# FINANCIAL ACCOUNTING -///



#### FIRE INSURANCE CLAIM

## **LOSS OF STOCK POLICY**

## **LOSS OF PROFIT POLICY**

## APPLICATION OF AVERAGE CLAUSE



Every business unit has to keep a sufficient quantity of stock in the business premises for meeting the requirements of sales or manufacturing the goods .The stock kept in the business premises is subject to risk of loss by fire. For protecting itself against such loss ,it takes a fire insurance policy. How to calculate the amount of claim to be lodged for the loss of stock by fire:

<u>STEP-1:</u> Trading account prepared for the previous year.
 <u>STEP-2:</u> Memorandum account prepared for current year.
 <u>STEP-3:</u> Deduct the stock salvaged value.

**AVERAGE CLAUSE:** 

## Value of stock destroyed × Value of insurance policy +value of stock on the date of fire.

#### **MEMORANDUM OF TRADING ACCOUNT**

Particulars	RS	Particulars	RS
To opening stock To purchase (-) purchase return To wages To outstanding To direct expenses To manufacturing expenses To gross profit	XXX XXX XXX XXX XXX XXX XXX XXX XXX	By sales (-)sales return By closing stock (Balancing figure)	XXX XXX XXX
	XXX		XXX

**Statement Showing The Insurance Claim To Be Lodged** 

Value of stock in hand on the date of fire - XXX Less: Stock salvaged - XXX

**CLAIM TO BE LODGED** 

-XXX

#### **ILLUSTRATION:2**

A fire occurred in the premises of Mr. Patel on 31<sup>st</sup> march,2009 from the following particulars ,ascertain the claim to be lodged.

		RS
Stock on 1-1-2008 -	•	450000
Purchase during the year 2008	-	1855000
Purchase return	-	15000
Goods taken by Mr. patel for his personne	el use	2 -10000
Stock on 31-12-2008 -		630000
Sales for the year 2008	-	2060000
Sales returns	-	60000
Purchase from 1-1-2009 on the date of fire	-	420000
Sales from 1-1-2009 to date of fire	-	495000
Value of stock saved	-	99000
Goods destroyed	-	30000

#### Memorandum of trading a/c of Mr. Patel for the year 31.12 08

Particulars	Rs	Particulars	Rs
To stock on			
1-1-08	450000	By sales	2060000
and the second	and the second sec	and the state of the second state of the secon	
To purchases	1855000	(-) returns	60000
(-)pur.return.		By goods	
(1855000-15000)	15000	destroyed by	30000
(-)goods taken		fire	630000
from personnel		By closing stock	
use	10000	(bal. figure)	
To Gross profit	380000		
(i.e.20%0n			
Rs.1072000			
sales)	2660000		2660000

Percentage of gross profit ratio=gross profit/salesx100

= 19%

## Memorandum of trading a/c of mr.patel for the year

<u>31.12 08</u>

Particulars	RS	Particulars	RS
To stock on 1-1-09 To purchase To gross profit (19% of Rs 495000)	420000	By sales By stock on the date of fire (bal. figure)	495000 649050
	1144050		1144050

#### <u>Statement showing the insurance claim to be</u> <u>lodged:</u>

Value of stock on 31-3-09 Less: value of stock saved

- 649050
  - 99000

claim to be lodged

- 550050

## **LOSS OF PROFIT POLICY:**

A fire accures it destroyed not only the stock but also the earning capacity of the business. hence, there is a separate policy to covered this loss of profit policy.

#### **CALCULATION THE LOSS OF PROFIT POLICY: \* STEP 1:** calculation of short sales:

previous year sales -XXX Less: current year sales -XXX

SHORT SALES -XXX

STEP2: calculation of gross profit ratio:

Gross profit ratio=net profit + insured standi charges / accounting turn over x 100

#### **LOSS ON PROFIT DUE TO SHORT SALES:**

Short sales avoided through increased cost of working x gross profit ratio.

 STEP 3: calculation of total claim for the loss of profit: Loss of profit on short sales - XXX
 Add: Additional expenses - XXX

TOTAL CLAIM

-XXX

## STEP 4: Application Of Average Clause:

#### Amount To Be Insured =Annual Turn Over X Gross Profit Ratio

**Claim To Be Made:** 

Total Claim X Policy Value / Amount To Be Insured

## UNIT - II

# ROY&LTY &CCOUNT



## INTRODUCTION

Royalty is an amount payable by one person to another for the use of as asset or right or monopoly. Itis a periodical payment in the nature rent made to a person for the right to use certain properties such an amount is known as Royalty



There are some special term which are used in royalty agreements. They are three type of term are ,

- \* Landlord
- \* Lessee
- \* Royalty



## LANDLORD

The persons who gives out his some special right over somethings say mining right or patent right or copy right, on lease to another persons for consideration is called the landlord or lessor .



