*...unt current method in which the days are calculated ... date of transaction to the commencement date is known*

...method    b) backward method
...ance method    d) product method

*...od of account current usually employed by the banker ...as*

...nce method    b) Red ink interest
...count    d) Epoque method

*...ber of days are calculated from the date of the ... to the date of settlement in case of*

...ethod    b) Epoque method
...ce method    d) Index method

*...d of account current usually employed by the banker*

...ce method    b) Red ink interest
...ount    d) Epoque method

*...rests is associated with*

b) Account current
d) Average due date

...a)  4. a)  5. b)



1. *What is fire insurance?*

Fire insurance is a device to compensate for the loss consequent upon destruction by fire.

2. *Define fire insurance contract.*

Fire insurance contract may be defined as "an agreement whereby one party in return for a consideration undertakes to indemnify the other party against financial loss which the latter may sustain by reason of certain defined subject-matter being damaged or destroyed by fire or other defined perils up to an agreed amount".

3. *What is fire insurance policy?*

The document specifying the terms of fire insurance is called a fire insurance policy.

4. *What are the various types of Fire Insurance Policies?*

The fire insurance policies can be of various types, of which the following are important policies.

i) Specific policy
ii) Floating policy
iii) Average policy
iv) Comprehensive policy
v) Loss of stock or Loss of property policy
vi) Loss of profit policy or Consequential loss policy

5. *What is a claim?*

A demand on the insurer to fulfill its promise, as per the terms and conditions of the policy is called a claim.

6. *What are the various needs for fire insurance?*

The following are the needs of a fire insurance policy.

i) To renew the damaged property.
ii) To overcome the loss due to short sales and loss of profit occurring out of fire.
iii) To replace the destroyed asset.
iv) To purchase the destroyed stock.

7. *Explain the procedure to calculate the value of loss of stock.*

For calculating loss of stock there are two steps

a) Calculation of the value of stock on the date of fire.

b) Calculation of actual amount of claim to be lodged

**a) Calculation of the value of stock on the date of fire.**

When it is not possible to ascertain the exact value of stock destroyed from the stock register, it can be ascertained by preparing a memorandum trading a/c for the accounting year upto the date of fire. The formate is as follows :

Dr. **MEMORANDUM TRADING ACCOUNT** Cr.

| Particulars | Rs. | Particulars | Rs. |
|---|---|---|---|
| To Opening stock | xxx | By Sales less returns | xxx |
| To Purchase less returns | xxx | By Closing stock (or) Stock on the date of fire (Bal.Fig.) | xxx |
| To Direct expenses | xxx | | |
| To Gross profit | xxx | | |
| | xxx | | xxx |

The following points are to be considered in connection with the preparation of memorandum trading a/c.

i) The stock on the date of fire is to be calculated as balancing figure.

ii) If the gross profit ratio is not given prepare trading a/c of previous year to find out gross profit ratio.

iii) Average rate of gross profit may be takes as the base when the data for number of years are given.

iv) Adjustment must be made for abnormal, over valuation or under valuation of stock, free supply of samples.

**b) Calculation of actual loss of stock**

| | |
|---|---|
| Value of stock on the date of fire | xxx |
| *Less* : Salvaged stock, if any | xxx |
| Actual loss of stock | xxx |

If the average clause is not applicable.

The actual loss calculated above will be the claim. Otherwise, the claim is calculated by using the following formula :

$$\text{Amount of claim} = \frac{\text{Value of policy}}{\text{Value of stock on the date of fire}} \times \text{Actual loss of stock}$$



8. *Explain the "average clause"?*

The Insurance company applies the average clause in case of under-insurance. If the value of insurance policy is less than the value of average stock in the godown. It is known as "under- insurance". To reduce the burden of insurance premium the average stock of the business may not be adequately insured. In order to discourage under-insurance, the average clause is inserted by the insurance company.

*The actual amount of claim is determined by the formula :*

$$\text{Amount of claim} = \frac{\text{Value of the policy}}{\text{Value of the stock on the date of fire}} \times \text{Actual loss of stock}$$

9. *Explain loss of profit policy.*

When fire occurs, it destroys not only the stock but also the earning capacity of the business. Hence, there is a seperate policy to cover this loss is known as loss of profit policy.

This policy provides an indemnity to the insured for loss of profit, payment of standing charges and expenses in respect of increased cost of working. Ensuing from the interruption, wholly or in part, of the normal business activities consequent upon fire or other perils. This policy is also known as consequential loss policy.

10. *Explain the various terms used in computation of loss of profit claim.*

Some important terms used in computation of loss of profit claim.

**i) Indemnity period :**

Any period not exceeding twelve months from the date of damage during which the results of the business shall be affected due to fire is known as indemnity period. It is necessary that the policy must be in force at the time of fire accident.

**ii) Affected period :**

This is the period for which normal working is affected because of fire.

**iii) Turnovers :**

*a) Affected period turnover :* This is the actual sales made during the period in which work is affected.

*b) standard turnover :* Standard turnover refers the turnover effected in the last accounting period corresponding to the indemnity period.

*c) Annual turnover* : This
before fire.
*d) Accounting year turnover*
*e) Saved turnover* : This
amounts during the affected

**iv) Standing charges :**

These are the fixed
reduction in turnover.

Example : Salaries
overdraft, debentures etc.

*a) Insured Standing char*
insured desires to recover
charges.

*b) uninsured standing c*
mentioned in the insuran

**v) Short Sales :**

The term 'short sal
business. Short sales i
turnover during the pe

*11) Explain (i) Incr*

**i) Increased cost of**

This expenditure
order to carry on the

**ii) Savings in Expe**

Some of the fix
accident. The total

*12) What is rate*

The term "Gr
for loss of profit p
described under "

i) G.P. rate =

ii) G.P. rate =

iii) If all the sta
have to be r

*c) Annual turnover* : This the turnover during the twelve months exactly before fire.

*d) Accounting year turnover* : This is the turnover of the last accounting year.

*e) Saved turnover* : This is the sales achieved due to spending additional amounts during the affected period.

**iv) Standing charges :**

These are the fixed expenses which are incurred irrespective of the reduction in turnover.

Example : Salaries, rent, rates, taxes, insurance, interest on bank overdraft, debentures etc.

*a) Insured Standing charges* : Those charges specified in the policy, which insured desires to recover in the case of an accident is called Insured standing charges.

*b) uninsured standing charges* : These are the fixed expenses which are not mentioned in the insurance policy, but still incurred by the insured firm..

**v) Short Sales :**

The term 'short sales' refers to the loss of sales due to the dislocation of business. Short sales is the difference between standard turnover and actual turnover during the period of fire with indemnity.

### *11) Explain (i) Increased cost of working (ii) savings in expenses.*

**i) Increased cost of working :**

This expenditure is an additional expenditure incurred by the insured in order to carry on the business during the indemnity period.

**ii) Savings in Expenses :**

Some of the fixed expenses need not be incurred by the firm due to fire accident. The total of such expenditure is called 'Saving in standing charges'.

