

FINANCIAL ACCOUNTING NOTES

UNIT -1

Accounting is a term that describes the process of consolidating financial information to make it clear and understandable for all [stakeholders](#) and [shareholders](#). The main goal of accounting is to record and report a company's financial transactions, financial performance, and cash flows.

Accounting standards improve the reliability of financial statements. The financial statements include the [income statement](#), the [balance sheet](#), the [cash flow statement](#), and the [statement of retained earnings](#). The standardized reporting allows all stakeholders and shareholders to assess the performance of a business. Financial statements need to be transparent, reliable, and accurate.

Importance of Accounting

1. Keeps a record of business transactions

Accounting is important as it keeps a systematic record of the organization's financial information. Up-to-date records help users compare current financial information to historical data. With full, consistent, and accurate records, it enables users to assess the performance of a company over a period of time.

2. Facilitates decision-making for management

Accounting is especially important for internal users of the organization. Internal users may include the people that plan, organize, and run the organization. The management team needs accounting in making important decisions. Business decisions may range from deciding to pursue geographical expansion to improving operational efficiency.

3. Communicates results

Accounting helps to communicate company results to various users. [Investors](#), [lenders](#), and other [creditors](#) are the primary external users of accounting information. Investors may be deciding to buy shares in the company, while lenders need to analyze their risk in deciding to lend. It is important for companies to establish credibility with these external users through relevant and reliable accounting information.

4. Meets legal requirements

Proper accounting helps organizations ensure accurate reporting of financial assets and liabilities. Tax authorities, such as the U.S. [Internal Revenue Service \(IRS\)](#) and the Canada Revenue Agency (CRA), use standardized accounting financial statements to assess a company's declared gross revenue and net income. The system of accounting helps to ensure that a company's financial statements are legally and accurately reported.

Types of Accounting

Accounting can be classified into two categories – financial accounting and managerial accounting.

1. Financial Accounting

Financial accounting involves the preparation of accurate financial statements. The focus of financial accounting is to measure the performance of a business as accurately as possible. While financial statements are for external use, they may also be for internal management use to help make decisions.

2. Managerial Accounting

Managerial accounting analyses the information gathered from financial accounting. It refers to the process of preparing reports about business operations. The reports serve to assist the management team in making strategic and tactical business decisions.

Managerial accounting is a process that allows an enterprise to achieve maximum efficiency by reviewing accounting information, deciding on the best next steps to follow, and then communicating these next steps to internal business managers.

An example of managerial accounting is [cost accounting](#). Cost accounting focuses on a detailed break-up of costs for effective cost control. Managerial accounting is very important in the decision-making process.

What is the relationship of accounting with other disciplines?

Accounting is a multifaceted discipline that intersects with various fields, creating a comprehensive framework for analyzing and managing financial information. Here's how accounting relates to other disciplines:

1. Finance

- **Relationship:** Accounting provides the foundational data needed for financial analysis, investment decisions, and financial planning.
- **Overlap:** Both fields focus on managing money, but finance often deals with the strategic allocation of resources, while accounting emphasizes the accurate recording and reporting of financial transactions.

2. Economics

- **Relationship:** Accounting data is essential for understanding economic conditions and trends.
- **Overlap:** Economists use accounting information to analyze market behaviour, assess economic performance, and inform policy decisions.

3. Business Management

- **Relationship:** Accounting informs managerial decision-making by providing insights into financial performance and operational efficiency.
- **Overlap:** Managers rely on accounting reports for budgeting, forecasting, and strategic planning.

4. Marketing

- **Relationship:** Marketing strategies often require financial analysis to determine the cost-effectiveness of campaigns and pricing strategies.
- **Overlap:** Accountants may analyze marketing expenditures and their return on investment (ROI).

5. Information Technology

- **Relationship:** The rise of accounting software and information systems has transformed how accounting data is collected, processed, and reported.
- **Overlap:** IT professionals work with accountants to develop systems that ensure data accuracy and security.

6. Law

- **Relationship:** Accounting is closely tied to legal regulations, particularly in taxation, corporate governance, and compliance.
- **Overlap:** Legal professionals may consult accountants for financial matters related to contracts, disputes, and litigation.

7. Statistics and Data Analysis

- **Relationship:** Accounting relies on statistical methods to analyze financial data and trends.
- **Overlap:** Data analysts may use accounting data to develop predictive models and perform risk assessments.

8. Psychology

- **Relationship:** Understanding human behavior is crucial for financial decision-making and ethical considerations in accounting.
- **Overlap:** Behavioural finance, a subfield of finance, examines how psychological factors influence financial decisions.

- **Relationship of Accounting with other discipline:**

- (1) **Accounting and Economics:-**

- Economics tells how scarce resources are utilized effectively. For that it is required to analysis the data of resources. Accounting provides major data base for same purpose.

- (2) **Accounting and statistics :-**

- In accounts all individual transactions or events are important but in statistics behaviour (i.e. trend analysis, degree of variation over a period). So here statistics methods help accounting to collect data in systematic manner. Statistic techniques like time series, cross-sectional comparison etc. are used for better presentation of accounting data.

- (3) **Accounting and Mathematics:-**

- Mathematics helps accounting in numbers of ways like calculation of interest, annuity to find out installments etc.
- **(4) Accounting and law:-**
- Business enterprises require complying so many laws and making its accounting to comply their requirement. Partnership firms require to comply partnership act 1932, A company require to comply requirement of company act 2013, and so many other laws like labour laws, MRTTP Act, Contract Act, Negotiable Instrument Act, The sale of good Act. Thus transaction and events of accounting are guided by law.
- **(5) Accounting and Management--**
- Accounting helps management in decision making process. Accounting data are used by management as basic source documents. Large portion of accounting information are prepared for management decision making.

DOUBLE ENTRY SYSTEM

The double-entry system in accounting records every financial transaction in at least two accounts, ensuring the accounting equation (Assets = Liabilities + Equity) remains balanced. For every debit entry, there's a corresponding credit entry, reflecting the dual nature of each transaction. This system provides a complete and accurate picture of a company's financial position.

What Are the Rules of Double-Entry Bookkeeping?

There are 3 major components to the double-entry method in bookkeeping. They are:

1. Every business transaction or accounting entry has to be recorded in at least two accounts in the books.
2. For each transaction, the total debits recorded must equal the total credits recorded.
3. [Total assets](#) must always equal [total liabilities](#) plus equity (net worth or capital) of a business. Both sides of this equation must be the same (they must balance).

Example 1: Business Purchases Using Credit

You purchase \$780 worth of inventory on [credit](#). When you make the payment, your account payable decreases by \$780, and your cash decreases by \$780.

So, in your general ledger, you debit the account payable account (a liability account) and credit the cash account (an asset account)

Account	Debit	Credit
Accounts Payable (Liability Account)	\$780	
Cash (Asset Account)		\$780

When you receive the \$780 worth of inventory for your business, your inventory increase by \$780, and your account payable also increases by \$780.

In your ledger, you debit the inventory (asset) account and credit the account payable (liability) account.

Account	Debit	Credit
Inventory (Asset Account)	\$780	
Account Payable (Liability Account)		\$780

Bookkeeping in Accounting

MEANING

Bookkeeping means recording the financial transactions and information concerning the business of a company regularly. It is a systematic recording of financial transactions in a company. It ensures that the records of each financial transaction are up-to-date, correct and comprehensive.

The bookkeepers are individuals or entities who maintain the books of account of a company. They manage all the financial data of a company. The companies can track all their financial transactions on their books with accurate bookkeeping. Bookkeeping helps companies to make important investing, operating and financing decisions.

Connection Between Bookkeeping and Accounting

Bookkeeping is a separate process from accounting, which occurs within the broader scope of accounting. The accounts are prepared from the information provided by bookkeeping. A strong relationship between these two functions is necessary to take the business to the next level.

Bookkeeping is a segment of the whole accounting system. Bookkeeping is the basis for accounting as it contains the proper records of all financial transactions whereas, accounting involves organising, summarising, classification and reporting financial transactions.

If the bookkeeping is correct, the accounting of a company will be proper. Thus, accounting is broader than bookkeeping and accounting of a company relies on a proper and accurate bookkeeping system.

Bookkeeping helps to interpret the accounting information for decision making by both the internal and external users. Bookkeeping is a subset of accounting and clerical in nature which involves the following:

- Recording financial transactions
- Posting credits and debits
- Producing invoices
- Maintaining and balancing current account and general ledgers
- Completing payroll

Objectives of Bookkeeping

The objectives of bookkeeping are as follows:

1. To record the transactions

The first objective of bookkeeping is to maintain accurate and complete records of all financial transactions in an orderly manner. It systematically records all transactions and ensures that all financial transactions recorded are reflected in the books of accounts. These transactions can be used for future references.

2. To show the correct position

Bookkeeping helps to ascertain the overall impact of all financial transactions of a company. It reflects the financial effect of all business transactions that have taken place in a financial year. It provides financial information to the shareholders and management of the company, thus helping them formulate future policies and plans.

3. To detect errors and frauds

Bookkeeping helps to identify the transactions and summarise them chronologically in a systematic manner. It ensures that the books of accounts are correct, up-to-date, chronological and complete. Thus, it helps to detect any errors or frauds in the business.

❖ Types of Bookkeeping System

There are two types of bookkeeping systems. The business entities can choose any one of the types of bookkeeping system. Some entities use a combination of both types. The following are the two types of bookkeeping system:

1. Single-entry system of bookkeeping

The single-entry system of bookkeeping is a basic system to record daily receipts or generate a weekly or daily report of a company's cash flow. In the single-entry system of bookkeeping, the bookkeeper records one entry for each financial transaction or activity.

The single-entry system of bookkeeping involves recording only one side of the transaction or activity. It maintains only the purchases, cash receipts and payments and sales. It is used mainly by small businesses, which have minimal transactions.

2. Double-entry system of bookkeeping

The double-entry system of bookkeeping records a double entry for each financial activity or transaction. The double entry system provides balances and checks as it records the corresponding credit entry for every debit entry. It is not cash-based, and the transactions are entered when revenue is earned, or debt is incurred.

The double-entry system of bookkeeping is based on the duality concept, i.e. every financial transaction affects two accounts. It means that every debit entry to an account has a corresponding credit entry in another account and vice versa. This system is universally adopted and is considered accurate for recording business/financial transactions.

What are Accounting Concepts?

The **accounting concept** is a **process that helps prepare and record** the financial transactions in an organisation, along with organising the bookkeeping processes. When you implement accounting concepts effectively, it encourages businesses to integrate and interpret financial transactions into meaningful accounting processes.

Importance of Accounting Concepts

- **Consistency and comparability**

Accounting principles are important because they provide uniformity and comparability in financial reporting. For example, the going concern notion believes that a firm will continue to exist indefinitely. This assumption enables financial statements to be prepared with a long-term perspective, allowing for meaningful comparisons over numerous accounting periods.

- **Risk management**

The prudence concept promotes a cautious approach to financial reporting. This approach aids firms in risk management by recognising possible losses immediately but only recognising rewards when they are realised. Setting up provisions for possible bad debts based on past trends, for example, demonstrates a responsible approach to risk management.

- **Support in decision-making**

Accounting principles give organisations a standardised framework for keeping track of financial transactions, allowing them to produce accurate information quickly. A more accurate depiction of a company's financial situation is provided by the accrual concept, which recognises revenues and costs as they are generated or spent. Because accurate financial reporting gives stakeholders a comprehensive picture of a company's profitability and financial health, it facilitates effective decision-making.

- **Credibility**

Applying accounting principles strengthens financial statements' legitimacy and fosters stakeholder trust. By matching revenues with their associated expenditures, the matching concept keeps profits from being manipulated by ensuring that income aligns with the spending required to produce it. This fosters trust among creditors, investors, and other stakeholders who depend on financial statements to evaluate its health and sustainability.

Types of Accounting Concepts

Here is a list of different types of accounting concepts that you can implement in your business as per the requirements and situations of the company:

1. Going concern concept

According to the going concern concept, a firm will continue to operate indefinitely. This assumption has an impact on financial statement preparation, allowing accountants to portray long-term assets at their historical cost and giving stakeholders a more realistic picture of a company's financial health in the long run.

2. Business entity concept

In terms of the business entity concept, a business is a distinct economic entity from its owners. This notion guarantees that personal and corporate money are kept separate, allowing for transparent financial reporting. It facilitates measuring the success of the firm independent of its owners' financial actions, fostering openness and accountability.

3. Accrual concept

The accrual concept mandates that revenues and costs be recognised as they are received or spent, regardless of financial movements. This idea improves financial statement accuracy by matching them with the economic content of transactions and giving stakeholders a more complete knowledge of a company's financial status.

4. Money measurement concept

According to the money measurement concept, only monetary transactions should be documented in accounting. This approach makes quantification and comparison easier, ensuring that financial statements contain relevant and comparable information for decision-making.

5. Accounting period concept

The accounting period concept separates a company's economic existence into discrete periods, often a fiscal year, for financial reporting. This approach enables timely and consistent reporting, assisting stakeholders to evaluate a company's performance and make educated decisions at precise intervals.

6. Dual aspect concept

According to the dual aspect concept, every financial transaction includes two components: a debit and a credit. This double-entry technique keeps the accounting equation (Assets = Liabilities + Equity) balanced, allowing for a systematic approach to documenting and assessing financial transactions.

7. Revenue realisation concept

As to the income realisation concept, income should be recognised when it is earned, regardless of when payment is received. This notion prevents revenue from being recognised prematurely, aligning financial statements with the actual delivery of products or services and improving the trustworthiness of reported revenues.

8. Historical cost concept

The historical cost concept assesses assets at their original cost, giving financial reporting a solid and objective foundation. This notion improves dependability by minimising subjective values and guaranteeing that financial statements accurately represent asset purchase costs.

What are Accounting Conventions?

Accounting conventions, also known as doctrine, are known to be **principles** that act as restrictions regarding **organisational transactions** that are **unclear or complicated**. Even though accounting conventions do not act as legally binding, these are considered generally accepted principles helping to maintain consistency within the financial statements of a company.

The standard financial reporting system processes the information and uses accounting conventions to compare the different aspects of the transaction, along with analysing its relevance, application and full disclosure in the financial statements. The accountants in a company adopt the use of these conventions so that they act as a guide while preparing accounting statements and reports.

Importance of Accounting Conventions

To have a clear understanding of what accounting conventions are, it is necessary for you to understand their importance. Let us check below to get a clear idea of the importance of accounting conventions in a business:

- **Different entity**

Accounting norms are critical in dealing with various entities in the financial environment. These conventions guarantee that companies, regardless of their type of business, adopt standardised practices for documenting financial transactions by setting consistent criteria. This consistency is critical for establishing a level playing field, facilitating fair comparisons across companies, and developing a thorough knowledge of financial statements among stakeholders.

- **Understanding**

Accounting conventions provide financial experts and stakeholders with a unified language. They provide a common knowledge of how financial data is recorded and reported, which allows a correct interpretation. This understanding is critical for decision-making because it enables users to analyse financial information and make educated decisions based on a set of standardised rules.

- **Impact on money**

One of the paramount aspects of accounting conventions is their direct impact on representing monetary values in financial statements. These conventions provide a controlled and standardised method of measuring and documenting financial transactions, assuring the accuracy and precision with which an entity's monetary situation is reflected.

- **Reliable**

The foundation of financial reporting is reliability, and accounting conventions play a critical role in maintaining this vital quality. Financial statements correctly reflect the financial status and performance of a business when standards are used consistently. To make wise decisions, stakeholders—including creditors and investors—depend on the accuracy of financial data.

- **Comparison**

Comparing various entities in a meaningful way is made possible by uniform accounting rules. This comparability is essential for investors, analysts, and other stakeholders looking to assess the financial standing and performance of different companies. It makes benchmarking easier and helps spot market trends, which leads to better decision-making.

Types of Accounting Conventions

Similar to accounting concepts, accounting conventions also have different types that help implement the concept in business financials efficiently. Here is a list showcasing the types of accounting conventions:

1. Convention of conservatism

One of the most important accounting conventions that accountants apply in the business is the conservatism principle. This principle suggests that if two values are associated with a specific transaction, the lowest must be recorded on the asset or income side of the financial statement. In this case, the possibility of loss is taken care of.

This accounting convention aims to understate profits and assets while dealing with business losses. Such practice mostly helps in enhancing the overall reliability of company stakeholders on the financial statements.

2. Convention of materiality

This accounting convention is related to all the relative information available for an item or event of a company's financial transactions. An item is generally considered material with respect to the influence it has on an investor's decisions. The aspect of materiality differs from one organisation to another.

For instance, in the case of a small company, certain information can be material but the same information may not be material for a large organisation. Hence, the application of materiality convention entirely depends on the context of analysis.

3. Convention of consistency

Consistency convention denotes that the same principles of accounting must be implemented to prepare the business financial statements, year after year. From the prepared financial statements, it is important to draw a meaningful conclusion of the same company when a comparison is made of the statements over a period.

Such financial comparisons can only be made if the same accounting practices and principles are followed uniformly by the firm over a period of time. In the case of different accounting

policies implemented every year, the comparison will not stand fruitful, and the result can also impact financial decisions.

4. Convention of full disclosure

The principle of full disclosure mandates the comprehensive revelation of all pertinent details in financial statements. This entails a thorough, impartial, and ample disclosure of accounting information.

Difference Between Financial, Cost and Management Accounting

S.No.	Basis for Comparison	Cost Accounting	Financial Accounting	Management Accounting
1	Meaning	Focuses on the determination, tracking, and controlling of costs incurred in the business.	Records financial information to reflect the profitability and the correct financial position of the company at a particular date.	Concerned with providing financial and non-financial information to managers for organizational decision-making and control.
2	Objective	Reducing and controlling costs.	Keeping a complete record of financial transactions, measuring profit and financial position.	Aiding management in planning, decision-making, and performance evaluation.

S.No.	Basis for Comparison	Cost Accounting	Financial Accounting	Management Accounting
3	Information Recorded	Relates to material, labor, and overhead used in the production process.	Transactions measurable in monetary terms.	Both financial and non-financial information relevant to managerial decision-making.
4	Type of Cost Recorded	Both historical and pre-determined costs.	Historical cost only.	Includes all types of costs, also focuses on qualitative information.
5	Mode of Presentation	No statutory forms, voluntary presentation.	Prepared according to accounting standards and in compliance with various acts.	No statutory format; tailored to meet the informational needs of management.
6	Time Period of Reporting	No fixed time period; reports prepared as and when required.	Financial statements are prepared at the end of the accounting period, usually 1 year.	Reports are generated as needed, often monthly, quarterly, or annually, and

S.No.	Basis for Comparison	Cost Accounting	Financial Accounting	Management Accounting
7	Users	Primarily internal stakeholders like management.	Both internal and external parties like customers, creditors, government, shareholders, etc.	sometimes ad-hoc. Primarily management and internal users.
8	Valuation of Stock	At cost.	Cost or Net Realizable Value, whichever is less.	Uses various methods depending on management requirements, may include standard cost, marginal cost, etc.
9	Mandatory	No, except for manufacturing firms where it may be required by regulations.	Yes, for all firms to comply with statutory requirements.	No, it is discretionary and tailored to the specific needs of the organization.
10	Profit Analysis	Generally, profit is analyzed for a	Income, expenditure, and	Focuses on analyzing financial

S.No.	Basis for Comparison	Cost Accounting	Financial Accounting	Management Accounting
		particular product, job, batch, or process.	profit are analyzed together for the business as a whole.	information for internal decision-making, including profitability of projects or departments.
11	Forecasting	Possible through budgeting techniques.	Not typically involved in forecasting.	Integral part, involves various forecasting and modeling techniques for planning and control.

UNIT -2

BOOKS OF ACCOUNTS

Books of accounts are the records used to keep track of financial transactions, and they can be broadly categorized into principal books and subsidiary books. Principal books, like the journal and ledger, form the core of accounting. Subsidiary books, such as the cash book and special journals, are used to record specific types of transactions in more detail.

Principal Books of Accounts:

Journal:

This is the book of original entry, where transactions are initially recorded in chronological order. It includes details of the accounts debited and credited.

Ledger:

The ledger is a book of accounts where transactions from the journal are classified and summarized into individual accounts. It is a book of secondary entry.

Subsidiary Books of Accounts:

Cash Book: This book records all cash receipts and payments, including both cash sales and cash purchases.

Sales Journal (or Sales Book): This journal is used to record credit sales of goods.

Purchase Journal (or Purchase Book): This journal is used to record credit purchases of goods.

Sales Return Book (or Return Inwards Book): This book records the goods returned by customers.

Purchase Return Book (or Return Outwards Book): This book records the goods returned to suppliers.

Bills Receivable Book: This book records the bills receivable from customers.

Bills Payable Book: This book records the bills payable to suppliers.

Journal Proper: This is a general journal where transactions not recorded in the special journals are entered.

Preparation of Books of Accounts:

The preparation of books of accounts involves the following steps:

1. Recording Transactions:

Initial recording of transactions in the journal or relevant subsidiary books.

2. Posting to Ledger:

Transferring the information from the journal and subsidiary books to the ledger accounts.

3. Balancing Accounts:

Determining the balances of each ledger account at the end of the accounting period.

4. Preparing Trial Balance:

Creating a trial balance to verify the accuracy of the ledger balances.

5. Preparing Financial Statements:

Preparing financial statements such as the balance sheet and income statement using the ledger balances.

JOURNAL ENTRIES NUMERICAL

Q.1 Jeyaseeli is a sole proprietor having a provisions store. Following are the transactions during the month of January, 2018. Journalise them.

Jan.

Rs.

- 1 Commenced business with cash 80,000
- 2 Deposited cash with bank 40,000
- 3 Purchased goods by paying cash 5,000
- 4 Purchased goods from Lipton & Co. on credit 10,000
- 5 Sold goods to Joy and received cash 11,000
- 6 Paid salaries by cash 5,000
- 7 Paid Lipton & Co. by cheque for the purchases made on 4th Jan.
- 8 Bought furniture by cash 4,000
- 9 Paid electricity charges by cash 1,000
- 10 Bank paid insurance premium on furniture as per standing instruction 300

In the books of Jeyaseeli
Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 Jan. 1	Cash A/c Dr. To Jeyaseeli's Capital A/c (Jeyaseeli commenced business with cash)		80,000	80,000
2	Bank A/c Dr. To Cash A/c (Deposited cash into bank)		40,000	40,000
3	Purchases A/c Dr. To Cash A/c (Goods purchased by cash)		5,000	5,000
4	Purchases A/c Dr. To Lipton & Co. A/c (Goods purchased on credit)		10,000	10,000
5	Cash A/c Dr. To Sales A/c (Cash sales made)		11,000	11,000

6	Salaries A/c To Cash A/c (Salaries paid)	Dr.		5,000	5,000
7	Lipton & Co. A/c To Bank A/c (Payment made by cheque)	Dr.		10,000	10,000
8	Furniture A/c To Cash A/c (Furniture bought for cash)	Dr.		4,000	4,000
9	Electricity charges A/c To Cash A/c (Electricity charges paid)	Dr.		1,000	1,000
10	Insurance premium A/c To Bank A/c (Insurance premium on furniture paid)	Dr.		300	300

Q.2 Ananth is a trader dealing in textiles. For the following transactions, pass journal entries for the month of January, 2018.

Jan.

Rs.

- 1 Commenced business with cash 70,000
- 2 Purchased goods from X and Co. on credit 30,000
- 3 Cash deposited into bank 40,000
- 4 Bought a building from L and Co. on credit 95,000
- 5 Cash withdrawn from bank for office use 5,000
- 6 Cash withdrawn from bank for personal use of Ananthu 4,000
- 7 Towels given as charities 3,000
- 8 Shirts taken over by Ananth for personal use 12,000
- 9 Sarees distributed as free sample 3,000
- 10 Goods (table clothes) used for office use 200

In the books of Ananth

Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 Jan. 1	Cash A/c To Ananth's capital A/c (Commenced business with cash)	Dr.	70,000	70,000
2	Purchases A/c To X and Co. A/c (Credit purchases made)	Dr.	30,000	30,000
3	Bank A/c To Cash A/c (Cash deposited into bank)	Dr.	40,000	40,000
4	Buildings A/c To L and Co. A/c (Building bought on credit)	Dr.	95,000	95,000
5	Cash A/c To Bank A/c (Cash withdrawn from bank for office use)	Dr.	5,000	5,000
6	Drawings A/c To Bank A/c (Cash withdrawn from bank for personal use)	Dr.	4,000	4,000
7	Charities A/c To Purchases A/c (Goods given for charities)	Dr.	3,000	3,000
8	Drawings A/c To Purchases A/c (Goods taken over for personal use)	Dr.	12,000	12,000
9	Sales promotion A/c To Purchases A/c (Goods distributed as free samples)	Dr.	3,000	3,000
10	Office expenses A/c To Purchases A/c (Goods used for office use)	Dr.	200	200

Q.3 Arun is a trader dealing in automobiles. For the following transactions, pass journal entries for the month of January, 2018

- Jan. Rs.
- 1 Commenced business with cash 90,000
 - 2 Purchased goods from X and Co. on credit 40,000
 - 3 Accepted bill drawn by X and Co. 20,000
 - 4 Sold goods to D and Co. on credit 10,000
 - 5 Paid by cash the bill drawn by X and Co.
 - 6 Received cheque from D and Co. in full settlement and deposited the same in bank 9,000
 - 7 Commission received in cash 5,000
 - 8 Goods costing Rs. 40,000 was sold and cash received 50,000
 - 9 Salaries paid in cash 4,000
 - 10 Building purchased from Kumar and Co. for Rs. 1,00,000 and an advance of Rs. 20,000 is given in cash

In the books of Arun
Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 Jan. 1	Cash A/c Dr. To Arun's capital A/c (Arun commenced business with cash)		90,000	90,000
2	Purchases A/c Dr. To X and Co. A/c (Credit purchases made)		40,000	40,000
3	X and Co. A/c Dr. To Bills payable A/c (Bill drawn by X and Co. accepted)		20,000	20,000
4	D and Co. A/c Dr. To Sales A/c (Goods sold on credit)		10,000	10,000

5	Bills payable A/c To Cash A/c (Bills payable paid)	Dr.		20,000	20,000
6	Bank A/c Discount A/c To D and Co. A/c (Cheque received from D and Co. in full settlement)	Dr. Dr.		9,000 1,000	10,000
7	Cash A/c To Commission A/c (Commission received in cash)	Dr.		5,000	5,000
8	Cash A/c To Sales A/c (Cash sales made)	Dr.		50,000	50,000
9	Salaries A/c To Cash A/c (Salaries paid in cash)	Dr.		4,000	4,000
10	Buildings A/c To Cash A/c To Kumar and Co. A/c (Building bought by giving advance money)	Dr.		1,00,000	20,000 80,000

Q.4 Bragathish is a trader dealing in electronic goods who commenced his business in 2015. For the following transactions took place in the month of March 2018, pass journal entries.

March Rs.

1. Purchased goods from Y and Co. on credit 60,000
2. Sold goods to D and Co. on credit 30,000
3. Paid Y and Co. through bank in full settlement 58,000
4. D and Co. accepted a bill drawn by Bragathish 30,000
5. Sold goods to L on credit 20,000
6. Sold goods to M on credit 40,000
7. Received a cheque from M in full settlement and deposited the same to the bank 39,000
8. Goods returned to Y and Co. 4,000
9. L became insolvent and only 90 paise per rupee is received by cash in final settlement
10. Goods returned by M 3,000

Solution

In the books of Bragathish

Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 March 1	Purchases A/c Dr. To Y and Co. A/c (Goods purchased on credit)		60,000	60,000
2	D and Co. A/c Dr. To Sales A/c (Credit sales made to D and Co.)		30,000	30,000
3	Y and Co. A/c Dr. To Bank A/c To Discount received A/c (Payment made to Y and Co. and discount received)		60,000	58,000 2000
4	Bills Receivable A/c Dr. To D and Co. A/c (Bills received from D and Co.)		30,000	30,000
5	L A/c Dr. To Sales A/c (Goods sold on credit to L)		20,000	20,000
6	M A/c Dr. To Sales A/c (Goods sold on credit to M)		40,000	40,000
7	Bank A/c Dr. Discount allowed A/c Dr. To M A/c (Cheque received and discount allowed)		39,000 1000	40,000
8	Y and A/c Dr. To Purchases returns A/c (Goods returned to Y and Co.)		4,000	4,000
9	Cash A/c (20,000 × 0.9) Dr. Bad debts A/c Dr. To L A/c (Cash received from L in final settlement)		18,000 2,000	20,000
10	Sales returns A/c Dr. To M A/c (Goods returned by M)		3,000	3,000

Q.5 Valluvar is a sole trader dealing in textiles. From the following transactions, pass journal entries for the month of March, 2018.

March

Rs.

- 1 Commenced business with cash 90,000 with goods 60,000
- 2 Purchased 20 readymade shirts from X and Co. on credit 10,000
- 3 Cash deposited into bank through Cash Deposit Machine 30,000

- 4 Purchased 10 readymade sarees from Y and Co. by cash 6,000
- 5 Paid X and Co. through NEFT
- 6 Sold 5 sarees to A and Co. on credit 4,000
- 7 A and Co. deposited the amount due in Cash Deposit Machine
- 8 Purchased 20 sarees from Z & Co. and paid through debit card 12,000
- 9 Stationery purchased for and paid through net banking 6,000
- 10 Bank charges levied 200

Solution

**In the books of Valluvar
Journal entries**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 March 1	Cash A/c Stock A/c To Valluvar's Capital A/c (Valluvar commenced business with cash and goods)	Dr. Dr.	90,000 60,000	1,50,000
2	Purchases A/c To X and Co. A/c (Credit purchases made)	Dr.	10,000	10,000
3	Bank A/c To Cash A/c (Deposited cash into bank)	Dr.	30,000	30,000
4	Purchases A/c To Cash A/c (Goods purchased by cash)	Dr.	6,000	6,000

5	X and Co. A/c To Bank A/c (Deposited cash into bank)	Dr.		10,000	10,000
6	A and Co. A/c To Sales A/c (Credit sales made to A and Co.)	Dr.		4,000	4,000
7	Bank A/c To A and Co. A/c (Money received through CDM)	Dr.		4,000	4,000
8	Purchases A/c To Bank A/c (Purchases made)	Dr.		12,000	12,000
9	Stationery A/c To Bank A/c (Stationery purchased)	Dr.		6,000	6,000
10	Bank charges A/c To Bank A/c (Bank charges levied)	Dr.		200	200

Q.6 Deri is a sole trader dealing in automobiles. From the following transactions, pass journal entries for the month of January, 2018.

Jan.

Rs.