The person who takes out the special right from its owner on lease for a consideration is called a lessee or patentor or publisher.



Royalty is a periodical payment based on output or sale for the use for a certain asset or right like mine, copyright or patent to its owner. They royalty is paid by the lessee.



## **TYPE OF ROYALTIES ACCOUNT**

There are three type of royalties are,

- \* Mining royalty
- \* Patent royalty
- \* Copyright royalty



## MINING ROYALTY

Mining royalty is the periodical generally based on output, made by lessee of a mine or quarry to the lessor or the landlord .

## PATENT ROYALTY

Patent royalty is the periodical payment based on output, made by the lessee of a patent or patent right to be lessor or the patentee.

## **COPYRIGHT ROYALTY**

*Copyright royalty is also the periodical payment based on sale , made by the lessee of a copyright to the lessor.* 



## JOURNAL ENTRIES IN THE BOOK OF LESSEE



## **1. THE ROYALTY PAYABLE AND RECEIVABLE**

(a) With out short working
 Royalty Account
 To Landlord Account

(b) short working with out minimum rent Royalty account Dr. Short working Account Dr. To Landlord Account (c) Short working with minimum rent

Minimum rent account Dr.

To Landlord account

(d) With out short working recoupment Landlord Account

Dr.

To cash account To short working



# (e) For Transferring Royalty Payable Production Account Dr. To Royalty Payable Account

# (f) For Short working lapsed Profit & loss Account Dr. To Short working Account





## <u>Illustration</u> :

A Company leased a colliery on 1-1-1992 at a minimum rent of 20,000 merging into a royalty of Rs.1.50 Per tone with power to recoup short working over the first three years of the lease. The output of the colliery for the first three year was 9000 tones,12,000 tones and 16000 tones respectively. Give journal entries and ledger account for four years in the books of lessee .





## ANALYTICAL TABLE

YEAR	OUTP UT	ROYALT Y at RS.1.50 PER TONNE	MINIM UM RENT RS.	SHORT WORKIN G RS.	SHORT WORKI NG RECOVE RE RS.	SHORT WORKING S IRRECOVE ABLE TRANFERR D TO P & L A/C RS.	PAYMEN T TO LANDL ORD RS.
1992	9,000	13,500	20000	6,500	-	-	20,000
1993	12,000	18,000	20,000	2,000	_	_	20,000
1994	16,000	24,000	20,000	-	4,000	—	20,000

20

#### Journal entries in the book of lessee ;

Date	Particulars	Debit	Credit
1992 Dec 31	Royalty A/c Dr. Short working A/c Dr.	13,500 6,500	20,000
Dec 31	to landlord A/c (being royalty due to landlord) Landlord A/c	20,000	20,000
Dec 31	Dr. to Bank A/c (being minimum rent paid to landlord)	13,500	13,500
1993 Dec 31	Production A/ Dr. To Royalty A/c (being royalty transferred)	18,000 2,000	20,000
Dec 31	Royalty A/c Dr. Short working A/c Dr. Landlord A/c (being royalty due to landlord)	20,000	20,000
	Landlord A/c Dr. To Bank A/C (being minimum rent paid)		



Date	Particular	Debit	Credit
Dec 31	Production A/c Dr. To Royalty A/c (being Royalty Transferred)	18,000	18,000
1994 Dec 31	Royalty A/c Dr. To Landlord A/c (being royalty due)	24,000	24,000
Dec 31	Landlord A/c Dr. To short working A/c To Bank A/c (being minimum rent paid and Rest. 4,000 recouped)	24,000	4,000 20,000
Dec 31	Production A/c Dr. To Royalty A/C (being royalty transferred)	24,000	24,000



## JOURNAL ENTRIES IN THE BOOK OF THE LESSOR



#### 1. FOR ROYALTY RECEIVED

(a) With out short working
 Lessee Account
 To Royalty receivable Account

*(b) Short working with out minimum rent* Lessee Account

Dr.

To Royalty receivable Account To Short working Account



Dr.