### *12) What is rate of gross profit?*

The term "Gross Profit" has got a different meaning when it is calculated for loss of profit policy and is different from the normal rate of gross profit as described under "Loss of stock". The rate of gross profit is

i) $$\text{G.P. rate} = \frac{\text{Net profit + Insured standing charges}}{\text{Accounting turnover}} \times 100$$

ii) $$\text{G.P. rate} = \frac{\text{Insured standing charges} - \text{Net loss}}{\text{Accounting turnover}} \times 100$$

iii) If all the standing charges are not insured, the amount of net loss will have to be reduced as follows :

$$\frac{\text{Net loss} \times \text{Insured standing charges}}{\text{All standing charges}}$$



### *13) Explain the procedure to calculate the loss of profit.*

*Step : 1 Claim for reduction in turn over :*

| | | Rs. |
|---|---|---|
| Standard Turnover | | xxx |
| Add: Increase for trend | | |
| or | | |
| Less : Decrease for trend | xxx | xxx |
| Less : Affected period turnover | | xxx |
| Short sales | | xxx |

Claim for Reduction in Turnover = Short sales × Gross profit rate

*Step : 2 Claim for increased cost of working :*

a) Actual increased cost of working xxx

b) If all standing charges are not insured

$$\frac{\text{Net Profit + Insured standing charges}}{\text{Net profit + All standing charges}} \times \left[\begin{array}{c}\text{Actual} \\ \text{increased} \\ \text{Cost of working}\end{array}\right] \quad \text{xxx}$$

c) Saved turnover
or
short sales avoided through increased cost of working × Gross Profit Ratio xxx

Amount to be claimed for increased cost of working (lowest of a,b and c) xxx

*Step : 3 Total claim for loss of Profits :*

| | |
|---|---|
| Claim for reduction in turnoyer (as per step 1) | xxx |
| Add : Claim for increased cost of working (as per step 2) | xxx |
| | xxx |
| Less : Savings in standing charges | xxx |
| Total claim for loss of profit | xxx |

*Step : 4 Application of average clause :*

If the policy amount is less than gross profit on annual turnover, then average clause applies.

i) Amount to be insured = Adjusted annual turnover for the 12 months before fire × G.P. ratio

ii) $$\text{Claim to be made} = \text{Total claim} \times \frac{\text{Policy value}}{\text{Amount to be insured}}$$

# UNIT - 5

## ROYALTY ACCOUNT

### *1) What is Royalty?*

Royalty is a periodical payment based on output or sales for the use of assets or rights like patent, copy-right, mine to its owner.

Royalty is an amount payable by one person to another person for using the right of an asset.

A person (lessor) having a right, surrender it to another person (lessee) for an amount, calculated on the basis of output, units produced or sold is known as royalty.

### *2) Explain the meaning of "Landlord" and "Lessee". What are their right?*

**Landlord :**

The owner of the property or an asset, who surrenders the right is known as "Landlord" or "Lessor". The landlord is receiving the money from the lessee or tenant.

**Lessee :**

The person who pay the amount to the owner for using the assets is known as lessee.

**Right :**

a) Right for taking out the oil, coal, minerals from the ground.
b) Right to publish and sell the books of an author under copyright.
c) Right to use patents of an article or goods or a product.

### *3) What is Royalty account?*

The payment of royalty is an ordinary business expenditure. It is an income to the landlord and expenditure to the lessee. Royalty account is a nominal account and closed every year by transferring to production account or profit and loss account.



### *4) What is Minimum Rent?*

It is also known as "Dead rent" or "Rock Rent" or "Fixed Rent".

It is an agreement between the lessor and lessee, associated with that the lessee should pay a minimum guaranteed amount of rent low sales or output. Such minimum amount is known as minimum

Minimum rent is the minimum amount payable by the lessee when the output of mine is nil or low. This clause is used to regular income to the landlord. In a year when the royalty is minimum rent, landlord will claim the original royalty.

In case of strikes, lock outs, the minimum rent already fixed reduced proportionate to the period of strike.

### *5) Explain the term Shortworkings.*

The difference between the actual royalty and the minimum rent as shortworkings. It is usually recoverable by the lessee in later years also known as redeemable minimum rent.

### *6) What do you understand by "Recoupment of Shortworkings" and its methods?*

Generally royalty agreement contain a clause that, shortworkings recovered from the landlord in later years. Shortworkings are recovered the royalties are in excess of the minimum rent.

The recoupment may be either fixed or flexible / floating recoupment, shortworkings can be recovered with in the period For example : Recoupment in the first 4 years. Any amount not after 4 years is a loss to the lessee and transfer to profit and loss

In floating / flexible recoupment, shortworkings are recovered subsequent years. For example : Recoupment in the subsequent 2 year shortworkings recovered in the 2nd and 3rd year, shortworkings recovered in the 3rd and 4th year. Any amount not after the subsequent 2 years is a loss to the lessee and transfer to P&L

### *7) What is Surplus?*

In the initial years there may be shortworkings, whereas in later when the output or production increases, the royalty is more minimum rent. The excess of royalty above minimum rent is surplus.



### *8) Give journal entries in the books of lessor and lessee.*

Students are advised to prepare the table given below, before passing journal entries for the easy posting of amount to the relevent accounts.

| Year | Output/ Production | Royalties | Minimum Rent | Short workings | Short workings Recovered | Short workings Not Recovered | Pa... Lan... |
|---|---|---|---|---|---|---|---|
| | (Tons) | Rs. | Rs. | Rs. | Rs. | Rs. | |
| | | | | | | | |

| Books of Lessee | | Books of Landlord |
|---|---|---|
| **1) FOR ROYALTY PAYABLE AND RECEIVABLE :** | | |
| a) *Without Shortworkings :*<br>Royalty a/c<br>To Landlord a/c | Dr. | Lessee a/c<br>To Royalty Receivable a/c |
| b) *Shortworking without Minimum Rent a/c :*<br>Royalty a/c<br>Shortworking a/c<br>To Landlord | Dr.<br>Dr. | Lessee a/c<br>To Royalty Receivable a/c<br>To Shortworkings a/c |
| c) *Shortworking with Minimum Rent a/c :*<br>i) Minimum Rent a/c<br>To Landlord a/c<br>ii) Royalty a/c<br>Shortworking a/c<br>To Minimum Rent a/c<br>Note : Only one entry is passed | Dr.<br><br><br>Dr.<br>Dr. | Lessee a/c<br>To Royalty Receivable a/c<br>To Shortworkings a/c |
| **2) FOR ROYALTY PAID AND RECEIVED :** | | |
| a) Without Shortworkings recoupment<br>Landlord a/c<br>To Cash | Dr. | Cash a/c<br>To Lessee a/c |
| b) When Shortworkings Recouped<br>Landlord a/c<br>To Cash<br>To Shortworkings<br>Note : Only one entry is passed | Dr. | Cash a/c<br>Shortworkings a/c<br>To Lessee a/c |
| **3) FOR TRANSFER OF SHORTWORKINGS NOT RECOUPED :** | | |
| Profit and Loss a/c<br>To Shortworkings a/c | Dr. | Shortworkings a/c<br>To Profit and Loss a/c |
| **4) FOR TRANSFER OF ROYALTY ACCOUNT :** | | |
| Production a/c<br>(or)<br>Profit and Loss a/c<br>To Royalty a/c<br>Note : Transfer only the actual royalty amount | Dr.<br><br>Dr. | Royalty Receivable a/c<br>To Profit and Loss a/c |

*Note : The above journal entries are passed for all the years*

*8) Give journal entries in the books of lessor and lessee.*

Students are advised to prepare the table given below, before passing journal entries for the easy posting of amount to the relevent accounts.