- 1 Commenced business with cash 1,00,000 with goods 2,00,00 with buildings 5,00,000
- 2 Purchased goods from A and Co. on credit 3,00,000
- 3 Cash deposited into bank 80,000
- 4 Purchased goods from B and Co. and payment made through credit card 5,000
- 5 Paid A and Co. through RTGS
- 6 Sold goods to C and Co. and cheque received 50,000
- 7 Deposited the cheque received from C and Co. with the bank
- 8 Purchased goods from Z & Co. and paid through debit card 12,000
- 9 Stationery purchased for and paid through net banking 6,000
- 10 Income tax of Deri is paid by cheque 10,000

Solution

In the books of Deri
Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 Jan. 1	Cash A/c Dr. Stock A/c Dr. Buildings A/c Dr. To Deri's capital A/c (Deri commenced business with cash, goods and buildings)		1,00,000 2,00,000 5,00,000	8,00,000
2	Purchases A/c Dr. To A and Co. A/c (Credit purchases made)		3,00,000	3,00,000
3	Bank A/c Dr. To Cash A/c (Amount deposited in the bank)		80,000	80,000
4	Purchases A/c Dr. To Bank A/c (Goods purchased through credit card)		5,000	5,000
5	A and Co. A/c Dr. To Bank A/c (Payment through RTGS)		3,00,000	3,00,000
6	Cash A/c Dr. To Sales A/c (Sales made and cheque received)		50,000	50,000
7	Bank A/c Dr. To Cash A/c (Cheque received from C and Co. deposited in the bank)		50,000	50,000
8	Purchases A/c Dr. To Bank A/c (Goods purchased by debit card)		12,000	12,000
9	Stationery A/c Dr. To Bank A/c (Stationery purchased through net banking)		6,000	6,000
10	Drawings A/c Dr. To Bank A/c (Income tax of the owner paid)		10,000	10,000

Chandran is a sole trader dealing in sports items. From the following transactions, pass journal entries for the month of March, 2018.

March Rs.

1 Commenced business with cash 4,00,000

- 2 Cash deposited into bank 3,00,000
- 3 Purchased goods from Ravi and payment made through net banking 90,000
- 4 Sales made to Kumar, who deposited the money through CDM 10,000
- 5 Sales made to Vivek, who made the payment by debit card 60,000
- 6 Sold goods to Keerthana, who made the payment through credit card 50,000
- 7 Dividend directly received by bank 2,000
- 8 Money withdrawn from ATM 3,000
- 9 Salaries paid through ECS 6,000
- 10 Cricket bats donated to a trust 10,000

Solution

Steps

5	Bank A/c To Sales A/c (Sales made and money credited through debit card)	Dr.		60,000	60,000
6	Bank A/c To Sales A/c (Sales made and money credited through credit card)	Dr.		50,000	50,000
7	Bank A/c To Dividend A/c (Dividend directly received by bank)	Dr.		2,000	2,000
8	Cash A/c To Bank A/c (Cash withdrawn through ATM)	Dr.		3,000	3,000
9	Salaries A/c To Bank A/c (Salaries paid through ECS)	Dr.		6,000	6,000
10	Donation A/c To Purchases A/c (Cricket bats donated to a trust)	Dr.		10,000	10,000

Q.7 Deepak is a dealer in stationery items. From the following transactions, pass journal entries for the month of January and February, 2018.

Jan.

Rs.

- 1 Commenced business with cash 2,00,000
 - 2 Opened a bank account by depositing cash 1,00,000
 - 3 'A 4 papers' sold on credit to Padmini and Co. 60,000
 - 4 Bills received from Padmini and Co. for the amount due
 - 5 Bills received from Padmini and Co. discounted with the bank 58,000
- Feb.
- 15 Bills of Padmini and Co. dishonoured

Solution

In the books of Deepak Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2018 Jan. 1	Cash A/c To Deepak's capital A/c (Capital contributed by Deepak)	Dr.	2,00,000	2,00,000
2	Bank A/c To Cash A/c (Cash deposited with the bank)	Dr.	1,00,000	1,00,000
3	Padmini and Co. A/c To Sales A/c (Credit sales to Padmini and Co.)	Dr.	60,000	60,000
4	Bills receivable A/c To Padmini and Co. A/c (Bill received for the amount due)	Dr.	60,000	60,000
5	Bank A/c Discount A/c To Bills receivable A/c (Bills receivable discounted with the bank)	Dr. Dr.	58,000 2,000	60,000
Feb. 15	Padmini and Co. A/c To Bank A/c (Bill discounted with the bank dishonoured)	Dr.	60,000	60,000

Q.8 Pass Journal Entries in book Susmita Ltd.:

- On 1 April 2023, Susmita got 10% interest on the capital of ₹5,00,000.
- On 9 April 2023, Susmita paid 15% interest on drawings of ₹8,000.
- On 11 April 2023, the Salary of an employee is due for ₹5,000.
- On 13 April 2023, Provide 10% depreciation on machinery costing ₹10,00,000.
- On 19 April 2023, Goods for ₹4,000 were distributed as free samples.
- On 24 April 2023, Goods worth ₹25,000 were stolen by an employee.

(g) On 27 April 2023, Goods worth ₹3,00,000 were destroyed by fire, and the insurance company paid a claim for 60% amount.

Solution:

Journal Entry

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
2023 April 1	Interest on Capital A/c To Susmita's Capital A/c (Being Interest on Capital @ 10% paid)	Dr.	50,000	50,000
April 9	Susmita's Capital A/c To Interest on Drawing A/c (Being Interest calculated on Drawing @ 15%)	Dr.	1,200	1,200
April 11	Salary A/c To Outstanding Salary A/c (Being salary due to employee)	Dr.	5,000	5,000
April 13	Depreciation A/c To Machinery A/c (Being depreciation on machinery @ 10% charged)	Dr.	1,00,000	1,00,000
April 19	Advertisement Expense A/c To Purchase A/c (Being goods distributed as free samples)	Dr.	4,000	4,000
April 24	Loss by Theft A/c To Purchase A/c (Being goods stolen by employee)	Dr.	25,000	25,000
April 27	Loss by Fire A/c To Purchase A/c (Being goods destroyed by fire)	Dr.	3,00,000	3,00,000
April 27	Insurance Company A/c To Loss by Fire A/c (Being claim made)	Dr.	3,00,000	3,00,000
April 27	Bank A/c Profit/Loss A/c To Insurance Company A/c (Being insurance claim received for 60%)	Dr. Dr.	1,80,000 1,20,000	3,00,000

Q.9 Pass the necessary journal entries related to the following transactions in the book of R.K. Pvt Ltd.

- On 1 April 2023, Purchased goods for cash ₹40,000 and paid ₹2,000 for their carriage.
- On 11 April 2023, Amar who owned ₹20,000 declared insolvent.
- On 16 April 2023, Machinery bought for ₹5,00,000 and paid ₹25,000 for its installation.
- On 19 April 2023, Further paid ₹5,000 on the carriage of the machine bought.
- On 24 April 2023, Purchased bricks and timber for ₹10,00,000 for construction of the building and made payment through cheque.
- On 29 April 2023, Amar who was earlier declared insolvent paid 30 paise in Rupee.

Solution:

Journal Entry

Date	Particulars	L.F.	Amount(Dr.)	Amount(Cr.)
2023 April 1	Purchase A/c Carriage A/c To Cash A/c (Being goods purchased for cash)	Dr. Dr.	40,000 2,000	42,000
April 11	Bad debts A/c To Amar A/c (Being a debtor became insolvent)	Dr.	20,000	20,000
April 16	Machinery A/c To Cash A/c (Being mach. purchased for ₹5,00,000 and paid ₹25,000 as install. charges)	Dr.	5,25,000	5,25,000
April 19	Machinery A/c To Cash A/c (Being carriage paid)	Dr.	5,000	5,000
April 24	Building A/c To Bank A/c (Being bricks and timber purchased for the construction of the building)	Dr.	10,00,000	10,00,000
April 29	Cash A/c To Bad Debts Recovered A/c (Being bad debts recovered)	Dr.	6,000	6,000

Q.10 Journalized the transactions given below in the books of Makalu Traders.

April 1. Makalu started the business with 200000. Makalu opens an account with bank deposits of 180000

2. Makalu Purchased furniture 8500 and a computer 2500. Payment made by cheque

3. Goods purchased from M / s Basu & Co. for cash of 15000 and on credit of 30000

4. Goods sold for cash 25000 to M / s Arbind & Co.

5. Paid to M/s Basu for full settlement and allowed a discount of 1000

6. Goods sold for cash 10000 and on credit 25000 to M/s Asha Traders.

7. Received a cheque for 24500 from M/s Asha Traders for full settlement

8. Received a bill for two table fans, 4400 from M/ s Ugratara Electrics goods supplier.

9. One fan was stolen

SOLUTION

Journal Entries

Date	Particular	L.F.	Debit	Credit
2064 April 1	Cash a/c Dr. To capital a/c (Being started business with cash)		200000	200000
1	Bank a/c Dr To Cash a/c (Being cash deposited in the bank)		180000	180000
2	Furniture a/c Dr Office Equipment a/c Dr		8500 25000	

	To bank a/c			33500
	(Being purchased furniture and computer and payment made through cheque)			
3	Purchased a/c Dr		45000	
	To Cash a/c			15000
	To M/s Basu & Co. a/c			30000
	(Being goods purchased for cash and on credit from M/s Basu and CO)			
4	Cash a/c Dr		25000	
	To Sales a/c			25000
	(Being goods sold for cash to M/s Arbind & Co.)			
5.	M/s Basu a/c Dr		30000	
	To Cash a/c			29000
	To Discount a/c			1000
	(Being paid cash to M/s Basu for full settlement and received discount)			
6.	Cash a/c Dr.		10000	
	M/S Asha Traders a/c Dr		25000	
	To Sales a/c			35000

	(Being goods sold to M/s Asha Traders for cash and on credit)			
7.	Cash a/c Dr.		24500	
	Discount a/c Dr.		500	
	To M/S Asha Traders a/c			25000
	(Being a cheque received from M/s Asha Traders for full settlement)			
8.	Office Equipment a/c		4400	
	To M/s Ugratara Electrics Suppliers			4400
	(Being purchased two table fans from M/s. Ugratara Electrics Goods Suppliers on credit)			
9.	Loss by theft a/c			
	To Office Equipment a/c			
	(Being stolen of one table fan)			
	Total		580100	580100

What is a ledger in accounting?

An accounting ledger is an account or record used to store bookkeeping entries for balance-sheet and income-statement transactions. Accounting ledger journal entries can include accounts like cash, accounts receivable, investments, inventory, accounts payable, accrued expenses, and customer deposits.

Q.1 Journalise the following transactions and post them in the ledger

2006

- **January 1 Commenced business with cash 50000**
- **January 3 Paid into bank 25000**
- **January 5 Purchased furniture for cash 5000**
- **January 8 Purchased goods and paid by cheque 15000**
- **January 8 Paid for carriage 500**
- **January 14 Purchased Goods from K. Murthy 35000**
- **January 18 Cash Sales 32000 January 20 Sold Goods to Ashok on credit 28000**
- **January 25 Paid cash to K. Murthy in full settlement 34200**
- **January 28 Cash received from Ashok 20000**
- **January 31 Paid Rent for the month 2000**
- **January 31 Withdrew from bank for private use 2500**

Journal

Date	Particulars	LF	Dr. Amount Rs.	Cr Amount Rs.
2007 Jan 1	Cash A/c To Capital A/c (Commenced business with cash)	Dr.	50,000	50,000
Jan 3	Bank A/c To cash A/c (Cash paid in the Bank)	Dr	25,000	25,000
Jan 5	Furniture A/c To Cash A/c (Purchased furniture for cash)	Dr	5000	5000
Jan 8	Purchases A/c To Bank A/c (Purchased goods and paid by cheque)	Dr	15000	15,000
Jan 8	Carriage A/c To Cash A/c (Cash paid for carriage charges)	Dr	500	500

Jan 14	Purchases A/c To K. Murthy (Goods purchased on credit)	Dr		35000		35,000
Jan 18	Cash A/c To Sales A/c (Goods sold for cash)	Dr		32000		32000
Jan 20	Ashok To Sales A/c (Goods sold to Ashok credit)	Dr		28000		28000
Jan 25	K Murthy To Cash A/c To Discount A/c (Cash paid to K. Murthi a discount allowed by them)	Dr		35000		34200 800
Jan 28	Cash A/c To Ashok (Cash received from Ashok on Account)	Dr		20000		20000
Jan 31	Rent A/c To Cash A/c (Cash paid for rent)	Dr		2000		2000
Jan 31	Drawings A/c To Bank A/c (Cash withdrawn from bank for domestic use)	Dr		2500		2500

Ledger

Cash A/c

Dr.

Cr.

Date	Particulars	JF	Amount Rs.	Date	Particular	JF	Amount Rs.
2006				2006			
Jan 1	Capital A/c		50000	Jan 3	Bank A/c		25000
" 18	Sales A/c		32000	Jan 5	Furniture		5000
" 28	Ashok		20000	Jan 8	Carriage		500
				Jan 25	K. Murthy		34200
				Jan 31	Rent A/c		2000

Capital A/c

Dr.				Cr.			
Date	Particulars	JF	Amount Rs	2006	Particulars	JF	Amount Rs
				Jan 1	Cash A/c		50000

Bank A/c

Dr.				Cr.			
Date	Particulars	JF	Amount Rs	2006	Particulars	JF	Amount Rs
2006				2006			
Jan 2	Cash A/c		25000	Jan 31	Drawings A/c		2500
				Jan 8	Purchases A/c		15000

Furniture A/c

Dr.				Cr.			
Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006							
Jan 2	Cash A/c		5000				

Purchases A/c

Dr.				Cr.			
Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006							
Jan 8	Bank A/c		15000				
Jan 14	K. Murthy		35000				

Carriage A/c

Dr.				Cr.			
Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006							
Jan 8	Cash A/c		500				

K. Murthy A/c

Dr.

Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006				2006			
Jan 25	Cash A/c		34000	Jan 14	Purchases A/c		35000
Jan 25	Discount A/c		800				

Sales A/c

Dr.

Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
				2006			
				Jan 18	Cash A/c		32000
				Jan 20	Ashok		28000

Ashok A/c

Dr.

Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006				2006			
Jan 20	Sales A/c		28000	Jan 28	Cash A/c		20000

Rent A/c

Dr.

Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006							
Jan 3	Cash A/c		2000				

Drawings A/c

Dr.

Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
2006							
Jan 18	Bank A/c		2500				

TRAIL BALANCE

A trial balance is an accounting report used by business accountants during the accounting close process to ensure that all general ledger accounts have equal debit and credit totals, meaning the GL accounts are in balance, as required in double-entry bookkeeping.

What's the Role of a Trial Balance in Accounting?

The role of a trial balance in accounting is to help accountants detect some errors when total debits don't equal total credits for all balance sheet accounts and income statement accounts (including revenues, costs, expenses, gains, and losses).

Although companies also prepare a [cash flow](#) statement for [cash flow management](#) purposes and financial reporting, line items in the cash flow statement aren't included in the trial balance.

During the accounting cycle, accountants use the trial balance report to ensure the books balance for debits and credits, in accordance with double-entry bookkeeping, and document adjusting and closing entries made to the general ledger accounts before actually closing the books and preparing financial statements.

What are the Different Types of Trial Balance?

Bookkeepers and accountants or small business owners use different types of trial balance, depending on the stage of the [accounting cycle](#) close. Accounting software and ERP systems often generate trial balance reports. Some small businesses less efficiently use Google Sheets or Excel worksheets or templates for preparing their trial balance documents.

Three different types of trial balance are:

1. Unadjusted trial balance
2. Adjusted trial balance
3. Post-closing trial balance

Unadjusted Trial Balance

The unadjusted trial balance is the preliminary trial balance report or document that lists all ending balances or totals of accounts to determine if total debits and credit balances for account totals in the general ledger are equal. The trial balance includes [balance sheet](#) and income statement accounts. The trial balance is prepared after the subsidiary journals and journal entries have been posted to the general ledger.

After the preliminary Unadjusted Trial Balance, also known as the Trial Balance, is prepared, accountants review it and determine if corrections are required for determining adjusted balances.

Adjusted Trial Balance

The Adjusted Trial Balance is a second type of trial balance, set up like a worksheet, that includes debit and credit columns for each category: Unadjusted Trial Balance, Adjusting Entries, and Adjusted Trial Balance. Adjusting entries will include debit entries and credit entries. The total of the debits and credits should be equal if the books are in balance.

Post-closing Trial Balance

After making any required adjustments and closing entries in the accounting records, the trial balance is run again as the Post-closing Trial Balance to ensure that debits and credits are in balance and the financial statement reports can be prepared.

What are the Limitations of a Trial Balance?

The limitations of using a trial balance are:

- Not having all trial balance accounts included in the general ledger (in error)
- Not recording all necessary entries to include in the trial balance will result in the wrong amount on the financial statements
- Needing to spend time investigating differences when the trial balance total debits and credits totals don't balance
- Not detecting that transactions were miscoded to the wrong account or that debits and credits were to the wrong accounts if total debits and credits still balance
- Delaying the financial close when errors occur

Problems 1:

Prepare a Trial Balance for Shining Brothers Pvt. Ltd. at March 31st, 2017?

<i>Description</i>	<i>Amount</i>	<i>Description</i>	<i>Amount</i>	<i>Description</i>	<i>Amount</i>
Bank Loan	Rs. 14,000	Insurance Expense	Rs. 7,300	Equipments	Rs. 40,000
Marketable Security	6,500	Owner's Investments	95,000	Maintenance Exp.	5,000
Bill Payable	1,000	Rent & Rates Expense	400	Miscellaneous Expenses	4,800
Unearned Revenue	3,500	Acc. Dep. _ Equipments	14,000	Accrued Expenses	1,500
Sundry Debtors	12,000	Accrued Revenue	15,000	Dep. Exp. _ Equipments	2,000
Outstanding Salaries	2,500	Machinery	25,000	Unexpired Insurance	8,500
Prepaid Rent	2,000	Drawings	3,500	Vendor's Payables	500

Solution:**Shining Brothers Pvt. Ltd.***Trial Balance**As on March 31st, 2017*

<i>S. No</i>	<i>Description</i>	<i>Ref</i>	<i>Amount (Rs.)</i>	
			<i>Dr.</i>	<i>Cr.</i>
1	Bank Loan			14,000
2	Marketable Security		6,500	
3	Bill Payable			1,000
4	Unearned Revenue			3,500
5	Sundry Debtors		12,000	
6	Outstanding Salaries			2,500
7	Prepaid Rent		2,000	
8	Insurance Expense		7,300	
9	Owner's Investments			95,000
10	Rent & Rates Expense		400	
11	Accumulated Dep. _ Equipments			14,000
12	Accrued Revenue		15,000	
13	Machinery		25,000	
14	Drawings		3,500	
15	Equipments		40,000	
16	Maintenance Exp.		5,000	
17	Miscellaneous Expenses		4,800	
18	Accrued Expenses			1,500
19	Depreciation Exp. _ Equipments		2,000	
20	Unexpired Insurance		8,500	
21	Vendor's Payables			500
Total			Rs. 132,000	Rs. 132,000

Problem 2:

There are several Mistakes in the Umer & Brothers (Pvt.) Ltd. Trial Balance. You are requested to identify Errors and make corrected Trial Balance?

<i>S. No</i>	<i>Heads of Accounts</i>	<i>Ref</i>	<i>Debit</i>	<i>Credit</i>
1	Umer Owner Equity			1,551
2	Umer Drawings		560	
3	Equipments		2,850	
4	Sales			2,850
5	Due from Customers			530
6	Purchases		1,260	
7	Purchase Return		364	
8	Bank Loan			996
9	Creditors		528	
10	Taxes		720	
11	Cash in Hand		226	
12	Note Payable		680	
13	Inventory			264
14	Repair		461	
15	Return Inward			98
Total			Rs. 7,649	Rs. 6,289

Solution:

<i>S. No</i>	<i>Heads of Accounts</i>	<i>Ref</i>	<i>Debit</i>	<i>Credit</i>
1	Umer Owner Equity			1,551
2	Umer Drawings		560	
3	Equipments		2,850	
4	Sales			2,850
5	Due from Customers		530	
6	Purchases		1,260	
7	Purchase Return			364
8	Bank Loan			996
9	Creditors			528
10	Taxes		720	
11	Cash in Hand		226	
12	Note Payable			680
13	Inventory		264	
14	Repair		461	
15	Return Inward		98	
Total			Rs. 6,969	Rs. 6,969

Problem 3:

Prepare Trial Balance as on 31.03.2012 from the following balances of Ms. Maliha Afzal:

Drawings Rs. 74,800	Purchases Rs. 295,700	Stock (1.04.2011) Rs. 30,000
Bills receivable Rs. 52,500	Capital Rs. 250,000	Furniture Rs. 33,000
Discount allowed Rs. 950	Sales Rs. 335,350	Rent Rs. 72,500
Freight Rs. 3,500	Printing charges Rs. 1,500	Sundry creditors 75,000
Insurance Rs. 2,700	Sundry expenses Rs. 21,000	Discount received Rs. 1,000
Bank loan Rs. 120,000	Stock (31.03.2012) Rs. 17,000	Income tax Rs. 9,500
Machinery Rs. 215,400	Bills payable Rs. 31,700	

Solution:

Ms. Maliha Afzal

Trial Balance

As on 31st March, 2012

S. No	Heads of Accounts	Ref	Amount (Rs.)	
			Dr	Cr
1	Drawings		74,800	
2	Purchases		295,700	
3	Stock (1.04.2011)		30,000	
4	Bills receivable		52,500	
5	Capital			250,000
6	Furniture		33,000	
7	Discount allowed		950	
8	Sales			335,350
9	Rent		72,500	
10	Freight		3,500	
11	Printing charges		1,500	
12	Sundry creditors			75,000
13	Insurance		2,700	
14	Sundry expenses		21,000	
15	Discount received			1,000
16	Bank loan			120,000
17	Income tax		9,500	
18	Machinery		215,400	
19	Bills payable			31,700
	Total		Rs. 813,050	Rs. 813,050

Problem 4:

Prepare Trial Balance from the following balances of Mr. Akhtar as on 31.12.2016:

Capital Rs. 420,000 ,Cash in hand Rs. 25,000, Building Rs. 115,000

Cash at Rs. 84,700, Machinery Rs. 60,000, Sundry Creditors Rs. 68,000

Furniture Rs. 11,000 ,Rent 48,000 ,Car Rs. 68,000

Opening stock Rs. 86,000 ,Commission Rs. 1,40, Rates and Taxes Rs. 2,600

Purchases Rs. 94,000 , Bad debts Rs. 3,200 ,Sales Rs. 196,000

Insurance Rs. 2,400 , General Expenses Rs. 800 , sundry debtors Rs. 16,200

Reserve for doubtful debts Rs. 7,300 ,Salaries Rs. 94,000, Closing Stock Rs. 12,000

Unearned Revenue Rs. 16,000 ,Interest received Rs. 5,000

Solution:

Mr. Akhtar
Trial Balance
As on 31st December, 2016

S. No	Heads of Accounts	Ref	Amount (Rs.)	
			Dr	Cr
1	Capital			420,000
2	Cash in hand		25,000	
3	Building		115,000	
4	Cash at bank		84,700	
5	Machinery		60,000	
6	Sundry Creditors			68,000
7	Furniture		11,000	
8	Rent		48,000	
9	Car		68,000	
10	Opening stock		86,000	
11	Commission		1,400	
12	Rates and Taxes		2,600	
13	Purchases		94,000	
14	Bad debts		3,200	
15	Sales			196,000
16	Insurance		2,400	
17	General Expenses		800	
18	Sundry debtors		16,200	
19	Reserve for doubtful debts			7,300
20	Salaries		94,000	
21	Unearned Revenue			16,000
22	Interest received			5,000
Total			Rs. 712,300	Rs. 712,300

DEPRECIATION

Depreciation in accounting refers to the systematic allocation of a tangible asset's cost over its useful life, reflecting the gradual decrease in value due to wear and tear, obsolescence, or usage. Types of depreciation methods include straight-line, declining balance, units of production, and sum-of-the-years' digits.

Types of Depreciation Methods

- **Straight-Line Method:**

This method distributes the cost of an asset evenly over its useful life, resulting in a constant depreciation expense each year.

- **Declining Balance Method (Accelerated Depreciation):**

This method depreciates the asset at a faster rate in the early years of its life and a slower rate later on.

- **Units of Production Method:**

This method calculates depreciation based on the asset's actual usage or output, such as the number of units produced or miles driven.

- **Sum-of-the-Years' Digits Method (SYD):**

This method is another form of accelerated depreciation, where the depreciation expense decreases each year.

Methods of Calculating Depreciation

Straight-Line Method of Depreciation

The straight-line method of depreciation is a method for distributing an asset's cost equally across its useful life. It is distinguished by a fixed yearly depreciation expenditure, making financial planning and reporting simple.

Straight-line method of depreciation formula

Depreciation formula of straight-line method = (Cost of Asset - Residual Value) / Useful Life of Asset

Here, the cost of the asset represents the initial purchase cost of the asset, the residual value is its estimated value at the end of its useful life, and useful life is the anticipated duration of productive use.

Depreciation rate formula of the straight-line method = (Amount of Depreciation / Original Cost of Asset) * 100

Example:

If a company invests in machinery for Rs.60,000 with a salvage (residual) value of Rs.10,000 and a useful life of 5 years, the annual depreciation under the Straight-Line Method would be $(60,000 - 10,000) / 5 = \text{Rs. } 10,000$. This means the asset's value decreases by Rs. 10,000 each year until its book value reaches the salvage value.

This method offers simplicity and uniformity in spreading the cost of an asset, aiding in accurate financial reporting and budgeting.

Written Down Value (WDV) Method of Depreciation

The written-down value method, or reducing balance method, is an important approach for calculating depreciation, which is also approved by the Indian Income Tax Act. In this method, a fixed percentage of depreciation is applied to the decreasing value of the asset each year.

Unlike other methods, the salvage value of the asset is not factored in when determining depreciation in the diminishing balance method. Consequently, the depreciation amount decreases annually using this approach.

WDV method of depreciation formula

Formula for written down value method of depreciation = (Rate of Depreciation / 100) * Book Value

Example:

For example, if a computer is purchased for Rs.50,000 with a depreciation rate of 20%, the first-year depreciation would be $50,000 * 0.20 = \text{Rs.}10,000$. In the second year, the book value would be $(50,000 - 10,000)$, and the depreciation would be calculated on this reduced value.

This method results in higher depreciation in the earlier years, reflecting the faster depreciation of the asset. The WDV method is especially suitable for assets that experience significant wear and tear in the initial stages of their useful life.

Annuity Method of Depreciation

The annuity method of depreciation is a method of allocating an asset's cost throughout its useful life, considering it as a sequence of cash payments comparable to an annuity. This strategy presupposes that the asset will provide a steady stream of benefits throughout time.

Moreover, this method takes a more subtle approach by accounting for the time value of money, making it appropriate for assets with changing cash flows during their useful lifetimes.

Annuity method of depreciation formula

Formula for the annuity depreciation method =

$$\text{Annuity} = [i * \text{TDA} * (1+i)^n] / [(1+i)^n - 1]$$

$$\text{Depreciation} = \text{Annuity} - (i * \text{BVS}_Y)$$

Here,

- i = Interest rate percentage / 100
- TDA = Total depreciation on amount
- n = Annuity number of years
- BVS_Y = Book value at the start of the year

Example:

If a company invests in a vehicle for Rs.80,000 with a salvage value of Rs.10,000, and the discount rate is 8% over 5 years, the annual depreciation would be $(80,000 - 10,000) / ((1 - (1 + 0.08)^{-5}) / 0.08) = \text{Rs.}15,722$.

Double Declining Method of Depreciation

The double declining balance method is an accelerated depreciation method that front-loads an asset's depreciation expenditures, recognising a larger amount in the asset's early years of useful life.

This strategy is helpful for organisations that wish to display increased depreciation charges early on, which is commonly employed for assets that lose value quickly in their initial years. However, when the asset's book value declines, depreciation charges reduce.

Double declining method of depreciation formula

Formula for double declining depreciation method = 2 * Beginning Book Value * Depreciation Rate

Here,

Beginning book value is the asset's value at the start of the year. This figure changes every year.

Rate of depreciation = $(100\% / \text{Useful life of the asset})$. This figure stays the same.

Example:

Consider a machine with an initial cost of Rs.60,000, a useful life of 5 years, and no salvage value. Using a straight-line rate of 20% $(100\% / 5)$, the Double Declining Balance rate would be 40% $(2 * 20\%)$. In the first year, the depreciation would be $60,000 * 0.40 = \text{Rs. } 24,000$. The book value for the second year would then be $(60,000 - 24,000)$, and the depreciation will be recalculated on it.

Depletion Method of Depreciation

The depletion method of depreciation is used to spread the cost of natural resources like minerals, oil, or lumber across the time period in which they are harvested or used. This strategy recognises the steady decrease in quantity or quality of a natural resource as it is utilised.

Moreover, the depletion method is critical for enterprises that rely on natural resource extraction. This is because it provides a systematic technique to account for resource quantity reductions while also ensuring correct financial reporting and cost allocation.

Depletion method of depreciation formula

Formula for depletion depreciation method = $(\text{Cost of Resource} - \text{Salvage Value}) / \text{Total Units of Resource}$

Example:

Suppose a mining company acquires a mineral deposit for Rs.5,00,000, expects to extract 1,00,000 tons of minerals, and estimates a salvage value of Rs.20,000. The depletion expense per ton would be $(5,00,000 - 20,000) / 1,00,000 = \text{Rs. } 4.80$. As the company extracts minerals, it records depletion expenses based on the actual amount extracted.

Diminishing Method of Depreciation

The diminishing balance method is an accelerated depreciation approach used to allocate the cost of an asset over its useful life. Instead of spreading the cost evenly, it deducts a fixed percentage from the remaining book value each year. This results in higher depreciation expenses in the earlier years, reflecting a faster reduction in value.

Diminishing method of depreciation formula

Formula for diminishing balance method of depreciation = $(\text{Book Value} * \text{Rate of Depreciation}) / 100$

Example:

If a company purchases equipment for Rs.50,000 and applies a diminishing balance rate of 30%, the first-year depreciation would be $50,000 * 0.30 = \text{Rs. } 15,000$. In subsequent years, the depreciation is calculated based on the reduced book value. This method is suitable for assets that experience more significant wear and tear in their initial years.

Sinking Fund Method of Depreciation

The sinking fund approach is a way to figure out how much an asset has depreciated and, at the same time, set aside money to replace the asset when it's no longer useful. This method is handy

when dealing with costly assets that will eventually need replacement. Instead of facing a big expense all at once, companies set up a sinking fund.

