.

BANK RECONCILIATION STATEMENT

In modern times, nearly all firms maintain current account with banks for their operations, sums of money, cash and cheques received by, or on behalf of, the firm are paid into the bank account. Conversely, payments are made from the bank account, usually by way of cheques issued by the firm, or by some other means (e.g electronic transfer).

The firm maintains records of receipt s into and payments out of the bank account in a cash book (bank column). From time to time or as often as required by the account holder, detail of the
transactions on the bank account is sent to the account holder in a document known as bank statement.

Bank statement refers to a report from the bank (on regular interval or on demand) showing the
activity in a entity's account (company, sole trader etc). The statement include sthedeposits received by the bank, cheque paid by the bank, services charge and other amounts transferred into and out of the account.

In the books of a business, funds paid into and out of the bank are entered into the bank columns of the cash book. If all items entered in the cash book were the same as those entered in the records held by the bank, the balance on the business bank account as shown in the cash book and the balance on the account as shown by the bank's records would be the same.

Unfortunately, it is not usually that simple. This is because there may be items paid into or out of the

Business bank account which have not been recorded in the cash book. And there may be items entered in the cash book that have not yet been entered in the bank's records of the account. To see any of these things have happened, the cash book entries need to be compared to the record of the account held by the bank and send in form of the bank statement. Note that, the bank column of the cash book and bank statement show the same transactions on opposite sides. Cheques and cash paid into the bank account are debited to the cash book. The bank records the same amounts on the credit side of the bank statement. Conversely, cheques paid out of the bank account are credited to the cash book while the bank records the same cheque on the debit side of the bank statement.
If all items have been accurately and promptly recorded in both the cash book and the bank statement, both would show the same balance but, of course, on opposite sides. In such a case, there would be no need for reconciliation. In reality, however, the cash book balance at any given date is not usually the same as the bank statement balance at the same date. This would make reconciliation necessary. The statement reconciling the cash book balance with the bank statement balance is known as Bank Reconciliation Statement.

Cash Book (Bank Column) and Bank Statement

The account holder posts receipts to the debit side of the cash book. These are the same items that appear on the credit side of the bank statement, while credits posted to the cash book appear on the debit side of the bank statement. Cash at bank is indicated in the cash book as a debit balance but as a credit balance on the bank statement. Conversely, bank overdraft balance is indicated on the cash book as a credit balance but as a debit balance on the bank statement. This is because the customer's account is seen as a liability account in the books of the bank. In summary, like items are treated in opposite sides in the cash book and in the bank statement.

If all items have been accurately and promptly recorded in both the cash book and the bank statement, both Would show the same balance but, of course, on opposite sides. In such a case, there would be no need for reconciliation. In reality, however, the cash book balance at any given date is not usually the same as the bank statement balance at the same date. This would make reconciliation necessary. The statement reconciling the cash book balance with the bank statement balance is known as bank reconciliation statement.

Causes of Differences between Cash Book and Bank Statement Balances

(a) Un presented Cheques

These are cheques already issued by the account holder and recorded as payments in the cash book but are yet to be presented to the bank for payment for which reason, they only appear in the cash book but they do not appear in the bank statement.

(b) Un credited Cheques

These are cheques received and lodged into the bank account but are yet to be credited in the bank statement. A common reason for un credited cheques is the delay caused by the inter-bank clearing system.

(c) Bank Charges

These are charges -such as commission on turnover and commission on drafts- made by the bank and debited in the bank statement. The account holder may not be aware of these charges until he receives the bank statement, and so therefore may not have credited his bank account.

(d) Interest on Loans/Overdrafts

These are interests charged on loan and bank overdraft balances which the account holder is not aware of until he receives the bank statement, and so therefore may not have credited his bank account.