| Year | Output/ Production | Royalties | Minimum Rent | Short workings | Short workings Recovered | Short workings Not Recovered | Paid to Landlord |
|---|---|---|---|---|---|---|---|
| | (Tons) | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| | | | | | | | |

| Books of Lessee | | Books of Landlord | |
|---|---|---|---|
| **1) FOR ROYALTY PAYABLE AND RECEIVABLE :** | | | |
| *a) Without Shortworkings :*<br>Royalty a/c<br>To Landlord a/c | Dr. | Lessee a/c<br>To Royalty Receivable a/c | Dr. |
| *b) Shortworking without Minimum Rent a/c :*<br>Royalty a/c<br>Shortworking a/c<br>To Landlord | Dr.<br>Dr. | Lessee a/c<br>To Royalty Receivable a/c<br>To Shortworkings a/c | Dr. |
| *c) Shortworking with Minimum Rent a/c :*<br>i) Minimum Rent a/c<br>To Landlord a/c<br>ii) Royalty a/c<br>Shortworking a/c<br>To Minimum Rent a/c<br>**Note : Only one entry is passed** | Dr.<br><br>Dr.<br>Dr. | Lessee a/c<br>To Royalty Receivable a/c<br>To Shortworkings a/c | Dr. |
| **2) FOR ROYALTY PAID AND RECEIVED :** | | | |
| a) Without Shortworkings recoupment<br>Landlord a/c<br>To Cash | Dr. | Cash a/c<br>To Lessee a/c | Dr. |
| b) When Shortworkings Recouped<br>Landlord a/c<br>To Cash<br>To Shortworkings<br>**Note : Only one entry is passed** | Dr. | Cash a/c<br>Shortworkings a/c<br>To Lessee a/c | Dr.<br>Dr. |
| **3) FOR TRANSFER OF SHORTWORKINGS NOT RECOUPED :** | | | |
| Profit and Loss a/c<br>To Shortworkings a/c | Dr. | Shortworkings a/c<br>To Profit and Loss a/c | Dr. |
| **4) FOR TRANSFER OF ROYALTY ACCOUNT :** | | | |
| Production a/c<br>(or)<br>Profit and Loss a/c<br>To Royalty a/c<br>**Note : Transfer only the actual royalty amount.** | Dr.<br><br>Dr. | Royalty Receivable a/c<br>To Profit and Loss a/c | Dr. |

***Note :** The above journal entries are passed for all the years of lease.*



*9) What do you understand by "Sub-Lease"?*

It is also known as "Sub-Royalty". The original lessee transfer a part of his right to another person is known as sublease. Hence there are three parties in sub-lease. They are :

*a) Landlord* : Original owner of the asset

*b) Lessee* : Here the lessee becomes "Landlord" to his sub-lease and "Lessee" for his owner.

*c) Sub-lessee* : He is like a lessee.

*10) Explain the accounting procedure for sub-lease.*

There are three parties in the sub-lease, the accounting treatment was as under :

**Books of Landlord :**

The accounting treatment for the landlord is same.

**Books of Lessee :**

Lessee acts as both "Lessee" for his landlord and "Landlord" for his "sub-lessee". Hence he prepares the following books of accounts :

a) Royalty Payable account
b) Royalty Receivable account
c) Shortworkings account
d) Suspense account
e) Landlord account

*a) Royalty Payable Account :*

Debit the total royalty payable and short working a/c and credit landlord a/c. While transferring royalty payable, debit the original royalty on sub-lease portion and credit total royalty payable and the balance transfer to P & L a/c.

*b) Royalty Receivable Account :*

Debit sub-lessee a/c and credit royalty receivable and suspense account.

*c) Shortworkings Account :*

It shows the shortworkings between the landlord and lessee.

*d) Suspense Account :*

It shows the shortworkings between the lessee and sub-lessee. The sub-lessee while preparing account, write the shortworking as "Suspense account".

*11) Give Journal entries for Sub-lease or Sub-royalty.*

*Landlord :* Same Entry

*Sub-lessee :* Pass lessee entries, mention shortworkings as Suspense Account.

## IN THE BOOKS OF LESSEE

**Note :** *Before Preparing journal entries prepare two tables for "Owner and Lessee" and "Lessee and Sub-lessee".*

**a)For Royalty Payable due to Landlord :**

| | |
|---|---|
| Royalty Payable a/c | Dr. |
| Shortworkings a/c | Dr. |
| To Landlord a/c | |

**b) For Royalty paid :**

| | |
|---|---|
| Landlord a/c | Dr. |
| To Cash | |
| To Shortworkings | |
| (if shortworking is recouped) | |

**c) For Royalty Receivable due from Sub-lessee :**

| | |
|---|---|
| Sub-lessee a/c | Dr. |
| To Royalty Receivable a/c | |
| To Suspense a/c | |

**d) For Royalty Received :**

| | |
|---|---|
| Cash a/c | Dr. |
| Suspense a/c | Dr. |
| (if Shortworking is recouped) | |
| To Sub-lessee a/c | |

**e) For transferring royalty payable and Receivable :**

| | |
|---|---|
| Royalty Receivable a/c | Dr. |
| To Royalty Payable a/c | |
| To Profit and Loss a/c | |

**f) For shortworking not recovered :**

| | |
|---|---|
| i) Profit and Loss a/c | Dr. |
| To Shortworking a/c | |
| ii) Suspense a/c | Dr. |
| To Profit and Loss a/c | |

***Note :*** *The above entries are passed for all the years of lease.*



## SOLVED PROBLEMS

## BOOKS OF LESSEE

## FIXED RECOVERY OF SHORT WORKINGS

*Illustration : 1*

*Bengal Coal Limited leased a colliery on 1st January, 2004 at a minimum rent of Rs. 15,000 merging into a royalty of Re.1 per ton with a stipulation to recoup shortworkings over the first three year of the lease. The output for the first four years of the lease was 8,000, 13,000, 21,000 and 18,000 tonnes respectively. Draft the necessary journal entries in the books of the Bengal Coal Limited giving effect to the above.*

**Solution :**

**TABLE**

| Year | Output | Royalties @ Re.1 | Short workings | Short workings Recovered | Short workings Not Recovered | Paid to Landlord |
|---|---|---|---|---|---|---|
| | Tonnes | Rs. | Rs. | Rs. | Rs. | Rs. |
| 2004 | 8,000 | 8,000 | 7,000 | – | – | 15,000 |
| 2005 | 13,000 | 13,000 | 2,000 | - | – | 15,000 |
| 2006 | 21,000 | 21,000 | – | 6,000 | 3,000 | 15,000 |
| 2007 | 18,000 | 18,000 | – | – | – | 18,000 |

**JOURNAL ENTRIES IN THE BOOKS OF BENGAL COAL LTD.**

| | | | Dr. Rs. | Cr. Rs. |
|---|---|---|---|---|
| 2004 Dec.31 | Royalties a/c | Dr. | 8,000 | |
| | Shortworkings a/c | Dr. | 7,000 | |
| | To Landlord a/c | | | 15,000 |
| | (Being royalty due with short workings) | | | |
| | Landlord a/c | Dr. | 15,000 | |
| | To Bank a/c | | | 15,000 |
| | (Being the payment of minimum rent) | | | |
| | Profit and Loss a/c | Dr. | 8,000 | |
| | To Royalties a/c | | | 8,000 |
| | (Being transfer of actual royalties to P & L a/c) | | | |
| 2005 Dec.31 | Royalties a/c | Dr. | 13,000 | |
| | Shortworkings a/c | Dr. | 2,000 | |
| | To Landlord a/c | | | 15,000 |
| | (Being royalties due) | | | |



## HIRE PU

1. *Define the term Hire Purchase.*

Hire Purchase Act. 1972 under section 2(c) defines agreement as, "an agreement under which goods are le which the hirer has an option to purchase them in accord of the agreement".

Pickles defines, "Hire purchase is the system under acquired by payments made in instalments, during the title in the property remains with the hire vendor. The final are regarded as being purely in respect of hire property does not pass to the hire - purchaser until such other consideration provided for in the contract has be

2. *What is Hire Purchase Trading?*

Hire purchase trading is a system of retail busines agrees to sell the article on the condition, that the buy price by a fixed number of instalments. Here the arti to the buyer and hence the ownership in the goods buyer.

3. *Explain the legal provisions included agreement.*

i) Every hire purchase agreement must be i the parties there to, and

ii) Possession of goods is delivered by the c condition that such person pay the a instalments,

iii) the property in the goods is to pass to su the last of such instalments, and

iv) such person has a right to terminate the the property so passess.