(c) With out short working recoupment<br/>Cash AccountDr.To lessee AccountDr.(d) When short working recouped<br/>Cash AccountDr.Short working AccountDr.To lessee AccountDr.

Short working Account Dr. To Profit & Loss Account (e) For transfer of short working not recouped (f) For transfer of royalty account **Production Account** Dr. Or Profit & loss Account Dr. To Royalty Account

# Problem

#### <u>Illustration</u> :

Bihar coal Ltd., leased colliery from Himalaya coal Ltd., on 1-1-2004 at a minimum Rent of 1.50 per ton with power to recouped short working during the first two year lease . The output of the colliery for the three year of the lease was 9000 ,15000, and 27000 tons respective.



### **SOLUTION :**

#### **ANALYTICAL TABLE**

YEAR	OUT PUT	ROYALT Y RECEIV ABL	SHORT WORKI NG	SURPL US	SHORT WORKIN G RECOUP ED	SHORT WORKI NG NOT RECOU PED	PAID TO LANDL ORD
2004	9000	13500	16500	_	_	_	30000
2005	15000	22500	7500	_	_	_	30000
2006	27000	40500	_	10500		13500	30000

#### Journal entries in the book of lessor

DATE	PARTICULAR	DEBIT	CREDIT
2004 Dec 31	Bihar coal Ltd., Dr. To royalty receivable A/c To short working suspense a/c (being minimum due)	30000	13500 16500
Dec 31	Bank a/c Dr. To Bihar coal Ltd A/c (being the amount of royalty received)	30000	30000
Dec 31	Royalties receivable A/c Dr. To profit & loss A/c (being amount of royalties receivable)	13500	13500
2005 Dec 31	Bihar coal ltd ., A/c Dr. To royalties receivable A/c To short working suspense A/c (being minimum due from)	30000	22500 7500



date	particular	Debit	credit
Dec31	Bank A/c Dr.	30,000	30,000
	To Bihar coal ltd., (being amount due received from)		<i>J</i> ,
Dec 31	Royalties receivable A/c	22,500	22,500
2006	Dr. To profit or loss A/c		13
Dec 31	(being transfer to royalties account)	40,500	40,500
	Bihar coal ltd., A/c		
Dec 31	Dr. To royalties receivable A/c	10,500	
	(being royalties earned to 27 oootons)		10,500
	Short working suspense A/c		
Dec 31	Dr. to Bihar coal lt., A/c	40,500 13500	
	(Being the short working suspense's recouped by coal ltd)		54,000
	Royalties receivable A/c		
	Dr. Short working suspense A/c		
	Dr. To Profit & loss A/c		
	(being transfer to royalty receivable and irrecoverable		



date	particular	debit	credit
2007	Bihar coal ltd., A/c	30,000	
Dec 31	Dr.		25,500
	To Short working suspense A/c		4,500
	To royalties receivable A/c		
	(being minimum due)		
Dec 31		30,000	
	Bank A/c		30,000
	Dr.		
_	To Bihar coal Ltd., A/c		
Dec 31	(being receipt minimum rent)	25,500	
		4,500	
	Royalties receivable A/c Dr.		30,000
	Short working suspense A/c		
	Dr. To Drofit and loss A/s		
	To Profit and loss A/c		
	(being transfer to profit and loss account)		
	ioss account)		

#### SUB - LEASE

The terms of original lease may be empower the lessee to sublet to part of the lease to another persons as a sub – lease. As lessee he maintains royalties payable A/c, short working A/C, Landlord A/c, and as sub – Lessor he maintained royalties receivable account.

#### JOURNAL ENTRIES IN THE BOOK OF SUB - LEASE



(a) For royalty payable due to landlord Royalty Payable Account Dr. Short Working Account Dr.

To landlord Account

(b) For Royalty Receivable Account Sub - lease Account To Royalty Receivable Account To Suspense Account

(c) For Royalty paid landlord Account To Cash Account To short working Account



Dr.

(d) For Royalty Received **Cash Account** Dr. To Suspense Account Dr. To Sub – lease Account (e) For Transfering Royalty Payable and Receivable Royalty receivable Account Dr. To Royalty Payable Account To Profit & Loss Account For Short Working Not Recovered (f)Profit & Loss Account Dr. **To Short Working Account** 

#### PROBLEM

#### **<u>Illustration</u>** :

mining co., ltd., obtained on 1-1-90 from landlord a lease of coal mine, the terms being a royalty pf 0.50 per ton of coal raised subject to a minimum rent of 4000 per annum with a right of recoupment of short working over the first three year lease.

mining co. ltd., granted a sub lease part of the land to mining lessee on a royalty of 0.75 per tons merging into a minimum rent of 2000 per annum with a right of recoupment of short working during the two year following the short working .