This fund helps them cover the cost of the asset's depreciation over time and saves up for its eventual replacement. Industries with big, expensive assets, like utility companies, often use the sinking fund method to manage their finances effectively.

Sinking fund method of depreciation formula

Formula of sinking fund depreciation method = $A = \frac{\{1+(r/m)\}^{(n*m)} - 1}{(r/m)} * P$

Here,

P - Periodic contribution to sinking fund

A - Money accumulated

r - Rate of interest

n - total number of years

m - number of payments each year

Production Unit Method of Depreciation

The production unit method of depreciation is a way of allocating the cost of an asset based on its actual usage or production. This method is often used for assets where the wear and tear depend on the level of activity rather than the passage of time. This method is particularly useful for assets like manufacturing equipment or vehicles, where depreciation is closely tied to the production or activity level.

Units of production depreciation method formula

Formula of production unit depreciation = $\frac{(\text{Estimated Total Cost} - \text{Residual Value})}{\text{Estimated Total Output}} * \text{Actual Output during the year}$

Example:

An organisation purchases a machine for Rs.1,00,000, expects it to produce 50,000 units, and has a salvage value of Rs.10,000, the depreciation per unit would be $(1,00,000 - 10,000) / 50,000 = \text{Rs.1.80}$. If in a given year the machine produces 10,000 units, the depreciation for that year would be $10,000 * 1.80 = \text{Rs.18,000}$.

NUMERICAL QUESTION AND SOLUTION

Solution # 1.

On 1st July, 2008 a company purchased a machine for Rs 3,90,000 and spent Rs 10,000 on its installation. It decided to provide depreciation @ 15% per annum, using written down value method. On 30th November, 2011 the machine was dismantled at a cost of Rs 5,000 and then sold for Rs 1,00,000.

On 1st December, 2011 the company acquired and put into operation a new machine at a total cost of Rs 7,60,000. Depreciation was provided on the new machine on the same basis as had been used in the case of the earlier machine. The company closes its books of account every year on 31st March.

Prepare Machinery Account and Depreciation Account for four accounting years ended 31st March, 2012:

Solution :

Machinery Account					
2008			2009		
July 1			March, 31		
	To Bank	₹ 3,90,000		By Depreciation A/c (for 8 months @ 15% p.a)	₹ 40,000
" "	To Bank (installation expenses)	10,000	" "	By Balance b/d	3,60,000
		<u>4,00,000</u>			<u>4,00,000</u>
2009			2010		
Apr. 1	To Balance b/d	3,60,000	March. 31	By Depreciation A/c (on ₹ 3,60,000 @ 15%)	54,000
		<u>3,60,000</u>	" "	By Balance c/d	3,06,000
					<u>3,60,000</u>
2010			2011		
April 1	To Balance b/d	3,06,000	Mar. 31	By Depreciation A/c (on ₹ 3,06,000 @ 15%)	45,900
		<u>3,06,000</u>	" "	By Balance c/d	2,60,100
					<u>3,06,000</u>
2011			2011		
Apr. 1	To Balance b/d	2,60,100	Nov. 30	By Depreciation A/c (on ₹ 2,60,000 @ 15% for 8 months)	26,010
Nov. 30	To Bank (dismantling Charges)	5,000	" "	By Bank (sale proceeds)	1,00,000
Dec. 1	To Bank (total cost of new machine)	7,60,000	" "	By Profit and Loss A/C (loss on disposal of machine)	1,39,090
			2012		
		<u>10,25,000</u>	Mar. 31	By Depreciation A/c (on ₹ 7,60,000 for 4 months @ 15% p.a.)	38,000
			" "	By Balance c/d	7,22,000
					<u>10,25,100</u>
2012					
Apr. 1	To Balance b/d	7,22,000			

Depreciation Account					
Dr.			Cr.		
2009		₹	2009		₹
Mar. 31	To Machinery A/c	40,000	Mar. 31	By Profit & Loss A/c – transfer	40,000
2010			2010		
Mar. 31	To Machinery A/c	54,000	Mar. 31	By Profit & Loss A/c – transfer	54,000
2011			2011		
Mar. 31	To Machinery A/c	45,900	Mar. 31	By Profit & Loss A/c – transfer	45,900
2011			2012		
Nov. 30	To Machinery A/c	26,010	Mar. 31	By Profit & Loss A/c – transfer	64,010
2012					
Mar. 31	To Machinery A/c	38,000			
		<u>64,010</u>			<u>64,010</u>

Working Notes:

Written down value of machine on 1st April, 2011	₹ 2,60,100
Less: Depreciation for 8 months	26,010
Written down value of machine on 30th November, 2009	2,34,090
Add: Dismantling charges	5,000
	2,39,090
Less: Sales proceeds of machine	1,00,000
Loss on disposal of machine	<u>1,39,090</u>

Solution # 2.

The cost of machinery in use with a firm on 1st April, 2011 was Rs 2,50,000 against which the depreciation provision stood at Rs 1,05,000 on that date; the firm provided depreciation at 10% of the diminishing value.

ADVERTISEMENTS:

On 31st December, 2011 two machines costing Rs 15,000 and Rs 12,000 respectively, both purchased on 1st October, 2008, had to be discarded because of damage and had to be replaced by two new machines costing Rs 20,000 and Rs 15,000 respectively.

One of the discarded machines was sold for Rs 8,000; against the other it was expected that Rs 3,000 would be realisable.

Show the relevant accounts in the ledger on the firm for the year ended 31st March, 2012.

Solution:

Dr.		Machinery Account		Cr.	
2011		₹	2011		₹
Apr. 1	To Balance <i>b/fd</i>	2,50,000	Dec. 31	By Machinery Disposal A/c	27,000
Dec. 31	To Bank	35,000	2012		
			Mar. 31	By Balance <i>c/d</i>	2,58,000
		2,85,000			2,85,000
2012					
Apr. 1	To Balance <i>b/d</i>	2,58,000			

		Provision for Depreciation Account			
2011		₹	2011		₹
Dec. 31	To Machinery Disposal A/c	6,224	Apr. 1	By Balance <i>b/fd</i>	1,05,000
2012			2012	By Profit & Loss A/c	
Mar. 31	To Balance <i>c/d</i>	1,12,073	Mar. 31	(depreciation on machinery in use)	13,297
		1,18,297			1,18,297
			2012		
			Apr. 1	By Balance <i>b/d</i>	1,12,073

Machinery Disposal Account

		₹			₹
2011			2011		
Dec. 31	To Machinery Account	27,000	Dec. 31	By Provision for Depreciation Account	6,224
			" "	By Depreciation (on the two machines for 9 months)	1,558
			" "	By Bank	8,000
			2012		
			Mar. 31	By P. & L. A/c (bal.fig.)	8,218
			" "	By Balance c/d	3,000
		27,000			27,000
2012					
Apr. 1	To Balance b/d	3,000			

Working Notes:

(1) Depreciation provided on the two machines till April 1, 2011	₹
For 2008-09 (for half year)	1,350
For 2009-10, 10% on ₹ 25,650, i.e., ₹ 27,000 less ₹ 1,350	2,565
For 2010-11, 10% on ₹ 23,085	2,309
	6,224
(2) Depreciation on the discarded machines:	
Book value on 1st April, 2011 (₹ 23,085 less ₹ 2,309)	20,776
Depreciation for full year at 10%	2,078
Depreciation for nine months to December 31, 2011	1,558
(3) Depreciation on machinery in use:	
Cost of machinery on 1st April, 2011	2,50,000
Less: Cost of discarded machines	27,000
	2,23,000
Less:	
Provision for Depreciation as on 1st April, 2011	₹ 1,05,000
Less: Relating to discarded machines	6,224
Book value	98,776
Depreciation at 10% on ₹ 1,24,224	1,24,224
Add: Depreciation for 3 months on ₹ 35,000 (additions)	12,422
	875
	13,297

Solution # 3.

Metropol Ltd. acquired a machine for Rs 5,40,000 on 1st April 2009. Depreciation was to be charged at 20% per annum on straight line method.

On 1st October, 2011 a modification was made to improve its technical efficiency at a cost of Rs 50,000 which it was considered would also extend the useful life of the machine by two years. At the same time, an important component of the machine was replaced at a cost of Rs 10,000 because of excessive wear and tear.

Routine maintenance during the accounting year ending 31st, March, 2012 cost Rs 7,500.

Show for the year ending 31st, March 2012:

ADVERTISEMENTS:

(i) Machinery Account

(ii) Provision for depreciation account, and

(iii) Relevant portions of profit and loss account showing revenue charge relating to machinery.

Solution :

Dr.		Machinery Account		Cr.	
2011		₹	2012		₹
Apr. 1	To Balance b/fd	5,40,00	Mar. 31	By Balance c/d	5,90,000
Oct. 1	To Bank -Modification	50,000			
		<u>5,90,000</u>			<u>5,90,000</u>
2012					
Apr. 1	To Balance b/d	5,90,000			

Dr.		Provision for Depreciation Account		Cr.	
2012		₹	2011		₹
Mar. 31	To Balance c/d	3,29,000	Apr. 1	By Balance b/fd (iii)	2,16,000
			2012		
			Mar. 31	By Profit and Loss Account—Depreciation	1,13,000
		<u>3,29,000</u>			<u>3,29,000</u>
			2012		
			Apr. 1	By Balance b/d	3,29,000

Dr.		Profit and Loss Account (Relevant portions only)		Cr.	
	To Maintenance of Machinery Account [Working note (i)]	₹			
		17,500			
	To Provision for Depreciation on Machinery [Working note (ii)]				
		1,13,000			

Working Notes:

(i) Total expense on maintenance of machinery	₹
Replacement of part	10,000
Routine maintenance	7,500
	<u>17,500</u>
(ii) Depreciation on machinery for the year 2011-2012	₹
On ₹ 5,40,000 on for full year @ 20% p.a	1,08,000
On ₹ 50,000 on for six months @ 20% p.a	5,000
	<u>1,13,000</u>
(iii) Accumulated depreciation as on 1st April, 2011:	
Depreciation on ₹ 5,40,000 on @ 10% p.a for 2 years = ₹ 2,16,000.	

Solution # 4.

X Co. Ltd. purchased a machine on 1st April, 2008 for Rs 1,60,000. On October 1, 2009 another machine was purchased for Rs 1,40,000. On October 1, 2010 the first machine was sold for Rs 1,20,000. On the same date, another machine was purchased for Rs 1,00,000. On October 1, 2011 the second machine was sold for Rs 92,000.

ADVERTISEMENTS:

Rate of depreciation was 10% on original cost annually on 31st March. On 31st March, 2011 the method of charging depreciation was changed to diminishing balance method, the rate being 15%.

Prepare Machine Account for the years ending 31st March, 2009, 2010, 2011, and 2012.

Solution :

Dr.		Machine Account		Cr.	
2008		₹	2009		₹
Apr. 1	To Bank/Vendor (Purchase of first machine)	1,60,000	Mar. 13	By Depreciation Account (On ₹ 1,60,000 @ 10% p.a. for full year)	16,000
		<u>1,60,000</u>	" "	By Balance c/d	1,44,000
2009			2010		
Apr. 1	To Balance b/d	1,44,000	Mar. 31	By Depreciation Account [Working note (i)]	21,200
Oct. 1	To Bank/Vendor (Purchase of second machine)	1,40,000	" "	By Balance c/d	2,26,800
		<u>2,48,000</u>			<u>2,48,000</u>
2010			2010		
Apr. 1	To Balance b/d	2,26,800	Oct. 1	By Depreciation Account (On ₹ 1,6,000 @ 10% p.a. for 6 months)	8,000
Oct. 1	To Bank/Vendor (Purchase of third machine)	1,00,000	" "	By Bank (Sale of first machine)	1,20,000
		<u>3,26,800</u>	2011		
2011			Mar. 31	By Depreciation Account [Working note (iii)]	15,400
Apr. 1	To Balance b/d	1,83,400	" "	By Balance c/d	1,83,400
Oct. 1	To Profit on Disposal of Machine Account [Working note (iv)]	10,230			<u>3,26,800</u>
		<u>1,93,630</u>	2011		
2012			Oct. 1	By Depreciation Account [Working note (iv)]	6,630
Apr. 1	By Balance b/d	80,750	" "	By Bank (Sale of second machine)	92,000
			2012		
			Mar. 31	By Depreciation Account [Working note (v)]	14,250
			" "	By Balance c/d	80,750
					<u>1,93,630</u>

Working Notes :

(i) Depreciation on machines for the year ended 31st March, 2010:

	₹
On first machine for full year = ₹ 1,60,000 × $\frac{10}{100}$	16,000
On second machine for six months = ₹ 1,04,000 × $\frac{10}{100} \times \frac{6}{12}$	5,200
	<u>21,200</u>

(ii) Profit/Loss on disposal of first machine :	₹
Cost price of the machine	1,60,000
Less: Depreciation @ 10% p.a. for 2 years 6 months	
$= ₹ 1,60,000 \times \frac{10}{100} \times \frac{5}{2}$	<u>40,000</u>
Written down value on the date of disposal	<u>1,20,000</u>
Sale proceeds	1,20,000
Hence, there is no profit or loss on disposal of the machine.	
(iii) Depreciation on machines provided on 31st March, 2011:	₹
On second machine for full year	
$= ₹ 1,04,000 \times \frac{10}{100}$	10,400
On third machine for six months	
$= ₹ 1,00,000 \times \frac{10}{100} \times \frac{6}{12}$	5,000
	<u>15,400</u>
(iv) Profit on disposal of second machine :	₹
Cost price of machine	1,04,000
Less: Depreciation @ 10% p.a. for 1 year 6 months	
$= ₹ 1,04,000 \times \frac{10}{100} \times \frac{3}{2}$	15,600
Written down value on 1st April, 2011	<u>88,400</u>
Less: Depreciation on ₹ 88,400 @ 15% p.a. for 6 months	
$= ₹ 88,400 \times \frac{15}{100} \times \frac{6}{12}$	6,630
	<u>81,770</u>
Sale proceeds	92,000
Hence, profit on disposal = ₹ 92,000 — ₹ 81,770 = ₹ 10,230	
(v) Depreciation provided on 31st March, 2012:	₹
Cost price of the machine still use	1,00,000
Less: Depreciation @ 10% p.a. for six months	
$= ₹ 1,00,000 \times \frac{10}{100} \times \frac{6}{12}$	5,000
Written down value on 1st April, 2011	<u>95,000</u>
Depreciation on ₹ 95,000 @ 15% per annum for one year	
$= ₹ 95,000 \times \frac{15}{100} = ₹ 14,250.$	

Solution # 5.

A company purchased a lease for 3 years for Rs 3,00,000 on 1st April, 2009 and decided to provide for its replacement by means of an insurance policy for Rs 3,00,000. The annual premium is Rs 89,500.

On 1st April, 2012 the lease is renewed for a further period of 3 years for Rs 3,30,000. Show the necessary ledger accounts.

<i>For the year ended:</i>	<i>Output in tonnes</i>
March 31, 2008	6,000
" " 2009	19,000
" " 2010	28,800
" " 2011	30,100
" " 2012	25,400

Prepare Lease Account for five accounting years ended 31st March, 2012.

Solution :

LEDGER
Lease Account

		₹			₹
2007 July 1	To Bank	96,00,000	2008 Mar. 31	By Depreciation Account (on ₹ 96,00,000 @ 12.5% p.a. for 9 months)	9,00,000
			" "	By Balance c/d	87,00,000
		96,00,000			96,00,000
2008 Apr. 1	To Balance b/d	8,70,000	2009 Mar. 31	By Depreciation Account (on ₹ 9,60,000 @ 12.5% p.a. for full year)	12,00,000
			" "	By Balance c/d	75,00,000
		87,00,000			87,00,000
2009 Apr. 1 Apr. 14	To Balance b/d	75,00,000	2010 Mar. 31	By Depreciation Account (on 28,800 tonnes @ ₹ 60 per tonne)	17,28,000
	To Profit and Loss Adjustment A/c	6,00,000	" "	By Balance c/d	63,72,000
		81,00,000			81,00,000

		₹			₹
2010 Apr. 1	To Balance b/d	63,72,000	2011 Mar. 31	By Depreciation Account (on 30,100 tonnes @ ₹ 60 per tonne)	18,06,000
				By Balance c/d	45,66,000
		63,72,000			63,72,000
2011 Apr. 1	To Balance b/d	45,66,000	2012 Mar. 31	By Depreciation Account (on 25,400 tonnes @ ₹ 60 per tonne)	15,24,000
				By Balance c/d	30,42,000
		45,66,000			45,66,000
2012 Apr. 1	To Balance b/d	30,42,000			

Working Notes:

- (i) Total price paid for the lease = ₹ 96,00,000
Total expected quantity of mineral from the mine = 1,60,000 tonnes

$$\text{Depreciation per tonne of output} = ₹ \frac{96,00,000}{1,60,000} = ₹ 60$$

- (ii) Calculation of balance of lease Account on 1st April 1, 2009 on the basis of depletion method of depreciation:—

Lease Account

		₹			₹
2007 July 1	To Bank	96,00,000	2008 Mar. 31	By Depreciation Account (on 6,000 tonnes @ ₹ 60 per tonne)	3,60,000
			" "	By Balance c/d	92,40,000
		96,00,000			96,00,000
2008 Apr. 1	To Balance b/d	92,40,000	2009 Mar. 31	By Depreciation Account (on 19,000 tonnes @ ₹ 60 per tonne)	11,40,000
			" "	By Balance c/d	81,00,000
		92,40,000			92,40,000
2009 Apr. 1	To Balance b/d	81,00,000			

- (iii) Calculation of the amount of adjustment entry:

Desired balance as an 1st April, 2009	₹ 81,00,000
Less: Actual balance as an 1st April, 2009.	75,00,000
	6,00,000

Hence, Lease Account is to be debited with ₹ 6,00,000 for making the adjustment.

Computerized Accounting System: Meaning, Features

A computerized accounting system is a software application that automates financial records and reporting processes to make them faster, more accurate, and easier to manage. A company's accounting system is the core of its financial management, as it processes all transactions within the organization. It reduces the manual entry of data, eliminates redundant operations, and reduces accounting error risk with built-in controls. An accounting system is a set of procedures and record-keeping systems for managing the financial and operational activities of an organization. Basically, it's a method for tracking and managing the business's finances.

Features of a Computerized Accounting System

- 1. Data Security:** A computerized accounting system allows users to store their data in a central location. In this way, if any piece of paper that contains valuable information is lost, no one is at risk of having their information stolen. All the data is hence stored at a central location.
- 2. Improved Reporting:** In Accounting software, various things are automated, and very less things are recorded manually. This helps in improving reporting of transactions and statements.
- 3. Accuracy and Speed:** The automation of accounting processes with the help of various accounting software ensures that accounting work is done fast and accurately.
- 4. Scalability:** Computerized Accounting system is so flexible as to accommodate the changing business volume.
- 5. Quick Decision Making:** Since a computerized accounting system generates real-time information, managers are quick to come up with instant decisions or solutions to a particular problem.
- 6. Advanced Features:** While some accounting software is designed for sole proprietors and small business owners, others are tailored for larger enterprises. If the business is operated at a large scale, you may want to consider a computerized accounting system that comes with features like inventory management and multiple user access.
- 7. Reliability:** A computerized Accounting system produces standard and accurate accounting information consistently.

COMPUTERISED ACCOUNTING SOFTWARE

Computerized accounting software is a digital tool used by businesses to manage their financial records and transactions, offering features like automated bookkeeping, report generation, and data management. It helps streamline accounting processes, reduces errors, and provides real-time financial data for better decision-making.

Key Features and Benefits:

- **Automated Bookkeeping:**

Handles basic accounting tasks like recording transactions, generating journals, and preparing ledgers.

- **Report Generation:**

Produces various financial reports like balance sheets, income statements, and cash flow statements.

- **Real-Time Data Access:**

Provides up-to-date financial information, enabling businesses to make informed decisions.

- **Efficiency and Accuracy:**

Minimizes manual input and errors, leading to more accurate and efficient accounting.

- **Integration Capabilities:**

Can integrate with other business systems like payroll and inventory management.

Popular Software Options:

- **Tally ERP 9:**

A widely used accounting software in India, particularly for small and medium-sized enterprises.

- **QuickBooks:**

A popular option for small businesses and freelancers, known for its ease of use and affordability.

- **FreshBooks:**

Another popular choice for freelancers and small businesses, offering features like invoicing and expense tracking.

- **Xero:**

A cloud-based accounting software, suitable for various business sizes, with features like bank reconciliation and reporting.

- **Wave Accounting:**

A free-to-use accounting software for small businesses and freelancers, offering basic features.

UNIT-3

MEANING OF FINAL ACCOUNT

Final accounts in accounting are the financial statements a business prepares at the end of its fiscal year to summarize its financial performance and position. These accounts include the Trading and Profit & Loss Account (which calculates gross profit) and the Balance Sheet, which shows the company's assets, liabilities, and equity. Essentially, they provide a snapshot of a company's financial health for a specific period, typically a year.

- **Trading and Profit & Loss Account:**

This account summarizes a company's revenues and expenses to determine its profit or loss for the period. It includes the trading account, which calculates gross profit, and the profit and loss account, which shows the net profit or loss.

- **Balance Sheet:**

This statement presents a company's assets (what it owns), liabilities (what it owes to others), and equity (the owner's stake in the company) at a specific point in time. It ensures that the accounting equation (Assets = Liabilities + Equity) is balanced.

Objectives of Final Accounts

- Accountants prepare Statements of Profit & Loss to compute the organisation's Gross profit and net profit for the pertinent period.
- The balance sheet provides an accurate picture of the company's financial situation at the time of the report.

- To calculate the gross profit and loss, these accounts divide direct and indirect expenses in half to determine the company's net profit and loss.
- These accounts divide the assets and liabilities on the balance sheet according to their holding and usage periods.

Importance of Final Accounts

1. Final accounts let shareholders assess their investments so they may make informed decisions. The organization's liquidity position and the amount of earnings and dividends that shareholders will get are of greater interest to them.
2. The tax department needs these accounts to ensure the company pays all applicable taxes and other fees on schedule and without delays. As a result, the creation of final accounts (Income statements) is crucial for tax computation.
3. Final accounts give crucial information on an enterprise's performance, liquidity, development, and deposition. This assists internal management in making future decisions on numerous business areas with speed, knowledge, and accuracy.
4. They allow creditors and lenders to assess the organization's financial stability. Creditors use the following data to evaluate the risk, credibility, and ability to collect the debt on the predetermined date.
5. Employees can learn about the company's profitability and how it affects job security, compensation, transfers, pay increases, incentives, and other bonuses from the final accounts.
6. They are crucial in assisting the company in achieving constant growth and development by implementing various approaches and plans for enhancing revenue, building a solid clientele, and enhancing job prospects.

Limitations of Final Accounts

Final accounts, including the balance sheet and profit and loss account, are crucial for assessing a company's financial performance, but they have limitations:

Historical Data: They reflect past performance and may not accurately predict future financial conditions or trends.

Not Comprehensive: They don't account for all aspects of business performance, such as market conditions or employee morale.

Subjectivity: Certain elements, like asset valuation, involve subjective judgments, which can affect accuracy.

Limited Insight: They provide a snapshot of financial health but may not reveal underlying issues or detailed operational insights.

Fraud Risk: There is potential for manipulation or errors, which can misrepresent the true financial position.

Q.1 Prepare trading account from the following ledger balances presented by P. Sen as on 31st March, 2016.

Particulars	₹	Particulars	₹
Stock (1-4-2015)	10,000	Sales	3,00,000
Purchases	1,60,000	Returns inward	16,000
Wages	30,000	Returns outward	10,000
Carriage inwards	10,000	Gas and Fuel	8,000
Freight inwards	8,000		

Additional information:

- i. Stock on 31st March, 2016 Rs. 20,000
- ii. Outstanding wages amounted to Rs. 4,000
- ii. Gas and fuel was paid in advance for Rs. 1,000

SOLUTION

Dr. Trading account for the year ended 31st March, 2016 Cr.					
Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		10,000	By Sales	3,00,000	
To Purchases	1,60,000		Less: Returns inward	16,000	2,84,000
Less: Returns outward	10,000	1,50,000	By Closing Stock		20,000
To Wages	30,000				
Add: Outstanding	4,000	34,000			
To Carriage inwards		10,000			
To Freight inwards		8,000			
To Gas and fuel	8,000				
Less: Prepaid	1,000	7,000			
To Gross profit c/d		85,000			
		<u>3,04,000</u>			<u>3,04,000</u>

Q.2 From the following particulars presented by Thilak for the year ended 31st March, 2017, prepare profit and loss account.

Particulars	₹	Particulars	₹
Gross profit	1,00,000	Interest received	6,000
Rent paid	22,000	Bad debts	2,000
Salaries	10,000	Provision for bad debts (1-4-2016)	4,000
Commission (Cr.)	12,000	Sundry debtors	40,000
Discount received	2,000	Buildings	80,000
Insurance premium paid	8,000		

Adjustments:

- i. Outstanding salaries amounted to Rs. 4,000
- ii. Rent paid for 11 months
- iii. Interest due but not received amounted to Rs. 2,000
- iv. Prepaid insurance amounted to Rs. 2,000
- v. buildings by 10%
- vi. Further bad debts amounted to Rs. 3,000 and make a provision for bad debts @ 5% on sundry debtors
- vii. Commission received in advance amounted to Rs. 2,000

Solution

Dr. Profit and Loss Account for the year ended 31st March, 2017 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Rent	22,000		By Gross profit b/d	-	1,00,000
Add: Outstanding (22,000x1/11)	2,000	24,000	By Commission	12,000	
	10,000		Less: Received in advance	2,000	10,000
To Salaries	4,000		By Discount received	6,000	2,000
Add: Outstanding	8,000	14,000	By Interest received	2,000	8,000
To Insurance premium	2,000		By Add: Accrued		
Less: Prepaid insurance	1,900	6,000			
To Provision for bad and doubtful debts (closing)	2,000				
Add: Bad debts	3,000				
Add: Further bad debts	6,900				
	4,000				
Less: Opening provision for bad and doubtful debts		2,900			
To Depreciation on building (80,000x10%)		8,000			
To Net profit (transferred to capital A/c)		65,100			
		1,20,000			1,20,000

Working Note:

Debtors : 40,000

Less: Further bad debts : 2,000

: 38,000

Provision for bad and doubtful debts at 5% : $38,000 \times 5\% = \text{Rs. } 1,900$

Q.3 From the following particulars, prepare the balance sheet of Madhu, for the year ended 31st March, 2018.

Particulars	₹	Particulars	₹
Capital	2,00,000	Sundry creditors	40,000
Drawings	40,000	Bills payable	20,000
Cash in hand	15,000	Goodwill	60,000
Loan from bank	40,000	Sundry debtors	80,000
Bank overdraft	20,000	Land and building	50,000
Investments	20,000	Vehicles	80,000
Bills receivable	10,000	Cash at bank	25,000

The following adjustments were made at the time of preparing final accounts:

- i. Outstanding liabilities: Salaries Rs. 10,000; Wages Rs. 20,000; Interest on Bank overdraft Rs. 3,000 and Interest on bank loan Rs. 6,000
- ii. Provide interest on capital @ 10% p.a.
- iii. Bad debts amounted to Rs. 10,000 and make a provision for bad debts @ 10% on sundry debtors.
- iv. Closing stock amounted to Rs. 1,20,000
- v. Depreciate vehicles @ 10% p.a.

Net profit for the year amounted to Rs. 96,000 after considering all the above adjustments.

Solution

In the books of Madhu
Balance Sheet as on 31st March, 2018

Particulars	₹	₹	Particulars	₹	₹
Capital	2,00,000		Goodwill		60,000
Add: Net profit	96,000		Land and Building		50,000
Add: Interest on capital	20,000		Vehicles	80,000	
	3,16,000		Less: Depreciation	8,000	72,000
Less: Drawings	40,000	2,76,000	Investments		20,000
Loan from bank	40,000		Stock-in-trade		1,20,000
Add: Interest outstanding	6,000	46,000	Sundry debtors	80,000	
Bills payable		20,000	Less: Bad debts	10,000	
Sundry creditors		40,000		70,000	
Bank overdraft	20,000		Less: Provision		
Add: Interest outstanding	3,000	23,000	for bad and		
Outstanding liabilities:			doubtful debts	7,000	63,000
Salaries	10,000		Bills receivable		10,000
Wages	20,000	30,000	Cash at bank		25,000
			Cash in hand		15,000
		4,35,000			4,35,000

Q.4 The following balances were extracted from the books of Thomas as on 31st March, 2018

Particulars	₹	Particulars	₹
Purchases	75,000	Capital	60,000
Returns inward	2,000	Creditors	30,000
Opening stock	10,000	Sales	1,20,000
Freight inwards	4,000	Returns outward	1,000
Wages	2,000		
Investments	10,000		
Bank charges	1,000		
Land	30,000		
Machinery	30,000		
Building	25,000		
Cash at bank	18,000		
Cash in hand	4,000		
	2,11,000		2,11,000

Additional information:

- i. Closing stock Rs. 9,000

ii. Provide depreciation @ 10% on machinery

iii. Interest accrued on investment Rs. 2,000

Prepare trading account, profit and loss account and balance sheet.

Solution

In the books of Thomas

Dr. Trading and Profit and Loss Account for the year ended 31st March, 2018 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening stock		10,000	By Sales	1,20,000	
To Purchases	75,000		Less: Returns inward	2,000	1,18,000
Less: Returns outward	1,000	74,000			
To Freight inwards		4,000	By Closing stock		9,000
To Wages		2,000			
To Gross profit c/d		37,000			
		1,27,000			1,27,000
To Depreciation on machinery		3,000	By Gross Profit b/d		37,000
To Bank charges		1,000	By Accrued interest on investment		2,000
To Net profit (transferred to capital a/c)		35,000			
		39,000			39,000

Balance Sheet as on 31st March, 2018

Particulars	₹	₹	Particulars	₹	₹
Capital	60,000		Land		30,000
Add: Net profit	35,000	95,000	Building		25,000
Creditors		30,000	Machinery	30,000	
			Less: Depreciation	3,000	27,000
			Investment	10,000	
			Add: Accrued interest	2,000	12,000
			Stock-in-trade		9,000
			Cash at bank		18,000
			Cash in hand		4,000
		1,25,000			1,25,000

Q.5 Given below are the balances extracted from the books of Nagarajan as on 31st March, 2016.