4. *Explain the contents of hire purchase*

According to section 4 of the Act, every contain the following particulars :

a) the hire purchase price of the goods to

**9. *Write a short note on :***
***a) Hire purchase price and b) Instalment***

**a) Hire purchase price :**

It is the total price payable by the hire-purchaser. This includes cash price plus total interest.

∴ Hire-purchase price = Cash price + Total interest

**b) Instalment :**

Instalment means a portion of cash price plus interest on the outstanding balance of cash price. This is to be paid by the purchaser periodically to the vendor as per the terms of hire- purchase agreement. Instalment may be equal or of variable nature.

***10. Explain the various informations required for maintenance of accounts in hire-purchase system.***

To maintain proper accounting records the following information is required for hire purchase transactions. They are :

a) Date of purchase — b) Cash price
c) Hire- purchase price — d) Amount of down payment
e) Date of closing of account books. — f) Rate of interest
g) Method and rate of depreciation and
h) Number of instalments and amount of each instalment

*In the books of hire-purchaser the ledger a/c to be prepared are :*

i) Hire-Vendor's a/c (Personal a/c)
ii) Asset a/c (Real a/c) and
iii) Interest Payable a/c (Nominal a/c)

*In the books of hire-vendor the ledger a/c to be prepared are :*

i) Hire-Purchaser a/c (Personal a/c)
ii) Interest Receivable a/c (Nominal a/c)

***11. What do you mean by default?***

The term default means any one of the parties to the contact of hire-purchase commits either a mistake in performing the contract or is unable to execute his obligation to the contract due to his inability. So, default can be committed by both the parties to the contract. In case of default the hire-purchase agreement will specify the conduct of parties.



***12. What is repossession?***

Repossession means the seller taking back the goods if the default is committed by the purchaser in the payment or instalment.

***13. Explain the types of repossession.***

There are two types of repossession :

**i) Complete Repossession :**

Under complete repossession hire vendor takes back the entire goods on which there is default of instalment.

**ii) Partial Repossession :**

Under partial repossession the hire vendor repasses only a portion of the goods on which there is default of instalments. That is, a portion of the goods sold is with the purchaser and another portion is taken away by the seller.

***14. Explain the accounting treatment on repossession.***

**i) Complete repossession of goods :**

All the ledger a/cs in the books of hire purchaser and the hire vendor are fully closed.

*In the books of Hire Vendor :*

a) Entry for interest is passed — b) Hire purchaser's account is closed.
c) Expenses paid for repair on repossessed stock is debited to repossessed goods and credited cash a/c.

**ii) Partial repossession :**

The hire vendor revalues the assets as per his own norms under partial repossession.

While solving the problems, the students should ascertain the value of goods at the time of repossession as per the hire purchaser's rate of depreciation and also the hire vendor's rate of depreciation.

**I. In the books of Hire vendor**

a) Entry for interest up to the date of default is passed.
b) Taken over value of repossessed goods are credited to hire purchaser's a/c and debited to "Repossessed stock a/c".
c) The hire purohaser a/c is balanced and the balance amount is carried down.
d) Repossessed stock may be repaired and sold later.



**I. In the books of Hire Purchaser**

a) Entry for interest upto the date of default is passed.
b) Depreciation on the assets are passed upto date.
c) Hire vendor's a/c is debited and asset a/c is credited with the v of repossessed stock as per hire vendor's valuation.
d) Loss due to repossession is transferred to P & L a/c.
e) The asset a/c is balanced and the balance amount is carried do

***15. Distinguish between hire purchase sales and credit sales.***

| | *Hire Purchase Sales* | *Credit Sales* |
|---|---|---|
| a | Ownership is transferred only after the payment of the last instalment. | Ownership is transferred moment of purchase. |
| b | Payment of price is made by the buyer through instalment. | Payment of price is made in sum or according to agreeme |
| c | On default, the goods will be repossessed by the seller. | On default, the seller can back the goods but recover made through the court of l |
| d | Hire vendor cannot sell the goods before making the last instalment. | Buyer can sell the goods payment of price. |

***16. Give the journal entries to be recorded under hire purcha***

**Accounting Entries :**
**Method : 1** ***Entry in credit purchase with interest method.***
***(This method is more popular and used by all)***

| *Books of Hire purchaser* | *In the books of Hire* |
|---|---|
| ***On the date of purchase***<br>*1) For the purchase :*<br>Asset a/c Dr.<br>To Hire Vendor a/c<br>(Being cash price of asset purchased on H.P) | ***On the date of purchase***<br>*For the sales :*<br>Hire purchaser a/c Dr.<br>To Hire Sales a/c<br>(Being cash price of good |
| *2) For down payment :*<br>Hire vendor a/c Dr.<br>To Bank (or) Cash a/c<br>(Being down payment paid) | *For Down payment :*<br>Bank (or) Cash a/c D<br>To Hire purchaser a/<br>(Being down payment re |
| ***On the date of Ist instalment :***<br>*3) For interest due in first instalment :*<br>Interest a/c Dr.<br>To Hire vendor's a/c<br>(Being the interest due) | ***On the date of Ist instal***<br>*For interest due in 1st i*<br>Hire purchaser a/c<br>To Interest a/c<br>(Being the interest due) |
| *4) For payment of first instalment :*<br>Hire vendor's a/c Dr.<br>To Cash (or) Bank a/c<br>(Being the 1st instalment paid) | *For receipt of 1st instal*<br>Cash (or) Bank a/c<br>To Hire purchaser<br>(Being the 1st instalme |

# UNIT - 6

## HIRE PURCHASE

### 1. *Define the term Hire Purchase.*

Hire Purchase Act. 1972 under section 2(c) defines the Hire purchase agreement as, "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".

Pickles defines, "Hire purchase is the system under which the property is acquired by payments made in instalments, during the period of which the title in the property remains with the hire vendor. The payments prior to the final are regarded as being purely in respect of hire, and the title of the property does not pass to the hire - purchaser until such final payment or some other consideration provided for in the contract has been fulfilled".

### 2. *What is Hire Purchase Trading?*

Hire purchase trading is a system of retail business under which the seller agrees to sell the article on the condition, that the buyer shall pay the purchase price by a fixed number of instalments. Here the article is not legally sold out to the buyer and hence the ownership in the goods does not pass on to the buyer.

### 3. *Explain the legal provisions included in the hire purchase agreement.*

i) Every hire purchase agreement must be in writing and signed by all the parties there to, and

ii) Possession of goods is delivered by the owner thereof to a person on condition that such person pay the agreed amount in periodical instalments,

iii) the property in the goods is to pass to such person on the payment of the last of such instalments, and

iv) such person has a right to terminate the agreement at any time before the property so passess.

### 4. *Explain the contents of hire purchase agreement.*

According to section 4 of the Act, every hire purchase agreement shall contain the following particulars :

a) the hire purchase price of the goods to which the agreement; relates ;



b) the cash price of the goods, that is, the price at which the goods may be purchased by the hirer for cash ;

c) the date on which the agreement shall be deemed to have commenced ;

d) the number of instalments by which the hire purchase price is to be paid, the amount of cash of those instalments and the date or the mode of determining the date, upon which it is payable and the person to whom and the place where it is payable ; and

e) the goods to which agreement relates in the manner sufficient to identify them.