The output	for the fo	our vear in	the following;
······································	<del>, , , , , , , , , , , , , , , , , , , </del>	*******************************	<u> </u>

year	mining co., ltd.,	Mining lessee tons
1990	4,400	1,600
1991	4,640	2,160
1992	5,200	2,800
1993	5,600	3,600



### solution :

#### ANALYSIS OF ROYALTY PAYABLE

YEA R	OUT PUT	ROYAL TY	MINIM UM RENT Rs.	Short workin g Rs.	Short working recoupe d	Short working irrecovera ble	Paid to Landl ord Rs.
1990	6,000	3,000	4,000	1,000	_	_	4,000
1991	6,800	3,400	4,000	600	_	_	4,000
1992	8,000	4,000	4,000	_	_	_	4,000
1993	9,200	4,600	4,000	_	600	1,000	4,000



#### ANALYSIS OF ROYALTY RECEIVABLE

Year	Out put	Royalt y Rs.	Minim um rent Rs.	Short workin g Rs	Short workin g recoupe d	Short working irrecovera ble	Paid to landlo rd
1990	1,600	1,200	2,000	800	_	—	2,000
1991	2,160	1,620	2,000	380	_	_	2,000
1992	2,800	2,100	2,000	-	100	700	2,000
1993	3,600	2,700	2,000	_	380	_	2,320



#### Journal entries in the book of mining co., (lessee) (relating to landlord)

date	particular		Debit	Credit
1990	Royalty payable A/c Short working A/c To landlord A/ c (being royalty payable)	Dr. Dr.	3000 1000	4000
	Landlord A/c To Bank A/c (being payment made to landlord)	Dr.	4000	4000
	Royalty receivable A/c Profit & loss A/c To royalty payable A/c (being royalty payable made to landlord)	Dr. Dr.	800 2200	3000
1991	Royalty payable A/c Short working A/c To landlord A/c (being royalty payable)	Dr. Dr.	3400 600	4000



Date	particular		debit	credit
	Landlord A/c To bank A/c (being payment made to landlord)	Dr.	4000	4000
	Royalty receivable A/c Profit & loss A/c To royalty payable A/c (being royalty payable transfer)	Dr. Dr.	1080 2320	3400
1992	Royalty A/c To landlord A/c (being royalty payable)	Dr.	4000	4000
	Landlord A/c To bank A/c (being payment made to landlord)	Dr.	4000	4000
	Royalty receivable A/c Profit & loss A/c To royalty payable A/c (being royalty payable transferred)	Dr. Dr.	1400 2600	4000

Date	Particular		Debit	Credit
1993	Royalty payable A/c To short working A/c To landlord A/c (being royalty payable)	Dr.	4600	600 4000
	Landlord A/c To bank A/c (being payment made to landlord)	Dr.	4000	4000
	Royalty receivable A/c Profit & loss A/c To royalty payable A/c (being royalty payable transferred)	Dr.	1800 2800	4600

# UNIT 3 INSOLVENCY &CCOUNTS

## Meaning of Insolvent:

According to popular usage, an insolvent is one who is not able to pay his liabilities. But in legal sense the term insolvent can be applied to a person whose liabilities exceed his assets and against whom an order of adjudication has been passed by competent court. The proceedings taken by the court in case of insolvent person are known as insolvency proceedings.

## Insolvency Laws in India:

There are two acts dealing with insolvency affairs in India:

1. The Presidency Towns Insolvency Act,1909 which applies to the persons residing in the Presidency Towns of Mumbai, Kolkata and Chennai.

2. The Provincial Insolvency Act,1920 which applies to the persons residing in the rest of India.

When can a person be Declared Insolvent?

\*The order of Discharge. \*Interest. \*Voluntary Transfers. \*Doctrine of Reputed Ownership.

# **INSOLVENCY ACCOUNTS:**

Upon being adjudicated the insolvent has to submit.

(1)A Statement of Affairs as on the date of order. (and)

(2) A Deficiency Account.

### ILLUSTRATION

Calculate the amount of preferential and unsecured creditors from the following figures pertaining to an insolvent debtor according to presidency Towns insolvency act and provincial insolvency act.

