

The Quaide Milleth College for Men
Advanced Financial Accounting(CPG2A)
Unit I
Branch Accounting

1. What are the different types of Branch accounts?

- Dependent Branch
- Independent Branch
- Foreign Branch

2. What do you mean by Dependent Branch?

The term Dependent Branch means a branch which does not maintain its own set of books. All records have to be maintained by the head office.

3. List out the features of Dependent Branch.

- Only sells goods that are supplied by the head office.
- Goods may be supplied to the branch by the head office at cost or at invoice price.
- All branch expenses are paid by the head office.
- The branch manager is provided with small amount of cash on imprest system for meeting petty items of expenses.
- Branch is allowed to make only cash sales.
- The branch remits the sale proceeds to the head office.
- It maintains its own debtor ledger and stock ledger.

4. What is independent branch?

Independent branch means a branch which maintains its own set of books and has freedom to operate independently.

5. From the following particulars relating to Hyderabad branch for the year ended 31.12.90. Prepare Branch a/c in the head office books.

	Rs	Rs
Stock at the Branch on 1.1.90		15,000
Debtors at the Branch on 1.1.90		30,000
Petty cash at the Branch on 1.1.90		300
Goods sent to Branch during 1990		2,52,000
Cash sales 1990		60,000
Received from Debtors 1990		2,10,000
Credit Sales during 1990		2,28,000
<i>Cheques sent to branch during 1990</i>		
For Salaries	9,000	
For Rent & Rates	1,500	
For Petty cash	1,100	11,600
Stock at the branch on 31.12.90		25,000
Petty cash 31.12.90		200
Goods returned by the branch		2,000
Debtors on 31.12.90		48,000

Solution:**In the Books of Head Office****Hyderabad Branch a/c**

Dr		Rs	Cr		Rs
Jan 1	To Balance b/d		Dec 31	By Bank	
	Stock	15,000		Cash Sales	60,000
	Debtors	30,000		Cash from drs	2,10,000
	Petty cash	300			2,70,000
Dec 31	To Goods sent to branch a/c	2,52,000	Dec 31	By Goods sent to branch(return to HO)	2,000
	To Bank			By Balance c/d	
	Salaries	9,000		Stock	25,000
	Rent & Rates	1,500		Debtors	48,000
	Petty Cash	1,100		Petty Cash	200
	To General P&La/c (profit)	36,300			
		3,45,200			3,45,200

6. The following information relates to Madurai branch.

	Rs	Rs
Stock on 1.1.94		11,200
Branch debtors on 1.1.94		6,300
Goods sent to Branch		51,000
Cash sent to Branch for:		
Rent	1,500	
Salaries	3,000	
Petty Cash	500	5,000
Sales at branch		
Cash	25,000	
Credit	39,000	64,000
Cash received from Debtors		41,200
Stock on 31.12.94		13,600

Prepare Branch account for the year 1994

Solution:**In the books of head office****Madurai Branch a/c**

1994		Rs			Rs
Jan 1	To balance b/d	11,200	Dec 31	By Bank	
	Stock	6,300		Cash Sales	25,000
	Debtors	51,000		Cash coll drs	41,200
Dec 31	To Goods sent to Branch			By Balance c/d	
	To Bank:			Stock	13,600
	Rent	1,500		Debtors	4,100
	Salaries	3,000			
	Petty cash	500			
	To Genereal P&LA/C(Profit)	10,400			

		83,900			83,900

Working Notes:

Calculation of Closing Debtors:

		Rs.			Rs.
1.1.94	To Balance b/d	6,300	31.12.94	By Branch cash	41,200
	To Sales(Credit)	39,000		By Balance c/d(bal fig)	4,100
		45,300			45,300

7. Calculation Of Closing Stock And Manager's Commission

From the following particulars prepare a branch account showing the profit or loss at the branch.

	Rs.
Opening Stock at the Branch	15,000
Goods sent to the branch	45,000
Sales	60,000
Salaries	5,000
Other expenses	2,000

Closing stock could not be ascertained but it is known that the branch usually sells at cost plus 20%. The branch manager is entitled to a commission of 5% on the profit of the branch before charging such commission.

Solution:

Working Note:

Computation of Closing Stock

	Rs.
Opening Stock	15,000
Add: Goods sent to Branch	45,000
	60,000
Less: Cost of goods sold (sales * 100/120)(60,000*100/120)	50,000
Cost of closing stock	10,000

In the books of Head Office

Branch a/c

	Rs		Rs
To Opening Stock	15,000	By Bank(Sales)	60,000
To Goods sent to branch	45,000	By Closing Stock	10,000
To Bank Salaries	5,000		
To Other expenses	2,000		
To Managers commission (3,000*5%)	150		
To Net Profit – transferred to General P&L A/C	2,850		
	70,000		70,000

8. Manian Ltd., of Calcutta has a branch at Patna. Goods are invoiced to the Patna branch, the selling price being cost plus 25%

The Patna branch keeps its own sales ledger and transmits all cash received to Calcutta. All expenses are paid from Calcutta. From the following details prepare the Patna branch a/c for the year 1989.

	Rs.
Stock (1.1.89)(invoice price)	1,250
Stock (31.12.89)(invoice price)	1,500
Debtors(1.1.89)	700
Debtors(31.12.89)	900
Cash sales for the year	5,400
Credit sales for the year	3,500
Goods invoiced from Calcutta	9,100
Rent	400
Wages	240
Sundry Expenses	80

Books of Manian Ltd. Calcutta (H.O.)

