FINANGIAL AGGOUNTING -FW

## UNIT-I

## ■FIRE INSURANCE CLAIM

## - LOSS OF STOCK POLICY

## ■ LOSS OF PROFIT POLICY

## - APPLICATION OF AVERAGE CLAUSE

## INSURANCE CLAIM

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:
\$ STEP-1: Trading account prepared for the previous year. $\dagger$ STEP-2: Memorandum account prepared for current year. $\dagger$ STEP-3: Deduct the stock salvaged value.

## AVERAGE CLAUSE:

## Value of stock destroyed $\times$ Value of insurance policy +value of stock on the date of fire.

| Particulars | RS | Particulars | RS |
| :---: | :---: | :---: | :---: |
| To opening stock To purchase <br> (-) purchase return <br> To wages <br> To outstanding <br> To direct expenses <br> To manufacturing <br> expenses <br> To gross profit | XXX <br> XXX <br> XXX <br> XXX <br> XXX <br> XXX <br> XXX <br> XXX <br> XXX | By sales <br> (-)sales return <br> By closing stock (Balancing figure) | $\begin{aligned} & \text { XXX } \\ & \text { XXX } \\ & \text { XXX } \end{aligned}$ |

## 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
* PERCENTAGE OF

GROSS PROFIT RATIO=GROSS PROFIT/SALES

## ILLUSTRATION:2

A fire occurred in the premises of Mr. Patel on $31^{\text {st }}$ march,2009 from the following particulars, ascertain the claim to be lodged.

Stock on 1-1-2008
Purchase during the year 2008
Purchase return
Goods taken by Mr. patel for his personnel use Stock on 31-12-2008
Sales for the year 2008
Sales returns
Purchase from 1-1-2009 on the date of fire Sales from 1-1-2009 to date of fire
Value of stock saved Goods destroyed

## RS

- 450000

1855000
15000
-10000
630000

- 2060000
- 60000
- 420000
- 495000
- 99000
- 30000


#  

| Particulars | Rs | Particulars | Rs |
| :---: | :---: | :---: | :---: |
| To stock on |  |  |  |
| 1-1-08 | 450000 | By sales | 2060000 |
| 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. $20 \%$ on |  |  |  |
| Rs. 1072000 |  |  |  |
| sales) | 2660000 |  | 2660000 |

Percentage of gross profit ratio=gross profit/salesx100

$$
\begin{aligned}
& =R S .380000 / 2000000 \times 100 \\
& =19 \%
\end{aligned}
$$

Memorandum of trading a/c of mr.patel for the year 31.1208

| Particulars | RS | Particulars | RS |
| :--- | ---: | :--- | :--- |
| $\begin{array}{ll}\text { To stock on 1-1-09 } & 630000\end{array}$ | $\begin{array}{l}\text { By sales }\end{array}$ | 495000 |  |
| $\begin{array}{l}\text { To purchase } \\ \text { To gross profit } \\ \text { (19\% of Rs } \\ 495000 \text { ) }\end{array}$ | 920000 |  | $\begin{array}{l}\text { By stock on the }\end{array}$ |
| date of fire |  |  |  |
| (bal. figure) |  |  |  |$)$

## Statement showing the insurance claim to be

 lodged:Value of stock on 31-3-09
Less: value of stock saved claim to be lodged

- 649050
- 99000
- 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 - $X X X$
Less: current year sales -XXX

## SHORT SALES -XXX

*TEP2: 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

$$
\begin{aligned}
& \text { UNIT - II } \\
& \text { ROYALTY } \\
& \text { ACCOUNT }
\end{aligned}
$$

## IVTRODUCTION

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

## TERM USED TO ROY点LTY AGREEMENTS

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

* Landlord
* Lessee
* Royalty


## LKNDLORD

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 .

## LESSEE

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

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 |
| * $\quad$ Copyright royalty |  |

## MIINIVG 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 ROY价LY

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 IV THE BOOK OF LESSEE

## 1. THE ROYALTY PAYABLE AND RECEIVABLE

(a) With out short working

Royalty Account<br>To Landlord Account

Dr.
(b) short working with out minimum rent

$$
\begin{array}{cc}
\text { Royalty account } & \text { Dr. } \\
\text { Short working Account } \\
\text { To Landlord Account }
\end{array}
$$

## (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 <br> To Royalty Payable Account

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

To Short working Account

## PROBLEM

## Illustration :

A Company leased a colliery on 1-1-1992 at a minimum rent of 20,000 merging into a royalty of Rs.1.5o 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,12,00o tones and 16000 tones respectively. Give journal entries and ledger account for four years in the books of lessee .