Sales Tax	25,000
Income Tax	15,000
Municipal Tax	5,000
4 Months rent due to	
land lord	20,000
Wages of 2 servants	
for 4 months	800
Wages of 5 labourers	
for 3 months	3,000
Salary of the Manager	5,000
Salary of 2 clerks for	
4 months	2,400

	Amt Due	Particular	Under Insolvency	Presidency Act	Under Insolvency	Provincial Act
			Preferential Creditors	Unsecured Creditors	Preferential Creditors	Unsecured Creditors
	25000	Sales Tax	25000		25000	
	15000	Income Tax	15000		15000	
	5000	Municipal Tax	5000		5000	
	20000	4Month rent due to landlord	5000	15000		20000
	800	Wages of 2 servants for 4 month	200	600	40	760
	3000	Wages of 5 labourers for 3 month	500	2500	100	2900
	5000	Salary of the manager		5000		5000
	2400	Salary of 2 clerks for 4				
7620		month	600	1800	40	2360
			51,300	24,900	45,180	31,020
		TOTAL				

## **STATEMENT OF AFFAIRS:**

- \*Unsecured creditors as per List A.
- \*Loan from Wife. A
- \*Interest.
- \*Fully secured creditors as per List B.
- \*Partly secured creditors as per List C.
- \*Preferential creditors for Rent, Rates,Taxes and Wages as per List D.
  - \*Property as per List E.
  - \*Book Debts as per List F.

\*Bill of exchange or other similar securities in hand as per List G.

### **DEFICIENCY ACCOUNT (LISI-H):**

The purpose of preparing the Deficiency Account is to explain how the deficiency, as shown in the statement of Affairs, has been lost along with unpaid amount of the creditors.

#### DEFICIENCY ACCOUNT (LIST H)

Rs.

RS.

•	
Excess of assets over liabilities, i.e., capital on Net profit arising from carrying on of business after deducting usual trade expenses Income or profit from other sources e.g 1.Interest on capital 2.Exceess of private assets over private liabilities 3.Profit on realisation of	<ul> <li>Excess of liabilities over assets</li> <li>Net loss arising from carrying on off business after deduction from Profits, usual trade expenses</li> <li>Bad Debts as per List F</li> <li>Expenses incurred sinceother than usual trade expenses, viz.,</li> <li>Household Expenses(Drawings)</li> <li>Other losses:</li> <li>Loss on realisation of assets</li> <li>Loss through dishonour of discount of bills</li> <li>Speculation losses</li> <li>Loss through betting</li> <li>Excess of private liabilities over private assets, ect.</li> </ul>
any asses. Deficiency as per Statement of Affairs	

# **SELF BALANCING SYSTEM:**

When all the accounts are kept in one ledger, a trial balance can be extracted as a test of the arithmetical accuracy of the accounts though certain errors may not be revealed by such trial balance. If the trial balance totals disagree, the number of entries for a small business being relatively few, the books can easily and quickly be checked so as to locate the errors.

## What is self-balancing system?

(1)General (or Nominal or main) ledger.

(2)Purchases (or Bought or Creditors) Ledger.

(3)Sales (or sold or Debtors) Ledger.

### How Ledgers are made self-

# **Balancing**?

- (1)Cash Book.
- (2)Purchases Book.
- (3)Sales Book.
- (4) Purchases Returns Book.
- (5)Sales Returns book.
- (6)Bills Receivable Book.
- (7)Bills Payable Book.
- (8)Journal.

#### Journal Entries for self-Balancing of sales Ledger:

All debtors accounts are opened in the sales Ledger and entries are made on the debit side of these accounts from the sales book. In order to make this ledger selfbalancing, a general ledger adjustment account is opened in the sales ledger and all entries in totals appearing on the debit side of various debtors account will be shown on the credit side of this account and all credit entries of various debtors account on the debit side of this account.

(i)For credit sales, bills receivable dishonoured, interest and expenses charged to debtors during the period

Sales Ledger Adjustment a/c Dr. To General Ledger Adjustment a/c cr.

(ii)For total of cash received from debtors, discount allowed to them, bills received, sales returns and bad debts written off

General Ledger Adjustment a/c Dr.

To Sales Ledger Adjustment a/c Cr.

#### Journal Entries for self-Balancing Purchases Ledger:

All creditors accounts are opened in the purchases ledger and entries are made on the credit side of these account from the purchases book. In order to make this ledger and all entries in total appearing on the credit side of the various creditors will be shown on the debit side of this account and all debit entries of various creditors accounts in total are shown on the credit side of this account.