Patna Branch a/c

1989		Rs	1989		Rs
Jan 1	To Balance b/d	1,250		By Bank:	
	Debtors	700		Cash Sales	5,400
	To Goods sent to branch	9,100		Cash rec frm drs	3,300
	To Bank		Dec	By Stock Reserve	
	Rent	400	31	(1,250*25/125)	250
	Wages	340	Dec	By Goods sent to	
	Sundry Expenses	80	31	Branch – Loading	
Dec	To Stock Reserve			(9,100*25/125)	1,820
31	(1,500*25/125)	300	Dec	By Balance c/d	
	To General P&L a/c(Profit)	1,000	31	Stock	1,500
				Debtors	900
		13,170			13,170

Working Notes:

Calculation of Cash received from Debtors

Branch Debtors

		Rs			Rs
1.1.89	To Balance b/d	700		By Cash(Bal Fig)	3,300
	To Sales (Credit)	3,500	31.12.89	By Balance c/d	900
		4,200			4,200

Final Accounts System

9. A Madras merchant has a branch at Pudukkottai to which goods are sent at cost plus 25%. The branch keeps its own sales ledger and remits all cash received to the head office every day. All expenses are paid from the head office. The transactions for the branch were as follows:

	Rs		Rs
Stock(1.1.94) at I.P.	11,000	Cheques sent to Branch:	
Debtors(1.1.94)	100	Rent	600
Petty Cash(1.1.94)	100	Wages	200
Cash Sales	2,650	Salary	900
Credit Sales	23,950	Stock (31.12.94) at I.P.	13,000
Goods sent to branch at I.P.	20,000	Debtors(31.12.94)	2,000
Goods Returned to head office	300	Petty Cash(31.12.94)	125
Bad Debts	300	(including miscellaneous income Rs.25 not remitted)	
Allowances at Customers	250	Collection from debtors	21,000
Returns Inwards	500		

Prepare the Branch Trading and Profit and Loss a/c and Branch a/c for the year 1994.

Solution:

Branch Trading and Profit and Loss a/c for the year ending 31.12.94

	Rs		Rs
To Opening Stock(at cost) (11,000-2,200)	8,800	By Sales:	
To Goods sent to Branch (At cost) 16,000		Cash 2,650	
Less: Returns to H.O.(300-60) 240	15,760	Credit 23,950	
To Wages 200		26,600	
To Gross Profit c/c (bal fig) 11,740		Less: Returns 500	26,100
	36,500	By Closing Stock(at cost) (13,000-2,600)	10,400
			36,500
To Bad debts 300		By Gross Profit b/d	11,740
To Allowances 250		By Miscellaneous income 25	
To Rent 600			
To Salaries 900			
To Net profit c/d 9,715			
	11,765		11,765

Branch a/c (Personal a/c)

	Rs		Rs
To Balance b/d		By Bank:	
Stock 8,800		Cash Sales 2,650	
Debtors 100		Cash received from Debtors 21,000	23,650
Petty Cash 100		By Goods sent to branch at cost(return) 240	
To Goods sent to branch at cost 16,000		By Balance c/d (10,400+2,000+125) (Bal fig)	12,525
To Bank(expenses) 1,700			
To Profit 9,715			
	36,415		36,415

Working Notes:

Calculation of Closing Stock

	Rs	Rs
Value of Closing Stock at H.O		
Purchase		2,00,000
Less: Cost of goods sold (1,70,000/200*100)	85,000	
Less: Cost of Goods sent to Branch (80,000/160*100)	50,000	1,35,000
Closing Stock		65,000
Value of closing Stock at branch:		
Goods received from H.O		80,000
Less: Cost of goods sold (80,000/200*160)		64,000
Closing Stock		16,000

Note:

H.O. Cost Price 100	Whole sale Rate i.e. Rate at which Goods supplied to Branch 160(200-200*20%)	List Price 200(100+100)
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Stock and Debtor System

(a) When goods are sent at cost price

10. The Calcutta commercial Company invoiced goods to its Jamshedpur Branch at cost. The Head Office paid all the branch expenses from its bank except petty cash expenses which were paid by the branch. From the following details relation to the Branch, prepare,

- **Branch Stock a/c**
- **Branch Debtors a/c**
- **Branch Expenses a/c**
- **Branch P&L a/c**

	Rs		Rs
Stock (Opening)	21,000	Discount to customers	4,200
Debtors (Opening)	37,800	Bad debts	1,800
Petty cash (Opening)	600	Goods returned by customers to branch	1,500
Goods sent from H.O.	78,000	Salaries & Wages	18,600
Goods Returned to H.O	3,000	Rent & rates	3,600
Cash Sales	52,500	Debtors (Closing)	29,400
Advertisement	2,400	Petty Cash (Closing)	300
Cash received from debtors	85,500	Credit Sales	85,200
Stock(Closing)	19,500		
Allowances to customers	600		

Solution:

Branch Stock A/c

	Rs		Rs
To Balance b/d	21,000	By Branch Cash	52,500
To Goods sent to branch	78,000	By Goods sent to Branch	3,000
To Branch Debtors	1,500	By Branch Debtors	85,200
To branch Profit and Loss a/c(Transfer)	59,700	By balance c/d	19,500
	1,60,200		1,60,200

Branch Debtors A/c

	Rs		Rs
To Balance b/d	37,800	By Branch Cash	85,500
To Branch Stock a/c(credit sales)	85,200	By Branch expenses (Bad debts, allowances, discount)	6,600
		By Branch stock (Returns)	1,500
		By Balance c/d	29,400
	1,23,000		1,23,000

Branch Expenses A/c

	Rs		Rs
To branch Debtors a/c	6,600	By Branch P&L A/c(Transfer)	31,500
To Bank (Advt, Sal, wages,rent and rates)	24,600		
To Petty expenses (600-300)	300		
	31,500		31,500

Branch Profit and Loss A/c

	Rs		Rs
To branch expenses a/c	31,500	By Branch Stock a/c	59,700
To General P&L a/c (Profit)(Bal fig)	28,200		
	59,700		59,700

(b) When goods are sent at invoice price

11. A head invoices goods to its branch at cost plus 50%. Branch remits all cash received to the head office and all expenses are met by the H.O. From the following particulars, prepare the necessary accounts on the stock & debtors system to show the profit or loss at the branch.