## ANALYTICAL TABLE

| YEAR | $\begin{aligned} & \text { OUTP } \\ & \text { UT } \end{aligned}$ | ROYALT <br> Y <br> at <br> RS.1.50 <br> PER <br> TONNE | MINIM <br> UM <br> RENT <br> RS. | SHORT <br> WORKIN <br> G <br> RS. | SHORT <br> WORKI <br> NG <br> RECOVE <br> RE <br> RS. | SHORT <br> WORKING <br> S <br> IRRECOVE <br> ABLE <br> TRANFERR <br> DTO <br> P \& L A/C <br> RS. | PAYMEN <br> T <br> TO <br> LANDL <br> ORD <br> 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 |

## Journal entries in the book of lessee ;



| Date | Particular | Debit | Credit |
| :---: | :---: | :---: | :---: |
| Dec 31 | Production A/c Dr. To Royalty A/c (being Royalty Transferred) | 18,000 | 18,000 |
| 1994 <br> Dec 31 | Royalty A/c Dr. <br> To Landlord A/c  <br> (being royalty due)  | 24,000 | 24,000 |
| Dec 31 | Landlord A/c <br> To short working A/c To Bank A/c (being minimum rent paid and Rest. 4,000 recouped) | 24,000 | $\begin{aligned} & \text { 4,000 } \\ & 20,000 \end{aligned}$ |
| 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
Dr.
To Royalty receivable Account
(b) Short working with out minimum rent Lessee Account
Dr.
To Royalty receivable Account To Short working Account
(c) With out short working recoupment Cash Account Dr. To lessee Account
(d) When short working recouped Cash Account Dr.
Short working Account Dr.
To lessee Account

Short working Account
Dr. To Profit \& Loss Account
(e) For transfer of short worling not recouped
(f) For transfer of royalty account

Production Account
Or
Profit \& loss Account Dr.
To Royalty Account

## Problem

## Illustration :

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 | $\begin{aligned} & \text { OUT } \\ & \text { PUT } \end{aligned}$ | ROYALT <br> Y <br> RECEIV <br> ABL | SHORT <br> WORKI <br> NG | SURPL <br> US | SHORT <br> WORKIN <br> G <br> RECOUP <br> ED | SHORT <br> WORKI <br> NG <br> NOT <br> RECOU <br> PED | $\begin{aligned} & \text { PAID } \\ & \text { TO } \\ & \text { LANDL } \\ & \text { ORD } \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| 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 <br> Dec 31 | Bihar coal Ltd., <br> To royalty receivable A/c <br> To short working suspense $a / c$ <br> (being minimum due) | 30000 | $\begin{aligned} & 13500 \\ & 16500 \end{aligned}$ |
| Dec 31 | Bank a/c <br> To Bihar coal Ltd A/c <br> (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 <br> Dec 31 | Bihar coal ltd ., A/c <br> To royalties receivable A/c <br> To short working suspense $A / c$ <br> (being minimum due from) | 30000 | $\begin{aligned} & 22500 \\ & 7500 \end{aligned}$ |


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


| date | particular | debit | credit |
| :---: | :---: | :---: | :---: |
| 2007 <br> Dec 31 | Bihar coal ltd., A/c <br> Dr. <br> To Short working suspense A/c <br> To royalties receivable A/c (being minimum due) | 30,000 | $\begin{aligned} & 25,500 \\ & 4,500 \end{aligned}$ |
| Dec 31 | Bank A/c <br> Dr. <br> To Bihar coal Ltd., A/c | 30,000 | 30,000 |
|  | Royalties receivable A/c Dr. Short working suspense A/c Dr. <br> To Profit and loss A/c (being transfer to profit and loss account) | $4,500$ | 30,000 |

## 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 IV THE BOOK OF <br> SUB-LEXSE

## (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

Dr.
To Royalty Receivable Account
To Suspense Account
(c) For Royalty paid
landlord Account
Dr.
To Cash Account
To short working Account
(d) For Royalty Received
Cash Account
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
(f) For Short Working Not Recovered
Profit \& Loss Account
Dr.

To Short Working Account

## PROBLEM

## Illustration :

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 o. 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 four year in the following;

| year | mining co., ltd., | Mining lessee <br> 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

| $\begin{aligned} & \text { YEA } \\ & \text { R } \end{aligned}$ | $\begin{aligned} & \text { OUT } \\ & \text { PUT } \end{aligned}$ | ROYAL TY | MINIM <br> UM <br> RENT <br> 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 <br> y <br> Rs. | Minim um rent Rs. | Short workin g Rs | Short <br> workin <br> g <br> recoupe <br> d | Short working irrecovera ble | Paid <br> to <br> landlo <br> 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 <br> Short working A/c <br> To landlord A/ c <br> (being royalty payable) | Dr. Dr. | $\begin{aligned} & 3000 \\ & 1000 \end{aligned}$ | 4000 |
|  | Landlord A/c <br> To Bank A/c <br> (being payment made to landlord) | Dr. | 4000 | 4000 |
|  | Royalty receivable A/c <br> Profit \& loss A/c <br> To royalty payable A/c (being royalty payable made to landlord) | Dr. Dr. | $\begin{gathered} 800 \\ 2200 \end{gathered}$ | 3000 |
| 1991 | Royalty payable A/c Short working A/c <br> To landlord A/c (being royalty payable) | Dr. Dr. | $\begin{gathered} 3400 \\ 600 \end{gathered}$ | 4000 |