(i)For credit purchases, bills payable dishonoured, interest and expenses charged by creditors: General Ledger Adjustment a/c Dr. To Purchases Ledger Adjustment a/c Cr.

(ii)For total cash paid to creditors, discount received, bills accepted, and purchases returns.

Purchases Ledger Adjustment a/cDr.To General Ledger Adjustment a/cCr.

#### Transfer from one Ledger to Another:

Sometimes goods are purchased from and sold to the same person but his personal account will be kept both in purchases and sales ledger. Settlement of such person's account will be made by deduction one account from the other and paying or being paid the balance.

Suppose Hitesh's Account in purchases ledger shows a balance of \$ 3,000 and in sales ledger a balance of \$5,000. The former will, therefore, be transferred to the latter. Following entries are passed for this purpose.

#### **Journal Entries:** Hitesh a/c Dr. 3,000 To Hitesh(sales) 3,000 (Being the for transfer of balance From Hitesh's account) (i)Purchases Ledger Adjustment Dr. 3,000 To General Ledger Adjustment 3,000 (ii)General Ledger Adjustment a/c Dr.3,000 To sales Ledger Adjustment a/c 3,000

### <u>Sum:4</u>

### Make the transfer and self-balancing entries for the following:

(1)Sold goods to ram \$ 800, Purchases goods from Ram \$ 500.

(2)Purchases goods from Mehta Bors.\$ 700, sold goods to them \$600.

(3)Sold goods for \$ 100 to Ramji Dass, the clerk, in firm in payment of the outstanding salary due to him.

S.No.	Particulars	Dr. Rs.	Cr. Rs	
(1)	a)Ram (in the Bought Ledger) a/c To Ram (in the sales Ledger) (Being the for the transfer of the smaller am	Dr. nount)	500	500
	b)Purchases Ledger Adjustment a/c. To General Ledger Adjustment a/c (Being the Purchase ledger )	Dr.	500	500
	c)General Ledger Adjustment a/c To Sales Ledger Adjustment a/c (Being General Ledger, Sales Ledger)	Dr.	500	500
(2)	a)Mehta Bros. (Purchases Ledger) a/c To Mehta Bros.(in sales Ledger) a/c (Being the for transfer of smaller amount)	Dr.	600	600
	b)Purchases Ledger Adjustment a/c To General Ledger Adjustment a/c (Being the Purchases Ledger)	Dr	600	600

	c) General Ledger Adjustment a/c Dr. To sales Ledger Adjustment a/c (Being the sales Ledger )	600	60 0
3)	a)Salary Outstanding a/c(G.L) Dr. To Sales a/c (Being for Transfer)	100	10 0
	b)General Ledger Adjustment a/c Dr. To Sales Ledger Adjustment a/c (Being for self –balancing the sales Ledger and General Ledger)	100	10 0
	(Second entry will not be needed as only two ledgers as affected )		

### 1.Self balancing system:

### Illustration 1

Prepare the sales ledger adjustment A/c from the following information relating to the year ended 31.12.91.

RS.

1,000

**Opening balance of debtors** 40,000 Sales(for cash of Rs.10000) 90,000 Cash received from debtors 80,000 Discount allowed to debtors 500 Bills receivable received from debtors 3,000 Sales returns 8,000 Bills Receivable dishonoured 500 Bad debts Transfer to purchases ledger 2,000 Reserve for doubtful debts 1,500 Bad debts of last year received 1,000

In the General Ledger Sales ledger Adjustment Account

1991	Particulars	Rs.	1991	Particulars	Rs.
Jan.1 Dec 31	To Balance b/d To General Ledger Adjustment A/c (D.L): B/R(dishon oured) Sales	40,000 500 80,000 1,20,00 0	Dec .31	By General ledger Adjustment A/c (D.L) Cash Discount allowed B/R(Received) Sales Returns Bad debts Transfer By Balance c/d	80,000 500 3,000 8,000 1,000 2,000 26,000 1,20,00 0



# 1. BRANCH ACCOUNTING

In order to increase the sales, business houses are required to market their products over a ledger territory and may generally split their business into certain divisions OR Parts

## **TYPES OF BRANCH**

Debtors system
 Final Account system
 Stock & Debtors system
 Wholesale Branch system