	Rs		Rs
Stock on 1.1.89(invoice price)	27,900	Goods returned by debtors	3,600
Debtors on 1.1.89	20,400	Goods returned to H.O. by the branch	4,500
Goods invoiced to the branch(invoice price)	1,53,000	Shortage of stock	1,350
Cash sales	75,000	Discount allowed	600
Credit sales	93,000	Expenses at the branch	16,200
Cash collected from debtors	91,200	Bad debts	600

Solution:

Branch Stock a/c

	Rs		Rs
To balance b/d	27,900	By Branch Cash a/c	75,000
To Goods sent to branch	1,53,000	By Branch Debtors	93,000
To branch Debtors	3,600	By Goods sent to Branch(Returns to H.O)	4,500
		By Branch adjustment a/c(loading on shortage)	450
		By Branch P&L a/c (Cost of shortage of stock)	900
		By Balance c/d	10,650
	1,84,500		1,84,500

Branch Debtors a/c

	Rs		Rs
To Balance b/d	20,400	By Branch Cash	91,200
To Branch Stock a/c	93,000	By Branch Stock a/c	3,600
		By branch Expenses (Discount+Bad debts)	1,200
		By Balance c/d (Bal fig)	17,400
	1,13,400		1,13,400

Branch Expenses a/c

	Rs		Rs
To Bank	16,200	By Branch P&L a/c	17,400
To Branch Debtors	1,200	(Transfer)	
	17,400		17,400

Branch Adjustment a/c

	Rs		Rs
To Stock Reserve (10,650*50/150)	3,550	By Stock Reserve (27,900*50/150)	9,300
To Branch stock a/c (loading on shortage) (1,350*50/150)	450	By Goods sent to Branch (Net)- loading (1,48,500*50/150)	49,500
To Branch P&L a/c (Gross profit)	54,800		
	58,800		58,800

Branch Profit& Loss a/c

	Rs		Rs
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To Branch Expenses a/c	17,400	By Branch adjustment a/c	54,800
To Branch Stock a/c (Cost of shortage of stock)	900	(Gross profit)	
To General P&L a/c (Net Profit)	36,500		
	54,800		54,800

Goods sent to Branch a/c

	Rs		Rs
To Branch Stock a/c	4,500	By Branch Stock a/c	1,53,000
To Branch Adjustment a/c	49,500		
To Purchase a/c (Bal fig)	99,000		
	1,53,000		1,53,000

Consolidated Final Accounts:

12. The H.O. of a business and its branch keep their own books and each prepare its own profit and loss a/c. The following are the balances appearing on the two sets of the books as on 31st Dec 1994 after ascertainment of profits and after making all adjustments except those referred to below:

	Head office		Branch	
	Dr.(Rs)	Cr. (Rs)	Dr.(Rs)	Cr. (Rs)
Capital	-	1,00,000	-	-
Fixed assets	36,000	-	16,000	-
Stock	34,200	-	10,740	-
Debtors and creditors	7,820	3,960	4,840	1,920
Cash	10,740	-	1,420	-
Profit and Loss	-	14,660	-	3,060
Branch a/c	29,860	-	-	-
Head office a/c	-	-	-	28,020

Set out the balance sheet of the business as on 31st December 1994 and the journal entries necessary (in both sets of books) to record the adjustments dealing with the following:

- i. On 31st December, the branch has sent a cheque for Rs. 1,000 to the head office, not received by them nor credited to the branch till next month.
- ii. Goods valued at Rs. 440 had been forwarded by the head office to the branch and invoiced on 30th December, 1994 but were not received by the branch not dealt with in their books till next month.
- iii. It was agreed that the branch should be charged with Rs.300 for administrative service, rendered by the head office during the year

- iv. Stock stolen in transit from the head office to the branch and charged to the branch by the head office but not credited to the head office in the branch books as the branch manager declined to admit any liability Rs.400 (not covered by insurance)
- v. Depreciation of branch assets, of which accounts are maintained by the head office, not provided for Rs.250.
- vi. The balance of profit shown by the branch is to be transferred to the head office books.

Solution:

Calculation of adjusted net profit

	Head office	Branch
Profit given in trial balance	14,660	3,060
Administrative service charge	300	(-)300
Depreciation of branch assets	14,960	2,060
	Nil	(-)250
Stock stolen in transit(abnormal loss)	14,960	2,510
	(-)400	-
Adjusted net profit	14,560	2,510

**In the books of Branch
Journal Entries**

		Dr.	Cr.
31/12/94	Profit & Loss a/c Dr To Head office a/c (Being head office expenses borne by branch)	300	300
	Profit & Loss a/c Dr To Head office (Being depreciation on branch assets maintained in HO books)	250	250
	Profit & Loss a/c Dr To Head office a/c (Being adjusted profit transferred to HO a/c)	2,510	2,510

**In the Head Office books
Journal Entries**

		Dr.	Cr.
31/12/94			
A	Cash in transit a/c Dr. To Branch a/c (Being cash remitted by branch but in transit)	1,000	1,000
B	Goods in transit a/c Dr. To Branch a/c (Being goods sent to branch but in transit)	440	440
C	Branch a/c Dr. To Profit & Loss a/c (being share of administrative services debited to branch)	300	300
D	Profit & Loss a/c Dr. To Branch a/c (Being stock stolen in transit and charged to branch but not admitted by them not covered by insurance)	400	400

E	Branch a/c Dr. To Branch assets a/c (Being depreciation on branch charged to branch)	250	250
F	Branch a/c Dr. To Profit and Loss a/c (Being branch net profit transferred to P&L a/c)	2,510	2,510

Balance sheet as on 31/12/94

Liabilities	Rs	Rs	Assets	Rs	Rs
Capital	1,00,000		Fixed Assets:		
Add: Adjusted net profit			H.O.	36,000	
H.O.	14,560		Branch	15,750	51,750
Branch	2,510	1,17,070	(16,000-250)		
			Stock:		
Creditors			H.O.	34,200	
H.O.	3,960		Branch	10,740	44,940
Branch	1,920	5,880			
			Goods in transit Debtors		
			H.O.	7,820	
			Branch	4,840	12,660
			Cash:		
			H.O.	10,740	
			Branch	1,420	12,160
			Cash in Transit		1,000
		1,22,950			1,22,950

Unit II

Departmental Accounts

1. What do you mean by Departmental Accounting?

When accounts of a same organization are maintained separately for different departments it is known as departmental accounting.