Particulars	₹	Particulars	₹
Purchases	10,000	Sales	15,100
Wages	600	Commission received	1,900
Freight inwards	750	Rent received	600
Advertisement	500	Creditors	2,400
Carriage outwards	400	Capital	5,000
Cash	1,200		
Machinery	8,000		
Debtors	2,250		
Bills receivable	300		
Stock on 1st January, 2016	1,000		
	25,000		25,000

Prepare the trading and profit and loss account for the year ended 31st March, 2016 and the balance sheet as on that date after adjusting the following:

- i. Commission received in advance Rs. 400
- ii. Advertisement paid in advance Rs. 150
- iii. Wages outstanding Rs. 200
- iv. Closing stock on 31st March 2016, Rs. 2,100

Solution

In the books of Nagarajan
Dr. Trading and Profit and Loss Account for the year ended 31st March, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening stock		1,000	By Sales		15,100
To Purchases		10,000	By Closing stock		2,100
To Wages	600				
Add: Outstanding	200	800			
To Freight inwards		750			
To Gross profit c/d		4,650			
		17,200			17,200
To Advertisement	500		By Gross profit b/d		4,650
Less: Prepaid advertisement	150	350	By Commission received	1,900	
To Carriage outwards		400	Less: Received in advance	400	1,500
To Net profit (transferred to capital a/c)		6,000	By Rent received		600
		6,750			6,750

Balance Sheet as on 31st March, 2016

Particulars	₹	₹	Particulars	₹	₹
Capital	5,000		Machinery		8,000
Add: Net profit	6,000	11,000	Stock in trade		2,100
Creditors		2,400	Debtors		300
Commission received in advance		400	Bills receivable		2,250
Outstanding wages		200	Advertisement prepaid		150
		14,000	Cash		1,200
					14,000

Q.6 Consider the following balances extracted from the books of Jain as on 31st December, 2016.

Prepare the final accounts.

Particulars	₹	Particulars	₹
Capital	20,000	Office Salaries	6,600
Debtors	8,000	Establishment expenses	4,500
Creditors	10,500	Selling expenses	2,300
Purchases	60,000	Furniture	10,000
Sales	80,000	Cash at bank	2,400
Income tax of Jain paid	500	Miscellaneous receipts	600
Opening stock	12,000	Drawings	4,800

Adjustments

- i. Salaries outstanding for December, 2016 amounted to Rs. 600
- ii. Provide depreciation on furniture @ 10% p.a.
- iii. Provide interest on capital for the year @ 5% p.a.
- iv. Stock on 31st December, 2016 Rs. 14,000

Solution

In the books of Jain

Dr. Trading and Profit and Loss Account for the year ended 31st December, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		12,000	By Sales		80,000
To Purchases		60,000	By Closing Stock		14,000
To Gross Profit c/d		22,000			
		94,000			94,000
					22,000
To Office salaries	6,600	7,200	By Gross Profit b/d		600
Add: Outstanding	600	4,500	By Miscellaneous receipts		
To Establishment expenses		2,300			
To Selling expenses		1,000			
To Depreciation on furniture (10,000 x 10%)		1,000			
To Interest on capital (20,000 x 5%)		6,600			
To Net profit (transferred to capital A/c)					
		22,600			22,600

Balance Sheet as on 31st December, 2016

Liabilities	₹	₹	Assets	₹	₹
Capital	20,000		Furniture	10,000	
Add: Net profit	6,600		Less: Depreciation	1,000	9,000
Add: Interest on capital	1,000		Stock in trade		14,000
	27,600		Debtors		8,000
Less: Drawings	4,800		Cash at bank		2,400
Income tax	500	5,300			
Creditors		10,500			
Office salaries outstanding		600			
		33,400			33,400

Q.7 Edward's books show the following balances. Prepare his trading and profit and loss A/c for the year ended 31st December, 2016 and a balance sheet on at that date.

Debit balances	₹	Credit balances	₹
Drawings	5,000	Capital	1,31,500
Sundry debtors	60,000	Loan at 6% p.a.	20,000
Coal, gas and water	10,500	Sales	3,56,500
Returns inward	2,500	Interest on investments	2,550
Purchases	2,56,500	Sundry creditors	40,000
Stock on 1-1-2016	89,700		
Travelling expenses	51,250		
Interest on loan paid	300		
Petty cash	710		
Repairs	4,090		
Investments	70,000		
	5,50,550		5,50,550

Adjustments:

- i. Closing stock was Rs. 1,30,000 on 31st December, 2016.
- ii. Create 5% provision for bad and doubtful debts on sundry debtors
- iii. Create provision at 2% for discount on debtors
- iv. Interest on loan due for 9 months.

Solution

In the books of Edward

Dr. Trading and Profit and Loss Account for the year ended 31st December, 2016 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		89,700	By Sales	3,56,500	
To Purchases		2,56,500	Less: Returns inward	2,500	3,54,000
To Coal, gas and water		10,500	By Closing stock		1,30,000
To Gross profit c/d		1,27,300			
		4,84,000			4,84,000
To Travelling expenses		51,250	By Gross Profit b/d		1,27,300
To Interest on loan paid	300		By Interest on investments		2,550
Add: Interest outstanding (20,000 x 6/100 x 9/12)	900	1,200			
To Repairs		4,090			
To Provision for bad and doubtful debts		3,000			
To Provision for discount on debtors		1,140			
To Net profit (transferred to capital A/c)		69,170			
		1,29,850			1,29,850

Balance Sheet as on 31st December, 2016

Liabilities	₹	₹	Assets	₹	₹
Capital	1,31,500		Investments		70,000
Add: Net profit	69,170		Stock in trade		1,30,000
	2,00,670		Sundry debtors	60,000	
Less: Drawings	5,000	1,95,670	Less: Provision for bad and doubtful debts (60,000 x 5/100)	3,000	
6% Loan	20,000		Less: Provision for discount on debtors (57,000 x 2/100)	1,140	55,860
Add: Interest outstanding	900	20,900	Petty cash		710
Sundry creditors		40,000			
		2,56,570			2,56,570

Q.8 Following is the trial balance of Brijesh. Prepare final accounts for the year ended on 31st March, 2016.

Particulars	Debit ₹	Credit ₹
Stock as on 01-04-2015	2,00,000	
Purchases and Sales	22,00,000	33,00,000
Returns	1,00,000	80,000
Carriage inwards	50,000	
Salaries	2,60,000	
Insurance	1,20,000	
Wages	80,000	
Bad debts	10,000	
Furniture	7,00,000	
Capital		7,50,000
Printing and stationery	80,000	
Cash at bank	3,15,000	
Petty cash	5,000	
Commission	10,000	
	41,30,000	41,30,000

Adjustments:

- i. Stock on 31st March, 2016 was valued at Rs. 4,00,000.
- ii. Depreciate furniture @ 10% p.a.
- iii. Insurance of Rs. 60,000 was paid in advance
- iv. Commission receivable Rs. 50,000.

Solution

In the books of Brijesh

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

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		2,00,000	By Sales	33,00,000	
To Purchases	22,00,000		Less: Returns	1,00,000	32,00,000
Less: Returns	80,000	21,20,000	By Closing stock		4,00,000
To Carriage inwards		50,000			
To Wages		80,000			
To Gross profit c/d		11,50,000			
		36,00,000			36,00,000
To Salaries		2,60,000	By Gross profit b/d		11,50,000
To Insurance	1,20,000		By Commission		
Less: Prepaid	60,000	60,000	receivable		50,000
To Bad debts		10,000			
To Printing and stationery		80,000			
To Depreciation on furniture (7,00,000 x 10/100)		70,000			
To Commission		10,000			
To Net profit (transferred to capital A/c)		7,10,000			
		12,00,000			12,00,000

Balance Sheet as on 31st March, 2016

Liabilities	₹	₹	Assets	₹	₹
Capital	7,50,000		Furniture	7,00,000	
Add: Net profit	7,10,000	14,60,000	Less: Depreciation	70,000	6,30,000
			Stock in trade		4,00,000
			Commission receivable		50,000
			Insurance prepaid		60,000
			Cash at bank		3,15,000
			Petty cash		5,000
		14,60,000			14,60,000

UNIT -4

MEANING OF BANK RECONCILIATION STATEMENT =

A bank reconciliation statement is a document that compares a company's recorded cash balance with the corresponding balance on its bank statement. It helps identify and reconcile any discrepancies between the two, such as outstanding checks or deposits, to ensure accurate financial reporting

PURPOSE OF BANK RECONCILIATION STATEMENT

- **Ensure accuracy:**The primary purpose is to verify that the company's records match the bank's records regarding cash transactions.
- **Detect errors:**It helps identify any errors or omissions in the company's accounting records or the bank's records.
- **Prevent fraud:**By comparing the two balances, it can help detect fraudulent activity or unauthorized transactions.
- **Improve cash flow:**It can help identify any potential disruptions in cash flow by pinpointing outstanding payments or deposit

Cash Book Balance More Than Bank

Q.1JPN & Co, has a balance of \$20,000 as per passbook as on 31st march 2021.

Let's Understand the Transaction Details

1. Three checks of \$1000, \$1500, \$1750 were deposited in the bank on 30th December 2021 but were recorded in the bank statement on January 2022.
2. A check of \$1000 was issued on 31st december 2021, was not processed.
3. A dividend of \$500 on stocks was credited to the bank account, but not recorded in the cash book.
4. A direct deposit of \$600 was made in a bank account by a customer, which was not recorded in the cash book.
5. Bank charges of \$60 were entered only in the bank passbook.
6. Balance as per cash book on 31st december 2021 was \$22,210.

Solution : Bank Reconciliation Statement (BRS) Format

PARTICULARS	INDIVIDUAL AMOUNT (\$)	TOTAL AMOUNT (\$)
Balance as per passbook		20,000
Add: Checks deposited (1000+1500+1750)	4250	
Bank charges recorded in passbook	60	4310
Less: Check issued, but not presented for payment	1000	
Dividends collected by bank	500	
Direct deposit not recorded in cash book	600	2100
Balance as per Cash book		22,210

Bank Balance More Than Cash Book

Q.2 Markson's & co. has a difference in balance as per cash book and bank statement as on 31st March 2021.

Let's Understand the Transaction Details

- Balance as per bank statement as on 31st March 2021 is \$5000. Balance as per the cash book is \$1,650.
- Checks of \$2000 and \$1000 issued as on 30th March 2021, but not yet cleared.
- Insurance paid by the bank is \$200. It is not yet recorded in the cash book.
- An outgoing check of \$1000 was recorded twice in the cash book. It is accurately recorded in the bank passbook.
- Payment of a \$500 check is recorded twice in the passbook.
- Dividends received \$600 recorded only in the bank statement and not in the cash book.
- A check of \$500 was deposited on 29th March 2021, but it is not collected.
- Bank charges of \$50 were debited, it is only recorded in the bank passbook.

Solution : Bank Reconciliation Statement (BRS) Format

PARTICULARS	INDIVIDUAL AMOUNT (\$)	TOTAL AMOUNT (\$)
Balance as per passbook		5,000
Add: Insurance Premium paid by bank	200	
Check recorded twice in passbook	500	
Check deposited but not yet processed	500	
Bank charges debited only in passbook	50	1250
Less: Checks issued but not presented for payment (2000+1000)	3000	
Check recorded twice in cash book	1000	
Dividend received recorded only in passbook	600	4600
Balance as per Cash book		1,650

Q.3 Prepare a bank reconciliation statement from the following particulars as of March 31, 2017.

- Balance as per cash book ₹ 3,200
- Cheque issued but not presented for payment ₹ 1,800
- Cheque deposited but not collected up to March 31, 2017, ₹ 2,000
- Bank charges debited by bank ₹ 150

SOLUTION: The reconciliation statement is shown below:

Bank Reconciliation Statement, as of March 31, 2017

S. No.	Particulars	(+) Amount	(-) Amount
	Balance as per the Cash Book	3,200	
(i)	Cheque issued but not presented for payment	1,800	
(ii)	Cheque deposited but not cleared	-	2,000
(iii)	Bank charges	-	150

	Balance as per the Pass Book		2,850
		5,000	5,000

Q4. On March 31 2017 the cash book showed a balance of ₹ 3,700 as cash at the bank, but the bank passbook made up to the same date showed that cheques for ₹ 700, ₹ 300, and ₹ 180 respectively had not been presented for payment, Also, cheque amounting to ₹ 1,200 deposited into the account had not been credited. Prepare a bank reconciliation statement.

Ans: The reconciliation statement is shown below:

S. No.	Particulars	(+) Amount	(-) Amount
	Balance as per the Cash Book	3,700	
(i)	Three cheques issued but not presented for payment	1,180	
(ii)	Cheque deposited but not cleared		1,200
	Balance as per the Pass Book		3,680
		4,880	4,880

The balance as per pass book as of 31st March is ₹3, 680

Q5. The cash book shows a bank balance of ₹ 7,800. On comparing the cash book with the passbook the following discrepancies were noted:

- Cheque deposited in the bank but not credited ₹3,000
- Cheque issued but not yet present for payment ₹1,500
- Insurance premium paid by the bank ₹2,000
- Bank interest credit by the bank ₹400
- Bank charges ₹100
- Directly deposited by a customer ₹4,000

SOLUTION: The bank reconciliation statement is shown below:

S. No.	Particulars	(+) Amount	(-) Amount
	Balance as per the Cash Book	7,800	-
(a)	Cheque deposited but not credited to the Pass Book		3,000

(b)	Cheque issued but not yet presented for payment	1,500	
(c)	An insurance premium paid by the bank		2,000
(d)	Bank allowed interest	400	
(e)	Bank debited charges		100
(f)	Amount directly deposited by the customer	4,000	
Balance as per the Pass Book			8,600
		13,700	13,700

Q6. A Bank balance of ₹ 40,000 was shown in the cash book of Atul on December 31, 2016. It was found that three cheques of ₹2,000, ₹5,000, and ₹8,000 deposited during December were not credited in the passbook till January 02, 2017. Two cheques of ₹ 7,000 and ₹8,000 issued on December 28, were not presented for payment till January 03, 2017. In addition, the bank had credited Atul for ₹325 as interest and had debited him ₹50 as bank charges for which there were no corresponding entries in the cash book.

Prepare a bank reconciliation statement as of December 31, 2016.

SOLUTION : The bank reconciliation statement is shown below:

S. No.	Particulars	(+) Amount	(-) Amount
	Balance as per the Cash Book	40,000	
(i)	Cheques deposited but not cleared in December		15,000
(ii)	A cheque issued but presented for payment for payment	15,000	
(iii)	Bank allowed interest	325	
(iv)	Bank debited charges		50
	Balance as per the Pass Book		40,275
		55,325	55,325

Q7. On comparing the cash book with the passbook of Naman, it is found that on March 31, 2017, the bank balance of ₹40,960 shown by the cash book differs from the bank balance about the following:

- Bank charges ₹100 on March 31, 2017, are not entered in the cash book.
- On March 21, 2017, a debtor paid ₹2,000 into the company's bank in settlement of his account, but no entry was made in the company's cash book in respect of this.
- Cheques totaling ₹12,980 were issued by the company and duly recorded in the cash book before March 31, 2017, but they were not presented at the bank for payment until after that date.
- A bill for ₹6,900 discounted with the bank is entered in the cash book with a recording of the discount charge ₹800.
- ₹3,520 is entered in the cash book as paid into the bank on March 31st, 2017, but not credited by the bank until the following day.
- No entry has been made in the cash book to record the dishonour or, on March 15, 2017, of a cheque for ₹ 650 received from Bhanu.

Prepare a reconciliation statement as of March 31, 2017.

SOLUTION: The reconciliation statement is shown below:

S. No.	Particulars	(+) Amount	(-) Amount
	Balance as per the Cash Book	40,960	
(a)	Bank debited charges		100
(b)	Amount directly paid by the debtor into a bank account	2,000	
(c)	Cheques issued but not presented for payment	12,980	
(d)	Discount charges of the bill were omitted to be recorded in the Cash Book		800
(e)	Amount debited in the bank column of the Cash Book but not deposited in the bank		3,520
(f)	Cheque dishonoured was not recorded in the Cash Book		650
	Balance as per the Pass Book		50,870
		55,940	55,940

What is Branch Accounting?

Branch Accounting is defined as a bookkeeping system of accounting that allows a business with multiple locations or branches to keep track of financial transactions at each branch individually, while also consolidating them at the main or head office. This helps in monitoring the performance and financial position of each branch separately. These branches are divided by geographical location, and each department has its profit and cost centers. In this accounting system, separate Trial Balance, Profit and Loss Statements, and Balance Sheets are prepared by each branch. Branches operate independently in terms of day-to-day transactions but still are part of the larger organizational structure, so the financial results of each branch are consolidated at the head office to prepare overall financial statements for the entire organisation.

Types of Branches

1. **Dependent Branch:** This type of branch has limited authority and depends heavily on the head office for decisions regarding pricing, purchasing, and sales. Transactions are recorded directly in the books of the head office.
2. **Independent Branch:** An independent branch has more autonomy and maintains its own set of books. It has the authority to make significant decisions without constant approval from the head office.

Types of Accounts

In Branch Accounting, like other businesses, coordination of all the accounts like [Journal](#), [Ledger](#), Financial, and Position Statements are prepared. Some of the basic accounts under the branch account have been discussed below,

1. **Branch Stock/Inventory Account:** This account records the value of stock held at the branch. It is important for assessing the profitability and financial health of the branch.
2. **Branch Debtors Account:** The branch debtors account maintains records of amounts receivable from debtors at the branch including sales on credit and also tracks payments received from debtors.
3. **Branch Expenses Account:** All expenses incurred at the branch are recorded in this accounting including [rent](#), utilities, [salaries](#), and other direct - indirect costs.
4. **Branch Revenue Account:** This account records the revenue generated by the branch, including sales revenue and any other income generated at the branch level.
5. **Branch [Profit and Loss Account](#):** The branch profit and loss account shows the profit or loss generated by the branch, by summarising all the revenue and expenses of a specific period.
6. **Branch Capital Account:** The branch capital account reflects the capital investment in the branch by the head office. It may include the initial capital and any additional investments or withdrawals.

Advantages of Branch Accounting

1. **Performance Evaluation:** Branch accounting allows for the assessment of the individual performance of each branch. This helps in identifying profitable and underperforming branches.
2. **Localized Decision-Making:** Independent branches have the autonomy to decide pricing, purchasing, and sales based on local market conditions. This can lead to more effective strategies tailored to specific regions.
3. **Market Expansion:** It facilitates the expansion of business into different geographical areas. This can help in reaching a wider customer base and tapping into new markets. Multiple locations can give a business a competitive edge over rivals that operate in a single location.
4. **Customer-Centric Approach:** Branches can adapt their operations to better serve local customer preferences and demands. This enhances customer satisfaction and loyalty.
5. **Reduced Transportation Costs:** By having branches in different locations, businesses can reduce transportation costs for both raw materials and finished products, as goods can be sourced and distributed locally.
6. **Improved Customer Service:** Having a physical presence in different areas allows for better customer service, as customers can visit branches for inquiries, support, and purchases. Branches serve as valuable sources of market feedback. They can provide insights into local market trends, customer behavior, and preferences.

Disadvantages of Branch Accounting

1. **Complexity and Administrative Burden:** Managing separate sets of accounts for each branch can be complex and time-consuming. This includes maintaining records, preparing financial statements, and ensuring compliance with accounting standards at each branch.
2. **Costs:** Setting up and maintaining separate accounting systems for each branch can be expensive. This includes the costs of software, personnel, training, and infrastructure.
3. **Potential for Errors and Inconsistencies:** With multiple locations and sets of records, there is an increased likelihood of errors or discrepancies in recording transactions. These errors can lead to inaccuracies in financial reporting.
4. **Inter-Branch Transactions:** Handling transactions between branches can be tricky. It requires careful accounting to ensure that these transactions are appropriately recorded and eliminated during consolidation.
5. **Coordination and Communication:** Effective communication and coordination between the head office and branches are crucial. Without it, there may be delays or misunderstandings in reporting, which can impact decision-making.
6. **Risk of Fraud and Mismanagement:** With multiple locations, there is a greater risk of fraud or mismanagement at individual branches. This could include issues like embezzlement, theft, or improper handling of funds. Moreover, in independent branches, the head office may have limited control over day-to-day operations.

NUMERICAL QUESTIONS WITH SOLUTION:-

Q.1 Journalise the following transactions in the books of the Kolkata Head Office, Delhi Branch, and Agra Branch:

(a) On April 1, 2023, Goods worth ₹50,000 are supplied by the Delhi Branch to the Agra Branch under the instructions of the Head Office.

(b) On April 7, 2023, The Delhi Branch draws a bill receivable for ₹40,000 on the Agra Branch which sends its acceptance.

(c) On April 11, 2023, The Delhi Branch received ₹10,000 from the Agra Branch.

(d) On April 19, 2023, Goods worth ₹20,000 were returned by a customer of the Agra Branch to the Delhi Branch.

(e) On April 26, 2023, The Agra Branch collected ₹20,000 from a customer of the Delhi Branch.

Solution:

Journal Entries
(In the books of Delhi Head Office)

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
2023 April 1	Goods Sent to Branch A/c To Kolkata H.O. A/c (Being the goods received from the Delhi Branch)	Dr.	50,000	50,000
April 7	Kolkata H.O. A/c To Bill Payable A/c (Being a B/P accepted for Delhi Branch)	Dr.	40,000	40,000
April 11	Kolkata H.O. A/c To Cash A/c (Being cash paid to Delhi Branch)	Dr.	10,000	10,000
April 19	Kolkata H.O. A/c To Debtor A/c (Being the goods returned by customer of the Delhi Branch)	Dr.	20,000	20,000
April 26	Cash A/c To Kolkata H.O. A/c (Being the cash received from a customer of the Delhi Branch)	Dr.	20,000	20,000

Example 2:

DK Traders of Assam has a branch in Mumbai. The branch receives all supply of goods from the head office (Assam). From the following particulars relating to the Mumbai Branch for the year ending March 31, 2022. Prepare a Branch Accounts in the books of the Head office.

Particulars	₹	Particulars	₹
Opening stock at the branch (at cost)	8,400	Bills receivable received from a debtor	20,000
Opening branch debtor	6,200	Cash sent to branch for exp. Salaries Petty Cash	3,800 400
Opening petty cash at the branch	200	Closing stock at the branch (at cost)	6,400
Goods sent to branch during the year (at cost)	80,000	Closing petty cash at the branch	300
Goods returned by the branch	800	Closing branch debtor	13,400
Cash sales during the year	72,000		
Credit sales during the year	46,000		

Solution:

Mumbai Branch Account In the books of DK traders (Assam H.O.)					
Dr.	JF	Amount (₹)	Cr.	JF	Amount (₹)
To Balance b/f			Cash sales		72,000
Stock (at cost)		8,400	Collection from debtors		18,800
Debtors		6,200	By Goods Sent to Branch A/c (returned by branch)		800
Petty Cash		200			
To Goods Sent to Branch A/c (at cost)		80,000	By Balance c/f		
To Bank a/c (cash sent)			Stock (at cost)		6,400
Salaries		3,800	Debtors		13,400
Petty Expenses		400	Petty Cash		300
To General P/L A/c (Profit)		32,700	Bills Receivables		20,000
		1,30,700			1,30,700

Example 3:

Prepare a Branch account in the books of Head Office from the following particulars for the year ended 31st March 2023 assuming that H.O. sold goods at a cost price of 25%.

Particulars	₹	Particulars	₹
Opening stock (I.P.)	12,500	Bad debts	2,000
Opening debtors	5,000	Allowances to customers	1,000
Purchase on 01.04.2021	1,000	Return inwards	1,000
Goods sent to branch (I.P.)	40,000	Charges sent to the bank	3,000
Goods returned to H.O. (I.P.)	5,000	Rates & Taxes	8,000
Cash sales	12,000	Salaries	1,000
Cash received from debtors	30,000	Misc. Exp.	
		Closing stock (I.P.)	15,000
		Closing debtors	4,000
		Closing petty cash	1,000

Solution:

Particulars	JF	Amount (₹)	Particulars	JF	Amount (₹)
To Balance b/d			By Stock reserve (loading)		2,500
Stock		15,500	By Bank A/c		12,000
Debtors		5,000	Cash Sales		30,000
Petty Cash		1,000	Cash received from debtors		
To Goods Sent to Branch		40,000	By Goods Sent to Branch (return to H.O.)		5,000
To Closing Stock Reserve (15,000 x 1/5)		3,000	By Goods Sent to Branch (loading)		8,000
To Bank A/c			By Balance c/d		15,000
Rates & Taxes		3,000	Stock		4,000
Salaries		8,000	Debtors		1,000
Misc. Expenses		1,000	Petty Cash		
To Goods Sent to Branch (loading on returns)		1,000			
To General P/L A/c (Profit)		3,000			
		77,500			77,500

UNIT-5

What Is Royalty?

A royalty is a fee to the owner of an asset for the privilege of using it. Royalties are often applied in intellectual property (IP) contracts, natural resources, and franchise companies. They are usually a percentage of proceeds or a set amount paid over a cycle.

Types Of Royalties

- **Copyright Royalties:** Payments to writers, composers, and artists for using their copyrighted material (e.g., books, music, film).
- **Patent Royalties:** Paid to patent owners when their creations are used, produced, or sold.
- **Trademark Royalties:** Paid for using brand names, logos, or other marks.
- **Franchise Royalties:** Paid by franchisees to franchisors to use a brand name (e.g., McDonald's, KFC).
- **Mineral or Resource Royalties:** Paid to governments or landowners to extract natural resources such as oil, gas, or minerals.
- **Software Royalties:** Paid to developers or firms for using their software through licensing agreements.

Who Pays Royalties?

- Businesses & individuals utilising intellectual property (e.g., streaming services, film studios, publishers).
- Manufacturers producing patented goods.
- Franchise owners running a famous brand.
- Mining & energy firms extracting natural resources from government or private-owned land.

Benefits Of Royalties

- **Passive Income:** Creators and owners receive money steadily without extra work.
 - **Encourages Innovation:** Inventors, artists, and businesses are motivated to create new works.
 - **Brand Building:** Trademarks and franchises enable businesses to grow while earning revenue.
 - **Management of Resources:** Governments ensure fair compensation for utilising natural resources.
 - **Long-Term Earnings:** Royalties provide long-term earnings over a period.
-

LONG ANSWER QUESTIONS

Q.1. What journal entries are passed relating to royalties in the books of lessee and landlord?

Ans. Journal Entries in the Books of Lessee

In the books of lessee, accounting entries in different cases are passed as follows:

(A) Case 1: When Royalty is Less than Minimum Rent

1. When royalty is payable:

Royalty A/C Dr.

S.W.A/C Dr.

To Landlord A/C

(Being royalty earned and shortworkings to be payable to the landlord)

2. When payment of royalty is made:

Landlord A/c Dr.

To Bank A/C

(Being amount paid to landlord)

3. For closing royalty account at the end of the year:

P&L A/C Dr.

To Royalty

(Being the amount of royalties transferred to P&L A/C)

(B) Case II: When Royalty is equal to minimum rent

1. When royalty is payable:

Royalty A/C Dr.

To Landlord A/C

(Being royalties earned and payable to landlord)

2. When amount of royalty is paid:

Landlord A/C Dr.

To Bank A/C

(Being payment made to landlord)

3. When royalty account is closed at the end of year:

P&LA/C Dr.

To Royalty A/C

(Being the transfer of royalties to P & L A/C)

(C) Case III: When Royalty is More than Minimum Rent

1. When royalty is payable:

Royalty A/C Dr.

To Landlord A/C

(Being royalties earned and payable to landlord)

2. For writing off shortworking, if any

Landlord A/C Dr.

To Shortworkings A/C

(Being recoupment of S.W. of earlier year)

3. For payment of royalty is made:

Landlord A/C Dr.

To Bank A/c

(Being payment made to landlord) In place of above 2. and 3. entries following one entry may be passed; .

Landlord A/C Dr.

To Bank A/C

To Shortworkings A/C

(Being recoupment of S.W. to the extent of* ____ and balance paid to landlord)

4. For closing royalty account at the end of the year:

P&L A/c Dr.

To Royalty A/C

(Being amount of royalties transferred to P&L A/c)

Note: When royalty is payable monthly, quarterly or half-yearly, royalty will be transferred to profit & loss not when the royalty is paid but at the end of each year.

Journal Entries in the Books of Landlord

(A) Case I: When Royalty is Less than Minimum Rent

1. At the time when royalty is receivable:

Lessee A/C Dr.

To Royalty receivable A/c

To Royalty reserve A/C

(Being the amount of royalty receivable earned and diff. between minimum rent and royalty receivable transferred to royalty reserve A/c)

2. When above amount is received:

Bank A/c Dr.

To Lessee A/C

(Being the amount received from lessee)

3. For closing royalty receivable account:

Royalty receivable A/c Dr.

To P&L A/C

(Being amount of royalty receivable transferred to P&L)

(B) Case II: When Royalty Receivable is Equal to Minimum Rent

1. At the time when royalty is receivable:

Lessee A/C Dr.

To Royalty receivable A/c

(Being the royalty receivable earned)

2. On receipt of the amount:

Bank A/C

To Lessee A/C

(Being the amount received from lessee)

3. For closing royalty receivable account:

Royalty receivable A/C Dr.

To P&L A/C

(Being transfer of royalty receivable A/c to P&L A/C)

(c) Case III: When Royalty is More than Minimum Rent:

1. At the time when royalty is receivable:

Lessee A/C

To Royalty receivable A/C

(Being the amount of royalty receivable earned)

2. For writing of royalty reserve A/c

Royalty reserve A/C Dr.

To Lessee A/C

(Being royalty reserve recouped)

3. On receipt of royalty amount:

Bank A/C Dr.

To Lessee A/C

(Being amount received from lessee)

Combined entry may be passed for 2. and 3. above. Bank A/C Dr.

Royalty reserve A/C Dr.

To Lessee A/C

(Being amount received and royalty reserve recouped)

4. For closing royalty receivable account:

Royalty receivable A/C

To P&L A/C

(Being transfer of royalty receivable A/c to P & L A/c)

Q. 2 What is shortworking? How does it arise? What are the rules of accounting in this connection?

Ans. Shortworking: Refer to Section-A, Q.5.

Important Points Regarding Shortworking

1. Recoupment of Shortworking: It is clear from the above discussion that a minimum rent is paid to the owner of the right when the amount of royalty is less than the minimum payment and thus the owner is saved from loss. But in such a case, the payer of the minimum rent will cm. some loss. It is, therefore, generally provided in the agreement that the transferee will have a rin recovering or recouping the shortworkings in some coming years. The right of recoupment is legal binding but a mutual agreement. Both the parties will decide the number of years upto the shortworking may be recovered. Following examples will clarify the recoupment of shortworki

(a) Shortworking can be recouped out of the excess royalty of the first five years. It means that if the agreement is signed on 1st April, 2007, the shortworking can be recouped upto 31 March, 2012

(b) Shortworking can be recouped in the next, subsequent or following year only. It means the the shortworking of 2007-08 may be recouped only in the year 2008-09 and not beyond Beyond that.