# <u>Branch</u> Account (IN H.O BOOKS)

**To Branch Account To Branch Stock To Branch Debtors To Branch Furniture To Branch Prepaid** Insurance ...etc To Goods sent to branch A/C To Bank(expenses paid by **H.O**) To Branch Liabilities A/C

Dr

TO PROIT&LOSS A/C (profit)

**By Branch Liabilities A/C** By Bank(cash received , cash sales) By Branch cash in hand **By Branch Stock By Branch Debtors By Branch Furniture By Branch Prepaid Rent**/ Insurance ...etc **By** PROIT&LOSS A/C (loss)

Cr

#### PAGENO:186 Ex-1(at cost price)

## **BRANCH A/C**

Particular	R.s	Particular	R.s
To Goods send	75000	By Cash sales	50000
To cash remittance	6000	By Petty cash [31.12.09]	500
To Salaries	15000	By Debtors	5000
To Office expenses	12000	By Cash raceived	27000
TO PROFIT	29500	By Stock (31.12.09)	55000
	<u>1,37,500</u>		<u>1,37,500</u>

### PAGENO:189 Ex-9(at invoice price)

# **BRANCH A/C**

Pa	rticular	RS	Particular	RS
To op	pening balance	12000	BY Stock reserve	3000
To go	oods send	80000	BY Debtors	1600
To D	ebtors	1500	BY goods reserve	20000
To re &taxe	ent , rates es	3200	BY Stock (31stDEC2008)	14800
To sa	alaries & wages	4800	BYCash	77100
To St	ock reserve	3700		
TO F	PROFIT	<mark>11300</mark> 1,16,500		<u>1,16,500</u>

### **Departmental Accounts**

When a business sells different types of goods or carries on several activities under one roof, it is generally spilt up into a number of departments. This is generally done to have smooth & efficient running of a business

### **APPORTIONMENT OF Departmental**

### <u>expenses</u>

Selling Expenses Building Expenses Heating & Lighting Power Advertising Insurance Premium Depreciation Labour welfare Expenses

# **Inter-DEPARMENTAL TRANSFERS**

As each department is treated as a separate profit centre , so it is necessary to have separate records for such **inter departmental transfers.** 

	supplying	Depart	ments	Receivingg	Depart	ments
	Dept.A	Dept.B	Dept.C	Dept.A	DeptB	DeptC
2009	R.s	R.s	R.s	R.s	R.s	R.S
April 5	4000	-	-	—	4000	_
" 10	_	5000	_	5000	—	-
" 25	_	-	3000	-	3000	-
" 30	2000	_	_	—	—	2000
TOTAL	6000	5000	3000	5000	7000	2000

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# HIRE PURCHASE SYSTEM

- There are different ways by which goods can be sold i.e., possession as well as owner ship of goods will be passed from the seller to the purchaser.
- Goods can be sold for cash, i.e., where ownership and possession is immediately passed from the seller to the purchaser and a purchaser also makes the payment in cash at the time of taking the delivery of goods.

# CALCULATION OF INTEREST

 If cash price and each instalment amount together with down payment is given but rate of interest is not given, then total interest will be calculated by deducting cash price from total hire purchase price. Total interest should be divided in the ratio of amount outstanding for each year.

#### FORMULA:

- Hire purchase price Cash price=Total Interest
- Hire purchase Price-First Payment=First balance
- First balance-Second payment=Second balance
- Second balance-Third payment=Third balance

# JOURNAL ENTRIES

# GOODS OF CONSIDERABLE VALUE

BUYER'S BOOKS. Goods purchased on hire purchase system should be treated as property of the business on the assumption that asset has been purchased with the intention of paying all the instalments on the due dates to acquire the asset for the business. Under this method, the following entries are to be passed in the book of the buyer:

# CALCULATION OF CASH PRICE

Some times in the question the cash price is not given. The asset account cannot be debited with more than the cash price of the asset, so it becomes essential to find out the cash price first before solving such type of questions.

Formula – Rate of interest

100+Rate of Interest

Suppose x owes y Rs.100, interest being 10% p.a.

#### Hire Purchase Trading Account

To Stock with customers on hire purchase price (opening)

To Goods sold on hire purchase account

To stock reserve on closing stock By Hire purchase sales - cash received from customers - instalment due but received By Stock Reserves

By Stock with customers at hire price at end

i. When an asset is purchased on hire purchase system Dr. (with cash price) Asset Account To Hire Vendor A/c ii. For cash down payment on delivery Hire vendor A/c Dr. To cash/Bank iii. For interest due at the end of the year Interest A/c Dr. To Hire vendor A/c iv. For the payment of the first instalment

Hire vendor A/c Dr. To Bank **iv. For depreciation charges** Depreciation A/c Dr. To Asset A/c

v. For transfer of interest and depreciation to profit and loss account

> Profit & loss A/c Dr. To Interest A/c To Depreciation A/c

NOTE: Entries (iii), (iv),(v)and(vi) will be repeated in subsequen years.