| Date | particular |  | debit | credit |
| :---: | :---: | :---: | :---: | :---: |
| 1992 | Landlord A/c <br> To bank A/c <br> (being payment made to landlord) | Dr. | 4000 | 4000 |
|  | Royalty receivable A/c <br> Profit \& loss A/c <br> To royalty payable A/c <br> (being royalty payable transfer) | Dr. Dr. | $\begin{aligned} & 1080 \\ & 2320 \end{aligned}$ | 3400 |
|  | Royalty A/c <br> To landlord A/c (being royalty payable) | Dr. | 4000 | 4000 |
|  | Landlord A/c <br> To bank A/c (being payment made to landlord) | Dr. | 4000 | 4000 |
|  | Royalty receivable A/c <br> Profit \& loss A/c <br> To royalty payable A/c (being royalty payable transferred) | $\begin{aligned} & \text { Dr. } \\ & \text { Dr. } \end{aligned}$ | $\begin{aligned} & 1400 \\ & 2600 \end{aligned}$ | 4000 |


| Date | Particular | Debit | Credit |  |
| :---: | :---: | :---: | :---: | :---: |
| 1993 | Royalty payable A/c <br> To short working A/c <br> To landlord A/c <br> (being royalty payable) <br> Landlord A/c <br> To bank A/c <br> (being payment made to <br> landlord) | Dr. | 4600 | 4000 |
| Royalty receivable A/c <br> Profit \& loss A/c <br> To royalty payable A/c <br> (being royalty payable <br> transferred) | Dr. | 1800 | 4000 |  |

## UNIT 3

INSOLVENCY
ACCOUNTS

## 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


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

## 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/c Dr.
To General Ledger Adjustment a/c
Cr.

## $>$ 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. 3,00o

To General Ledger Adjustment
(ii)General Ledger Adjustment a/c Dr.3,ooo To sales Ledger Adjustment a/c 3,000

## Sum:4

## 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 | $\begin{aligned} & \text { Dr. } \\ & \text { Rs. } \end{aligned}$ | $\begin{aligned} & \mathrm{Cr} . \\ & \mathrm{Rs} \end{aligned}$ |
| :---: | :---: | :---: | :---: |
| (1) | a)Ram (in the Bought Ledger) a/c <br> To Ram (in the sales Ledger) <br> (Being the for the transfer of the smaller amount) | 500 | 500 |
|  | b)Purchases Ledger Adjustment a/c. <br> To General Ledger Adjustment a/c <br> (Being the Purchase ledger ) | 500 | 500 |
|  | c) General Ledger Adjustment a/c <br> To Sales Ledger Adjustment a/c <br> (Being General Ledger, Sales Ledger) | 500 | 500 |
| (2) | a)Mehta Bros. (Purchases Ledger) a/c <br> To Mehta Bros.(in sales Ledger) a/c <br> (Being the for transfer of smaller amount) | 600 | 600 |
|  | b)Purchases Ledger Adjustment a/c <br> To General Ledger Adjustment a/c (Being the Purchases Ledger) | 600 | 600 |


|  | c) General Ledger Adjustment a/c Dr. <br> To sales Ledger Adjustment a/c (Being the sales Ledger ) | 600 | $\begin{aligned} & 60 \\ & 0 \end{aligned}$ |
| :---: | :---: | :---: | :---: |
| 3) | a)Salary Outstanding a/c(G.L) <br> Dr. <br> To Sales a/c <br> (Being for Transfer) | 100 | $\begin{aligned} & 10 \\ & 0 \end{aligned}$ |
|  | b)General Ledger Adjustment a/c <br> Dr. <br> To Sales Ledger Adjustment a/c <br> (Being for self -balancing the sales Ledger and General <br> Ledger) | 100 | $\begin{aligned} & 10 \\ & 0 \end{aligned}$ |
|  | (Second entry will not be needed as only two ledgers as affected ) |  |  |

## 1.Self balancing system:

## Illustration 1:

Prepare the sales ledger adjustment $\mathrm{A} / \mathrm{c}$ from the following information relating to the year ended 31.12.91.

RS.