2. List out of the need for Departmental Accounting.

- To compare the results of each department with the results of previous years and ascertain the trend
- To know the comparative results of different departments in the same year
- To assess the position of stocks in each department
- To identify areas of weakness for cost control and improvement of efficiency
- To decide upon expansion, discontinuation and investment policies

3. Mention the advantages of Departmental Accounting.

- Ascertainment of profit
- Comparative performance
- Appraisal of personnel
- Remedial measures
- Expansion and diversification
- Policy formulation

Apportionment of Common expenses

4. The proprietor of a large retail store wished to ascertain approximately the net profit of the X, Y and Z departments separately for the three months ended 31st March 1996. It is found impracticable actually to take stock on that date, but an adequate system of departmental accounting is in use, and the normal rates of gross profit for the three departments concerned are respectively 40%, 30% and 20% on turnover before charging the direct expenses. The indirect expenses are charged in proportion to departmental turnover.

The following are the figures for the departments:

	X Rs.	Y Rs.	Z Rs.
Opening stock (1/1/96)	10,000	14,000	7,000
Purchases	12,000	13,500	9,700
Sales	20,000	18,000	16,000
Direct Expenses	2,000	1,500	700

The total indirect expenses for the period (including those relating to other departments) were Rs.5,400 on the total turnover of Rs.1,08,000.

Prepare a statement showing the approximate net profit, making a stock reserve of 10% for each department on the estimated value on 31/3/96.

Solution:**Departmental Trading & Profit & Loss a/c for three months ended 31/3/96**

	X Rs	Y Rs	Z Rs		X Rs	Y Rs	Z Rs
To Opening stock	10,000	14,000	7,000	By Sales	20,000	18,000	16,000
To Purchase	12,000	13,500	9,700	By Closing Stock (Bal fig)	10,000	14,900	3,900
To Gross Profit c/d	8,000	5,400	3,200				
	30,000	32,900	19,900		30,000	32,900	19,900
To Direct expense	2,000	1,500	700	By Gross Profit	8,000	5,400	3,200
To Indirect expense	1,000	900	800				
To Stock reserve@10%	1,000	1,490	390				
To Net Profit (Bal fig)	4,000	1,510	1,310				
	8,000	5,400	3,200		8,000	5,400	3,200

Note:

(1) Indirect expenses applicable to the three departments:

$$54,000/1,08,000 \times 5,400 = \text{Rs. } 2,700 \text{ to be apportioned in the ratio of } 10:9:8$$

(2) Direct expenses are not shown in Trading a/c because rates of gross profit given are before charging the direct expenses.

5. The following purchases were made by a business house having three departments.

Dept. A – 1,000 units	}	at a cost of Rs. 1,00,000
Dept. B – 2,000 units		
Dept. C – 2,400 units		

Stock on 1st January were:

Dept. A – 120 units
 Dept B – 80 units
 Dept C – 152 units

Sales were:

Dept. A – 1020 units at Rs.20 each
 Dept. B 1920 units at Rs.22.50 each
 Dept C – 2490 units at Rs. 25 each

The rate of gross profit is same in each case. Prepare Departmental trading account.

Solution:**Departmental Trading A/C**

Particulars	A Rs	B Rs	C Rs	Particulars	A Rs	B Rs	C Rs
To Opening Stock	1,920	1,440	3,040	By Sales	20,400	43,200	62,400
To Purchases	16,000	36,000	48,000	By Closing stock	1,600	2,880	1,120
To Gross Profit (Bal fig)	4,080	8,640	12,480				
	22,000	46,080	63,520		22,000	46,080	63,520

Working Notes:

I. Calculation of closing stock (in units):

$$\text{Opening stock} + \text{Purchase} - \text{Sales} = \text{Closing Stock}$$

Dept. A: $120 + 1,000 - 1,020 = 100$ units

Dept B: $80 + 2,000 - 1,920 = 160$ units

Dept c : $152 + 2,400 - 2,496 = 56$ units

II. Calculation of rate of gross profit:

In order to determine the rate of gross profit, it is assumed that all the units purchase have been sold away. Then the sale proceeds would be:

Dept.A = 1,000 units *20 = 20,000

Dept. B = 2,000 units *22.50 = 45,000

Dept.C = 2,400 units *25 = 60,000 1,25,000

less: Total Cost of goods Purchased	1,00,000
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Gross profit	<u>25,000</u>
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Rate of gross profit on selling price = $25,000/1,25,000 \times 100 = 20\%$

(Cost = 80% of selling price)

III. Cost price of each unit:

Dept A = $20 \times 80 / 100 = 16$

$$\text{Dept B} = 22.50 \times 80 / 100 = 18$$
$$\text{Dept C} = 25 * 80/100 = 20$$

IV. Purchase of each department:

Dept A = 1000 units *16 = 16,000

Dept B = 2,000 units *18 = 36,000

Dept C = 2,400 units* 20 = 48,000

V. Sale proceeds of each department:

Dept A = 1,020 units * 20 = 20,400

Dept B= 1,920 units *22.50 = 43,200

Dept C = 2,496 units *25 = 62,400

VI. Value of opening stock at cost:

Dept A = 120 units * 16 = 1,920

Dept B = 80 units *18 = 1,440

Dept C = 152 units *20 = 3,040

VII. Value of closing stock at cost:

Dept A = 100 units * 16 = 1,600

Dept B = 160 units *18 = 2,880

Dept C = 56 units *20 = 1,120

Inter-departmental transfer at cost price

6. A hotel proprietor has two departments viz., apartment Department and Meals Department. Following is the trial balance of his business.

Debit	Rs	Credit	Rs
Provisions Stock of provisions in the	15,500	Income from apartment & attendance department	46,000

beginning	1,020	Income from meals department	32,000
Cash in hand and at bank	10,000	Capital	2,20,000
Customers debit balance	800	Suppliers a/c	9,800
Buildings(1/10 th used for meals department)	2,10,000	Provision for depreciation on building	24,000
Furniture and equipment	60,000	Interest	1,130
General expenses	27,410		
Interest accrued	200		
Life insurance	1,600		
Income tax	400		
Wages	6,000		
	3,32,930		3,32,930

Additional Information:

- The servants in the Apartment Dept. had occupied a room worth Rs.120 and took meals worth Rs.60. Similarly, servants in the Meals Dept. had occupied a room worth Rs.150 and took meals worth Rs.90.
 - Wages are charged in the proportion of $\frac{1}{2}$ to the Apartment Dept. $\frac{1}{4}$ th to the provision dept. and remaining to the general P&L a/c.
 - Increase provision for depreciation of buildings to Rs.30,000
 - A sum of Rs.800 representing accommodation Rs.240 and meals Rs.560 to be charged to proprietor of the hotel.
- You are required to prepare profit and loss a/c and Balance sheet as on 31.3.92.