### 5. *What are the features of hire purchase agreement.*

i) There are two parties in a hire-purchase transaction.

ii) The hire-vendor transfers only possession of the goods to the hire-purchaser immediately after the contract is made.

iii) The goods are delivered to the hire-purchaser on the condition that he should pay the agreed amount in periodical instalments.

iv) The hire-purchaser generally makes down payment on signing the agreement and the balance of the amount alongwith interest is paid in instalments at regular intervals for a specified period.

v) The seller treats the down payment and instalments as hire-charges.

vi) Ownership passess to the buyer only when the last instalment is paid.

vii) The purchaser has to keep the goods in good condition by taking reasonable precautions for their safety till the last instalment is paid.

viii) The hire purchaser has the right to terminate the agreement at any time before the passing of ownership.

ix) The hire-vendor reserves the right of repossession in case of default even in respect of last instalment.

x) The hire-purchaser has the option to return the goods before the payment of last instalments.

### 6. *What is cash price?*

It is the price to be paid by the buyer on purchase of goods for cash.

### 7. *What is Down Payment?*

It means the initial payment made by the purchaser on signing the hire-purchase agreement.

### 8. *Who is hire purchaser and hire vendor.*

A person who obtains or has obtained possession of the goods from an owner under hire purchase agreement is known as *hire purchaser or hirer*.

A person who sells the goods on the basis of hire purchase agreement is called *hire vendor*.

II. **In the books of Hire Purchaser**

a) Entry for interest upto the date of default is passed.
b) Depreciation on the assets are passed upto date.
c) Hire vendor's a/c is debited and asset a/c is credited with the value of repossessed stock as per hire vendor's valuation.
d) Loss due to repossession is transferred to P & L a/c.
e) The asset a/c is balanced and the balance amount is carried down.

***15. Distinguish between hire purchase sales and credit sales.***

| | Hire Purchase Sales | Credit Sales |
|---|---|---|
| a | Ownership is transferred only after the payment of the last instalment. | Ownership is transferred at the moment of purchase. |
| b | Payment of price is made by the buyer through instalment. | Payment of price is made in a lump sum or according to agreement. |
| c | On default, the goods will be repossessed by the seller. | On default, the seller cannot take back the goods but recovery may be made through the court of law. |
| d | Hire vendor cannot sell the goods before making the last instalment. | Buyer can sell the goods before full payment of price. |

***16. Give the journal entries to be recorded under hire purchase system.***

**Accounting Entries :**

**Method : 1** ***Entry in credit purchase with interest method.***
***(This method is more popular and used by all)***

| Books of Hire purchaser | In the books of Hire vendor |
|---|---|
| ***On the date of purchase***<br>*1) For the purchase :*<br>Asset a/c Dr.<br>To Hire Vendor a/c<br>(Being cash price of asset purchased on H.P) | ***On the date of purchase***<br>*For the sales :*<br>Hire purchaser a/c Dr.<br>To Hire Sales a/c<br>(Being cash price of goods sold on H.P) |
| *2) For down payment :*<br>Hire vendor a/c Dr.<br>To Bank (or) Cash a/c<br>(Being down payment paid) | *For Down payment :*<br>Bank (or) Cash a/c Dr.<br>To Hire purchaser a/c<br>(Being down payment received) |
| ***On the date of 1st instalment :***<br>*3) For interest due in first instalment :*<br>Interest a/c Dr.<br>To Hire vendor's a/c<br>(Being the interest due) | ***On the date of 1st instalment :***<br>*For interest due in 1st instalment :*<br>Hire purchaser a/c Dr.<br>To Interest a/c<br>(Being the interest due) |
| *4) For payment of first instalment :*<br>Hire vendor's a/c Dr.<br>To Cash (or) Bank a/c<br>(Being the 1st instalment paid) | *For receipt of 1st instalment :*<br>Cash (or) Bank a/c Dr.<br>To Hire purchaser a/c<br>(Being the 1st instalment received) |



| | |
|---|---|
| *At the end of the accounting year*<br>*5) For Depreciation of the asset*<br>Depreciation a/c Dr.<br>To Asset a/c | *At the end of the accounting year*<br>*For Depreciation of the asset :*<br>NO ENTRY |
| *6) Depreciation and interest :*<br>Profit and Loss a/c Dr.<br>To Depreciation a/c<br>To Interest<br>(Being the depre and interest transferred) | *For transferring depreciation and interest :*<br>Interest a/c Dr.<br>To Profit and Loss a/c<br>(Being the interest transferred) |

**Note :**

i. From 2nd instalment onwards pass entries 3 and 4 repeated.
ii. Entries for transferring depreciation and interest to profit and loss a/c are repeated at the end of every accounting year.
iii. If there is a failure to pay instalment, entry for instalment payment should not be made in that year. But the following additional entries are required :

| | |
|---|---|
| *7. For repossession of the asset :*<br>Hire vendor a/c Dr.<br>To Asset a/c | *For repossession of the asset :*<br>Repossessed stock a/c Dr.<br>To Hire purchaser a/c |
| *8. For repairing the repossessed Stock :*<br>*No Entry* | *For repairing the repossessed :*<br>Repossessed stock a/c Dr.<br>To Cash |
| *9. For sale of repossessed stock :*<br>No Entry | *For sale of repossessed stock*<br>Bank a/c Dr.<br>To Repossessed stock a/c |
| – | *For Profit :*<br>Repossessed stock a/c Dr.<br>To P & L a/c<br>(For loss pass reverse entry) |

**Method : 2** ***(Entry in asset accrual method)***
***In the books of the Hire purchaser***

*1. For the purchase : No entry*

*2. (a) For down payment due :*
*Asset a/c* Dr.
*To Hire vendor*

*(b) For the amount paid*
*Hire vendor a/c* Dr.
*To Bank a/c*

*3. (a) For Instalment due :*
Asset a/c Dr.
Interest a/c Dr.
To Hire vendor a/c

*(b) For the amount paid :*
Hire vendor a/c Dr.
To Bank

*4. For Depreciation*
Depreciation a/c Dr.
To Asset a/c

***Note :*** As far as Hire vendor is concerned only one set of entries are passed by him irrespective of the method followed by the hire purchaser.

**9) When the hire purchaser makes default in paying the instalment, the hire vendor has**

a) the right to take repossession of the asset
b) no right to take repossession
c) the option to repossess or not to repossess
d) to go to the court

**10) On seizer of the goods by the hire vendor the balance in the asset a/c is transferred to**

a) P&L a/c b) Hire Vendor's a/c
c) Goods Repossessed a/c d) Production a/c

**11) The cost of goods sold on hire purchase is transferred to**

a) Sales a/c b) Purchase a/c
c) H.P. Trading a/c d) Debtors a/c

**12) Stock out on hire at cost price is ascertained by**

a) deducting the gross profit margin from instalments not due and unpaid
b) taking the cost in the proportion of paid instalments to total instalments
c) taking the cost in the proportion of value of unpaid instalments to Hire-purchase price.
d) Adding the gross profit margin to instalment not due and unpaid

**13) Stock at the shop is debited to**

a)Stock with customers a/c b) Stock in the shop a/c
c) instalment due a/c d) Debtors a/c

**14) The goods with customers are transferred from stock in shop a/c**

a) at cost price b) at hire-purchase price
c) at cost or market price which ever is higher d) at market price

**15) In the hire purchase trading a/c method, the intalment due and unpaid in the beginning and at the end should appear at**

a) cost price b) Hire purchase price
c) Cash price d) market price

**Answers :**

| | | | | | |
|---|---|---|---|---|---|
| 1. b) | 2. c) | 3.a) | 4.a) | 5. b) | 6. b) |
| 7.b) | 8.c) | 9.a) | 10.a) | 11. b) | 12.a) |
| 13.b) | 14.b) | 15.b) | | | |



# UNIT - 7

## INSTALMENT PURCHASE

*1. What is instalment purchase system ?*

Instalment purchase is one, in which the property in goods is passed immediately to the buyer on signing the contract. But the price, instead of being paid in one lump sum, is spread over a period. Interest being charged on unpaid balances.