(e) Bank Standing Order/Direct Debits

Some businesses give standing orders to their banks to be making some regular payments from their accounts on their behalf, for example payment to utility suppliers such as gas, electricity and water. In other words, standing orders are instruction to a banker to make regular payments on the basis of a prior order made by the account holder. They are, therefore, debits in the bank statement representing payments made by the bank-on the instruction of the account holder-to third parties or in settlement of incidental charges, which the account holder is not aware of until he receives the bank statement, because the order will only be executed on the availability of funds or unutilized overdraft limit in the holders' account. However, since s standing order is a written instruction to a bank to pay a specified person a regular amount of money on a periodic but recurring basis (for example including mortgage repayments, rental and life insurance payments), the standing orders remain valid until cancelled. The order "stands" (i.e. remains effective) until it is modified or withdrawn by the account holder.

(f) Dishonored Cheques

These are cheques received and lodged into the bank account but were subsequently dishonored by the paying banker(s) for reasons such as "insufficient funds", "irregular signature", etc. The cashbook bank balance would therefore be greater than the balance on the bank statement.

(g) Direct Credit (Direct Payment to Bank)

The firm may direct its customers and other parties making payment to it to do that direct to its bank account. The bank, on receiving such payments on behalf of the firm, will credit its account at the bank. Examples of the use of direct credits include the payment of salaries, pensions, dividend, commission, interest earned, and social security payments, etc. If at the time of receiving the bank statement the firm is not aware of such direct payment, the bank statement balance is bound to be greater than the cash book balance.

(h) Interest on Deposits

This is interest due to the account holder on the term deposit(s) he maintains at the bank. The account holder may not be aware of these credits until he receives the bank statement.

(i) Book-keeping Errors/ Fraud

Errors and frauds either from the side of the account holder or from the side of the bank is bound to create disagreement between the balances.

Bank Reconciliation statement

Favourable balance of cash book balance

1. From the following prepare Bank Reconciliation statement for Mohan's account.
   a) Cheques paid into bank on the 28th July 1994 but credited to Mohan's account in the first week of August 1994. KalyanRs. 1,000; Joy Rs. 800; Rahul Rs. 1,200.
   b) The following cheques were issued by Mohan on 30th July 1994 but presented to bank for payment after the close of the year. David Rs. 1,200; HariRs. 1,000; LalRs. 800
   c) A Cheque for Rs. 300 was credited direct to the account and was not passed through the cash book.

d) The bank balance as per cash book on 31st July 1994 amounted to Rs. 30,000.

Bank Reconciliation Statement

Particulars	Amount	Amount
Balance as per Cash book Add: cheques issued but not presented for payment David 1,200 Hari 1,000 Lal 800 Cheque directly credited in the bank	 3,000 300	30,000 3,300
		33,300
Less: Cheques paid into bank but not collected Kalayan 1,000 Joy 800 Rahul 1,200	3,000	3,000
		30,300

2. From the following prepare Bank Reconciliation statement.

a) Balance as per cash book 7,225
b) Cheque deposited into bank but not collected 675
c) Cheque issued but not presented for payment 879
d) Bank charges debited in the pass book 20
e) Interest Credited in the pass book 15

Bank Reconciliation Statement

Particulars	Amount	Amount
Balance as per Cash book Add: Cheque issued but not presented for payment Interest	 879 15	7,225 894
 Less: Cheque deposited into bank but not collected Bank charges	 675 20	8,119 695
		7,424

3. On March 31, 1995, the cash book of prabhu showed the bank balance of Rs.4,850. While verifying with the pass book the following facts were noted:

a) Cheque sent for collection before March 31,1995, and not credited by the bank amounted in all to Rs. 845.
b) Cheque issued before march 31, 1995 but not presented for payment Rs. 885
c) The banker has charged a sum of Rs. 100 towards incidental charges and credited interest Rs. 250.
d) The banker has given a wrong credit for Rs. 250.
e) Mr. Nathan has paid into bank directly a sum of Rs. 300, on march 28 1995, which has not been entered in the cash book.

f) A cheque for Rs. 200 sent for collection and returned unpaid has not been enterd in the cash book.

Prepare Bank Reconciliation statement.