Solution:

Departmental Profit & Loss a/c for the year ending 31/3/92

	Apartment	Meals		Apartment	Meals
To Stock	-	1,020	By Income	46,000	32,000
To Provisions	-	15,500	By Proprietor's		
To Depreciation on Buildings	5,400	600	a/c(Drawings)	240	560
To Wages	3,000	1,500	By Inter-dept adjustment	270	150
To Inter-dept adjustment	180	240			
To Net Profit c/d (Department)	37,930	13,850			
	46,510	32,710		46,510	32,710

General P&L a/c

	Rs		Rs
To Wages	1,500	By Net profit b/d	
To General Expenses	27,410	Apartment	37,930
To Net Profit c/d	24,000	Meals	13,850
		By Interest	1,130
	52,910		52,910

Balance Sheet as on 31/3/92

Liabilities	Rs	Rs	Assets	Rs
Capital	2,20,000		Buildings	2,10,000
Less: Drawings			Furniture and Equipment	60,000
Income Tax 400			Customer a/c	800
Premium 1,600			Interest accrued	200
Meals 560			Cash in hand & at bank	10,000
Apartment 240	2,800			
	2,41,200			
Add: Net Profit	24,000	2,41,200		
Suppliers		9,800		
Provision for Depreciation		30,000		
		2,81,000		2,81,000

Note: Provision for depreciation can also be reduced from buildings

Working Notes:

		Apartment	Meals	Total Expenses
1	Expenses on Servants in apartment dept	120	60	180(for apartment dept)
2	Expenses on Servants in Meals dept.	150	90	240(for meals dept)
	Total Income	270	150	

Inter-Departmental transfers at Selling Price

7. A firm had two departments cloth and readymade garments. The garments were made by the firm itself out of cloth supplied by the cloth department at its usual selling price. From the following figures, prepare departmental trading and profit and loss account for the year ended 31/3/94.

	Cloth dept. Rs	Readymade dept. Rs
Opening Stock on 1/4/93	3,00,000	50,000
Purchases	20,00,000	15,000
Sales	22,00,000	4,50,000
Transfer to readymade garments dept.	3,00,000	-
Expenses- manufacturing	-	60,000
- Selling	20,000	6,000
Stock 31/3/94	2,00,000	60,000

The stock in the readymade garments department may be considered as consisting of 75% of cloth and 25% other expenses. The cloth department earned gross profit @ 15% in 1992-93. General expenses of the business as a whole came to Rs. 1,10,000.

Solution:**Departmental Trading and Profit and Loss a/c for the year ending 31/3/94**

	Cloth Rs	Readymade Rs		Cloth Rs	Readymade Rs
To opening Stock	3,00,000	50,000	By sales	22,00,000	4,50,000
To Purchases	20,00,000	15,000	By Transfer to readymade dept.	3,00,000	-
To Transfer from Cloth Dept.	-	3,00,000	By Closing stock	2,00,000	60,000
To Manufacturing exp	-	60,000			
To Gross profit c/d(Departmental)	4,00,000	85,000			
	27,00,000	5,10,000		27,00,000	5,10,000
To selling expenses	20,000	6,000	To Gross Profit b/d	4,00,000	85,000
To Net profit c/d(Departmental)	3,80,000	79,000			
	4,00,000	85,000		4,00,000	85,000

General P&L A/C for the year ending 31/3/94

	Rs		Rs
To General Expenses	1,10,000	By Net Profit b/d	4,59,000
To Stock Reserve(Closing) (60,000*75%*16%)	7,200	By Stock Reserve(opening)	
To Net Profit (bal fig)	3,47,425	(50,000*75%*15%)	5,625
	4,64,625		4,64,625

Working Notes:**Stock Reserve has been calculated as follows:**

Rate of Gross profit on sales of cloth department = $4,00,000 / 25,00,000 * 100 = 16\%$

Element of cloth in closing stock of readymade garments = $60,000 * 75\% = 45,000$

Reserve required for unrealized profit in closing stock = $45,000 * 16\% = \text{Rs. } 7,200$

Reserve already existing in opening stock = $50,000 * 75\% * 15\% = 5,625$

Unit III

Hire Purchase and Installment System

1. Define Hire purchase System.

According to the Hire Purchase Act 1972 Section 2 (c) "Hire purchase agreement is an agreement under which goods are let on hire and under which the hirer has an option to purchase them in accordance with the terms of the agreement and includes an agreement under which

- i. Possession of goods is delivered by the owner thereof to a person on condition that such person pays the agreed amount in periodical installments.
- ii. The property in the goods is to pass to such person on the payment of the last of such installments.
- iii. Such person has a right to terminate the agreement at any time before the property so passes"

2. What is cash price?

This is the retail price of the articles at which they can be purchased immediately for cash.

3. What is down payment?

This is the advance payable by the buyer while signing the hire purchase agreement. It is also a part of the hire purchase price.

4. Explain the main features of Hire purchase system.

- i. The hirer or buyer gets possession of the goods on signing the hire purchase agreement and he has the right to use them.
- ii. Ownership vests with the seller till the last installment
- iii. Each installment is treated as hire charges.
- iv. The hirer has the option to return the goods before the last installment is paid

5. What is Default?

If the hire purchaser fails to make payment of any installment, it is called Default.

6. What is repossession?

The hire vendor is allowed to take away the goods sold on hire purchase in the event of default made by the hire purchaser this is known as repossession.

7. What is installment purchase system?

The property in goods passes to the purchaser immediately on signing the contract. The amount of installment and interest payable are determined at the time of signing the contract. Until the ownership is transferred, the seller has no right to repossess the goods even if the buyer makes default in the payment of any installment. This is also referred to as deferred installment system.