Opening balance of debtors
Sales(for cash of Rs.1000o)
Cash received from debtors
Discount allowed to debtors
Bills receivable received from debtors
Sales returns
Bills Receivable dishonoured
Bad debts
Transfer to purchases ledger
Reserve for doubtful debts
Bad debts of last year received

40,000
90,000
80,000
500
3,000
8,000
500
1,000
2,000
1,500
1,000

In the General Ledger
Sales ledger Adjustment Account

| 1991 | Particulars | Rs. | 1991 | Particulars | Rs. |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Jan. 1 <br> Dec <br> 31 | To Balance b/d <br> To General Ledger <br> Adjustment A/c (D.L): <br> B/R(dishon oured) Sales | $\begin{aligned} & 40,000 \\ & \\ & \begin{array}{r} 500 \\ 80,000 \end{array} \\ & \hline 1,20,00 \\ & 0 \end{aligned}$ | Dec <br> . 31 | By General ledger <br> Adjustment A/c (D.L) <br> Cash <br> Discount allowed <br> B/R(Received) <br> Sales Returns <br> Bad debts <br> Transfer <br> By Balance c/d | $\begin{array}{r} 80,000 \\ 500 \\ 3,000 \\ 8,000 \\ 1,000 \\ 2,000 \\ 26,000 \end{array}$ |
|  |  |  |  |  | $\begin{aligned} & 1,20,00 \\ & 0 \end{aligned}$ |

Unit-4

## 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

$$
\frac{\text { Branch Account }}{\text { (IN H.O BOOKS })} \mathrm{Cr}
$$

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 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)

## 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 |
|  | 1,37,500 |  | 1,37.500 |

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

## BRANCH A/C

| Particular | RS |  | Particular |
| :--- | :--- | :--- | :--- | RS

## 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

 expenses- 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 |



## 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


i. When an asset is purchased on hire purchase system Asset Account Dr. (with cash price)

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 $\mathrm{A} / \mathrm{c}$
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 $\mathrm{A} / \mathrm{c}$ 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 $37^{\text {st }}$
December each year.
Rate of Interest: $5 \% p \cdot a$
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.

NTEREST CalCulateD

- Paid on 1/1/06
- Paid on 31/12/06
- Paid on 31/12/07

Total

## CALCLLATTONO O FEPPRCCITTOON

| Particulars | Rs. |
| :--- | :--- |
| 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 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| $\begin{aligned} & 1 / 1 / 0 \\ & 6 \end{aligned}$ | To Shyam \& Co. | 12,894 | $\begin{aligned} & 31 / 12 / \\ & 06 \end{aligned}$ | By Depreciation | 2,579 |
|  |  |  |  | By Bal. c/d | 10,315 |
|  |  | 12,894 |  |  | 12,894 |
| 1/1/07 | To Shyam \& Co. | 10,315 | $\begin{aligned} & 31 / 12 / \\ & 07 \end{aligned}$ | By Depreciation | 2,063 |
|  |  |  |  | By Bal. c/d | 8,252 |
|  |  | 10,315 |  |  | 10,315 |
| $\begin{aligned} & 1 / 1 / 0 \\ & 8 \end{aligned}$ | To Shyam \& Co. |  | $\begin{aligned} & 31 / 12 / \\ & 08 \end{aligned}$ | By Depreciation | 1,650 |
|  |  |  |  | By Bal. c/d | 6,602 |
|  |  | 8,252 |  |  | 8,252 |


| Date | Particulars | Amount | Date | Particulars | Amount |
| :--- | :--- | :--- | :--- | :--- | :--- |
| $31 / 12 / \mathrm{o}$ <br> 6 | To Shyam \& Co. | $\mathbf{5 4 5}$ | $31 / 12 /$ <br> 06 | By P/L a/c | 545 |
| 31/12/07 | To Shyam \& Co. | $\mathbf{3 7 2}$ | $31 / 12 /$ <br> 07 | By P/L a/c |  |
| 31/12/o8 | To Shyam \& Co. | 189 | $31 / 12 /$ | By P/L a/c |  |


| Date | Particulars | Amount | Date | Particulars | Amount |
| :---: | :---: | :---: | :---: | :---: | :---: |
| $\begin{aligned} & 31 / 12 / 0 \\ & 6 \end{aligned}$ | To Machinery | 2,579 | $\begin{aligned} & 31 / 12 / 0 \\ & 6 \end{aligned}$ | By P/La/c | 2,579 |
| $\begin{aligned} & 31 / 12 / 0 \\ & 7 \end{aligned}$ | To Machinery | 2,063 | $\begin{aligned} & 31 / 12 / 0 \\ & 7 \end{aligned}$ | By P/La/c | 2,063 |
| $\begin{aligned} & 31 / 12 / 0 \\ & 8 \end{aligned}$ | To Machinery | 1,650 | $\begin{aligned} & 31 / 12 / 0 \\ & 8 \end{aligned}$ | By P/La/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.