4. From the following particular prepare Bank Reconciliation statement as at 31st December 1992.

a) Thefollowingcheque were paid in to bank in December 1992 but were credited by the bank in January 1993. Mani –Rs. 1,400; Kalyani- Rs. 1,600; Rajesh – Rs. 1,200.
b) Thefollowingcheque were issued in December 1992 but were presented for payment in January 1993. Shalini – Rs. 1,000; Bhagat – Rs. 900
c) The following charges were made by the bank which were not recorded in the cash book. Incidental charges for the half year ended 31.12.1992 Rs. 40; collection charges for out standing cheques Rs. 30.
d) The following payment made by the bank direct as per standing instructions were not entered in the cash book. Insurance premium- Rs. 700; Subscription for commerce- Rs. 150.
e) A chequenforRs. 1,000 which was received from a customer was entered in the bank column of cash book in December 1992 but was omitted to be banked in December 1992.
f) A bill of Rs . 2,000 was retired by the bank under rebate of Rs. 40 but the full amount of the bill was credited in the bank column of the cash book.
g) The bank balance as per pass book was Rs. 31,600 on 31st December 1992

Bank Reconciliation Statement

Particulars	Amount	Amount
Balance as per Pass book Add: Cheque paid in to bank but credited Mani 1,400 Kalyani 1,600 Rajesh 1,200 Incidental charges Collection charges Insurance premium Subscription for commerce Cheque received but not credited in the pass book	 4,200 40 30 700 150 1000	31,600 6,120
Less: Cheque issued but not presented for payment Shalini – Rs. 1,000 Bhagat – Rs. 900 Rebate on bills	 1,900 40	37,760 1,940
		35,780

5. From the following particular prepare Bank Reconciliation statement as on 31st march 1990.

a) Bank balance as on 31st march 1990 as per pass book Rs. 15,200.
b) Bank charges debited Rs. 130.
c) Cheque issued but not presented to bank for payment Rs. 2,000
d) Cheque deposited into bank not credited in the pass book Rs. 7,000
e) A cheque entered as deposit in the cash book instead of as a payment Rs. 220.
f) Rs. 364 paid into bank had been entered twice in the cash book.

g) The receipt column of the cash book has been over cast by Rs. 1,000
h) A cheque drawn for Rs. 9 had been incorrectly entered in the cash book as Rs. 99.

BANK RECONCILIATION STATEMENT

Particulars	Amount	Amount
Balance as per Pass book		15,200
Add:		
Bank charges	130	
Cheque deposited into bank not credited	2000	
A cheque entered as deposit in the cash book instead of as a payment	220	
Payment entered twice in the cash book	364	
cash book has been over cast	1000	
A cheque drawn incorrectly entered in the cash book	90	3,804
		19,004
Less:		
Cheque issued but not presented to bank	2,000	2,000
Balance as per cash book		17,004

6. Prepare a Bank Reconciliation statement from the following particulars:
a) Bank balance as per Pass Book Rs. 10,000.
b) Cheque deposited into the bank bit no entry was passed in the cash book Rs. 500
c) Cheque received but not sent to bank Rs. 1,200
d) Credit side of the bank column cast short Rs. 200
e) Insurance premium paid directly by the bank under standing advice Rs. 600
f) Bank charges entered twice in the cash book Rs. 20
g) Cheque issued but not presented to bank for payment Rs. 500
h) Cheque received entered twice in the cash book Rs.1,000
i) Bills discounted dishonoured not recorded in the cash book Rs. 5,000.

Overdrawn cash book balance

7. The bank overdraft of Rajini on 31-12-93 as per cash book is Rs. 9,000. From the following particulars, prepare bank reconciliation statement:

a)	Unpresented cheque	3,000
b)	Uncleared cheque	1,700
c)	Bank interest debited in the pass book only	500
d)	Bill collected and credited in the pass book only	800
e)	Cheque of Renu dishonoured	500
f)	Cheques issued to sekar entered in the cash column of cash book	300

BANK RECONCLIATION STATEMENT

PARTICULARS	AMOUNT	AMOUNT
Over draft balance as per cash book		9,000
Add: Uncleared cheque	1700	
Bank interest	500	
Cheque of Renu dishonoured	500	2,700
		11,700
Less: Unpresented cheque	3000	