Methods of Calculation of Interest

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

Interest – I year Rs.63

II year Rs.46 III year – Rs. 33

Therefore , the total cash price is Rs. 2,058

Journal and Ledger in the books of buyer and seller

9. Mr. P purchased 4 cars for Rs. 14,000 each on 1/1/92 under the hire purchase system. The hire purchase price for all the 4 cars was Rs. 15,000 down payment and 3 equal installments of Rs. 15,000 each at the end of each year. Interest is charged at 5% p.a. The buyer depreciates the car at 10% p.a. on straight line method.

From the above particulars give journal entries and relevant a/c in the books of Mr.P and in the books of hire vendor.

Table showing Calculation of Interest

Date of payment (1)	Total Cash Price (2)	Inst. Paid (3)	Interest Paid (4)	Cash Price paid (3)-(4)=(5)
Down Payment	56,000(14,000*4) 15,000	15,000	-	15,000
I Instalment	41,000 12,950	15,000	(41,000*5%)=2,050	12,950
II Instalment 14,453	28,050 13,597	15,000	(28,050*5%)=1,403	13,597
III Instalment	14,453 14,453	15,000	(15,000-14,453)=547	14,453
	Nil	60,000	4,000	56,000

Journal Entries in the books of Mr. P

		1992		1993		1994	
		Dr. Rs.	Cr. Rs.	Dr. Rs.	Cr. Rs.	Dr. Rs.	Cr. Rs.
Jan 1	Cars a/c Dr. To Hire Vendor a/c (Being Purchase of cars on H.P)	56,000	56,000	-	-	-	-
Jan 1	Hire Vendor a/c Dr. To Bank a/c (Being cash down payment)	15,000	15,000	-	-	-	-
Dec 31	Interest a/c Dr. To Hire Vendor a/c (Being int. credited to vendor)	2,050	2,050	1,403	1,403	547	547
Dec 31	Hire Vendor a/c Dr To Bank a/c (Being payment of instalment)	15,000	15,000	15,000	15,000	15,000	15,000
Dec 31	Depreciation a/c Dr To Cars a/c (Being dep charged on cars)	5,600	5,600	5,600	5,600	5,600	5,600
Dec 31	Profit and Loss a/c Dr To Interest a/c	7,650	2,050	7,003	1,403	6,147	547

	To Depreciation a/c (Being int a/c transfered)		5,600		5,600		5,600
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Journal Entries in the books of Hire Vendor

		1992		1993		1994	
		Dr. Rs.	Cr. Rs.	Dr. Rs.	Cr. Rs.	Dr. Rs.	Cr. Rs.
Jan 1	P's A/c Dr. To Hire Sales a/c (Being cars sold on H.P)	56,000	56,000	-	-	-	-
Jan 1	Bank a/c Dr. To P's a/c (Being down payment received)	15,000	15,000	-	-	-	-
Dec 31	P's A/c Dr. To Interest a/c (Being int charged to Mr. P A/c)	2,050	2,050	1,403	1,403	547	547
Dec 31	Bank a/c Dr. To P's A/c (Being instalment Rec)	15,000	15,000	15,000	15,000	15,000	15,000
Dec 31	Interest a/c Dr. To P&L a/c (Being interest transferred)	2,050	2,050	1,403	1,403	547	547

Ledger Accounts in the books of P(Hire)

Cars A/C

		Rs			Rs
1.1.92	To Vendor a/c	56,000	31.12.92	By Depreciation By Balance c/d	5,600 50,400
		56,000			56,000
1.1.93	To balance b/d	50,400	31.12.93	By Depreciation By Balance c/d	5,600 44,800
		50,400			50,400
1.1.94	To balance b/d	44,800	31.12.94	By Depreciation By Balance c/d	5,600 39,200
		44,800			44,800
1.1.95	To Balance b/d	39,200			

Hire Vendor's A/C

		Rs			Rs
1.1.92	To bank a/c	15,000	1.1.92	By Cars a/c	56,000
31.12.92	To bank a/c	15,000	31.12.92	By Interest a/c	2,050
31.12.92	To balance c/d	28,050			
		58,050			58,050
1.1.93	To bank a/c	15,000	31.12.93	By Balance c/d	28,050
31.12.93	To Balance c/d	14,453	31.12.93	By Interest	1,403
		29,453			29,453
31.12.94	To bank a/c	15,000	1.1.94	By Balance c/d	14,453

			31.12.94	By Interest	547
		15,000			15,000

Interest A/c

		Rs			Rs
31.12.92	To Vendor A./c	2,050	31.12.92	By P&L A./c	2,050
31.12.93	To Vendor A./c	1,403	31.12.93	By P&L A./c	1,403
31.12.94	To Vendor A./c	547	31.12.94	By P&L A./c	547

Depreciation A/c

		Rs			Rs
31.12.92	To Cars A./c	5,600	31.12.92	By P&L A./c	5,600
31.12.93	To Cars A./c	5,600	31.12.93	By P&L A./c	5,600
31.12.94	To Cars A./c	5,600	31.12.94	By P&L A./c	5,600

Ledger Accounts in the Books of Hire Vendor

Interest a/c

		Rs			Rs
31.12.92	To P&L A./c	2,050	31.12.92	By Mr.P's A./c	2,050
31.12.93	To P&L A./c	1,403	31.12.93	By Mr.P's A./c	1,403
31.12.94	To P&L A./c	547	31.12.94	By Mr.P's A./c	547

Mr.P's a/c

		Rs			Rs
1.1.92	To Hire	56,000	1.1.92	By Bank a/c	15,000
31.12.92	Sales a/c	2,050	31.12.92	By Bank a/c	15,000
	To Interest		31.12.92	By Balance	28,050
	a/c			c/d	
		58,050			58,050
1.1.93	To balance	28,050	31.12.93	By Bank	15,000
31.12.93	c/d	1,403	31.12.93	By Balance	14,453
	To interest			c/d	
		29,453			29,453
1.1.94	To Balance	14,453	31.12.94	By Bank	15,000
31.12.94	c/d	547			
	To Interest				
		15,000			15,000

Calculation of Depreciation

Since depreciation is charged under straight line method the same amount ($56,000 \times 10\% = 5,600$) is to be charged for all three years.