Asset in this case will be shown in the balance sheet after deducting depreciation and balance due to the vendor from the asset's beginning balance

### Vendor' Books

Following entries are passed in the books of vendor:

### i. When goods are sold on hire purchase

Hire purchaser's A/c Dr. To Hire sales A/c

[Hire Sales A/c is ultimately closed by transfer to trading account]

### ii. For cash received on delivery

Cash/Bank A/c Dr. To Hire purchase's A/c

# iii. For interest due on instalment at the end of the year

Hire purchaser's A/c Dr To Interest A/c **NOTE:** Interest in the last instalment will be difference between the instalment payable and amount remaining unpaid by way of principal.

iv. For receipt of the amount of instalment

Cash/Bank A/c Dr. To Hire purchase A/c

v. For transferring the balance of interest to profit and loss a/c

Interest A/c Dr. To Profit and Loss A/c **NOTE:** Entries (iii) to (v) will be repeated in subsequent years. Following are the particulars relating to hire purchase: Purchaser: Ram & Co. Seller: Shyam & Co. Date of purchase: 1/1/2006 Cash price: Rs.12,984 Payments: Rs.2000 on signing of the agreement & the balance in the three equal annual instalments of Rs.4000 due on 31st December each year. Rate of Interest: 5%p.a Depreciation: 20% on WDV each year. Prepare necessary ledger a/c's in the book Ram & Co. Calculations are to be made to the nearest rupee.



			Instalment	
	Cash Price Rs·	Interest	Payments towards cash price <b>Rs</b> .	Interest <b>Rs</b> .
- Paid on 1/1/06	12,894 2,000	<mark>5%</mark>	2,000	_
- Paid on 31/12/06	10,984 3,455		<mark>3,455</mark>	545
- Paid on 31/12/07	7,439 3,628		<mark>3,628</mark>	372
- Paid on 31/12/08	3,811 3,811		3, <mark>81</mark> 1	189
		Total	<mark>12,89</mark> 4	1,106

# CALCULATION OF DEPRECIATION

<u>Particulars</u>	<u>Rs.</u>
Cash Price on 1/1/06	12,894
- Depreciation @ 20% for 2006	2,579
Balance on 1/1/07	10,315
- Depreciation @ 20% for 2007	2,063
Balance On 1/1/08	8,252
- Depreciation @ 20% for 2008	1,650
Balance on 1/1/09	6,602

Date	Particulars	Amount	Date	Particulars	Amount
1/1/0 6	To Shyam & Co.	12,894	31/12/ 06	By Depreciation	2,579
				By Bal. c/d	10,315
		12,894			12,894
1/1/07	To Shyam & Co.	10,315	31/12/ 07	By Depreciation	2,063
				By Bal. c/d	8,252
		10,315			10,815
1/1/0 8	To Shyam & Co.		31/12/ 08	By Depreciation	1,650
				By Bal. c/d	6,602
		8,252			8,252

Date	Particulars	Amount	Date	Particulars	Amount
31/12/0 6	To Shyam & Co.	545	31/12/ 06	By P/L a/c	545
31/12/07	To Shyam & Co.	372	31/12/ 07	By P/L a/c	372
31/12/08	To Shyam & Co.	189	31/12/ 08	By P/L a/c	189

Date	Particulars	Amount	Date	Particulars	Amount
31/12/0 6	To Machinery	2,579	31/12/0 6	By P/L a/c	2,579
31/12/0 7	To Machinery	2,063	31/12/0 7	By P/L a/c	2,063
31/12/0 8	To Machinery	1,650	31/12/0 8	By P/L a/c	1,650

# DEFAULT AND REPOSSESSION

When the buyer makes default in the payment of any instalment, the vendor has a right to repossess the goods sold on hire purchase and forfeit whatever amount he has already received treating it as a hire charge.

there are two possibilities in repossession of goods, i.e., (i) when the vendor takes back the complete repossession of the asset and (ii) when the vendor takes repossession of only a part of the total asset sold to the hire purchaser.