For example: Suppose the minimum rent is 50,000 per annum and according to the agreement the shortworking can be recouped only in next one year. In 2005-06 and 2006-07, the royalty was 20,000 and 60,000 respectively. Therefore, in 2005-06 there was a shortworking of 30,000. In 2006-07 onlu 10,000 can be recouped. If a shortworking of more than 10,000 is recouped in 2006-07, the amount of payment will be below the minimum rent of 50,000 which will not be accepted by the owner.

2. No Right of Recoupment: It may also be decided in the agreement that there will be a provision of minimum rent but the transferee will have no right to recoup the shortworking. In such a case, an irrecoupable shortworking account is opened which is transferred to P & L account in the same year in which it is opened.

3. No Provision of Minimum Rent: Sometimes a minimum rent is not fixed in the agreement. In that case, the actual royalty is to be paid. When there is no condition of minimum rent, there arises no question of shortworkings. Generally, in copyright royalty,

there is no provision regarding the minimum payment in the agreement between an author and the publisher.

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Rules of Accounting

Analysis Table: Before accounting for royalty, one must have a clear knowledge of the amount of royalty, minimum rent, shortworking or excess working and also the recoupment of shortworking. Therefore, before solving the question, an analysis table must be prepared by the students in the examination as follows:

examination as follows:

In the Books of Lessee Analysis Table

Year ended 31st March	Minimum rent	Actual royalty	Shortworking (-) or excess working (+)	Shortworking		Actual payment to landlord
				Recouped	(₹) Transferred to P & L A/c	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	₹	₹	₹	₹	₹	₹

In the Books of Landlord Analysis Table

Year ended 31st March	Minimum rent	Actual royalty receivable	Shortworking allowable (or royalty reserve) (+) or excess working (-)	Shortworking		Actual payment from lessee
				Recouped by lessee	Transferred to P & L A/c	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	₹	₹	₹	₹	₹	₹



Q.3. Following information are provided by the sigma mines which has taken a cost field for extracting coal for 20 years period:

1. Rate of royalty = ₹ 75 per tonne
2. Minimum rate = ₹ 10,000 per year
3. Shortworking can be recouped during first 4 years
4. Output: 1994–8000 tonnes, 1995–12,000 tonnes, 1996–16,000 tonnes, 1997–20,000 tonnes, 1998–10,000 tonnes.

Sol.

Analytical Table

Year	Output (In tonnes)	Royalty @ 75 paise P.T. (₹)	Minimum rate (₹)	Short-working (MR - R) (₹)	Surplus (R - MR) (₹)	Short-working recouped (₹)	Payment to Landlord (₹)	Unrecouped S.W. T/T P & L A/c (₹)
1994	8,000	6,000	10,000	4,000	—	—	10,000	—
1995	12,000	9,000	10,000	1,000	—	—	10,000	—
1996	16,000	12,000	10,000	—	2,000	2,000	10,000	—
1997	20,000	15,000	10,000	—	5,000	3,000	10,000	—
1998	10,000	7,500	10,000	2,500	—	—	10,000	2,500

In the Books of Sigma Mines (Lessee)
Journal Entries

Date	Particulars	Dr. Amount (₹)	Cr. Amount (₹)
1994 Dec. 31	Royalty A/c Shortworking A/c To Landlord	Dr. Dr.	6,000 4,000
Dec. 31	Landlord To Cash A/c	Dr.	10,000
Dec. 31	Profit & Loss A/c To Royalty A/c	Dr.	6,000
1995 Dec. 31	Royalty A/c Shortworking Account To Landlord	Dr. Dr.	9,000 1,000
Dec. 31	Landlord A/c To Cash A/c	Dr.	10,000
Dec. 31	Profit & Loss A/c To Royalty A/c	Dr.	9,000
1996 Dec. 31	Royalty A/c To Landlord	Dr.	12,000
Dec. 31	Landlord To Cash A/c To Shortworking (Rec.)	Dr.	12,000

1994	Dec. 31	Profit & Loss A/c To Royalty A/c	Dr.	12,000	12,000
1997	Dec. 31	Royalty A/c To Landlord	Dr.	15,000	15,000
		Landlord A/c To Cash A/c To Shortworking Account (Rec.)	Dr.	15,000	12,000 3,000
	Dec. 31	Profit & Loss A/c To Royalty A/c	Dr.	15,000	15,000
1998	Dec. 31	Royalty A/c Shortworking A/c To Landlord	Dr. Dr.	7,500 2,500	10,000
	Dec. 31	Landlord A/c To Cash A/c	Dr.	10,000	10,000
	Dec. 31	Profit & Loss A/c To Royalty A/c To Shortworking Account (Not rec.)	Dr.		

**In the Ledger of Sigma Mines
Royalty Account**

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Dec. 31, 1994	To Landlord	6,000	Dec. 31, 1994	By Profit & Loss A/c	6,000
Dec. 31, 1995	To Landlord	9,000	Dec. 31, 1995	By Profit & Loss A/c	9,000
Dec. 31, 1996	To Landlord	12,000	Dec. 31, 1996	By Profit & Loss A/c	12,000
Dec. 31, 1997	To Landlord	15,000	Dec. 31, 1997	By Profit & Loss A/c	15,000
Dec. 31, 1998	To Landlord	7,500	Dec. 31, 1998	By Profit & Loss A/c	7,500

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Dec. 31, 1994	To Cash A/c	10,000	Dec. 31, 1994	By Royalty A/c	6,000
			Dec. 31, 1994	By S.W. A/c	4,000
		10,000			10,000
Dec. 31, 1995	To Cash A/c	10,000	Dec. 31, 1995	By Royalty A/c	9,000
			Dec. 31, 1995	By S.W. A/c	1,000
		10,000			10,000
Dec. 31, 1996	To Cash A/c	10,000	Dec. 31, 1996	By Royalty A/c	12,000
Dec. 31, 1996	To S.W. A/c (Rec.)	2,000			
		12,000			12,000
Dec. 31, 1997	To Cash A/c	12,000	Dec. 31, 1997	By Royalty A/c	15,000
Dec. 31, 1997	To S.W. A/c (Rec.)	3,000			

Dec. 31, 1998	To Cash A/c	15,000	Dec. 31, 1998	Royalty A/c	15,000
		10,000			7,500
				By S.W. A/c	2,500
		10,000			10,000

Dr. **Shortworking Account** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Dec. 31, 1994	To Landlord A/c	4,000	Dec. 31, 1994	By Balance c/d	4,000
		4,000			4,000
Jan. 1, 1995	To Balance b/d	4,000	Dec. 31, 1995	By Balance c/d	5,000
Dec. 31, 1995	To Balance b/d	1,000			5,000
		5,000			5,000
Jan. 1, 1996	To Balance b/d	5,000	Dec. 31, 1996	By Landlord A/c	2,000
			Dec. 31, 1996	By Balance c/d	3,000
		5,000			5,000
Jan. 1, 1997	To Balance b/d	3,000	Dec. 31, 1997	By Landlord A/c	3,000
		3,000			3,000
Dec. 31, 1998	To Landlord's A/c	2,500	Dec. 31, 1998	By Profit & Loss A/c	2,500
		2,500			2,500

Q.4. Das Colliery Company took a lease of a mine from Coal Fields Ltd., for a period 15 years upon the terms of a royalty @ 50 paise per tonne upon the output with a minimum rent of ₹ 20,000 in the first year and then increasing every year by ₹ 2,000. Till it reaches ₹ 30,000 when it becomes fixed for all the coming years. The Das Colliery Company was granted the right of recouping shortworking of any year in the subsequent 3 years.

The following were the production figures of the first 6 years:

1991	Nil
1992	18,000 tonnes
1993	38,000 tonnes
1994	60,000 tonnes
1995	68,000 tonnes
1996	80,000 tonnes

Pass journal entries and prepare: 1. Dead rent account, 2. Royalty account, 3. Coal Fields Ltd. account, 4. Shortworking account.

Sol.

Analytical Table

Year	Output (in tonnes)	Royalty @ 50 paise per tonne (₹)	Minimum rent (₹)	Short-working (MR-R) (₹)	Surplus (R - MR) (₹)	Short-working recouped (₹)	Payment to Landlord (₹)	Unrecouped S.W. T/T P & L A/c (₹)
1991	Nil	Nil	20,000	20,000 ¹	—	—	20,000	—
1992	18,000	9,000	22,000	13,000 ²	—	—	22,000	—

1993	38,000	19,000	24,000	5,000 ³	—	—	24,000	—
1994	60,000	30,000	26,000	—	4,000	4,000 ¹	26,000	16,000 ¹
1995	68,000	34,000	28,000	—	6,000	6,000 ²	28,000	7,000 ²
1996	80,000	40,000	30,000	—	10,000	5,000 ³	35,000	—

In the Books of Das Colliery Company (Dead Rent Method)
Journal Entries

Dr.	Cr.	Date	Particulars	Dr. Amount (₹)	Cr. Amount (₹)
		1991 Dec. 31	Dead rent A/c To Coal Fields Ltd. (Minimum rent became due)	Dr. 20,000	20,000
		Dec. 31	Shortworking A/c To Dead rent A/c (Shortworking T/T Dead rent A/c)	Dr. 20,000	20,000
		Dec. 31	Coal Fields Ltd. To Cash A/c (Minimum rent paid)	Dr. 20,000	20,000
		1992 Dec. 31	Dead rent A/c To Coal Fields Ltd. (Minimum rent became due)	Dr. 22,000	22,000
		Dec. 31	Royalty A/c Shortworking A/c To Dead rent A/c (Royalty and S.W. T/T Dead rent A/c)	Dr. Dr. 9,000 13,000	22,000
		Dec. 31	Coal Fields Ltd. To Cash A/c (Minimum rent paid)	Dr. 22,000	22,000
		Dec. 31	Profit & Loss A/c To Royalty A/c (Royalty transferred to Profit & Loss A/c)	Dr. 9,000	9,000
		1993 Dec. 31	Dead rent A/c To Coal Fields Ltd. (Minimum rent became due)	Dr. 24,000	24,000
		Dec. 31	Royalty A/c Shortworking A/c To Dead rent A/c (Royalty and S.W. T/T Dead rent A/c)	Dr. Dr. 19,000 5,000	24,000

Dec. 31	Coal Fields Ltd. To Cash A/c (Minimum rent paid)	Dr.	24,000	24,000
Dec. 31	Profit & Loss A/c To Royalty A/c (Royalty T/T Profit & Loss A/c)	Dr.	19,000	19,000
1994 Dec. 31	Royalty A/c To Coal Fields Ltd. (Royalty became due)	Dr.	30,000	30,000
Dec. 31	Coal Fields Ltd. To Cash A/c To Shortworking A/c (S.W. recouped and balance paid)	Dr.	30,000	26,000 4,000
Dec. 31	Profit & Loss A/c To Royalty A/c To Shortworking A/c (Unrecouped S.W. and royalty transferred)	Dr.	46,000	30,000 16,000
1995 Dec. 31	Royalty A/c To Coal Fields Ltd. (For royalty became due)	Dr.	34,000	34,000
Dec. 31	Coal Fields Ltd. To Cash A/c To Shortworking A/c (S.W. recouped and balance paid)	Dr.	34,000	28,000 6,000
Dec. 31	Profit & Loss A/c To Royalty A/c To Shortworking A/c (Unrecouped S.W. and royalty transferred)	Dr.	41,000	34,000 7,000
1996 Dec. 31	Royalty A/c To Coal Fields Ltd. (For royalty became due)	Dr.	40,000	40,000
Dec. 31	Coal Fields Ltd. To Cash A/c To Shortworking A/c (For royalty paid)	Dr.	40,000	35,000 5,000
Dec. 31	Profit & Loss A/c To Royalty A/c (Royalty transferred to P & L A/c)	Dr.	40,000	40,000

In the Ledger of Das Colliery Company
Dead Rent Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Dec. 31, 1991	To Coal Fields Ltd.	20,000	Dec. 31, 1991	By Shortworking A/c	20,000
Dec. 31, 1992	To Coal Fields Ltd.	22,000	Dec. 31, 1992	By Royalty A/c	9,000
			Dec. 31, 1992	By Shortworking A/c	13,000
					22,000
Dec. 31, 1993	To Coal Fields Ltd.	22,000			19,000
			Dec. 31, 1993	By Royalty A/c	5,000
				By Shortworking A/c	24,000
					24,000

Dr.			Cr.		
Royalty Account					
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Dec. 31, 1992	To Dead rent A/c	9,000	Dec. 31, 1992	By Profit & Loss A/c	9,000
Dec. 31, 1993	To Dead rent A/c	19,000	Dec. 31, 1993	By Profit & Loss A/c	19,000
Dec. 31, 1994	To Coal Fields Ltd.	30,000	Dec. 31, 1994	By Profit & Loss A/c	30,000
Dec. 31, 1995	To Coal Fields Ltd.	34,000	Dec. 31, 1995	By Profit & Loss A/c	34,000
Dec. 31, 1996	To Coal Fields Ltd.	40,000	Dec. 31, 1996	By Profit & Loss A/c	40,000

Dr.			Cr.		
Coal Fields Ltd. Account					
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Dec. 31, 1991	To Cash A/c	20,000	Dec. 31, 1991	By Dead Rent A/c	20,000
Dec. 31, 1992	To Cash A/c	22,000	Dec. 31, 1992	By Dead Rent A/c	22,000
Dec. 31, 1993	To Cash A/c	24,000	Dec. 31, 1993	By Dead Rent A/c	24,000
Dec. 31, 1994	To Cash A/c	26,000	Dec. 31, 1994	By Royalty A/c	30,000
	To Shortworking A/c	4,000			
		30,000			30,000
Dec. 31, 1995	To Cash A/c	28,000	Dec. 31, 1995	By Royalty A/c	34,000
	To Shortworking A/c	6,000			
		34,000			34,000
Dec. 31, 1996	To Cash A/c	40,000	Dec. 31, 1996	By Royalty A/c	40,000
		40,000			40,000

Dr.			Cr.		
Shortworking Account					
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Dec. 31, 1991	To Dead rent A/c	20,000	Dec. 31, 1991	By Balance c/d	20,000
Jan. 1, 1992	To Balance b/d	20,000	Dec. 31, 1992	By Balance c/d	33,000
Dec. 31, 1992	To Dead rent A/c	13,000			
		33,000			33,000
Jan. 1, 1993	To Balance b/d	33,000	Dec. 31, 1993	By Balance c/d	38,000
Dec. 31, 1993	To Dead rent A/c	5,000			

Jan. 1, 1994	To Balance b/d	38,000			38,000
		38,000	Dec. 31, 1994	By Coal Fields Ltd.	4,000
			Dec. 31, 1994	By Profit & Loss A/c	16,000
			Dec. 31, 1994	By Balance c/d	18,000
Jan. 1, 1995	To Balance b/d	38,000			38,000
		18,000	Dec. 31, 1995	By Coal Fields Ltd.	6,000
			Dec. 31, 1995	By Profit & Loss A/c	7,000
			Dec. 31, 1995	By Balance c/d	5,000
Jan. 1, 1996	To Balance b/d	18,000			18,000
		5,000	Dec. 31, 1996	By Coal Fields Ltd.	5,000
		5,000			5,000

Q.5. Raman Coal Company took a coal mine on lease from 1st April 1992. Royalty was payable half-yearly on 30th Sept. and 31st March at ₹ 5 per tonne of output. Minimum rent was fixed at ₹ 80,000 per year. Shortworkings were recoverable during the next three half-years. The output was as follows:

30th Sept. 1992	3,000 tonnes
31st Mar. 1993	4,000 tonnes
30th Sept. 1993	10,000 tonnes
31st Mar. 1994	8,000 tonnes
30th Sept. 1994	12,000 tonnes
31st Mar. 1995	8,000 tonnes

Prepare necessary ledger accounts in the books of Raman Coal Company provided that final accounts are prepared on 31st March of every year.

$$\text{Annual rent} = 80,000$$

$$\text{Half-yearly rent} = \frac{80,000}{2} = ₹ 40,000$$

Sol.

Analytical Table

Year	Output (in tonnes) (₹)	Royalty @ ₹ 5 per tonne (₹)	Minimum rent (₹)	Short-working (MR - R) (₹)	Surplus (R - MR) (₹)	Short-working recouped (₹)	Payment to landlord (₹)	S.W. T/T P & L A/c (₹)
Sept. 30, 92	3,000	15,000	40,000	25,000 ¹	—	—	40,000	—
Mar. 31, 93	4,000	20,000	40,000	20,000 ²	—	—	40,000	—
Sept. 30, 93	10,000	50,000	40,000	—	10,000	10,000 ¹	40,000	—
Mar. 31, 94	8,000	40,000	40,000	—	—	—	40,000	15,000 ¹
Sept. 30, 94	12,000	60,000	40,000	—	20,000	20,000 ²	40,000	—
Mar. 31, 95	8,000	40,000	40,000	—	—	—	40,000	—

In the Ledger of Raman Coal Company Royalty Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Sept. 30, 1992	To Landlord's A/c	15,000	Mar. 31, 1993	By Profit & Loss A/c	35,000
Mar. 31, 1993	To Landlord's A/c	20,000			
		35,000			35,000

Sept. 30, 1993	To Landlord's A/c	50,000	Mar. 31, 1994	By Profit & Loss A/c	90,000
Mar. 31, 1994	To Landlord's A/c	40,000			90,000
		90,000			1,00,000
Sept. 31, 1994	To Landlord's A/c	60,000	Mar. 31, 1994	By Profit & Loss A/c	1,00,000
Mar. 31, 1995	To Landlord's A/c	40,000			1,00,000
		1,00,000			

Shortworking Account					
Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Sept. 30, 1992	To Landlord's A/c	25,000	Mar. 31, 1993	By Balance c/d	45,000
Mar. 31, 1993	To Landlord's A/c	20,000			45,000
		45,000			10,000
Apr. 1, 1993	To Balance b/d	45,000	Sept. 30, 1993	By Landlord's A/c	15,000
			Mar. 31, 1994	By Profit & Loss A/c	20,000
			Mar. 31, 1994	By Balance c/d	45,000
		45,000			20,000
Apr. 1, 1994	To Balance b/d	20,000	Sept. 30, 1994	By Landlord's A/c	20,000
		20,000			20,000

Landlord's Account					
Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Sept. 30, 1992	To Cash A/c	40,000	Sept. 30, 1992	By Royalty A/c	15,000
Mar. 31, 1993	To Cash A/c	40,000	Sept. 30, 1992	By Shortworking A/c	25,000
			Mar. 31, 1993	By Royalty A/c	20,000
			Mar. 31, 1993	By Shortworking A/c	20,000
		80,000			80,000
Sept. 30, 1993	To Cash A/c	40,000	Sept. 30, 1993	By Royalty A/c	50,000
Sept. 30, 1993	To Shortworking A/c	10,000	Mar. 31, 1994	By Royalty A/c	40,000
Mar. 31, 1994	To Cash A/c	40,000			90,000
		90,000			60,000
Sept. 30, 1994	To Cash A/c	40,000	Sept. 30, 1994	By Royalty A/c	40,000
Sept. 30, 1994	To Shortworking A/c	20,000	Mar. 31, 1995	By Royalty A/c	
Mar. 31, 1995	To Cash A/c	40,000			1,00,000
		1,00,000			

Q.6. Rajeev Mineral Corporation took a lease of iron mine for a term of 5 years from 1st January, 1995 on a minimum rent of ₹ 2,000 per year merging in a royalty of ₹ 10 per tonne of iron inguts raised payable quarterly on 31st March, 30th June, 30th Sept. and 31st December every year. Shortworking can be recouped only during the first two years of the lease. Rajeev Mineral Corporation closes its books on 31st December every year. Iron inguts production is as follows:

31st Mar.	1995	150 tonnes
30th June	1995	180 tonnes
30th Sept.	1995	220 tonnes
31st Dec.	1995	210 tonnes

31st Mar.	1996	160 tonnes
30th June	1996	250 tonnes
30th Sept.	1996	200 tonnes
31st Dec.	1996	220 tonnes

Prepare necessary ledger accounts in the books of Rajeev Mineral Corporation.

Sol.

Analytical Table

Year	Output (in tonnes)	Royalty @ ₹ 10 per tonne	Min. mum rent	Short-working (MR - R)	Surplus (R - MR)	Short-working recouped	Payment to landlord	S.W. P & L A/c
1995								
31st Mar.	150	1,500	2,000	500	—	—	2,000	—
30th June	180	1,800	2,000	200	—	—	2,000	—
30th Sept.	220	2,200	2,000	—	200	200	2,000	—
31st Dec.	210	2,100	2,000	—	100	100	2,000	—
1996								
31st Mar.	160	1,600	2,000	400	—	—	2,000	—
30th June	250	2,500	2,000	—	500	500	2,000	—
30th Sept.	200	2,000	2,000	—	—	—	2,000	—
31st Dec.	220	2,200	2,000	—	200	200	2,000	100

In the Ledger of Rajeev Mineral Corporation

Dr. **Royalty Account** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1995			1995		
31st Mar.	To Landlord's A/c	1,500	31st Dec.	By Profit & Loss A/c	7,600
30th June	To Landlord's A/c	1,800			
30th Sept.	To Landlord's A/c	2,200			
31st Dec.	To Landlord's A/c	2,100			
		7,600			7,600
1996			1996		
31st Mar.	To Landlord's A/c	1,600	31st Dec.	By Profit & Loss A/c	8,300
30th June	To Landlord's A/c	2,500			
30th Sept.	To Landlord's A/c	2,000			
31st Dec.	To Landlord's A/c	2,200			
		8,300			8,300

Dr. **Shortworking Account** Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1995			1995		
31st Mar.	To Landlord's A/c	500	30th Sept.	By Landlord's A/c	200
30th June	To Landlord's A/c	200	31st Dec.	By Landlord's A/c	100
		700	31st Dec.	By Balance c/d	400
					700
1996			1996		

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1st Jan.	To Balance b/d	400	30th June	By Landlord's A/c	500
31st Mar.	To Landlord's A/c	400	31st Dec.	By Landlord's A/c	200
			31st Dec.	By Profit & Loss A/c	100
		800			800

Landlord's Account					
Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1995			1995		
31st Mar.	To Bank A/c	2,000	31st Mar.	By Royalty A/c	1,500
30th June	To Bank A/c	2,000	31st Mar.	By Shortworking A/c	500
30th Sept.	To Bank A/c	2,000	30th June	By Royalty A/c	1,800
30th Sept.	To Shortworking A/c	200	30th June	By Shortworking A/c	200
31st Dec.	To Bank A/c	2,000	30th Sept.	By Royalty A/c	2,200
	To Shortworking A/c	100	31st Dec.	By Royalty A/c	2,100
		8,300			8,300
1996			1996		
31st Mar.	To Bank A/c	2,000	31st Mar.	By Royalty A/c	1,600
30th June	To Bank A/c	2,000		By Shortworking A/c	400
	To Shortworking A/c	500	30th June	By Royalty A/c	2,500
30th Sep.	To Bank A/c	2,000	30th Sept.	By Royalty A/c	2,000
31st Dec.	To Bank A/c	2,000	31st Dec.	By Royalty A/c	2,200
	To Shortworking A/c	200			
		8,700			8,700

Q.7. Alfa Brick Field Ltd. acquired a piece of land on a lease of 10 years from the farmers society for the purpose of getting earth. The terms of lease were as follows:

1. Advance royalty of ₹ 10,000 is to be paid to the lessor on 1st January, 1995 when the period of lease commenced.

2. The annual royalty of 10 paise per 100 cubic feet of earth down out is to be paid to him subject to a minimum of ₹ 2,000 per year shortworking is not recoverable against the surplus of future years and

3. Royalty of current year is to be paid on 31st January of the next year. The quantity of earth extracted by the lessee in 1995, 1996, 1997 and 1998 was 16,00,000; 18,00,000; 24,00,000 and 30,00,000 cubic feet respectively.

Enter these transactions in the ledger of Alfa Brick Field Ltd.

Sol.

Analytical Table

Year	Output (cubic feet)	Royalty @ 10 paise per 100 cubic feet (₹)	Minimum rent (₹)	Short-working (MR - R) (₹)	Payment to landlord (₹)	S.W. T/T P & L. A/c (₹)
1995	16,00,000	1,600	2,000	400	2,000	400
1996	18,00,000	1,800	2,000	200	2,000	200
1997	24,00,000	2,400	2,000	—	2,400	—
1998	30,00,000	3,000	2,000	—	3,000	—

Advance Royalty Account					
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1995			1995		
1st Jan.	To Bank A/c	10,000	31st Dec.	By Profit & Loss A/c	1,000
			31st Dec.	By Balance c/d	9,000
		10,000			10,000
1996			1996		
1st Jan.	To Balance b/d	9,000	31st Dec.	By Profit & Loss A/c	1,000
			31st Dec.	By Balance c/d	8,000
		9,000			9,000
1997			1997		
1st Jan.	To Balance b/d	8,000	31st Dec.	By Profit & Loss A/c	1,000
			31st Dec.	By Balance c/d	7,000
		8,000			8,000
1998			1998		
1st Jan.	To Balance b/d	7,000	31st Dec.	By Profit & Loss A/c	1,000
			31st Dec.	By Balance c/d	6,000
		7,000			7,000

Shortworking Account					
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1995			1995		
31st Dec.	To Farmers society's A/c	400	31st Dec.	By Profit & Loss A/c	400
1996			1996		
31st Dec.	To Farmers society's A/c	200	31st Dec.	By Profit & Loss A/c	200

Royalty Account					
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1995			1995		
31st Dec.	To Farmers society's A/c	1,600	31st Dec.	By Profit & Loss A/c	1,600
1996			1996		
31st Dec.	To Farmers society's A/c	1,800	31st Dec.	By Profit & Loss A/c	1,800
1997			1997		
31st Dec.	To Farmers society's A/c	2,400	31st Dec.	By Profit & Loss A/c	2,400
1998			1998		
31st Dec.	To Farmers society's A/c	3,000	31st Dec.	By Profit & Loss A/c	3,000

Farmers Society's Account					
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1995			1995		
31st Dec.	To Balance c/d	2,000	31st Dec.	By Royalty A/c	1,600
			31st Dec.	By Shortworking A/c	400
		2,000			2,000

1996			1996		
31st Jan.	To Bank	2,000	1st Jan.	By Balance b/d	2,000
31st Dec.	To Balance c/d	2,000	31st Dec.	By Royalty A/c	1,800
			31st Dec.	By Shortworking A/c	200
		4,000			4,000
1997			1997		
31st Jan.	To Bank A/c	2,000	1st Jan.	By Balance b/d	2,000
31st Dec.	To Balance c/d	2,400	31st Dec.	By Royalty A/c	2,400
		4,400			4,400
1998			1998		
31st Jan.	To Bank	2,400	1st Jan.	By Balance b/d	2,400
31st Dec.	To Balance c/d	3,000	31st Dec.	By Royalty A/c	3,000
		5,400			5,400

Q.8. Dr. Paramjeet Singh took a gold mine from M.P. Mineral Corporation to extract gold for a period of 15 years. Royalty is payable @ ₹ 100 per 10 grams of gold raised. Amount of minimum rent was fixed ₹ 1,00,000 per year. Shortworking of any year can be recouped in next year. In the case of strike, minimum rent was to be reduced to 60% of its normal amount. Gold produced by him for the first 6 years is as follows:

1990	1991	1992	1993	1994	1995
2,500 g	5,000 g	10,000 g	15,000 g	8,000 g	14,000 g

In the year 1994 there was a strike for the period of 3 months. Prepare necessary accounts in the books of Dr. Paramjeet Singh.

Sol.

Analytical Table

Year	Output (In grams)	Royalty @ ₹ 100 per 10 grams	Minimum rent (₹)	Short working (MR - R) (₹)	Surplus (R - MR) (₹)	Short-working recouped (₹)	Payment to landlord (₹)	S.W. T/T P & L A/c (₹)
1990	2,500	25,000	1,00,000	75,000	—	—	1,00,000	—
1991	5,000	50,000	1,00,000	50,000	—	—	1,00,000	—
1992	10,000	1,00,000	1,00,000	—	—	—	—	—
1993	15,000	1,50,000	1,00,000	—	50,000	50,000	1,00,000	—
1994	8,000	80,000	60,000	—	20,000	20,000	60,000	5,000
1995	14,000	1,40,000	1,00,000	—	40,000	40,000	1,00,000	10,000

In the Books of Dr. Paramjeet Singh:

Dr.

Royalty Account

Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1990			1990		
31st Dec.	To M.P. Mineral Corp. A/c	25,000	31st Dec.	By Profit & Loss A/c	25,000
1991			1991		
31st Dec.	To M.P. Mineral Corp. A/c	50,000	31st Dec.	By Profit & Loss A/c	50,000
1992			1992		

31st Dec. 1993	To M.P. Mineral Corp. A/c	1,00,000	31st Dec. 1993	By Profit & Loss A/c	1,00,000
31st Dec. 1994	To M.P. Mineral Corp. A/c	1,50,000	31st Dec. 1994	By Profit & Loss A/c	1,50,000
31st Dec. 1995	To M.P. Mineral Corp. A/c	80,000	31st Dec. 1995	By Profit & Loss A/c	80,000
31st Dec.	To M.P. Mineral Corp. A/c	1,40,000	31st Dec.	By Profit & Loss A/c	1,40,000

Dr. **M.P. Mineral Corporation's Account** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1990			1990		
31st Dec.	To Bank A/c	1,00,000	31st Dec.	By Royalty A/c	25,000
		1,00,000	31st Dec.	By Shortworking A/c	75,000
					1,00,000
1991			1991		
31st Dec.	To Bank A/c	1,00,000	1st Dec.	By Royalty A/c	50,000
		1,00,000	1st Dec.	By Shortworking A/c	50,000
					1,00,000
1992			1992		
31st Dec.	To Bank A/c	1,00,000	31st Dec.	By Royalty A/c	1,00,000
1993			1993		
31st Dec.	To Bank A/c	1,00,000	31st Dec.	By Royalty A/c	1,50,000
	To Shortworking A/c	50,000			1,50,000
		1,50,000			
1994			1994		
31st Dec.	To Bank A/c	60,000	Dec. 31	By Royalty A/c	80,000
	To Shortworking A/c	20,000			80,000
		80,000			
1995			1995		
31st Dec.	To Bank A/c	1,00,000	Dec. 31	By Royalty A/c	1,40,000
	To Shortworking A/c	40,000			1,40,000
		1,40,000			

Dr. **Shortworking Account** Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1990			1990		
31st Dec.	To M.P. Mineral Corp. A/c	75,000	31st Dec.	By Balance c/d	75,000
		75,000			75,000
1991			1991		
1st Jan.	To Balance b/d	75,000	31st Dec.	By Balance c/d	1,25,000
31st Dec.	To M.P. Mineral Corp. A/c	50,000			1,25,000
		1,25,000			

1992 1st Jan.	To Balance b/d	1,25,000	1992 31st Dec.	By Balance c/d	1,25,000
		1,25,000			1,25,000
1993 1st Jan.	To Balance b/d	1,25,000	1993 31st Dec.	By M.P. Mineral Corp. A/c	50,000
		1,25,000		By Balance c/d	75,000
		75,000			1,25,000
1994 1st Jan.	To Balance b/d	75,000	1994 31st Dec.	By M.P. Mineral Corp. A/c	20,000
		75,000		By P & L A/c	5,000
		50,000		By Balance c/d	50,000
		50,000			75,000
1995 1st Jan.	To Balance b/d	50,000	1995 31st Dec.	By M.P. Mineral Corp. A/c	40,000
		50,000		By P & L A/c	10,000
					50,000

Q.9. On January 1, 2011, Mr. Pradeep acquired a lease of certain oil wells at a minimum rent of ₹ 24,000 per annum, merging into a royalty of ₹ 1 per tonne of oil taken out. The shortworkings were recoverable in next two years of such shortworkings only, but on condition that if full shortworking, could not be recovered in the next year of the shortworking, Mr. Pradeep will loose his right to recover 50% of the unrecovered balance of shortworkings.