*2. What are the benefit of instalment system to a buyer ?*

The following are the benefits to the buyer under the instalment purchase system :

i) It is an outright credit sale of goods.
ii) The purchaser acquires ownership and possession of goods immediately.
iii) The buyer has the facility to pay the price in instalments over a period of time.
iv) The interest is charged on unpaid balances.
v) If the buyer makes default in payment of instalment, the seller has no right to repossess the goods.

*3. Distinguish between hire purchase system and instalment system.*

| | *Hire Purchase system* | *Instalment System* |
|---|---|---|
| i) | It is governed by Hire-Purchase Act. | It is governed by sale of Goods Act. |
| ii) | It is an agreement for hiring of goods | It is an agreement for sale of goods |
| iii) | Ownership of goods is transferred after the payment of last instalment. | Ownership is transferred on signing of the agreement. |
| iv) | There is the right of repossession in hire-purchase on default. | There is no right of repossession on default in instalment purchase |
| v) | Hire purchaser cannot transfer or pledge or sell or destroy the goods. | Buyer can transfer or pledge or sell as he wishes. |
| vi) | Relationship between Hire-Purchases and Hire Vender is that of bailer and bailee. | Relationship between seller and buyer is that of a debtor and creditor. |



| | | |
|---|---|---|
| vii) | The Hirer is not responsible for any loss of the goods if he has taken reasonable care and protection. | The buyer is respo goods because he is |
| viii) | Hire purchases can terminate the agreement by returning the goods. | The agreement can |
| ix) | Each instalment includes hire charges and part payment of the cash price. | Each instalment in part payments of c |

*4. Give the specimen entries to be passed in the bo vendor.*

The following Journal entries are to be passed for the

| | *Entries in the books of Buyer or Purchaser* | *Entries in the* |
|---|---|---|
| i) | *When an asset is purchased :*<br>Asset a/c : (cash price) Dr.<br>Interest suspense a/c Dr.<br>(Total interest)<br>To vendor a/c (purchase price)<br>(Being instalment purchase made) | *When goods ar*<br>Buyer a/c<br>To Sales (c<br>To interest<br>(Being the ins |
| ii) | *When the Down payment is made:*<br>Seller a/c Dr.<br>To Bank a/c<br>(Being the down payment made) | *When the do*<br>Bank a/c<br>To Buye<br>(Being dow |
| iii) | *For interest due at the end of the year*<br>Interest a/c Dr.<br>To Interest suspense a/c<br>(Being interest due) | *For interest*<br>Interest sus<br>To Inte<br>(Being inte |
| iv) | *For the payment of Instalment :*<br>Seller a/c Dr.<br>To Bank a/c<br>(Being payment of instalment) | Bank<br>Cash a/c<br>To B<br>(Being re |
| v) | *For Depreciation*<br>Depreciation a/c Dr.<br>To Asset a/c<br>(Being depreciation is charged) | |
| vi) | *For transferring depreciation and Int.:*<br>Profit and Loss a/c Dr.<br>To Interest a/c<br>To Depreciation a/c<br>(Being transfer of Int. and Depreciation) | *For tra*<br>Interest<br>To<br>(Being |

*Note :* Entries 3,4,5 and 6 are repeated till the da

| | | |
|---|---|---|
| vii) | The Hirer is not responsible for any loss of the goods if he has taken reasonable care and protection. | The buyer is responsible for loss of goods because he is the owner. |
| viii) | Hire purchases can terminate the agreement by returning the goods. | The agreement cannot be terminated. |
| ix) | Each instalment includes hire charges and part payment of the cash price. | Each instalment includes interest and part payments of cash price. |

4. ***Give the specimen entries to be passed in the books of buyer and vendor.***

The following Journal entries are to be passed for the first year.

| | *Entries in the books of Buyer or Purchaser* | *Entries in the books of Vendor or Seller* |
|---|---|---|
| i) | ***When an asset is purchased :***<br>Asset a/c : (cash price) Dr.<br>Interest suspense a/c Dr.<br>(Total interest)<br>To vendor a/c (purchase price)<br>(Being instalment purchase made) | ***When goods are sold :***<br>Buyer a/c Dr. (total price)<br>To Sales (cash price)<br>To interest suspense (totalinterest)<br>(Being the instalment sales made) |
| ii) | ***When the Down payment is made:***<br>Seller a/c Dr.<br>To Bank a/c<br>(Being the down payment made) | ***When the down payment is received***<br>Bank a/c Dr.<br>To Buyer a/c<br>(Being down payment received) |
| iii) | ***For interest due at the end of the year***<br>Interest a/c Dr.<br>To Interest suspense a/c<br>(Being interest due) | ***For interest due at the end of the year***<br>Interest suspense a/c Dr.<br>To Interest a/c<br>(Being interest due) |
| iv) | ***For the payment of Instalment :***<br>Seller a/c Dr.<br>To Bank a/c<br>(Being payment of instalment) | ~~Cash~~ Bank a/c Dr.<br>To Buyer a/c<br>(Being receipt of instalment) |
| v) | ***For Depreciation***<br>Depreciation a/c Dr.<br>To Asset a/c<br>(Being depreciation is charged) | No entry |
| vi) | ***For transferring depreciation and Int.:***<br>Profit and Loss a/c Dr.<br>To Interest a/c<br>To Depreciation a/c<br>(Being transfer of Int. and Depreciation) | ***For transfering interest***<br>Interest a/c Dr.<br>To Profit and loss a/c<br>(Being transfer of interest) |

***Note :*** Entries 3,4,5 and 6 are repeated till the date of last instalment.



## SOLVED PROBLEMS

***Illustration : 1***

*Caravan Company purchases a motor car from Madurai Motor Company on the instalment system on January 1, 1971, paying cash Rs. 10,000 and agreeing to pay three further instalment of Rs.10,000 each on December 31, each year. The cash price of the car is Rs. 37,250 and the Madurai Motor Company charges interest at 5% per annum. Caravan Company writes off 10% per anum as depreciation on the Written Down Value system.*

*Journalise these transaction in the books of Caravan Company and Madurai Motor*

**Solution :**

**Table showing the calculation**

| | *Total cash price Rs.* | *Instalments paid Rs.* | *Interest Rs.* | *Cash price Rs.* |
|---|---|---|---|---|
| | 37,250 | — | — | — |
| Down payment | 10,000 | 10,000 | — | 10,000 |
| | 27,250 | | | |
| End of the 1st year | –8,637 | 10,000 | 1,363 | 8,637 |
| | 18,613 | | | |
| End of the 2nd year | –9,069 | 10,000 | 931 | 9,069 |
| | 9,544 | | | |
| End of the 3rd year | –9,544 | 10,000 | 456 | 9,544 |
| | Nil | 40,000 | 2,750 | 37,250 |

***Depreciation at 10% :***

| | |
|---|---|
| Cash price : | Rs. 37,250 |
| I year Dep. | 3,725 |
| | Rs.33,525 |
| II year Dep. | 3,353 |
| | Rs. 30,172 |
| III year Dep. | 3,017 |
| | 27,155 |

***Interest :*** Rs.

I year : 27,250 x 5% = 1,363

II year : 18,613 x 5% = 931

III year : 9,544 x 5% = 456

3) *In case of instalment system, total interest receivable by the seller is credited to*

a) interest suspense a/c b) interest a/c

c) Sales a/c d) Purchase a/c

4) *Under the instalment purchase system, the balance in the interest suspense a/c in the books of the buyer is shown on the*

a) Debit side of the P&L a/c b) Liabilities side of the Balance Sheet

c) Asset side of the Balance Sheet d) Credit side of the P & L a/c

5) *When the buyer makes default in paying the instalment under instalment system, the seller has*

a) the right to take repossession of the asset

b) no right to take repossession

c) no right to take repossession but for the cash due buyer can be sued

d) the option to repossess or not to repossess

*Answers :*

1.a) 2.b) 3.a) 4. c) 5. c)



# UNIT - [

## BRANCH ACCOUNTS

1. *What is a branch?*

According to Sec. 29 of Companies Act 1956, "Any establishmen carrying on either the same or substantially same activity as that carried on b head office of the company"

In order to increase the sales, the business houses are required to mark its product over a larger territory. Each territory is known as branch.