Bill collected and credited in the pass book only Cheques issued but not presented	800 300	 4,100
Over draft balance as per pass book		7,600

8. From the following particulars find out the balance as per pass book.
   a) Bank overdraft as per cash book on 30th April 1996 Rs. 2,000.
   b) Cheque issued but not presented to bank for payment Rs. 1,350
   c) Cheque deposited but not yet collected by the banker Rs. 560
   d) Bank charges Rs. 80 made by the bank not yet entered in the cash book.
   e) Interest on investment collected by the banker and credited in the pass book amounted to Rs. 905.

Overdrawn pass book balance

9. Prepare Bank Reconciliation statement from the following data as on 30-11-1994:
   a) Balance as per pass book as on 30-11-1994 overdrawn Rs. 18,408.
   b) Cheques drawn on 30-11-1994 but not cashed till Dec 1994 Rs. 6,450; 1,490; Rs. 1,852.
   c) Bank overdraft interest charged on 28-11-1994 not entered in cash book Rs. 3,220.
   d) Cheques received on 29-11-1994 entered in cash book, but not deposited into bank till 31-12-1994 Rs. 22,644 and Rs. 3,460.
   e) Cheque received amounting to Rs. 70 entered in the cash book twice.
   f) Bills receivable due on 29-11-94 was sent to bank for collection on 28-11-94 and was entered in cash book forthwith but the proceeds were not credited in bank pass book still3rd Dec. 1994 Rs. 5,960.
   g) A periodic payment by bank for Rs. 160 under standing instruction not entered in cash book.
   h) Cheque deposited on 30th Nov. 1994 dishonoured but the entry thereof was not made in the cash book Rs. 3,780.

BANK RECONCLIATION STATEMENT

PARTICULARS	AMOUNT	AMOUNT
Over draft balance as per Pass book Add: Cheques drawn but not cashed (6,450+1,490+1852)	 9,792	18,408 9,792
 Less: Bank overdraft interest Cheques received but not deposited into bank (22,644+3,460) Cheque received entered in the cash book twice Bills receivable were not credited in bank pass book A periodic payment not entered in cash book. Cheque dishonoured not entered in the cash book	 3,220 26,104 70 5,960 160 3,780	28,200 39,294
Over draft balance as per Cashbook		-11,094

10. The bank pass book showed an overdraft of Rs. 12,500.
   a) Cheque amounting Rs. 2,100 was paid into the bank on 29th December of which only Rs. 175 was credited by the bank in the pass book. (- 1925)

b) Chques for Rs. 4,000 were issued by me of which only one cheque for Rs. 600 was presented for payment.(+3400)
c) There is a debit of Rs. 150 for interest and Rs. 50 for bank charges in the pass book which have not been entered in my books. (-
d) Cash of Rs. 250 debited in bank column in my books has been omitted to be banked. (-)

Prepare a reconciliation statement to show the balance as per my books.

BANK RECONCLIATION STATEMENT

PARTICULARS	AMOUNT	AMOUNT
Over draft balance as per Pass book Add: Chques issued was not presented for payment	 3400	12,500 3400
 Less: Cheque paid into the bank was not credited by the bank Bank interest Bank Chrges Cash debited in bank column in cash books	 1,925 150 50 250	15,900 2,375
Over draft balance as per Cashbook		13,525

UNIT- 5

HIRE PURCHASE AND INSTALMENT PURCHASE

METHODS OF CALCULATION OF INTEREST

I WHEN RATE OF INTEREST, TOTAL CASH PRICE AND INSTALMENTS ARE GIVEN

1. On 1-1-86 X purchased machinery on hire purchase system. The payment is to be made Rs. 4,000 down (on signing of the contract) and Rs. 4,000 annually for three years. The cash price of the machinery is Rs. 14,900 and the rate of interest is 5% calculate the interest in each year's instalment.