The output of first year is 6,000 tonne, 15,000 tonne for the second year, 30,000 tonne for the third year and 28,000 tonne for the fourth year.

Prepare necessary accounts in the books of Mr. Pradeep.

(2015)

Sol.

Analysis Table

Year	Output (in tonne)	Royalty @ ₹ 1 per tonne	Minimum rent (₹)	Short-working (MR - R) (₹)	Surplus (R - MR) (₹)	Recovered (₹)	Unreg. S.W. T/T P & L A/c (₹)	Payment (₹)
2011	6,000	6,000	24,000	18,000	—	—	—	24,000
2012	15,000	15,000	24,000	9,000	—	—	9,000	24,000
2013	30,000	30,000	24,000	—	6,000	6,000	7,500	24,000
2014	28,000	28,000	24,000	—	4,000	4,000	500	24,000

Dr.

Royalty A/c

Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Jan. 1 2011	To Landlord A/c	6,000	Dec. 31 2011	By Profit & Loss A/c	6,000
Jan. 1, 2012	To Landlord A/c	15,000	Dec. 31, 2012	By Profit & Loss A/c	15,000
Jan. 1, 2013	To Landlord A/c	30,000	Dec. 31, 2013	By Profit & Loss A/c	30,000
Jan. 1, 2014	To Landlord A/c	28,000	Dec. 31, 2014	By Profit & Loss A/c	28,000

Landlord A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Dec. 31, 2011	To Bank A/c	24,000	Dec. 31, 2011	By Royalty A/c	6,000
				By S.W. A/c	18,000
		24,000			24,000
Dec. 31, 2012	To Bank A/c	24,000	Dec. 31, 2012	By Royalty A/c	15,000
				By S.W. A/c	9,000
		24,000			24,000
Dec. 31, 2013	To Bank A/c	24,000	Dec. 31, 2013	By Royalty A/c	30,000
Dec. 31, 2013	To S.W. Ref. A/c	6,000			
		30,000			30,000
Dec. 31, 2014	To Bank A/c	24,000	Dec. 31, 2014	By Royalty A/c	28,000
	To S.W. Ref. A/c	4,000			
		28,000			28,000

Dr. Cr. **Shortworking A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Dec. 31, 2011	To Landlord A/c	18,000	Dec. 31, 2011	By Bal. c/d	18,000
		18,000			18,000
Dec. 31, 2012	To Bal. b/d	18,000	Dec. 31, 2012	By Landlord A/c	—
	To Landlord A/c	9,000		By Profit & Loss A/c	9,000
		27,000		By Bal. c/d	18,000
					27,000
Dec. 31, 2013	To Bal. b/d	18,000	Dec. 31, 2013	To Landlord A/c	6,000
				By Profit & Loss A/c	7,500
				By Bal. c/d	4,500
		18,000			18,000
Dec. 31, 2014	To Bal. b/d	4,500	Dec. 31, 2014	To Landlord A/c	4,000
				By Profit & Loss A/c	500
		4,500			4,500

Q.10. Dr. Vijay Gupta wrote a book on Accountancy and gave the right of publication and sale of S.K. Publications at a royalty of 10% on the printed price of the copies sold up to 31st March each year. The printed price of the book is ₹ 60. The amount of royalty is paid on 31st August and the books are closed on 31st March. The publisher submitted the accounts as under:

Year ended	Books printed	Specimen given	Damaged books	Closing stock
31-3-2012	3,000	700	100	1,000
31-3-2013	7,800	920	160	1,200
31-3-2014	10,000	1,040	200	1,600
31-3-2015	12,000	1,400	400	1,800

On 1st April, 2011, M/s S.K. Publications also paid ₹ 19,000 as Nazrana to Dr. Vijay Gupta for 10 years agreement. Prepare necessary ledger accounts up to 31st March, 2015 in the books of M/s S.K. Publications.

Sol. **Calculation Table of Books Sold**

Year ended	2012		2013		2014		2015	
	Opening stock			1,000		1,200		1,600
Books printed	3,000		7,800		10,000		12,000	
	3,000		8,800		11,200		13,600	
Less: Specimens	700		920		1,040		1,400	
Damaged	100		160		200		400	
Closing stock	1,000	1,800	1,200	2,280	1,600	2,840	1,800	
No. of books sold		1,200		6,520		8,360		
							10,000	

Calculation Table

Year	No. of books sold calculated above	Total printed price of the books sold @ (₹) 60 each	Royalties @ 10% of Printed price (₹)
2012	1,200	72,000	7,200
2013	6,520	3,91,000	39,120
2014	8,360	5,01,600	50,160
2015	10,000	6,00,000	60,000

In the Books of M/s S.K. Publication

Royalty Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount (₹)	Date	Particulars	L.F.	Amount (₹)
2012	To Dr. Vijay Gupta		7,200	2012	By Profit & Loss A/c		7,200
2013	To Dr. Vijay Gupta		39,120	2013	By Profit & Loss A/c		39,120
2014	To Dr. Vijay Gupta		50,160	2014	By Profit & Loss A/c		50,160
2015	To Dr. Vijay Gupta		60,000	2015	By Profit & Loss A/c		60,000

Dr. Vijay Gupta's A/c

Dr.				Cr.			
Date	Particulars	L.F.	Amount (₹)	Date	Particulars	L.F.	Amount (₹)
Mar. 31, 2012	To Balance c/d		7,200	Mar. 31, 2012	By Royalties A/c		7,200
Aug. 31, 2012	To Bank A/c		7,200	Apr. 1, 2012	By Balance b/d		7,200
Mar. 31, 2013	To Balance c/d		39,120	Mar. 31, 2013	By Royalties A/c		39,120
			46,320				46,320
Aug. 31, 2013	To Bank A/c		39,120	Apr. 1, 2013	By Balance b/d		39,120
Mar. 31, 2014	To Balance c/d		50,160	Mar. 31, 2014	By Royalties A/c		50,160
			89,280				89,280
Aug. 31, 2014	To Bank A/c		50,160	Apr. 1, 2014	By Balance b/d		50,160
Mar. 31, 2015	To Balance c/d		60,000	Mar. 31, 2015	By Royalties A/c		60,000
			1,10,160				1,10,160
Aug. 31, 2015			60,000	Apr. 1, 2015	By Balance b/d		60,000
			60,000				60,000

Nazrana A/c

Dr.

Cr.

Date	Particulars	L.F.	Amount (₹)	Date	Particulars	L.F.	Amount (₹)
Apr. 1, 2012	To Bank		10,000	Mar. 31, 2012	By Profit & Loss A/c		1,000
					By Balance c/d		9,000
			10,000				10,000
Apr. 1, 2013	To Balance b/d		9,000	Mar. 31, 2013	By Profit & Loss A/c		1,000
					By Balance c/d		8,000
			9,000				9,000
Apr. 1, 2014	To Balance c/d		8,000	Mar. 31, 2014	By Profit & Loss A/c		1,000
					By Balance c/d		7,000
			8,000				8,000
Apr. 1, 2015	To Balance c/d		7,000	Mar. 31, 2015	By Profit & Loss A/c		1,000
					By Balance c/d		6,000
			7,000				7,000

Q.11. A lime mine of 300 acres of land is leased to Dev on 1st Nov. 2012 subject to royalty of ₹ 1 per tonne of lime despatched. It was also agreed that the minimum rent of ₹ 3 per acre per annum will be charged up to the commencement of despatches and thereafter a minimum rent of ₹ 4 per acre per annum will be charged. Commencement of despatches began from 1st July, 2012 as follows:

Years	2012	2013	2014
Despatches (in tonnes)	1,000	1,900	1,100

Prepare landlord and shortworking accounts assuming that shortworking can be recouped up to 2014 only. Dev closes his books every year on 31st December. (2014)

Sol.

Calculation Table

Year	Output (in tonnes)	Actual royalties @ ₹ 1 per tonne (₹)	Minimum rent (₹)	Shortworkings (MR - R) (₹)	Short-workings recouped (₹)	Amount paid to landlord (₹)	Unrecouped shortworking transferred to Profit & Loss A/c (₹)
2012	Nil	Nil	200	200	—	200	—
2013	1,000	1,000	1,400	400	—	1,400	—
2014	1,900	1,900	1,600	—	300	1,600	300
2015	1,100	1,100	1,600	500	—	1,600	500

Dr.

Landlord's A/c

Cr.

Date	Particulars	L.F.	Amount (₹)	Date	Particulars	L.F.	Amount (₹)
Dec. 31, 2012	To Bank A/c		200	Dec. 31, 2012	By Shortworkings A/c		200

Dec. 31, 2013	To Bank A/c	1,400	Dec. 31, 2013	By Royalties A/c	1,000
			Dec. 31, 2013	By Shortworking A/c	400
		1,400			1,400
Dec. 31, 2014	To Shortworking A/c	300	Dec. 31, 2014	By Royalties A/c	1,900
Dec. 31, 2014	To Bank A/c	1,600			1,900
		1,900			1,900
Dec. 31, 2015	To Bank A/c	1,600	Dec. 31, 2015	By Balance c/d	1,100
			Dec. 31, 2015	By Shortworking A/c	500
		16,000			1,600

Dr. Shortworkings A/c Cr.							
Date	Particulars	L.F.	Amount (₹)	Date	Particulars	L.F.	Amount (₹)
Dec. 31, 2012	To Landlord's A/c		200	Dec. 31, 2013	By Balance c/d		200
Jan. 01, 2013	To Balance c/d		200	Dec. 12, 2013	By Balance c/d		600
Dec. 31, 2013	To Landlord's A/c		400				600
			600				600
Jan. 1, 2014	To Balance b/d		600	Dec. 31, 2014	By Landlord's A/c		300
				Dec. 31, 2014	By Profit & Loss A/c		300
			600				600
Dec. 31, 2015	To Landlord's A/c		500	Dec. 31, 2015	By Profit & Loss A/c		500

Working Notes:

Minimum rent of 2 months for the year 2012 = $(400 \times 3) \times 2 \div 12 = ₹ 200$

Minimum rent for the year 2013 = $[(400 \times ₹ 3) \times 6 \div 12] + [(400 \times ₹ 4) \times 6 \div 12] = ₹ 1,400$

Q.12. Mahesh took a lease for ten years from Govind on 1-1-95 and paid ₹ 5,000 as Nazrana. The rate of royalty is 50 paise per tonne of output and the minimum rent is ₹ 4,000 per annum. Shortworking of a year can be recouped in the next two years with the condition that only 50% of the excess of royalty over minimum rent can be utilised for recouping shortworking. The figures of royalty are as under:

Year	1995	1996	1997	1998
Royalty (₹)	2,000	2,500	5,000	7,000

Pass journal entries in the books of Mahesh for the above transactions.

(2016)

Sol. Calculation Table

Year	Royalty (₹)	Minimum rent (₹)	Shortworking (MR - R) (₹)	Surplus (R - MR) (₹)	Shortworking recouped (₹)	Payment to landlord (₹)	Unrecouped S.W. transfer to P & L A/c (₹)
1995	2,000	4,000	2,000	—	—	4,000	—
1996	2,500	4,000	1,500	—	—	4,000	—
1997	5,000	4,000	—	1,000	500	4,500	1,500
1998	7,000	4,000	—	3,000	1,500	5,500	—

**In the Books of Mahesh (Lessee)
Journal Entries**

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
1995 Jan. 1	Nazrana A/c To Bank (For amount of nazrana paid)	Dr.	5,000	5,000
Dec. 31	Royalties A/c Shortworkings A/c To Landlord A/c (For royalty due)	Dr. Dr.	2,000 2,000	4,000
Dec. 31	Landlord A/c To Bank A/c (For amount paid to landlord)	Dr.	4,000	4,000
Dec. 31	P & L A/c To Royalties A/c To Nazrana A/c (For amount of royalty transferred to P & L account and writing off nazrana account)	Dr.	2,500	2,000 500
1996 Dec. 31	Royalties A/c Shortworking A/c To Landlord A/c (For royalty due)	Dr. Dr.	2,500 1,500	4,000
Dec. 31	Landlord A/c To Bank A/c (For amount paid to landlord)	Dr.	4,000	4,000
Dec. 31	P & L A/c To Royalties A/c To Nazrana A/c (For amount of royalty transferred to P & L account and writing off nazrana account)	Dr.	3,000	2,500 500
1997 Dec. 31	Royalties A/c To Landlord A/c (For royalty due)	Dr.	5,000	5,000
Dec. 31	Landlord A/c To Bank A/c To Shortworkings A/c (For amount paid to landlord and recoupment of shortworkings)	Dr.	5,000	4,500 500

Dec. 31	P & L A/c To Royalties A/c To Shortworkings A/c To Nazrana A/c (For transfer of royalty and unrecouped shortworkings to P & L account and writing off nazrana A/c)	Dr.	7,000	5,000 1,500 500
1998 Dec. 31	Royalties A/c To Landlord A/c (For royalty due)	Dr.	7,000	7,000
Dec. 31	Landlord A/c To Bank A/c To Shortworkings A/c (For amount paid to landlord and recoupment of shortworkings)	Dr.	7,000	5,500 1,500
Dec. 31	P & L A/c To Royalties A/c To Nazrana A/c (For transfer of royalty to P & L account and writing off nazrana A/c)	Dr.	7,500	7,000 500

What is Hire Purchase Agreements?

Hire purchase is an arrangement made while buying expensive goods. The consumer makes a downpayment during the purchase, and the outstanding balance will be paid in instalments with an [interest](#) charge.

Though the concept of hire purchase is not very prevalent in India, there is a similar concept called a mortgage. Usually, mortgage involves pledging an item previously owned by the borrower in order to fetch some spending money, and the ownership of the item will be transferred to the lender as long as they repay the debt. In hire purchase, the borrower purchase a new item.

In both cases, the ownership of the purchased goods will be transferred to the lender until the borrower pays off the whole debt.

Understanding Hire Purchase Agreement

The rent-to-own concept is very similar to hire purchase. The lessee will pay the rent for a [property](#) or a vehicle over a period of time. If the lessee pays the actual [sale](#) price of the property or vehicle, he will have the option to own the property or vehicle at any time.

Customers use this option to own expensive items because the cost can be spread across several years rather than having to pay a huge sum at once. Again, the borrower will not be the owner of the item until all the payments are made. If the borrower defaults on repayments, the lender can possess the item or sell it to fill the default payments.

Merits of Hire Purchase

- Companies from sectors, such as plant hire, road freight, construction, manufacturing, transport, and engineering, which are short of working [capital](#) can deploy assets and machinery on hire purchase.
- The return on capital employed (ROCE) and return on assets (ROA) of a [company](#) can flatter with a hire purchase agreement.

Demerits of Hire Purchase

- They can turn out very expensive in the long [run](#) because a huge sum goes out as interest payment.
- For businesses, hire purchase means added administrative complexity.
- The notion of instalment payments can make individuals and companies purchase beyond necessity.
- A very high-interest rate may be associated with the agreement, which may not be stated explicitly

NUMERICAL QUESTION

Solution # 1.

On 1st April, 2008, Bihar Collieries obtained a machine on the hire purchase system, the total amount payable being Rs 2,50,000. Payment was to be made Rs 50,000 down and the balance in four annual instalments of Rs 50,000 each. Interest charged was at the rate of 15 per cent. At what value should the machine be capitalised?

Solution:

If amount due in the beginning of a year is Rs 100, interest for the year will be Rs 15 and the amount of instalment due at the end of the year will be Rs 115. Thus, interest is $15/115$ or $3/23$ of the amount due at the end of each year.

Keeping this in mind, the cash price of the machine can be calculated in the following manner:

	₹
Amount due on 31st March, 2012 just before payment of the fourth instalment	50,000
Less: Interest for the fourth year = ₹ 50,000 × 3/23	6,522
Amount due on 1st April, 2011	43,478
Add: Amount of the third instalment	50,000
	93,478
Less: Interest for the third year = ₹ 93,478 × 3/23	12,193
Amount due on 1st April, 2010	81,285
Add: Amount of the second instalment	50,000

	₹
<i>Less: Interest for the second year = ₹ 1,31,285 × 3/23</i>	1,31,285
<i>Amount due on 1st April, 2009</i>	17,124
<i>Add: Amount of the first instalment</i>	<u>1,14,161</u>
	50,000
	<u>1,64,161</u>
<i>Less: Interest for the first year = ₹ 1,64,161 × 3/23</i>	21,412
<i>Amount due on 1st April, 2008 after down payment</i>	<u>1,42,749</u>
<i>Add: Down payment</i>	50,000
<i>Cash price</i>	<u><u>1,92,749</u></u>

Alternatively, the present value at 15% per annum of one rupee received annually at the end of four years is Rs 2-85498. Thus, the present value of Rs 50,000 is Rs 50,000 x 2-85498 = Rs 1,42,749. To this, we add down payment of Rs 50,000. Therefore, the cash price is Rs 1,42,749 + Rs 50,000 = Rs 1,92,749.

Hire Purchase, Instalments and Lease: Problem and Solution # 2.

G acquired a plant delivered on April 1, 2010 on the following terms:

- (i) Initial payment of Rs 40,000 immediately; and
- (ii) 4 half-yearly instalments of Rs 30,000 each commencing September 30, 2010.

Interest is 10% with yearly rests. What is the cash price?

Solution :

If x is the cash price less down payment, the interest for the first year will be $x \times \frac{10}{100}$ and the amount due will be $x + \frac{10}{100}x - 60,000$.

Next year, the interest will be $\frac{10}{100} \left[x + \frac{10}{100}x - 60,000 \right]$

Total amounts paid by way of instalments in respect of cash price if instalments total ₹ 1,20,000. Therefore,

$$1,20,000 = x + \frac{10}{100}x + \frac{10}{100} \left[x + \frac{10}{100}x - 60,000 \right]$$

$$= x + \frac{1}{10}x + \frac{1}{10}x + \frac{1}{100}x - 6,000$$

$$1,26,000 = x + \frac{21}{100}x$$

$$= \frac{121}{100}x$$

$$1,04,132 = x.$$

The present value of the instalments is ₹ 1,04,132; adding the cash down payment of ₹ 40,000, the total cash price is ₹ 1,44,132.

Hire Purchase, Instalments and Lease: Problem and Solution # 3.

Delhi Tourist Service Ltd. purchased from Maruti Udvog Ltd. a motor van on 1st April 2009 the cash price being Rs 1,64,000. The purchase was on hire purchase basis, Rs 50,000 being paid on the signing of the contract and, thereafter, Rs 50,000 being paid annually on 31st March, for three years, Interest was charged at 15% per annum.

Depreciation was written off at the rate of 25 per cent per annum on the reducing instalment system. Delhi Tourist Service Ltd. closes its books every year on 31st March. Prepare the necessary ledger accounts in the books of Delhi Tourist Service Ltd.

Step by Step

Solution:

Dr.		Motor Van Account		Cr.	
2009		₹	2010		₹
Apr. 1	To Maruti Udyog Ltd.	1,64,000	Mar. 31	By Depreciation— 25% of ₹ 1,64,000	41,000
			" "	By Balance <i>c/d</i>	1,23,000
		1,64,000			1,64,000
2010			2011		
Apr. 1	To Balance <i>b/d</i>	1,23,000	Mar. 31	By Depreciation— 25% of ₹ 1,23,000	30,750
			" "	By Balance <i>c/d</i>	92,250
		1,23,000			1,23,000
2011			2012		
Apr. 1	To Balance <i>b/d</i>	92,250	Mar. 31	By Depreciation— 25% of ₹ 92,250	23,063
			" "	By Balance <i>c/d</i>	69,187
		92,250			92,250
2012					
Apr. 1	To Balance <i>b/d</i>	69,187			

Maruti Udyog Ltd.

2009		₹	2009		₹
Apr. 1	To Bank	50,000	Apr. 1	By Motor Van Account	1,64,000
2010			2010		
Mar. 31	To Bank	50,000	Mar. 31	By Interest Account— 15% of ₹ 1,14,000	17,100
" "	To Balance <i>c/d</i>	81,100			1,81,100
		1,81,100			
2011			2010		
Mar. 31	To Bank	50,000	Apr. 1	To Balance <i>c/d</i>	81,100
" "	To Balance <i>c/d</i>	43,265	2011		
		93,265	Mar. 31	By Interest Account— 15% of ₹ 81,100	12,165
					93,265
2012			2011		
Mar. 31	To Bank	50,000	Apr. 1	By Balance <i>b/d</i>	43,265
			2012		
		50,000	Mar. 31	By Interest Account— (balancing figure)	6,735
					50,000

Interest Account

		₹			₹
2010			2010		
Mar. 31	To Maruti Udyog Ltd.	17,100	Mar. 31	By Profit & Loss A/c —transfer	17,100
2011			2011		
Mar. 31	To Maruti Udyog Ltd.	12,165	Mar. 31	By Profit & Loss A/c —transfer	12,165
2012			2012		
Mar. 31	To Maruti Udyog Ltd.	6,735	Mar. 31	By Profit & Loss A/c —transfer	6,735

Depreciation Account

		₹			₹
2010			2010		
Mar. 31	To Motor Van Account	41,000	Mar. 31	By Profit & Loss A/c —transfer	41,000
2011			2011		
Mar. 31	To Motor Van Account	30,750	Mar. 31	By Profit & Loss A/c —transfer	30,750
2012			2012		
Mar. 31	To Motor Van Account	23,063	Mar. 31	By Profit & Loss A/c —transfer	23,063

Profit & Loss Account (relevant portions only)

		₹			
2010					
Mar. 31	To Interest A/c	17,100			
" "	To Depreciation A/c	41,000			
2011					
Mar. 31	To Interest A/c	12,165			
" "	To Depreciation A/c	30,750			
2012					
Mar. 31	To Interest A/c	6,735			
" "	To Depreciation A/c	23,063			

If all the transactions are journalised, the journal entries will appear as follows:—

Journal

		Dr.	Cr.
2009			
Apr. 1	Motor Van Account ... Dr. To Maruti Udyog Ltd. Cash price of motor van purchased on hire purchase basis credited to Maruti Udyog Ltd., hire-vendor.	1,64,000	1,64,000
" "	Maruti Udyog Ltd. ... Dr. To Bank Down payment made to Maruti Udyog Ltd.	50,000	50,000

			₹	₹
2010	Mar.	31	Interest Account To Maruti Udyog Ltd. Interest @ 15% p.a. for one year on ₹ 1,14,000 due to Maruti Udyog Ltd.	17,100 17,100
"	"	"	Maruti Udyog Ltd. To Bank Payment of the first annual instalment to Maruti Udyog Ltd.	50,000 50,000
"	"	"	Depreciation Account To Motor Van Account Depreciation provided on Motor Van @ 25% per annum for the year.	41,000 41,000
"	"	"	Profit & Loss Account To Interest Account To Depreciation Account Transfer of Interest Account and Depreciation Account to Profit and Loss Account.	58,100 17,100 41,000
2011	Mar.	31	Interest Account To Maruti Udyog Ltd. Interest @ 15% p.a. for one year on ₹ 81,100 due to Maruti Udyog Ltd.	12,165 12,165
"	"	"	Maruti Udyog Ltd. To Bank Payment of the second annual instalment to Maruti Udyog Ltd.	50,000 50,000
"	"	"	Depreciation Account To Motor Van Account Depreciation provided on Motor Van @ 25% on the written down value, ₹ 1,23,000.	30,750 30,750
"	"	"	Profit & Loss Account To Interest Account To Depreciation Account Transfer of Interest Account and Depreciation Account to Profit and Loss Account.	42,915 12,165 30,750
2012	Mar.	31	Interest Account To Maruti Udyog Ltd. Interest due to Maruti Udyog Ltd. the amount necessary to make up the amount of instalment of ₹ 50,000.	6,735 6,735
"	"	"	Maruti Udyog Ltd. To Bank Payment of the last instalment to Maruti Udyog Ltd.	50,000 50,000
"	"	"	Depreciation Account To Motor Van Account Depreciation provided on Motor Van @ 25% on the written down value, ₹ 92,250.	23,063 23,063
2012	Mar.	31	Profit & Loss Account To Interest Account To Depreciation Account Transfer of Interest Account and Depreciation Account to Profit and Loss Account.	29,798 6,735 23,063

Hire Purchase, Instalments and Lease: Problem and Solution # 4.

On 1st April, 2008, Ashok acquired machinery on hire purchase system from Modmac Ltd., agreeing to pay four annual instalments of Rs 60,000 each payable at the end of each year. There is no down payment. Interest is charged @ 20% per annum and is included in the annual instalments.

Because of financial difficulties, Ashok, after having paid the first and second instalments, could not pay the third yearly instalment due on 31st March, 2011, whereupon the hire vendor repossessed the machinery.

Ashok provides depreciation on the Machinery @ 10% per annum according to the written down value method. He closes his books of account every year on 31st March.

Show Machinery Account and the account of Modmac Ltd. for all the years in the books of Ashok. All workings should form part of your answer.

Solution :

Working Notes :

(i) **Calculation of interest and cash price**

<i>Date of instalment</i>	<i>Amount of instalment</i>		<i>Towards interest</i>	<i>Towards cash price</i>
	₹		₹	₹
31.3.2012	60,000	$\frac{20}{120} \times \text{Rs. } 60,000$	10,000	50,000

	₹		₹	₹
31.3.2011	60,000	$\frac{20}{120} \times ₹ (50,000 + 60,000)$	18,333	41,667
31.3.2010	60,000	$\frac{20}{120} \times ₹ (50,000 + 41,667 + 60,000)$	25,278	34,722
31.3.2009	60,000	$\frac{20}{120} \times ₹ (50,000 + 41,667 + 34,722 + 60,000)$	31,065	28,935
Total	2,40,000		84,676	1,55,324

(ii) Calculation of depreciation :

Cash price of machinery as per working note (i)	₹	1,55,324
Less : Depreciation @ 10% p.a. for the year 2008–2009		15,532
		<u>1,39,792</u>
Less : Depreciation @ 10% p.a. for the year 2009–2010		13,979
		<u>1,25,813</u>
Less : Depreciation @ 10% p.a. for the year 2010–2011		12,581
		<u>1,13,232</u>

In the books of Ashok

Dr.		Machinery Account		Cr.	
2009		₹	2009		₹
Mar. 31	To Modmac Ltd.	28,935	Mar. 31	By Depreciation Account	15,532
			" "	By Balance c/d	13,403
		<u>28,935</u>			<u>28,935</u>
2009			2010		
Apr. 1	To Balance b/d	13,403	Mar. 31	By Depreciation Account	13,979
2010			" "	By Balance c/d	34,146
Mar. 31	To Modmac Ltd.	34,722			<u>48,125</u>
		<u>48,125</u>			
2010			2011		
Apr. 1	To Balance b/d	34,146	Mar. 31	By Depreciation Account	12,581
			" "	By Profit and Loss Account	
				— Balance written	
				off on repossession by	
				Modmac Ltd.	21,565
		<u>34,146</u>			<u>34,146</u>

Dr.		Modmac Ltd.		Cr.	
2009		₹	2009		₹
Mar. 31	To Bank	60,000	Mar. 31	By Machinery Account	28,935
			" "	By Interest Account	31,065
		<u>60,000</u>			<u>60,000</u>
2010			2010		
Mar. 31	To Bank	60,000	Mar. 31	By Machinery Account	34,722
			" "	By Interest Account	25,278
		<u>60,000</u>			<u>60,000</u>

Hire Purchase, Instalments and Lease: Problem and Solution # 5.

Kareem Restaurant purchased from E.C. Ltd. a colour T.V. set on 1st October 2010 on the hire-purchase system. The cash price of the set was Rs 15,000. Terms of payment were Rs 1,50 down and

Rs 4 000 half yearly over two years, the first instalment was to be paid on 31st March, 2011. Rate of interest was 12% per annum.

Kareem Restaurant wrote off 15% depreciation per annum on reducing instalments basis and closed its books every year on 31st March. It could not pay the second instalment due on 30th September 2011 and as a consequence, EC Ltd. repossessed the T.V. set.

Prepare T'V Set Account and the hire vendor's account in Kareem Restaurant's ledger. Also calculate the loss suffered by Kareem Restaurant on repossession of T.V. set by E.C. Ltd. Make all calculations to the nearest rupee.

Solution :

First Method

In Kareem Restaurant's Ledger

<i>Dr.</i>		T.V. Set Account		<i>Cr.</i>	
2010 Oct. 1	To E.C. Ltd. (cash price)	₹ 15,000	2011 Mar. 31	By Depreciation A/c —for six months @ 15% p.a. on ₹ 15,000	₹ 1,125
			Mar. 31	By Balance <i>c/d</i>	13,875
		15,000			15,000
2011 Apr. 1	To Balance <i>b/d</i>	13,875	2011 Sept. 30	By Depreciation A/c —for six months @ 15% p.a. on ₹ 13,875	1,041
			" "	By E.C. Ltd.— Amount not paid	11,322
			" "	By Profit & Loss A/c (balancing figure)	1,512
		13,875			13,875

<i>Dr.</i>		E.C. Ltd.		<i>Cr.</i>	
2010 Oct. 1	To Bank— down payment	₹ 1,150	2010 Oct. 1	By T.V. Set Account	₹ 15,000
2011 Mar. 31	To Bank— first instalment	4,000	2011 Mar. 31	By Interest Account —@ 12% p.a. on ₹ 13,850 for 6 months	831
" "	To Balance <i>c/d</i>	10,681			15,831
		15,831			

		₹			₹
2011 Sept. 30	To T.V. Set Account —transfer on repossession	11,322	2011 Apr. 1	By Balance <i>b/d</i>	10,681
			Sept. 30	By Interest Account —@ 12% p.a. on ₹ 10,681 for 6 months	641
		<u>11,322</u>			<u>11,322</u>

The loss suffered by Kareem Restaurant is ₹ 1,512 in addition to ₹ 641 interest payable for the half year ended 30th September, 2011—total loss thus being ₹ 2,153.