If the various divisions of the business are located in different plac either in the same town or different towns, they are known as branches.

2. *What are the objects of keeping branch accounts?*

a) To know the profit or loss of each branch.
b) To find out the financial position of each branch.
c) To know the cash requirement of each branch.
d) To evaluate the performance of each branch.
e) To give suggestion for the improvement of each branch.

3. *What are the different types of branches?*

Basically branches can be classified into three types, namely,

a) Branch not keeping full system of accounting (or) Dependent branch
b) Branches keeping full system of accounting (or) Independent branch
c) Foreign branch.

4. *What do you understand the term dependent branches?*

Branches which are solely depend the head office for their requiremen are known as dependent branches. No account books are maintained by th branches, all the records are maintained only in the head office. They operated as a distribution centres.

5. *Explain the features of dependent branches?*

a) Goods are supplied by the head office either at cost or invoice price
b) All the expenses are paid by the head office except petty expenses.
c) Sales made on cash basis only. If the head office permits, sales on credit basis also.
d) Cash received on sales and from debtors are immediately remitted to the head office (or) deposited in the H.O. account.
e) All the accounts are maintained in the head office only.



6. *How the head office can prepare branch acco branches?*

The accounts of the dependent branches are mai office in the following ways :

a) Debtor's system (Synthetic method)
b) Final account system
c) Wholesale branch system
d) Stock and Debtors system (Analytical metho

7. *Explain the Debtor's system (or) Synthetic*

Under this system head office treated the branc name indicate debtor's system. Head office open a branch under nominal nature. This type of system is of small in size.

Under this system the head office prepare bran

i) Goods supplied at Cost price ii) Goods s

In case of goods supplied at cost price, the ope supplied, expenses met by head office and clos debited with the branch account and credited with cash sales, cash from debtors, and closing stock profit or loss transferred to General profit and los

In case of goods supplied at Invoice price addition to the above nature, the excessive price supplied are entered in the credit side and the e entered on the debit side as Reserve.

8. *Give the proforma of accounts prepa*

HEAD OFFICE BO

Branch Account

| Dr. | Rs. | |
|---|---|---|
| To Opening Balances b/d :<br>Stock<br>Debtors<br>Petty cash<br>Other Assets | | By Op<br>Cr<br>O<br>By R<br>C<br>C |
| To Goods sent to branch a/c | | By |
| To Bank : (paid by H.O)<br>Rent<br>Petty expenses<br>Others | | By<br>By |
| To Closing Balances c/d<br>Creditors<br>Other liabilities | | B |
| To Closing stock reserve* | | |
| To Profit (Bal.Fig.) | | |

UNIT - 8



6. ***How the head office can prepare branch account for dependent branches?***

The accounts of the dependent branches are maintained by the head office in the following ways :

a) Debtor's system (Synthetic method)
b) Final account system
c) Wholesale branch system
d) Stock and Debtors system (Analytical method)

7. ***Explain the Debtor's system (or) Synthetic method.***

Under this system head office treated the branch as debtor. Hence the name indicate debtor's system. Head office open a branch account for each branch under nominal nature. This type of system is adopted for the branches of small in size.

Under this system the head office prepare branch account for two nature. i) Goods supplied at Cost price ii) Goods supplied at Invoice price

In case of goods supplied at cost price, the opening stock of assets, goods supplied, expenses met by head office and closing value of liabilities are debited with the branch account and credited with opening value of liabilities cash sales, cash from debtors, and closing stock of asset's. The balance of profit or loss transferred to General profit and loss account.

In case of goods supplied at Invoice price (cost plus profit price), in addition to the above nature, the excessive price on opening stock and goods supplied are entered in the credit side and the excessive price of closing stock entered on the debit side as Reserve.

8. ***Give the proforma of accounts prepared under Debtor's system.***

**HEAD OFFICE BOOK**

**Branch Account**

| Dr. | Rs. | | Cr. Rs. |
|---|---|---|---|
| To Opening Balances b/d : Stock, Debtors, Petty cash, Other Assets | | By Opening Balances b/d : Creditors, Other liabilities | |
| To Goods sent to branch a/c | | By Remittances : Cash Sales, Cash received from Drs. | |
| To Bank : (paid by H.O) Rent, Petty expenses, Others | | By Goods sent to branch a/c (Returned by branch) | |
| To Closing Balances c/d : Creditors, Other liabilities | | By Opening stock reserve | |
| To Closing stock reserve* | | By Goods sent to branch a/c (reserve)* | |
| To Profit (Bal.Fig.) | | By Closing balances c/d : Stock, Debtors, Petty cash, Other assets | |



- Opening, Closing stock Reserve and Goods sent to branch a/c (Reserve) is applicable, when goods are supplied at invoice price.

**Branch Debtors A/c**

| Dr. | Rs. | | Cr. Rs. |
|---|---|---|---|
| To Opening Balance b/d | | By Cash from Debtors | |
| To Credit sales | | By Return by customer | |
| To Bills Receivable dishonoured | | By Bad debts | |
| | | By Discount allowed | |
| | | By Bills Receivable | |
| | | By Closing Balance c/d | |

*Note :*

1. Depreciation on Assets, Bad debts, Discount allowed by branch, Sales, Purchases, goods returned by customer to branch, Opening, closing balances are adjusted with the closing balances.
2. In case head office permit the branch to purchase goods from outsider and payment made to any one, it is deducted from the remittances.
3. When petty cash is maintained on imprest system. Opening and closing balances are shown as same amount. Petty expenses incurred entered in the debit side and reimbursed from the head office.

9. ***Give journal entries in the books of head office under debtors system.***

Refer Branch Account proforma for preparing the journal entries. For example :

*Debit items are entered like*

Branch a/c Dr.
To Goods sent to branch a/c

*Credit items are entered like*

Cash Sales a/c Dr.
To Branch a/c

Likewise pass other journal entries.

10. ***Explain Final Account System.***

Under this system the head office prepare "Branch Trading and Profit and Loss Account" to find out the branch profit is usual format. It is prepared on cost price only. In addition, the head office can prepare branch account under personal nature. It is like a branch account prepared under Debtor's system whereas the accounting nature is different.

*11. Explain Wholesale branch system.*

As the name suggest, the head office treated its branch as a wholesaler and send goods to the branche at wholesale price or catalogue price or list price. The branch receives at wholesale price and sold the goods to the consumers at retail price. For example :

| | |
|---|---|
| Cost price of Head office | Rs. 100 |
| Wholesale price charges by H.O. | Rs. 160 |
| Retail price charged by the branch Rs. 200 | |

Here the branch earned a profit of Rs. 40 (200 – 160) and H.O earned Rs. 60 (160–100).

In case all the goods send have been sold by the branch, there is no need of adjustment. When there is an unsold goods at branch, it shows at wholesale price not at cost price. Hence, the head office can made a stock reserve on the opening and closing stock kept in the branch, to find the real profit earned.