Complete Repossession

10. Knight purchased a truck for Rs.1,60,000 from S. Waugh on 1.1.93 payment to be made Rs. 40,000 down and Rs. 46,000 at the end of the first year, Rs.44,000 at the end of second year and Rs.42,000 at the end of third year. Interest was charged at 5%. Knight depreciates the truck 10% per annum on written down value method.

Knight after having paid down payment and first instalment at the end of the first year, could not pay second instalment. The seller took possession of the truck and after spending Rs.4,000 on repairs of the asset, sold it away for Rs.91,500.

Give journal entries and ledger accounts in the books of both the parties.

Calculation of interest

No. of instalment	Total Cash price paid Rs	Inst.Paid Rs	Interest paid	Net Cash price paid Rs
	1,60,000			
Down	40,000	40,000	-	40,000
	1,20,000			
1 st instalment	40,000	46,000	(1,20,000*5%)6,000	40,000
	80,000			
2 nd instalment	40,000	44,000	(88,000*5%)4,000	40,000
	40,000			
3 rd instalment	40,000	42,000	(42,000-40,000)2,000	40,000
	Nil	1,72,000	12,000	1,60,000

Journal entries in the books of Knight (Hire purchaser)

Date		1993		1994	
		Dr Rs	Cr Rs	Dr Rs	Cr Rs
Jan 1	Truck a/c Dr. To S.Waugh a/c (Being purchase of truck on H.P)	1,60,000	1,60,000	-	-
Jan 1	S.Waugh a/c Dr To Bank a/c (Being cash down payment)	40,000	40,000	-	-
Dec 31	Interest a/c Dr To S.Waugh a/c (Interest credited to Hire vendor a/c)	6,000	6,000	4,000	4,000
Dec 31	S.Waugh a/c Dr To Bank (Being 1 st instalment paid)	46,000	46,000	-	-
Dec 31	Depreciation a/c Dr To Truck a/c (Being depreciation charged)	16,000	16,000	14,400	14,400
Dec 31	P&L a/c Dr To Interest a/c To Depreciation a/c (Being charge of interest and dep to P&L a/c)	22,000	6,000 16,000	18,400	4,000 14,400
Dec 31	S. Waugh a/c Dr To Truck a/c	-		84,000	84,000

Dec 31	(Being truck taken over by vendor on default) P&L a/c Dr. To Truck a/c (Loss on Surrender)	-	- -	45,600	45,600
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Ledger Accounts in the Books of S. Waugh

Knight a/c

		Rs			Rs
1.1.93	To Hire sale	1,60,000	1.1.93	By Bank (Down Payment)	40,000
31.12.93	To interest	6,000	31.12.93	By Bank (1st)	46,000
			31.12.93	By Balance c/d	80,000
		1,66,000			1,66,000
1.1.94	To Balance c/d	80,000	31.12.94	By Repossessed Stock a/c (Bal	
31.12.94	To Interest	4,000	31.12.94	fig)(transfer)	84,000
		84,000			84,000

Repossessed Stock a/c

		Rs			Rs
31.12.94	To cash	4,000	31.12.94	By cash	91,500
31.12.94	To Knight a/c	84,000			
31.12.94	To P&La/c(Bal fig) (Profit on sale)	3,500			
		91,500			91,500

Ledger a/c's in the books of Knight

Truck a/c

		Rs			Rs
1.1.93	To Hire	1,60,000	31.12.93	By	16,000
	Vendor a/c		31.12.93	Depreciation	1,44,000
				By Balance	
				c/d	
		1,60,000			1,60,000
1.1.94	To Balance	1,44,000	31.12.93	By	14,400
	b/d			Depreciation	
				By S.Waugh	
				a/c	
				By P&La/c	
		1,44,000		(Bal fig)	
					1,44,000

Unit IV

Partnership Accounts

1. Define Partnership.

According to Section 4 of the Indian Partnership Act 1932, partnership is defined as “the relationship between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.”

2. Mention the essential features of Partnership.

- There must be an agreement entered into between two or more persons.
- The object of the agreement must be to share the profits of a business.
- The business must be carried on by all or any of the persons concerned acting for all.
- It is formed to carry on a lawful business.

3. What is partnership deed?

The document or the instrument containing the agreement between partners is known as partnership deed.

4. List out the contents of partnership deed.

- Name of the firm and nature of the business.
- Names and addresses of the partners.
- The duration, if any, of partnership firm.
- The total capital of the firm and the share of each partner.
- The ratio of sharing profits and losses.
- Whether capitals are to be fixed or fluctuating.
- Whether any interest is to be allowed in partners capitals and if so, at what rate.
- Rate of interest on advances
- Whether any interest is to be charged on drawings and if so, at what rate.
- The amount of salaries or some allowance, if any, payable to the partners.
- The amount which each partner can withdraw for his private expenses.
- The provision relating to keeping of proper books of accounts.
- The period after which the final accounts are to be prepared
- The audit of the accounts
- Admission of new partners and exit of the existing ones.
- Method of ascertaining the share of goodwill of a partner on his retirement or death

5. How opening capital is found? Explain with format.

	Calculation of Opening Capital	
	Capital at the end of the year	xxx
Add:	Drawings and interest on drawings:	xxx
		xxx
Less:	Interest on Capital	xxx
		xxx
Less	Additional capital if any	xxx

		xxx
Less	Profit credited	xxx
	Opening capital	xxx

6. What is interest on capital?

Interest provided on the capital contributed by each partner in a each is known as interest on capital. This is calculated on the opening capital of a firm. It is a form of expenses for the firm. In case of absence of partnership deed 6% interest is provided on the capital.

7. What is interest on drawings?

Interest charged on the amount of drawings made by a partner is known as interest on drawings. This amount is calculated on the total drawings made by a partner. It is a form of income to the firm.

8. What is Interest on Partners Loan?

If a partner advances loan to the firm apart from his capital he is entitled to receive interest for that loan amount. In case of absence of partnership deed 6% rate of interest is provided by the firm to the partner.

Interest on Partners loan a/c Dr.	xxx
To Partners loan a/c	xxx

(Being provision for interest on partners loan)

9. What is salary and commission?

In case of some partners devote more time or possess better skills and experience in comparison with the other partners in the firm, they are awarded with special compensation it is termed as salary or commission.