Second Method

Dr.		T.V. Set Account		Cr.	
2010 Oct. 1	To E.C. Ltd.— down payment	₹ 1,150	2011 Mar. 31	By Depreciation A/c —on full cash price of ₹ 15,000 @ 15% p.a. for six months	₹ 1,125
2011 Mar. 31	To E.C. Ltd. (₹ 4,000—₹ 831)	3,169	Mar. 31	By Balance <i>c/d</i>	3,194
		<u>4,319</u>			<u>4,319</u>
2011 Apr. 1	To Balance <i>b/d</i>	3,194	2011 Sept. 30	By Depreciation A/c —for six months @ 15% per annum on ₹ 13,875	1,041
			Sept. 30	By Profit & Loss A/c —balance written off on repossession by E.C. Ltd.	2,153
		<u>3,194</u>			<u>3,194</u>

E.C. Ltd.

2010 Oct. 1	To Bank— down payment	₹ 1,150	2010 Oct. 1	By T.V. Set Account	₹ 1,150
2011 Mar. 31	To Bank— first instalment	4,000	2011 Mar. 31	By T.V. Set Account	3,169
		<u>5,150</u>	" "	By Interest Account	831
					<u>5,150</u>

Hire Purchase, Instalments and Lease: Problem and Solution # 6.

On the basis of particulars given in the immediately preceding illustration, prepare important ledger accounts in E.C. Ltd.'s books of account. Assume that the estimated value of the T.V. set at the time of repossession was Rs 12,000 and after an expenditure of Rs 850 on repairs, repacking etc. to give the T.V. set a new-look, the company resold it on 6th December, 2011 for cash to one of its employees at a special discount of 10 per cent on cash price i.e., for Rs 13,500. Also assume E.C. Ltd. closes its books of accounts every year on 31st March.

Solution :

In the books of E.C. Ltd.					
Kareem Restaurant					
Dr.			Cr.		
2010		₹	2010		₹
Oct. 1	To Sales Account— cash price	15,000	Oct. 1	By Bank— down payment	1,150
2011			2011		
Mar. 31	To Interest A/c —on ₹ 13,850 @ 12% p.a. for six months	831	Mar. 31	By Bank— first instalment	4,000
		15,831	" "	By Balance <i>c/d</i>	10,681
		10,681			15,831
2011			2011		
Apr. 1	To Balance <i>b/d</i>	10,681	Sept. 30	By Goods Repossessed A/c— estimated value of T.V. set on repossession	12,000
Sept. 30	To Interest A/c —on ₹ 10,681 @ 12% p.a. for six months	641			
Sept. 30	To Profit & Loss A/c —profit on repossession of T.V. set	678			
		12,000			12,000

Goods Repossessed Account					
Dr.			Cr.		
2011		₹	2011		₹
Sept. 30	To Kareem Restaurant— estimated value of T.V. set on repossession	12,000	Dec. 6	By Cash— sale proceeds	13,500
?	To Bank, Wages, Material etc.— expenditure on repairs, repacking etc.	850			
2011		₹			₹
Dec. 6	To Profit & Loss Account —profit on resale	650			
		13,500			13,500

Hire Purchase, Instalments and Lease: Problem and Solution # 7.

X Transport Ltd. purchased from Delhi Motors 3 trucks costing Rs 5,00,000 each on the hire purchase system. Payment was to be made Rs 3,00,000 down and the remainder in 3 equal instalments together with interest @ 18% p.a. X Transport Ltd. wrote off depreciation @ 20% on the diminishing balances. It paid the instalment due at the end of the first year but could not pay the next.

Delhi Motors agreed to leave one truck with the purchaser, adjusting the value of the other 2 trucks against the amount due. The trucks were valued on the basis of 30% depreciation annually on diminishing balances. Prepare the necessary ledger accounts in the books of X Transport Ltd. for 2 years. Also show journal entries for all the transactions taking place on the date of default.

Solution:

First Method

Dr.		Trucks Account		Cr.	
Year 1	To Delhi Motors	₹ 15,00,000	Year 1 (end)	By Depreciation—20% on ₹ 15,00,000	₹ 3,00,000
				By Balance <i>c/d</i>	12,00,000
		15,00,000			15,00,000
Year 2	To Balance <i>b/d</i>	12,00,000	Year 2 (end)	By Depreciation	2,40,000
				By Delhi Motors—value of 2 trucks after 30% depreciation for 2 years	4,90,000
				By Profit and Loss A/c—balancing figure	1,50,000
				By Balance <i>c/d</i> (One truck, ₹ 5,00,000 less depreciation for 2 year @ 20%)	3,20,000
		12,00,000			12,00,000
Year 3	To Balance <i>b/d</i>	3,20,000			

		Delhi Motors			
Year 1	To Bank	₹ 3,00,000	Year 1	By Trucks	₹ 15,00,000
	To Bank	6,16,000		By Interest (18% p.a. on ₹ 12,00,000)	2,16,000
	To Balance <i>c/d</i>	8,00,000			17,16,000
		17,16,000			

Year		₹	Year		₹
2	To Trucks	4,90,000	2	By Balance <i>b/d</i>	8,00,000
	To Balance <i>c/d</i>	4,54,000		By Interest	1,44,000
		9,44,000			9,44,000
			3	By Balance <i>b/d</i>	4,54,000

Journal entries for all the transactions at the end of the second year will be as follows :—

		Dr.	Cr.
End of Year 2	Interest Account ... Dr. To Delhi Motors Interest due to Delhi Motors for one year @ 18% p.a. on ₹ 8,00,000, the amount due on account of cash price of trucks.	₹ 1,44,000	₹ 1,44,000
" "	Depreciation Account ... Dr. To Trucks Account Depreciation provided on all the trucks for the year.	2,40,000	2,40,000
" "	Delhi Motors ... Dr. To Trucks Account Agreed value of two trucks taken back by Delhi Motors—cash price minus depreciation for two years @ 30% per annum.	4,90,000	4,90,000
" "	Profit & Loss Account ... Dr. To Trucks Account Loss suffered on account of repossession of two trucks by Delhi Motors transferred from Trucks Account to Profit & Loss Account—the amount of the loss being the excess of book value of the two trucks over the agreed value of the two trucks <i>i.e.</i> ₹ (10,00,000 – 2,00,000 – 1,60,000) – ₹ 4,90,000.	1,50,000	1,50,000
" "	Profit & Loss Account ... Dr. To Interest Account To Depreciation Account Transfer of Interest Account and Depreciation Account to Profit & Loss Account.	3,84,000	1,44,000 2,40,000

Second Method

Dr.		Trucks Account		Cr.	
Year 1	To Delhi Motors	₹ 3,00,000	Year 1	By Depreciation A/c	₹ 3,00,000
	To Delhi Motors	4,00,000		By Balance <i>c/d</i>	4,00,000
		7,00,000		7,00,000	
Year 2	To Balance <i>b/d</i>	4,00,000	Year 2	By Depreciation A/c	2,40,000
	To Delhi Motors—creating a liability for			By Profit & Loss A/c—loss, being the balancing figure	2,94,000
	₹ 4,54,000 ascertained by preparing Delhi Motors A/c as in Method I	₹ 4,54,000		By Balance <i>c/d</i> (Full cash price of the truck ₹ 5,00,000 less depreciation for 2 years)	₹ 3,20,000
		8,54,000			8,54,000
Year 3	To Balance <i>b/d</i>	3,20,000			

The figure of Rs 2,94,000 includes the loss of Rs 1,44,000 due to interest, entry for which has not been passed in Delhi Motors Account under the second method. Under the first method also, the total loss is Rs 2,94,000; Rs 1,50,000 appearing in Trucks Account and Rs 1,44,000 appearing by way of interest in Delhi Motors Account.

Delhi Motors					
Year		₹	Year		₹
Year 1	To Bank	3,00,000	Year 1	By Trucks Account	3,00,000
	To Bank	6,16,000		By Trucks Account	4,00,000
				By Interest Account	2,16,000
		9,16,000			9,16,000
Year 2	To Balance <i>c/d</i>	4,54,000	Year 2	By Trucks Account	4,54,000
			Year 3	By Balance <i>b/d</i>	4,54,000

Journal		Dr.	Cr.
End of Year 2		₹	₹
	Depreciation Account ... Dr. To Trucks Account Depreciation provided on all the trucks for the year	2,40,000	2,40,000
	Trucks Account ... Dr. To Delhi Motors Creating a liability for ₹ 4,54,000 on the part of Delhi Motors.	4,54,000	4,54,000
	Profit & Loss Account ... Dr. To Trucks Account Loss suffered on novation of the contract due to default transferred from Trucks Account to Profit & Loss Account.	2,94,000	2,94,000

Hire Purchase, Instalments and Lease: Problem and Solution # 8.

Continuing the above illustration, draw up accounts in the books of the hire-vendor assuming the trucks were reconditioned at an expense of Rs 75,000 and that they were sold for Rs 6,00,000 in the third year.

Solution :

X Transport Ltd.

		₹			₹
Year 1	To Sales	15,00,000	Year 1	By Bank	3,00,000
	To Interest	2,16,000		By Cash	6,16,000
			By Balance <i>c/d</i>	8,00,000	
		17,16,000			17,16,000
Year 2	To Balance <i>b/d</i>	8,00,000	Year 2	By Goods Repossessed	
	To Interest	1,44,000		A/c (two trucks @ 30% depreciation for 2 years)	4,90,000
			By Balance <i>c/d</i>	4,54,000	
		9,44,000			9,44,000
Year 3	To Balance <i>b/d</i>	4,54,000			

Goods Repossessed Account

		₹			₹	
Year 2	To X Transport Ltd.	4,90,000	Year 2	By Balance <i>c/d</i>	4,90,000	
Year 3	To Balance <i>b/d</i>	4,90,000	Year 3	By Bank (sales)	6,00,000	
	To Cash—expenses	75,000				
	To Profit & Loss A/c (profit)	35,000				
		6,00,000			6,00,000	

Hire Purchase, Instalments and Lease: Problem and Solution # 9.

From the following particulars, calculate:

- (i) Agreed value of two plants taken back by the hire vendor.
- (ii) Book value of plant left with the hire purchaser.
- (iii) Profit or loss to hire purchaser on two plants taken back by the hire vendor.

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- (iv) Profit or loss on plants repossessed, when sold by the hire vendor.

Particulars:

(a) X purchased three plants from Y on hire purchase basis, the cash price of each plant being Rs 1,00,000.

(b) The hire purchaser charged depreciation @ 20% on diminishing balance method.

(c) Two plants were seized by on hire vendor when second instalment was not paid at the end of the second year. The hire vendor valued the two plants at cash price less 30% depreciation annually charged at diminishing balance method.

(d) The hire vendor spent Rs 40,000 on overhauling of the plants and then sold them for a total sum of Rs 1,60,000.

Solution :

	₹
(i) Price of two plants = ₹ 1,00,000 × 2	2,00,000
Less : Depreciation for the first year @ 30%	<u>60,000</u>
	1,40,000
Less : Depreciation for the second year = ₹ 1,40,000 × $\frac{30}{100}$	<u>42,000</u>
Agreed value of plants taken back by the hire vendor	<u>98,000</u>
(ii) Cash purchase price of one plant	1,00,000
Less : Depreciation on ₹ 1,00,000 @ 20% for the first year	<u>20,000</u>
Written down value at the end of first year	80,000
Less : Depreciation on ₹ 80,000 @ 20% for the second year	<u>16,000</u>
	₹
Book value of plant left with the price purchaser	<u>64,000</u>
(iii) Book value of one plant as calculated in working note (ii) above	64,000
Book value of two plants = ₹ 64,000 × 2	1,28,000
Value at which the two plants were taken back, calculated in working note (i) above	98,000
Hence, loss on plant taken back = ₹ 1,28,000 – ₹ 98,000 = ₹ 30,000	
(iv) Sale proceeds of plants repossessed	₹ 1,60,000
Less : Value at which plants were taken back	98,000
Overhauling charges	<u>40,000</u>
	<u>1,38,000</u>
Profit on resale	<u>22,000</u>

Hire Purchase, Instalments and Lease: Problem and Solution # 10.

Rapid Engineering Works sold to Pratap Industries a machine of the cash value of Rs 31,360 on hire purchase basis on 1st April, 2009. A sum of Rs 9,000 was paid at the time of delivery. The balance was payable in three equal annual instalments of Rs 9,000 each payable on 31st March of every year. Interest was charged @ 10% per annum. The purchaser charged 10% depreciation per annum on the diminishing balances of the machine.

Pratap Industries failed to pay the instalment due on 31st March, 2011. Rapid Engineering Works obtained the permission of the court to repossess the machine as a result of default by the

purchaser and having completed all the statutory requirements took possession of the machine on 31st May, 2011. Prepare the necessary ledger accounts in the books of hire purchaser.

Solution :

In the books of Pratap Industries

<i>Dr.</i>		Machinery Account		<i>Cr.</i>	
2009 Apr. 1	To Rapid Engineering Works — Cash price	₹ 31,360	2010 Mar. 31	By Depreciation Account — 10% of ₹ 31,360	₹ 3,136
		31,360	By Balance c/d	28,224
		31,360			31,360
2010 Apr. 1	To Balance b/d	28,224	2011 Mar. 31	By Depreciation Account — 10% of ₹ 28,224	2,822
			By Rapid Engineering Works	17,156
			By Profit and Loss Account — Loss on default, balancing figure	8,246
		28,224			28,224

<i>Dr.</i>		Rapid Engineering Works		<i>Cr.</i>	
2009 Apr. 1	To Bank — Down payment	₹ 9,000	2010 Apr. 1	By Machinery Account	₹ 31,360
2010 Mar. 31	To Bank — First instalment	9,000	2010 Mar. 31	By Interest Account — 10% of ₹ 22,360	2,236
.. ..	To Balance c/d	15,596			
		33,596			33,596

2011 Mar. 31	To Machinery Account — Transfer of balance	₹ 17,156	2010 Apr. 1 2011 Mar. 31	By Balance b/d By Interest Account — 10% of ₹ 15,596	₹ 15,596 1,560 17,156
		17,156			17,156

Dr. **Interest Account** *Cr.*

2010 Mar. 31	To Rapid Engineering Works	₹ 2,236	2010 Mar. 31	By Profit and Loss Account — Transfer	₹ 2,236
2011 Mar. 31	To Rapid Engineering Works	1,560	2011 Mar. 31	By Profit and Loss Account — Transfer	1,560

Dr. **Depreciation Account** *Cr.*

2010 Mar. 31	To Machinery Account	₹ 3,136	2010 Mar. 31	By Profit and Loss Account — Transfer	₹ 3,136
2011 Mar. 31	To Machinery Account	2,822	2011 Mar. 31	By Profit and Loss Account — Transfer	2,822

Dr. **Profit and Loss Account** *Cr.*

2010 Mar. 31	To Interest Account	₹ 2,236			
" "	To Depreciation Account	3,136			
		5,372			
2011 Mar. 31	To Interest Account	1,560			
	To Depreciation Account	2,822			
	To Machinery Account — Loss on default	8,246			
		12,628			

Alternative Solution :

Dr. **Machinery Account** *Cr.*

2009 Apr. 1	To Rapid Engineering Works — Down payment	₹ 9,000	2010 Mar. 31	By Depreciation Account — 10% of ₹ 31,360	₹ 3,136
2010 Mar. 31	To Rapid Engineering Works — Instalment minus interest, ₹ 9,000—₹ 2,236	6,764 15,764	" "	By Balance c/d	12,628 15,764

2010 Apr. 1	To Balance b/d	₹ 12,628	2011 Mar. 31	By Depreciation Account — 10% of ₹ 28,224	₹ 2,822
			By Profit and Loss Account — Loss on Default	9,806
		12,628			12,628

<i>Dr.</i>		Rapid Engineering Works		<i>Cr.</i>	
2009 Apr. 1	To Bank — Down payment	₹ 9,000	2009 April 1	By Machinery Account	₹ 9,000
2010 Mar. 31	To Bank — First instalment	9,000	2010 Mar. 31	By Machinery Account	6,764
		9,000	By Interest Account — 10% of ₹ 22,360	2,236
		18,000			18,000

Note : Interest Account and Depreciation Account will be exactly the same as in the previous method.

<i>Dr.</i>		Profit and Loss Account		<i>Cr.</i>	
2010 Mar. 31	To Interest Account	₹ 2,236			
.. ..	To Depreciation Account	3,136			
		5,372			
2011 Mar. 31	To Depreciation Account	2,822			
.. ..	To Machinery Account — Loss on default	9,806			
		12,628			

Hire Purchase, Instalments and Lease: Problem and Solution # 11.

India Music Ltd. manufactures a two-in-one set for Rs 2,500 and sells both on cash basis and hire purchase basis. The cash price is Rs 4,000 and the hire purchase price is Rs 5,400, payment being made in four half-yearly instalments of Rs 1,350, the first instalment being paid at the end of the first six months. The sets are to be maintained free of -charge for two years. Past experience indicates that Rs 800 is the cost of maintenance of which Rs 300 is for the first year.

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During 2009-10 1,200 sets were sold for cash and 3,000 sets were sold on the hire purchase system. The actual cost of maintenance in the first year was Rs 7,00,000 and in the second year Rs 15,60,000, and Rs 9,80,000 in the third year. Draft journal and cash book entries in the books of the company, assuming all instalments were received in time. Books are closed on 31st March every year.

Solution :

In will have to be assumed that all sets were sold at an average date of 30th September, 2007. The provision for maintenance will, therefore, be calculated as follows :—

			₹
From 1st Oct., 2009 to 31st March, 2010	4,200 × 150	₹	6,30,000
From 1st Apr., 2010 to 30th Sept., 2010	4,200 × 150	630,000	
From 1st Oct., 2010 to 31st March, 2011	4,200 × 250	10,50,000	16,80,000
From 1st April, 2011 to 30th Sept., 2011	4,200 × 250	<u>10,50,000</u>	<u>10,50,000</u>
			<u>33,60,000</u>

The interest for all the four half years is ₹ 1,400, i.e., ₹ 5,400—₹ 4,000 per set. This must be allocated to the various periods in the ratio of amount outstanding, viz., ₹ 5,400 for the first half year, ₹ 4,050 for the second half year, ₹ 2,700 for the third half year and ₹ 1,350 for the fourth half year. The ratio is 4 : 3 : 2 : 1, Hence, interest for the various half year is—

First half year	₹ 1,400 × 4/10 = ₹ 560;
Second half year	₹ 1,400 × 3/10 = ₹ 420;
Third half year	₹ 1,400 × 2/10 = ₹ 280; and
Fourth half year	₹ 1,400 × 1/10 = ₹ 140

Journal Entries		Dr.	Cr.
2009		₹	₹
Sept. 30	Hire Purchase Customers ... Dr. To Sales To Maintenance Suspense Account Sale of 3000 sets on hire purchase—cash price being ₹ 4000 including ₹ 800 as maintenance over two years.	1,20,00,000	96,00,000 24,00,000
2010			
Mar. 31	Hire Purchase Customers ... Dr. To Interest Interest due on 3,000 sets @ ₹ 560 per set for the first half-year.	16,80,000	16,80,000

		₹	₹
2010 Mar. 31	Profit and Loss Account ... Dr. To Maintenance Suspense Account The transfer to Profit and Loss Account of the excess of actual maintenance charges over the estimated amount.	70,000	70,000
Sept. 30	Hire Purchase Customers ... Dr. To Interest The interest due from hire purchase customers for the half-year @ ₹ 420 per set.	12,60,000	12,60,000
2011 Mar. 31	Hire Purchase Customers ... Dr. To Interest The interest due from hire purchase customers for the half year @ ₹ 280 per set.	8,40,000	8,40,000
Sept. 30	Hire Purchase Customers ... Dr. To Interest The interest due from hire purchase customers for the half year @ ₹ 140 per set.	4,20,000	4,20,000
" "	Maintenance Suspense Account ... Dr. To Profit and Loss Account The saving on maintenance over the three half-years beginning April 1, 1999.	1,90,000	1,90,000

Dr.		Cash Book		Cr.	
2009 Sept. 30	To Sales—1,200 sets @ ₹ 3,200	₹ 38,40,000	2010 Mar. 31	By Maintenance Suspense A/c—actual cost	₹ 7,00,000
Sept. 30	To Maintenance Suspense A/c—1,200 sets @ ₹ 800	9,60,000			
2010 Mar. 31	To Hire Purchase Customers—3,000 sets @ ₹ 1,350	40,50,000			
2010 Sept. 30	To Hire Purchase Customers—3,000 sets @ ₹ 1,350	40,50,000	2011 Mar. 31	By Maintenance Suspense A/c—actual cost	15,60,000
2011 Mar. 31	To Hire Purchase Customers	40,50,000			
2011 Sept. 30	To Hire Purchase Customers	40,50,000	2011 Sept. 30	By Maintenance Suspense Accounts—actual cost	9,80,000

Note: The Maintenance Suspense Account will appear as under :—

Dr.		Maintenance Suspense Account		Cr.	
2010 Mar. 31	To Cash—actual cost	₹ 7,00,000	2009 Sept. 30	By Cash—@ ₹ 800 on 1,200 sets	₹ 9,60,000
" "	To Balance c/d	27,30,000		By Hire Purchase Customers— @ ₹ 800 on 3,000 sets	24,00,000
			2010 Mar. 31	By Profit and Loss A/c (excess of actual over estimate)	70,000
		34,30,000			34,30,000
2011 Mar. 31	To Cash—actual cost	15,60,000	2010 Apr. 1	By Balance b/d	27,30,000
" "	To Balance c/d	11,70,000			27,30,000
		27,30,000			
2011 Sept. 30	To Cash—actual cost	9,80,000	2009 Apr. 1	By Balance b/d	11,70,000
Sept. 30	To Profit and Loss A/c	1,90,000			
		11,70,000			11,70,000

Hire Purchase, Instalments and Lease: Problem and Solution # 12.

A trader fixes hire purchase price of his goods by adding 60% to the cost of the goods. Prepare Hire Purchase Trading Account to ascertain profit earned by the trader from his following hire purchase transactions:

	₹
Stock with hire purchase customers at hire purchase price in the beginning of the year	64,800
Goods sold on hire price basis during the year	2,61,360
Cash received from hire purchase customers during the year	84,000
Stock with hire purchase customers at hire purchase price at the end of the year	2,26,960

Solution :

Dr.	Hire Purchase Trading Account		Cr.
	₹		₹
To Hire Purchase Stock (Opening)	64,800	By Hire Purchase Stock Reserve (Opening)	24,300
To Goods Sold on Hire Purchase Account	2,61,360	By Goods Sold on Hire Purchase Account (Loading)	98,010
To Hire Purchase Stock Reserve (Closing)	85,110	By Bank (Instalments received)	84,000
To Profit and Loss Account (Profit)	37,200	By Hire Purchase Stock (Closing)	2,26,960
	4,48,470	By Instalments Due [Working Note (i)]	15,200
			4,48,470

Working Notes :

(i) Opening balance of hire purchase stock	₹ 64,800
Add : Goods sold during the year	2,61,360
	3,26,160
Less : Closing balance of hire purchase stock	2,26,960
Instalments falling due during the year	99,200
Less : Instalments received during the year	84,000
Instalments due at the end of the year	15,200
(ii) Opening balance of Hire Purchase Stock Reserve	
= ₹ 64,800 × $\frac{60}{160}$ = ₹ 24,300	
(iii) Loading in respect of goods sold during the year	
= ₹ 2,61,360 × $\frac{60}{160}$ = ₹ 98,010	
(iii) Closing balance of Hire Purchase Stock Reserve	
= ₹ 2,26,960 × $\frac{60}{160}$ = ₹ 85,110.	

Hire Purchase, Instalments and Lease: Problem and Solution # 13.

B Ltd., has a hire purchase department. Goods are sold on hire purchase at cost plus 60%. From the following particulars find out the profit or loss made in this department by preparing important ledger accounts:

2011		₹
Apr. 1	Goods out on hire purchase (at hire purchase price)	1,60,000
	Instalments due (customers paying)	10,000
	Goods sold on hire purchase basis during the year (at hire purchase price)	8,00,000
	Cash received during the year	5,60,000
	Goods received back (hire purchase instalments unpaid ₹ 20,000) valued at	3,000

2012		₹
Mar. 31	Goods with hire purchase customers (at hire purchase price)	3,60,000

Also show journal entries for all the transactions.

Solution:

Working Notes:

(1) Opening balance of Hire Purchase Stock Reserve = ₹ 1,60,000 × $\frac{60}{160}$ = ₹ 60,000	
(2) Loading on goods sold during the year = ₹ 8,00,000 × $\frac{60}{160}$ = ₹ 3,00,000	
(3) Closing balance of Hire Purchase Stock Reserve = ₹ 3,60,000 × $\frac{60}{160}$ = ₹ 1,35,000	
(4) Closing Instalments Due will be calculated as follows:—	₹
Opening balance of Hire Purchase Stock	1,60,000
Opening balance of Instalments Due	10,000
Hire Purchase price of goods sold during the year	8,00,000
	<u>9,70,000</u>
<i>Less:</i>	₹
Cash received during the year	5,60,000
Instalments unpaid in respect of repossessed goods	20,000
Closing balance of Hire Purchase Stock	3,60,000
	<u>9,40,000</u>
Closing balance of Instalments Due	<u>30,000</u>

Dr.		Hire Purchase Trading Account		Cr.	
2010		₹			₹
Apr. 1	To Hire Purchase Stock Account (opening balance)	1,60,000	Apr. 1	By Hire Purchase Stock Reserve Account (opening balance) —Working Note No. 1	60,000
	To Instalments Due A/c (opening balance)	10,000			
Apr. 1 2011 to Mar. 31 2012	To Goods Sold on Hire Purchase Account	8,00,000	Apr. 1 2011 to Mar. 31 2012	By Bank By Goods Repossessed Account (estimated value)	5,60,000 3,000
2012 Mar. 31	To Hire Purchase Stock Reserve Account (closing balance) —Working Note No. 3	1,35,000	2012 Mar. 31	By Goods Sold on Hire Purchase Account (loading) —Working Note No. 2	3,00,000
" "	To Profit and Loss Account—transfer of profit	2,08,000	" "	By Hire Purchase Stock Account (closing balance)	3,60,000
			" "	By Instalments Due (closing balance) —Working Note No. 4	30,000
		<u>13,13,000</u>			<u>13,13,000</u>

Dr.		Hire Purchase Stock Account		Cr.	
2011		₹	2011		₹
Apr. 1	To Balance <i>b/fd</i>	1,60,000	Apr. 1	By H.P. Trading A/c—transfer	1,60,000
2012			2012		
Mar. 31	To Hire Purchase Trading Account	3,60,000	Mar. 31	By Balance <i>c/d</i>	3,60,000
2012					
Apr. 1	To Balance <i>b/d</i>	3,60,000			

Instalments Due					
2011		₹	2011		₹
Apr. 1	To Balance <i>b/fd</i>	10,000	Apr. 1	By H.P. Trading A/c—transfer	10,000
2012			2012		
Mar. 31	To H.P. Trading A/c	30,000	Mar. 31	By Balance <i>c/d</i>	30,000
2012					
Apr. 1	To Balance <i>b/d</i>	30,000			

H.P. Stock Reserve Account					
2011		₹	2011		₹
Apr. 1	To H.P. Trading A/c—transfer	60,000	Apr. 1	By Balance <i>b/fd</i>	60,000
2012			2012		
Mar. 31	To Balance <i>c/d</i>	1,35,000	Mar. 31	By H.P. Trading A/c	1,35,000
			2012		
			Apr. 1	By Balance <i>b/d</i>	1,35,000

Goods Sold on Hire Purchase Account					
2012		₹	Apr. 1		₹
Mar. 31	To Hire Purchase Trading Account—loading	3,00,000	2011 to Mar. 31	By Hire Purchase Trading Account	8,00,000
" "	To Trading Account—transfer of cost of goods sold	5,00,000	2012		
		8,00,000			

Goods Repossessed Account*					
Apr. 1, 11 to Mar. 31		₹	2011		₹
2012	To H.P. Trading A/c	3,000	Mar. 31	By Balance <i>c/d</i>	3,000
2012					
Apr. 1	To Balance <i>b/d</i>	3,000			

Journal

		₹	₹
2011 Apr. 1	Hire Purchase Trading Account ... Dr. To Hire Purchase Stock Account To Instalments Due Account Transfer of opening balances of Hire Purchase Stock Account and Instalments Due Account to Hire Purchase Trading Account.	1,70,000	1,60,000 10,000
" "	Hire Purchase Stock Reserve Account ... Dr. To Hire Purchase Trading Account Transfer of opening balance of Hire Purchase Stock Reserve Account to Hire Purchase Trading Account	60,000	60,000
Apr. 1 2011 to Mar. 31, 2012	Hire Purchase Trading Account ... Dr. To Goods Sold on Hire Purchase Account Hire purchase price of goods sold during the year on hire purchase basis.	8,00,000	8,00,000
" "	Bank ... Dr. To Hire Purchase Trading Account Cash received during the year.	5,60,000	5,60,000
" "	Goods Repossessed Account ... Dr. To Hire Purchase Trading Account Estimated value of goods repossessed.	3,000	3,000
2012 Mar. 31	Goods sold on Hire Purchase Account ... Dr. To Hire Purchase Trading Account Loading in respect of goods sold on hire purchase basis during the year.	3,00,000	3,00,000
" "	Hire Purchase Stock Account ... Dr. Instalments Due Account ... Dr. To Hire Purchase Trading Account Closing balances of Hire Purchase Stock Account and Instalments Due Account credited to Hire Purchase Trading Account.	3,60,000 30,000	3,90,000
" "	Hire Purchase Trading Account ... Dr. To Hire Purchase Stock Reserve Account Creation of closing balance of Hire Purchase Stock Reserve.	1,35,000	1,35,000
" "	Hire Purchase Trading Account ... Dr. To Profit & Loss Account Transfer of profit from Hire Purchase Trading Account to Profit & Loss Account.	2,08,000	2,08,000
2012 Mar. 31	Goods sold on Hire Purchase Account ... Dr. To Trading Account Transfer of balance of Goods Sold on Hire Purchase Account, being cost of goods sold on hire purchase basis, to Trading Account.	5,00,000	5,00,000

Hire Purchase, Instalments and Lease: Problem and Solution # 14.