Particulars (1)	Total cash price (2)	Installment paid (3)	Interest paid (4)	Cash price paid (5) (3-4)
Cash price Down payment	14,900.00 4,000. 00	4,000	-	4,000.00
I Instalment	10,900.00 3,455.00	4,000	545 (10,900x5/ 100)	3,455.00
II Instalment	7,445.00 3,627.75	4,000	372.25 (7,445x5/100)	3627.75
III Instalment	3,817.25 3,817.25	4,000	182.75 (4,000-3,817.25)	3,817.25

	Nil	16,000	1,100	14,900.00

WHEN RATE OF INTEREST IS NOT GIVEN

Mr. X Purchased a machine on hire purchase system Rs. 3,000 being paid on delivery and the balance in five instalments of Rs. 6,000 each, payable annually on 31st December. The cash price of the machine was Rs. 30,000. Calculate the amount of interest for each year.

I year = Amount Outstanding for interest after down payment 30,000

2nd Year = Amount Outstanding for interest after 1st Instalment 24,000

3rd Year = Amount Outstanding for interest after 2nd instalment 18,000

4th Year = Amount Outstanding for interest after 3rd Instalment 12,000

5th Year = Amount Outstanding for interest after 4th Instalment 6,000

Ratio of outstanding amount - 30,000:24,000:18,000:12,000:6,000
30:24:18:12:6
5:4:3:2:1
Total Interest = Hire purchase price- cash price
33,000- 30,000
= 3000

Instalment	No of outstanding instalments	Ratio of interest	Interest
1	5	5/15	3,000x5/15=1,000
2	4	4/15	3,000x4/15= 800
3	3	3/15	3,000x3/15 = 600
4	2	2/15	3,000x2/15 = 400
5	1	1/15	3,000x1/15 = 200
	15		

WHEN CASH PRICE IS NOT GIVEN

X Purchased a typewriter on hire purchase system. As per terms, he is required to pay Rs. 800 down, Rs. 400 at the end of the first year Rs. 300 at the end of the second year and Rs. 700 at the end of the third year. Interest is charged at 5% p.a. Calculate the total cash price of the type writer and the amount of interest payable on each instalment.

We assume the cash price Rs. 100

Interest @5% on Rs. 100 for one year 5

Instalment paid at the end of the year 105

Interest on instalments price 5/105 as a ratio

YEAR 1	INSTALMENT 2	INTEREST PAID 3	CASH PRICE PAID 4(2-3)
3rd	700	700x5/105 =33	667
2nd	300	(300+667) x5/105 = 46	254
1st	400	(400+667+254) x5/105 = 63	337
Down payment	800	Nil	800
	2,200	142	2,058

WHEN INSTALMENT AMOUNTS ARE NOT GIVEN BUT CASH PRICE AND RATE OF INTEREST ARE GIVEN

X Purchased a machine under hire purchase system. According to the terms of the agreement Rs. 40,000was to be paid on signing of the contract. The balance was to be paid in four annual instalments of Rs. 25,000 each plus interest. The cash price was Rs. 1,40,000. Interest is chargeable on outstanding balance at 20%p.a. calculate interest for each year and the instalment amount.

Date of payment	Total cash price	Inatalment paid	Interest paid	Cash price paid
Down pament	1,40,000 40,000	40,000		40,000
1st instalment	1,00,000 25,000	45,000	100000x20/100 =20000	25,000
2nd instalment	75,000 25,000	40,000	75,000x20/100 =15,000	25,000
3rd instalment	50,000 25,000	35,000	50,000x20/100 =10,000	25,000
4th in	25,000 25,000	30,000	25000x20/100 =5000	25,000
	Nil	1,90,000	50,000	1,40,000

CALCULATION OF CASH PRICE BY ANNUITY METHOD

On 1-1-90 X bought some trucks under hire purchase system for Rs.51,000 payable by three equal instalments combining principal and interest , the later being a normal rate of 5% per annum. Calculate the cash price. (The present value of an annuity of one rupee for three years at 5 %is Rs. 2.72325).