Profit & Loss Appropriation A/C Dr.	xxx
To Partners capital or current A/C	xxx

(Being Salary credited to capital or current a/c)

10. What is profit and loss appropriation account?

Profit and loss appropriation is an extension of usual profit and loss account for the purpose of adjusting transaction relating to the partnership deed, viz., interest on partners capital , drawings and loans, partners salary and commission etc.,

Profit and Loss Appropriation A/C for the year ended.....

To P&L a/c(if there is Trading loss)	xxx	By P&L a/c(Trading profit before adjustments as per deed)	xxx
To interest on partners capital	xxx	By interest on drawings	xxx
To partners salary	xxx	By net loss(Partners capital or current a/c)	xxx
To partners commission	xxx		
To interest on partners loan a/c	xxx		
To Net profit (partners capital or current accounts)	xxx		
	xxx		xxx

11. What is fixed capital Method?

Under this method, there are two accounts for each partner:

- Partners capital account
- Partners current account

The partner's capital account is credited with the original amount of capital introduced by the partner into the business. No other adjustments are made in this account.

The partner's current account is maintained for making all entries relating to interest on partner's capital, drawings and loan, share of profit. Partners' salary and commission etc. The balance in this account goes on fluctuating but the balance of capital account remains the same. That is why this account is known as fixed capital method.

12. What is fluctuating Capital Method?

Under this method the capital account of a partner does not remain at its original balance but fluctuates frequently. The reason is that all adjustments in respect of drawings, interest on drawings, capital, loan, salary to partners etc., therefore this method is known as fluctuating capital method.

Partners Capital A/C

	X Rs.	Y Rs.	Z Rs.		X Rs.	Y Rs.	Z Rs.
To Drawings	-	-	-	By Balance b/d	xxx	xxx	xxx
To Interest on Drawings	-	-	-	By Interest on capital	-	-	-
To Balance c/d	xxx	xxx	xxx	By Commission	-	-	-
				By Share of profit	xxx	xxx	xxx
				By Salary	xxx	xxx	xxx
	xxx	xxx	xxx		xxx	xxx	xxx

13. What is Revaluation account?

At the time of admission of a new partner, a firm revalues its assets and liabilities to prevent the new partner from getting a share in the appreciated value of assets or making him suffer because of depreciation in the value of assets. The changes in the value of assets and liabilities are recorded in Revaluation a/c.

14. What is sacrificing ratio?

In case of admission of a new partner, old partners have to surrender some of their old shares in favour of the new partner. The surrender of share by old partners is made in certain ratio this ratio is known as sacrificing ratio.

$$\text{Sacrificing Ratio} = \text{Old Ratio} - \text{New Ratio}$$

15. What is good will?

Goodwill is the value of the firm's anticipated excess earnings.

The consideration which he pays to the old partners for the right to participate in the division of future profits is called Goodwill.

$$\text{Average Profit} = \text{Total profits} / \text{No. of years}$$

$$\text{Goodwill} = \text{Average profit} \times \text{No. of years' purchase}$$

16. Mention the five adjustments to be made while a new partner enters into a firm.

- Adjustment in the profit sharing ratio.

- Adjustment for goodwill
- Adjustment for revaluation of assets and liabilities
- Adjustment of reserves and other accumulated profits
- Adjustment for capital

17. What is Gaining Ratio?

This ratio is calculated when a partner retires from the firm. In the absence of agreement, after retirement of a partner, the remaining partners are assumed to continue to share profits in the ratio which existed between them i.e. in the old ratio.

$$\text{Gaining Ratio} = \text{New Ratio} - \text{Old Ratio}$$

18. What is joint life policy?

Policy taken on the life of all the partners jointly is known as joint life policy. This is taken in order to meet the expenses relating to legal settlement to be incurred in case of death of a partner.

19. What is Surrender Value?

Surrender value is the value which is payable immediately to the insured on surrendering all rights of the policy to the Corporation.

20. How do you calculate deceased partners share of profit?

There are two different ways to calculate the share of profit of the deceased partner.

- Time Basis

$$\begin{array}{ccc} \text{Profit from the date of last balance sheet} & & \text{Average profit of} \\ \text{to the date of death} & = & \text{given number of past} \\ & & \text{numbers} \\ & & \text{365 days or 12 months} \end{array}$$

- Turnover or Sales Basis

To calculate the share of profit of the deceased partner from the date of last balance sheet to the date of death on the basis of turnover, the following information is required:

- ❖ Sales of the previous year
- ❖ Sales upto the date of death

Profit from the date of last Balance sheet to the date of death	=	$\frac{\text{Sales from the date of the last balance sheet to the date of death}}{\text{Previous year sales or average sales of a given number of past years}}$	×	Previous year's profit or Average profit of a given number of past years
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Unit V

Dissolution of Partnership

1. What do you mean by dissolution of a partnership firm?
Dissolution of a firm means closing down the undertaking or suspending permanently the activities of a partnership business, It refers to the complete breakdown of a partnership and partners do not continue the firm.
2. Who is an insolvent?
An insolvent is a person whose liabilities are more than his/her assets.
3. What do you understand by 'Garner vs Murray' rule?
The rule of Garner vs Murray is applicable in case of insolvency of one or more partners but not all the partners. The following are the two effects of this rule on the accounts of the firm:
 - ❖ All the solvent partners should bring cash equal to their share of the loss on realization.
 - ❖ The deficiency of the insolvent partner must be borne by the solvent partners in the ratio of their capitals then standing.
4. What is Realisation Account?
When a firm is dissolved, the books of the firm are to be closed. This is done by preparing an account called "realization account". This account is mainly prepared to show the profit or loss on realization of assets and payment of liabilities.
5. What do you understand by unrecorded assets and unrecorded liabilities?
Assets and liabilities which do not appear in the books of accounts are known as unrecorded assets.
6. What is proportionate capital?
This method is also known as Surplus Capital Method. The excess capital is paid first. After excess capitals are paid, all capitals are in the profits sharing ratio. Then the payments can be made in the profit sharing ratio.