From the following information extracted from the books of Excellent Finance Private Limited, prepare Hire Purchase Trading Account for the year ended 31-3-2011, showing the profit in respect of the hire purchase business of the company:

(i) Instalments due but not received on 1-4-2010, Rs 60,000.

(ii) Instalments due but not received on 31-3-2011, Rs 1,00,000.

(iii) Cash received during the financial year 2010-11 by way of a hire purchase instalments, Rs 80,00,000.

(iv) Value of stock 'out' on hire purchase as at 1-4-2010 at hire purchase price (loading, 20% above cost), Rs 2,40,000.

(v) (a) Cost price of trucks 'out' on hire purchase as at 31-3-2011, Rs 40,00,000.

(b) Total amount of instalments receivable in respect of v (a) above Rs 48,00,000.

(c) Total amount of instalments received and due upto 31-3-2011 in respect of v (a) above Rs 36,00,000.

(vi) Purchase of trucks during the financial year 2010-11, Rs 80,00,000.

(vii) Sale of trucks sold otherwise than on hire purchase basis (at a profit of 6.25% of cost thereof), Rs 8,50,000.

(viii) Body building charges in respect of trucks sold on hire purchase basis, Rs 4,00,000.

(ix) Interest paid was Rs 80,000 and unsold trucks on 31-3-2011 at cost price were Rs 1,60,000 (hire purchase price, Rs 1,92,000).

Solution :

Dr.	Hire Purchase Trading Account		Cr.
	₹		₹
To Hire Purchase Stock		By Bank	
-opening balance	2,00,000	— instalments received	80,00,000
To Instalments Due		By Hire Purchase Stock	
-opening balance	60,000	— closing balance	10,00,000
To Goods Sold on		By Instalments Due	
Hire Purchase Account		— closing balance	1,00,000
-cost of trucks sold	70,40,000		
To Bank			
-body building charges	4,00,000		
To Bank			
- interest	80,000		
To Profit and Loss Account			
-transfer of profit	13,20,000		
	91,00,000		91,00,000

Working Notes :

(i) Opening balance of hire purchase stock at cost	₹
= ₹ 2,40,000 × $\frac{100}{120}$ = ₹ 2,00,000	
(ii) Purchases of trucks during the year	80,00,000
Less : Cost of trucks sold otherwise than on hire purchase basis,	
₹ 8,50,000 × $\frac{100}{106.25}$	8,00,000
Less : Cost of unsold trucks on 31-3-2009	72,00,000
Cost of trucks sold on hire purchase basis	1,60,000
(iii) Hire purchase stock on 31st March, 2009 :	70,40,000
Amount of instalments receivable	48,00,000
Less : Instalments received and due upto 31.3.2009	36,00,000
Less : Profit, ₹ 12,00,000 × $\frac{20}{120}$	12,00,000
	2,00,000
	10,00,000

Hire Purchase, Instalments and Lease: Problem and Solution # 15.

Krishna Agencies started business on 1st April, 2010. During the year ended 31st March, 2011, they sold under-mentioned durables under two schemes—Cash Price Scheme (CPS) and Hire Purchase Scheme (HPS).

Under the CPS, they priced the goods at cost plus 25% and collected it on delivery. Under the HPS, the buyers were required to sign a Hire-purchase Agreement undertaking to pay for the value of the goods including finance charges in 30 instalments, the value being calculated at cash price plus 50%.

The following are the details available at the end of 31st March, 2011 with regard to the products:

Product	Nos. purchased	Nos. sold under CPS	Nos. sold under HPS	Cost per unit ₹	No. of instalments due during the year	No. of instalments received during the year
TV Sets	90	20	60	16,000	1,080	1,000
Washing Machines	70	20	40	12,000	840	800

The following were the expenses during the year:

Rent	₹ 1,20,000
Salaries	1,44,000
Commission to Salesmen	12,000
Office Expenses	1,20,000

From the above information, you are required to prepare:

- Hire Purchase Trading Account, and
- Trading and Profit & Loss Account

Solution :

(a) Dr. Hire Purchase Trading Account Cr.			
	₹	₹	₹
To Goods Sold on Hire Purchase Account:			
TV Sets:			
60 × ₹ 30,000	18,00,000		
Washing Machines:			
40 × ₹ 22,500	<u>9,00,000</u>	27,00,000	
To Hire Purchase Stock Reserve,			
₹ 9,90,000 × $\frac{875}{1875}$		4,62,000	
			₹
			By Bank—Instalments collected:
			TV Sets:
			1,000 × ₹ 1,000
			10,00,000
			Washing Machines:
			800 × ₹ 750
			<u>6,00,000</u>
			16,00,000
			By Goods Sold on Hire Purchase Account
			— Loading,

To Profit and Loss Account (Transfer of profit)	7,98,000	₹ 27,00,000 × $\frac{87.5}{187.5}$	12,60,000
		By Hire Purchase Stock [Working Note (iii)]	9,90,000
		By Instalments Due :	
		TV Sets: 80 × ₹ 1,000	80,000
		Washing Machine: 40 × ₹ 750	30,000
			1,10,000
	<u>39,60,000</u>		<u>39,60,000</u>

(b) **Trading and Profit & Loss Account**
for the year ended 31st March, 2009

Dr.		Cr.	
₹	₹	₹	₹
To Purchases:		By Sales:	
TV Sets:		TV Sets:	
90 × ₹ 16,000	14,40,000	20 × ₹ 20,000	4,00,000
Washing Machines:		Washing Machines:	
70 × ₹ 12,000	8,40,000	20 × ₹ 15,000	3,00,000
To Gross Profit c/d	1,40,000	By Goods Sold on Hire Purchase:	
		TV Sets:	
		60 × ₹ 16,000	9,60,000
		Washing Machines:	
		40 × ₹ 12,000	4,80,000
		By Stock at Shop:	
		TV Sets:	
		10 × ₹ 16,000	1,60,000
		Washing Machines:	
		10 × ₹ 12,000	1,20,000
	<u>24,20,000</u>		<u>14,40,000</u>
To Salaries	1,44,000	By Gross Profit b/d	1,40,000
To Rent	1,20,000	By Hire Purchase	
To Commission	12,000	Trading Account	
To Office Expenses	1,20,000	(profit on hire	
To Net Profit	5,42,000	purchase business)	7,98,000
	<u>9,38,000</u>		<u>9,38,000</u>

Working Notes:

(i) Per unit cash price, hire purchase price and instalment amount:

	Cost ₹	Cash Price ₹ (125% of cost)	H.P.Price ₹ (150% of cash price)	Instalment Amount ₹ (H.P. Price No. of instalments)
TV Sets	16,000	20,000	30,000	1,000
Washing Machines	12,000	15,000	22,500	750

(ii) *Loading:*

If cost is ₹ 100, cash price is ₹ 125 and hire purchase price is ₹ 187.5. Thus, loading on hire purchase price of ₹ 187.5 is ₹ 87.5.

(iii) *Hire purchase stock on 31st March, 2009:*

	<i>Total no. of instalments</i>	<i>No. of instalments due in 2008-09</i>	<i>No. of instalments not due in 2008-09</i>	<i>Amount ₹</i>
TV Sets	1,800	1,080	720	7,20,000
Washing Machines	1,200	840	360	2,70,000
				<u>9,90,000</u>

(iv) *Stock (in numbers) at shop on 31st March, 2009:*

	<i>Nos. purchased</i>	<i>Nos. sold</i>	<i>Nos. remaining unsold</i>
TV Sets	90	20 + 60 = 80	10
Washing Machines	70	20 + 40 = 60	10

Hire Purchase, Instalments and Lease: Problem and Solution # 16.

Varun sells goods on hire purchase basis also. He fixes hire purchase price by adding 50% to the cost of the goods to him. The following are the figures relating to his hire purchase business for the year 2011-2012:

	<i>₹</i>
Balance of Hire Purchase Stock Account as on 1st April, 2011	84,000
Balance of Hire Purchase Debtors Account as on 1st April, 2011	2,100
Selling price of goods sold on hire purchase basis during the year	6,34,200

S/2

Cash received from customers during the year	6,46,800
Total amount of instalments that fell due during the year	6,48,900

One customer to whom goods had been sold for ₹ 8,400 paid only 5 instalments of ₹ 700 each. On his failure to pay the monthly instalment of ₹ 700 due on 4th March, 2012 the goods were repossessed on 27th March, 2012 after due legal notice.

Prepare ledger accounts on Stock Debtors System for the year ended 31st March, 2012.

Solution :

In the books of Varun

<i>Dr.</i>		Hire Purchase Stock Account	<i>Cr.</i>	
	₹			₹
To Balance b/fd	84,000	By Hire Purchase Debtors Account		
To Goods Sold on Hire Purchase Account	6,34,200	— Instalments falling due	6,48,900	
		By Goods Repossessed Account		
		— Six instalments on goods repossessed	4,200	
		By Balance c/d	65,100	
	7,18,200			7,18,200
To Balance b/d	65,100			

<i>Dr.</i>		Hire Purchase Debtors Account	<i>Cr.</i>	
	₹			₹
To Balance b/fd	2,100	By Bank		
To Hire Purchase Stock Account — Instalments falling due	6,48,900	— Instalments received	6,46,800	
		By Goods Repossessed Account		
		— One instalment due but not received in respect of goods repossessed	700	
		By Balance c/d	3,500	
	6,51,000			6,51,000
To Balance b/d	3,500			

<i>Dr.</i>		Goods Sold on Hire Purchase Account	<i>Cr.</i>	
	₹			₹
To Hire Purchase Adjustment Account — Loading	2,11,400	By Hire Purchase Stock Account	6,34,200	
To Trading Account — Transfer	4,22,800			
	6,34,200			6,34,200

Dr.		Hire Purchase adjustment Account		Cr.	
	₹			₹	
To Hire Purchase Stock Reserve Account — Closing balance	21,700	By Hire Purchase Stock Reserve Account — Opening balance		28,000	
To Profit and Loss Account — Transfer of profit	2,17,700	By Goods Sold on Hire Purchase Account		2,11,400	
	2,39,400			2,39,400	

Dr.		Hire Purchase Stock Reserve		Cr.	
	₹			₹	
To Hire Purchase Adjustment Account — Transfer	28,000	By Balance b/d		28,000	
To Balance c/d	21,700	By Hire Purchase Adjustment Account		21,700	
		By Balance b/d		21,700	

Working Notes:

(i) Opening balance of Hire Purchase Stock Reserve

$$= \frac{50}{150} \times ₹ 84,000 = ₹ 28,000$$

(ii) Loading on goods sold on Hire Purchase

$$= \frac{50}{150} \times ₹ 6,34,200 = ₹ 2,11,400$$

(iii) Closing balance of Hire Purchase Stock Reserve

$$= \frac{50}{150} \times ₹ 65,100 = ₹ 21,700$$

Hire Purchase, Instalments and Lease: Problem and Solution # 17.

A joint stock company sells its product on hire purchase terms. It charges gross profit at 25% of selling price. The following particulars pertain to its hire purchase business during the year ended 31st March, 2012:

<i>Balances of 1st April, 2011 :</i>	₹ ('000)
Stock at shop	4,50
Stock out on hire, at hire purchase price	12,00
Instalments due, customers still paying	90
Cash received from customers during the year	48,00
<i>Balances on 31st March, 2012 :</i>	
Stock out on hire, at hire purchase price	18,60
Instalments due, customers still paying	1,30
Stock at shop	5,16

You are required to prepare :

- (i) Hire Purchase Debtors Account
- (ii) Hire Purchase Stock Account
- (iii) Goods sold on Hire Purchase Account
- (iv) Stock at Shop Account, and
- (v) Hire Purchase Adjustment Account, showing profit earned.

Solution :

<i>Dr.</i>		Hire Purchase Debtors Account	<i>Cr.</i>
	₹		₹
	('000)		('000)
To Balance b/fd	90	By Bank	
To Hire Purchase Stock Account — Instalments falling due, balancing figure	48,40	— Cash received	48,00
	49,30	By Balance c/d	1,30
To Balance b/d	1,30		49,30

<i>Dr.</i>		Hire Purchase Stock Account	<i>Cr.</i>
	₹		₹
	('000)		('000)
To Balance b/fd	12,00	By Hire Purchase Debtors Accounts	
To Goods Sold on Hire Purchase Account — Hire Purchase price of goods sold, balancing figure	55,00	— Installments falling due	48,40
	67,00	By Balance c/d	18,60
To Balance b/d	18,60		67,00

<i>Dr.</i>		Goods Sold on Hire Purchase Account	<i>Cr.</i>
	₹		₹
	('000)		('000)
To Hire Purchase Adjustment Account — Loading	11,00	By Hire Purchase Stock Account	55,00
To Stocks at Shop — Transfer of cost	44,00		
	55,00		55,00

<i>Dr.</i>		Stock at Shop Account	<i>Cr.</i>
	₹		₹
	('000)		('000)
To Balance b/fd	450	By Goods Sold on Hire Purchase Account	
To Purchases — Balancing figure	44,66	— cost of goods sold	44,00
	49,16	By Balance c/d	5,16
To Balance b/d	5,16		49,16

<i>Dr.</i>		Hire Purchase Adjustment Account	<i>Cr.</i>
	₹		₹
	('000)		('000)
To Hire Purchase Stock Reserve — Closing	3,72	By Hire Purchase Stock Reserve — Opening	2,40
To Profit and Loss Account — Transfer of profit	9,68	By Goods Sold on Hire Purchase Account—Loading	11,00
	13,40		13,40

Working Notes :

- (i) Opening balance of Hire Purchase Stock Reserve Account
= $25/125 \times ₹ 12,00 \text{ thousand} = ₹ 2,40 \text{ thousand}$
- (ii) Loading in respect of goods sold on hire purchase
= $25/125 \times ₹ 55,00 \text{ thousand} = ₹ 11,00 \text{ thousand}$
- (iii) Closing balance of Hire Purchase Stock Reserve Account
= $25/125 \times ₹ 18,60 \text{ thousand} = ₹ 3,72 \text{ thousand}$

Hire Purchase, Instalments and Lease: Problem and Solution # 18.

Attempt the problem give as illustration no. 13 no Stock-Debtors systems:

Solution :

Dr.		Hire Purchase Stock Account			Cr.	
2011 Apr. 1	To Balance <i>b/fd</i>	₹	1,60,000	Apr. 1 2011 to Mar. 31, 2012		₹
Apr. 1 2012 to Mar. 31, 2012	To Goods Sold on Hire Purchase A/c		8,00,000	2011 Mar. 31	By Hire Purchase Debtors Account (balancing figure)	6,00,000
			<u>9,60,000</u>		By Balance <i>c/d</i>	<u>3,60,000</u>
						<u>9,60,000</u>

Hire Purchase Debtors Account						
2011 Apr. 1	To Balance <i>b/fd</i>	₹	10,000	Apr. 1, 11 to Mar. 31 2012	By Goods Repossessed Account	₹
Apr. 1, 2011 to Mar. 31, 2012	To Hire Purchase Stock Account		6,00,000	" "	By Bank	20,000
			<u>6,10,000</u>	2012 Mar. 31	By Balance <i>c/d</i>	5,60,000
						<u>30,000</u>
2012 Apr. 1	To Balance <i>b/d</i>		30,000			<u>6,10,000</u>

Goods Sold on Hire Purchase Account						
2012 Mar. 31	To Hire Purchase Adjustment Account (loading)	₹	3,00,000	Apr. 1, 2011 to Mar. 31, 2012	By Hire Purchase Stock Account	₹
" "	To Trading Account— transfer of cost		5,00,000			8,00,000
			<u>8,00,000</u>			<u>8,00,000</u>

Dr.		Hire Purchase Stock Reserve Account				Cr.
2011 Apr. 1	1	To Hire Purchase Adjustment Account—transfer	₹ 60,000	2011 Apr. 1	To Balance <i>b/d</i>	₹ 60,000
2012 Mar. 31	31	To Balance <i>c/d</i>	1,35,000	2012 Mar. 31,	By H.P. Adjustment A/c	1,35,000
				2012 Apr. 1	By Balance <i>b/d</i>	1,35,000

Dr.		Goods Repossessed Account				Cr.
Apr. 1 2011 to Mar. 31, 2012		To Hire Purchase Debtors Account	₹ 20,000	2012 Mar. 31	By Hire Purchase Adjustment Account (loss on repossession—balancing figure)	₹ 17,000
			20,000	" "	By Balance <i>c/d</i> (estimated value)	3,000
						20,000
2012 Apr. 1	1	To Balance <i>b/d</i>	3,000			

Dr.		Hire Purchase Adjustment Account				Cr.
2012 Mar. 31	31	To Goods Repossessed Account (excess of instalments due over estimated value of goods repossessed)	₹ 17,000	2011 Apr. 1	By Hire Purchase Stock Reserve A/c (opening)	₹ 60,000
" "	"	To Hire Purchase Stock Reserve Account (closing)	1,35,000	2012 Mar. 31	By Goods Sold on Hire Purchase Account	3,00,000
" "	"	To Profit & Loss Account—transfer of profit	2,08,000			
			3,60,000			3,60,000

Journal Entries

		Dr.	Cr.
2011 Apr. 1	Hire Purchase Stock Reserve A/c ... Dr.	₹ 60,000	₹ 60,000
	To Hire Purchase Adjustment A/c		
	Transfer of opening of Hire Purchase Stock Reserve Account to Hire Purchase Adjustment Account		
Apr. 1, 2011 to Mar. 31, 2012	Hire Purchase Stock Account ... Dr.	8,00,000	8,00,000
	To Goods Sold on Hire Purchase Account		
	Hire purchase price of goods sold during the year.		

		₹	₹
Apr. 1, 11 to Mar., 31, 2012	Hire Purchase Debtors Account ... Dr. To Hire Purchase Stock Account Instalments falling due (including instalments which would never fall due because of repossession) during the year.	6,00,000	6,00,000
" "	Goods Repossessed Account ... Dr. To Hire Purchase Debtors Account Instalments due but not paid in respect of goods repossessed—assumption being that all the instalments in respect of the goods have been transferred from Hire Purchase Stock Account to Hire Purchase Debtors Account.	20,000	20,000
" "	Bank ... Dr. To Hire Purchase Debtors Account Amount received during the year from hire-purchase customers.	5,60,000	5,60,000
2012 Mar. 31	Hire Purchase Adjustment Account ... Dr. To Goods Repossessed Account Excess of instalments due over estimated value of repossessed goods, being loss on repossession, transferred from Goods Repossessed Account to Hire Purchase Adjustment Account.	17,000	17,000
" "	Goods Sold on Hire Purchase Account ... Dr. To Hire Purchase Adjustment Account Loading in respect of goods sold on hire purchase basis transferred from Goods Sold on Hire Purchase Account to Hire Purchase Adjustment Account.	3,00,000	3,00,000
" "	Hire Purchase Adjustment Account ... Dr. To Hire Purchase Stock Reserve Account Creation of Hire Purchase Stock Reserve in respect of closing balance of Hire Purchase Stock Account.	1,35,000	1,35,000
" "	Hire Purchase Adjustment Account ... Dr. To Profit and Loss Account Transfer of profit in respect of hire-purchase business from Hire Purchase Adjustment Account to Profit and Loss Account	2,08,000	2,08,000
" "	Goods Sold on Hire Purchase Account ... Dr. To Trading Account Transfer of cost of goods sold on hire purchase basis from Goods Sold on Hire Purchase Account to Trading Account.	5,00,000	5,00,000

Hire Purchase, Instalments and Lease: Problem and Solution # 19.

X Ltd. sells products on hire purchase terms, the price being cost plus 33 1/3%. From the following particulars for the year ended 31st March, 2012, prepare the necessary accounts on Stock- Debtors System to reveal the profit earned:

				₹
2011				
Apr. 1	1	Stock out on hire at hire purchase price	...	4,00,000
		Stock in hand, at shop	...	50,000
		Instalments due (customers still paying)	...	30,000
2012				
Mar. 31	31	Stock out on hire at hire purchase price	...	4,60,000
		Stock in hand, at the shop	...	70,000
		Instalments due (customers still paying)	...	50,000
		Cash received during the year	...	8,00,000

Solution:

(Figures in brackets indicate the steps that reveal results; first of all various accounts are prepared and missing figures inserted. This first figure to be ascertained is the total of instalments which become payable during the year).

Dr.		Hire Purchase Debtors Account			Cr.
2011		₹	Apr. 1,		₹
Apr. 1	To Balance <i>b/fd</i>	30,000	2011 to		
Apr. 1			Mar. 31	By Cash	8,00,000
2011 to			2012		
Mar. 31,	To Hire Purchase Stock		2012	By Balance <i>c/d</i>	50,000
2012	A/c—total of instalments		Mar. 31		
	which become due	8,20,000			
	(balancing figure) (1)	8,50,000			8,50,000
		50,000			
2012					
Apr. 1	To Balance <i>b/d</i>	50,000			

Hire Purchase Stock Account					
2011		₹	Apr. 1,		₹
Apr. 1	To Balance <i>b/fd</i>	4,00,000	2011 to		
Apr. 1, 2011			2012	Mar. 31,	
to Mar 31,	To Goods Sold on	8,80,000		By Hire Purchase	8,20,000
2012	Hire Purchase Account		2012	Debtors A/c (1)	
	—balancing figure (2)	12,80,000	Mar. 31	By Balance <i>c/d</i>	4,60,000
		4,60,000			12,80,000
2012					
Apr. 1	To Balance <i>b/d</i>	4,60,000			

Goods Sold on Hire Purchase Account					
2011		₹	Apr. 1,		₹
Mar. 31	To Hire Purchase		2011 to		
	Adjustment,	2,20,000	Mar. 31,	By Hire Purchase	8,80,000
	Account		2012	Stock Account (2)	
	(loading)	6,60,000			
"	To Trading Account—	8,80,000			8,80,000
	cost of goods sold				

Dr.		Hire Purchase Stock Reserve Account				Cr.
2011 Apr. 1	To Hire Purchase Adjustment Account—transfer	₹	1,00,000	2011 Apr. 1	By Balance b/d— 25% of ₹ 4,00,000	₹ 1,00,000
2012 Mar. 31	To Balance c/d	₹	1,15,000	2012 Mar. 31	By H.P. Adjustment A/c—25% of ₹ 4,60,000	1,15,000
				2012 Apr. 1	By Balance b/d	1,15,000

Dr.		Hire Purchase Adjustment Account				Cr.
2012 Mar. 31	To Hire Purchase Stock Reserve Account (closing)	₹	1,15,000	2011 Apr. 1	By Hire Purchase Stock Reserve Account (opening)	₹ 1,00,000
"	To Profit & Loss Account—transfer of profit	₹	2,05,000	2010 Mar. 31	By Goods Sold on Hire Purchase Account (loading)—25% of ₹ 8,80,000	2,20,000
		₹	3,20,000			3,20,000

Dr.		Trading Account for the year ended 31st March, 2012				Cr.
To Opening Stock	₹	50,000	By Goods sold on Hire Purchase Account	₹	6,60,000	
To Purchases Account (balancing figure)	₹	6,80,000	By Closing Stock	₹	70,000	
	₹	7,30,000		₹	7,30,000	

Hire Purchase, Instalments and Lease: Problem and Solution # 20.

Home Comforts Ltd. commenced business on April 1, 2011. The business is to sell and refrigerators geysers both for cash and on hire-purchase basis. Information about terms is given below:

	Geysers ₹	Refrigerators ₹
Cash Price	5,000	15,000
Cost	4,000	12,000
Cash Down for hire-purchase	1,000	3,000
Monthly Instalment	500	1,500
Number of instalments	10	12

The company purchased goods costing ₹ 50 lakh in all and made cash sales totalling ₹ 43 lakh. Stock in hand on 31st March, 2012 was valued at ₹ 6 lakh. Hire Purchase transactions were as follows:

	Number sold	Instalments collected	Instalments due (customers paying)
Geysers	40	260	15
Refrigerators	20	110	10

3 geysers and 2 refrigerators on which only four instalments per piece had been collected were repossessed and were valued at a total sum of ₹ 16,000. This is not included in the figure of stock mentioned above. Prepare accounts showing the profit earned by the company.

Profit & Loss Account

Dr.

for the year ended 31st March, 2012

Cr.

	₹		₹
To Net Profit	4,58,310	By Gross Profit transferred from Trading Account	3,00,000
		By Hire Purchase Trading Account (profit on hire-purchase business)	1,58,310
	<u>4,58,310</u>		<u>4,58,310</u>

Notes. (1) Hire-purchase price (total) is ₹ 6,000 per geyser and ₹ 21,000 per refrigerator. Total sales (and cost) on this basis are :

	<i>Hire purchase price</i> ₹	<i>Cost</i> ₹
Geysers 40 @ ₹ 6,000	2,40,000	1,60,000
Refrigerators 20 @ ₹ 21,000	4,20,000	2,40,000
	<u>6,60,000</u>	<u>4,00,000</u>
(2) Cash collected :		
	<i>Refrigerators</i>	<i>geysers</i>
Cash down	60,000	40,000
Instalments collected	1,65,000	1,30,000
	<u>2,25,000</u>	<u>1,70,000</u>
(3) Instalments not yet due :		
Refrigerators :		
Total instalments on 18 refrigerators		216
Less: instalments collected and due (120 minus 8 instalments on repossessed units)		<u>112</u>
Not yet due		104
Amount @ ₹ 1,500, 104 × ₹ 1,500		₹ 1,56,000
Geysers :		
Total instalments on 37 sets		370
Less: Instalments collected and due (275 less 12)		<u>263</u>
Not yet due		107
Amount @ ₹ 500, 107 × ₹ 500		₹ 53,500
Total for both items, ₹ 156,000 + ₹ 53,500		₹ 2,09,500
(4) Hire Purchase Stock Reserve :		
	<i>Geysers</i>	<i>Refrigerators</i>
	₹	₹
Total amount due	6,000	21,000
Cost	4,000	12,000
Difference	2,000	9,000
Reserve required : ₹ $\frac{2,000}{6,000} \times 53,500$	<u>17,833</u>	
₹ $\frac{9,000}{21,000} \times 1,56,000$		<u>66,857</u>
Total : ₹ 17,833 + ₹ 66,857 = ₹ 84,690.		
Note : A more sophisticated calculation would be as follows :		
Geysers : Total amount due after deducting cash down payment		5,000
Cost after deducting cash down payment		3,000

Profit (and interest) included in ₹ 5,000	2,000
Reserve required : ₹ 53,500 × $\frac{2,000}{5,000}$	21,400
Refrigerators: Total amount due after deducting cash down payment	18,000
Cost after deducting cash down payment	9,000
Profit (and interest) included in ₹ 18,000	9,000
Reserve required : ₹ 1,56,000 × $\frac{9,000}{18,000}$	78,000
Total, ₹ 21,400 × ₹ 78,000	99,400

Alternative Solution: If stock-debtors system is followed, the ledger accounts will appear as follows:—

Dr.		Hire Purchase Stock Account		Cr.	
Apr. 1, 2011 to Mar. 31, 2012	To Goods Sold on Hire Purchase A/c	₹	Apr. 1, 2011 to Mar. 31, 2012	By Hire Purchase Debtors Account (balancing figure)	₹
		6,60,000			4,50,500
			2012 Mar. 31	By Balance c/d	2,09,500
		6,60,000			6,60,000
2012 Apr. 1	1 To Balance b/d	2,09,500			

Dr.		Hire Purchase Debtors Account		Cr.	
Apr. 1, 2011 to Mar. 31, 2012	To Hire Purchase Stock Account	₹	Apr. 1, 2011 to Mar. 31, 2012	By Cash/Bank	₹
		4,50,500		By Goods Repossessed Account (estimated value)	16,000
			2012 Mar. 31	By Hire Purchase Adjustment Account (loss on repossession)	17,000
				By Balance c/d	22,500
		4,50,500			4,50,500
2012 Apr. 1	1 To Balance b/d	22,500			

*Loss on repossession :

Hire purchase price of 3 geysers

Hire purchase price of 2 refrigerators

	₹
₹ 6,000 × 3 =	18,000
₹ 21,000 × 2 =	42,000
Total	60,000

<i>Less:</i>	Cash received :	₹	
	In respect of 3 geysers, 3 (1,000 + 4 × 500)	= 9,000	
	In respect of 2 refrigerator, 2 (3,000 + 4 × 1,500)	=18,000	
	Estimated value of repossessed goods	<u>16,000</u>	43,000
	Loss on repossession		<u>17,000</u>

Dr.		Goods Sold on Hire Purchase Account			Cr.
2012			₹	Apr. 1, 2011 to Mar. 31, 2012	₹
Mar.	31	To Hire Purchase Adjustment Account (loading)	2,60,000		
"	"	To Trading Account—transfer of cost	4,00,000	By Hire Purchase Stock Account	6,60,000
			<u>6,60,000</u>		<u>6,60,000</u>

Dr.		Hire Purchase Stock Reserve Account			Cr.
2012			₹	2012	₹
Mar.	31	To Balance c/d	84,690	Mar. 31	
				2012	
				Apr. 1	By Balance b/d
					84,690

Dr.		Hire Purchase Adjustment Account			Cr.
Apr. 1, 2011 to Mar. 31, 2012			₹	2012	₹
		To Hire Purchase Debtors A/c (loss on repossession)	17,000	Mar. 31	
2012					
Mar.	31	To Hire Purchase Stock Reserve Account (closing)	84,690		
"	"	To Profit & Loss Account (transfer of profit on hire purchase business)	1,58,310	By Goods Sold on Hire Purchase Account	2,60,000
			<u>2,60,000</u>		<u>2,60,000</u>

Dr.		Goods Repossessed Account			Cr.
Apr. 1, 2011 to Mar. 31, 2012			₹	2012	₹
		To Hire Purchase Debtors Account	16,000	Mar. 31	
2012					
Apr.	1	To Balance b/d	16,000		By Balance c/d
					16,000

<i>Dr.</i>		Trading Account for the year ended 31st March, 2012		<i>Cr.</i>	
		₹			₹
To Purchases Account		50,00,000		By Sales	43,00,000
To Profit & Loss Account—transfer of gross profit		3,00,000		By Goods Sold on Hire Purchase Account	4,00,000
		<u>53,00,000</u>		By Closing Stock	6,00,000
					<u>53,00,000</u>

<i>Dr.</i>		Profit & Loss Account for the year ended 31st March, 2012		<i>Cr.</i>	
		₹			₹
To Net Profit		4,58,310		By Trading Account—gross profit	3,00,000
				By Hire Purchase Adjustment Account (profit on hire-purchase business)	1,58,310
		<u>4,58,310</u>			<u>4,58,310</u>

Step 8