*12. What do you understand by "Stock and Debtors" system. (or) Analytical Method.*

When a branch becomes big in nature, the above three methods are inadequate to find out the profit or loss by preparing only one branch account. To overcome this, stock and debtors system has been used. Under this system, the head office maintains the following accounts :

a) Branch Stock account
b) Branch Adjustment Account (only for invoice price)
c) Branch Debtors account
d) Branch Expenses account
e) Branch Profit and Loss account
f) Branch Bank account
g) Goods sent to Branch account

**a) Branch Stock Account :**

It is just like a goods account when goods are sent to branch at cost price, it discloses the closing stock only. When goods are sent at invoice price, it discloses the closing stock and surplus or shortage of stock at the end. The proforma is :



**H.O BOOK**
**Branch Stock Account**

| Dr. | Rs. | Cr. | Rs. |
|---|---|---|---|
| To Opening stock | | By Goods sent to Branch a/c (Returned by Branch) | |
| To Goods sent to Branch a/c | | By Branch Bank a/c (Cash sales) | |
| To Branch Debtors a/c (goods returned by customers) | | By Branch Debtors a/c (Credit sales) | |
| To Surplus : * | | By Losses & Pilferages : | |
| Br. Stock Adjustment a/c (Profit on surplus) | | Br. Stock Adjustment a/c (loading value) | |
| Br. P & L a/c (Cost of surplus) | | Br. P & L a/c (Cost value) | |
| | | By Shortage :* | |
| | | Br. Stock. Adjustment a/c (Loading value) | |
| | | Br. P & L a/c (Cost value) | |
| | | By Closing stock (Bal. Fig.) | |

* Either Surplus or Shortage as balancing figure.

**b) Branch Adjustment Account :**

When goods are sent to branch at invoice price, this account must be prepared. It discloses the gross profit after entering the excessive (loading) price on opening and closing stock and goods sent to branch account. The proforma is

**H.O. BOOK**
**Branch Adjustment Account**

| Dr. | Rs. | Cr. | Rs. |
|---|---|---|---|
| To Branch Stock a/c (Loss & Pilferage loading) | | By Opening Stock Reserve | |
| To Branch Stock a/c (Shortage loading) | | By Goods sent to Branch a/c (Reserve on goods sent) | |
| To Goods sent to Branch a/c (Reserve on goods returned) | | By Branch Stock a/c (Surplus Reserve) | |
| To Closing stock reserve | | | |
| To Gross profit (Bal. Fig) Transfer to Br. P&L a/c | | | |



**DEPARTMENTAL A**

*1) What is a department ?*

In order to carry on the business efficiently a bu store into many sections, each section is called a departmental store may have separate department stationary, crockery, provisions, electrical goods, ele

In simple words, when all divisions of a busin roof is known as branch.

*2) What are departmental accounts ?*

To ascertain the profit or loss made by e Trading and Profit and loss account for each depa of the year. It helps the management to ascert department and take proper decision making Departmental accounts.

*3) State the objectives of preparing a de*

The following are the important objectiv

a) It compare the performance of measure the progress of the depart
b) It compare the profitability of ea profit making department and Hence, measures could be taken departments.
c) It helps to formulate policies and for improving the profitability.
d) It can identify the areas of weak improvement.
e) It helps to calculate the depart basis of departmental profits.

# UNIT - 9

# DEPARTMENTAL ACCOUNTS

***1) What is a department ?***

In order to carry on the business efficiently a businessman divided his store into many sections, each section is called a department. For eg. a departmental store may have separate department for medicines, textiles, stationary, crockery, provisions, electrical goods, electronic items and so an.

In simple words, when all divisions of a business are located under one roof is known as branch.

***2) What are departmental accounts ?***

To ascertain the profit or loss made by each department, a seperate Trading and Profit and loss account for each department is prepared at the end of the year. It helps the management to ascertain the performance of each department and take proper decision making. This account is known as Departmental accounts.

***3) State the objectives of preparing a departmental accounts.***

The following are the important objectives of departmental accounts.

a) It compare the performance of one department with other and measure the progress of the departments.

b) It compare the profitability of each department, which shows the profit making department and non-profit making department. Hence, measures could be taken to improve the profitability of the departments.

c) It helps to formulate policies and to adopt new and latest techniques for improving the profitability.

d) It can identify the areas of weakness for cost control, and for further improvement.

e) It helps to calculate the departmental manager's commission on the basis of departmental profits.



***4) Distinguish between branch and department.***

| | *Branch* | *Department* |
|---|---|---|
| 1. | It is located in various territories (areas). | It is located in a single premises |
| 2. | Same product can be sold at different places of branches. | Different products are sold at one roof. |
| 3. | Separate accounts prepared by each department is consolidated by the head office. | Records are centralised and maintained with in the same premises. |
| 4. | Branches can be started anywhere either in local or foreign. | It is confined to a single place unless similar organisation are opened any where. |

***5) Explain the procedures for preparation of departmental accounts ?***

To ascertain profit or loss made by each department, departmental Trading and Profit and loss account is prepared in columnar form. It is a single set of books in which accounts of all departments are maintained together in tabular / column form.

A general profit and loss account is prepared to know the profitability of all the departments and a common balance sheet is drawn to know the position of the business.

***6) What are direct and indirect expenses in departmental accounts?***

Expenses relating to departmental accounts are classified into direct expenses and indirect expenses.

**Direct Expenses :**

Expenses which are directly charged to a particular department (or) identified with a particular departments is called as direct expenses. There are certain expenses which can specially incurred for a particular department or charged precisely to a specific department by which the department is benefited is known as direct expenses. For. eg. Direct materials, wages, carriage inwards, stock insurance etc.

**Indirect Expenses :**

Expenses which are not identified to a particular department is known as indirect expenses. They are common to all departments, hence proper allocation among the department must be made in order to ascertain the profit or loss of each department. For eg. Rent,depreciation, power, repairs etc.

*7) What is the need for allocation and apportionment of expenses between the departments ?*

Indirect expenses are jointly incurred for the entire business, they are allocated on some suitable basis. There is no hard and fast rules for such apportionment, where as the following basis may be adopted.

| *Expenses* | *Basis of Allocation* |
|---|---|
| Rent and Rates, Repairs and maintenance, Insurance and Depreciation on land and building | Space Occupied (or) Floor Area |
| Depreciation, Insurance, Repairs and fire insurance on machinery. | Capital value of the Assets |
| Power consumed by machines | Meter Reading (or) Hours power x Running hours (or) No. of machines x Running hours |
| Heat and light | Meter Reading (if not, space occupied) |
| Selling expenses like commission on sales, Bad debts discount allowed, carriage outwards, Advertisement. | Departmental Sales. (Excluding inter departmental sales) |
| Purchase expenses like carriage inwards, Freight, duty, octroi. | Departmental Purchases (Excluding inter-departmental purchases) |
| Fire Insurance premium for Loss of stock / profit | Departmental Stock value / profit. |
| Workmen Compensation Insurance premium, ESI, P.F. | Departmental Wages |
| Workmen's Amenities and Welfare expenses | Number of Employees in each department. |
| Factory Managers salary | Time Spent in each department. |

***Note :** Expenses like debenture interest, income-tax, dividends, legal expenses, bank charges, directors fees, share transfer fees, general manager's salary, Audit fees are not connected with any department, also they are not having any basis of apportionment. Such expenses can be charged to the total profit of all the departments brought down to the "General Profit and Loss Account".*



*8) What do you understand by "Inter-departmental transfer*

Goods or employment of workers or performance of servic... exchanged between the departments is known as inter-departmental tr... Goods or services transferred from one department to another depart... be made at cost price or invoice price.

**Transfer at cost price :**

While preparing departmental trading and profit and loss accou... department receiving the goods should be debited (treated as purchas... the supplying department should be credited (treated as sales). The j... entry is

Receiving Dept. a/c    Dr.
    To Supplying Dept a/c

**Transfer at Invoice Price :**

When goods or services transferred from one department to a department at cost plus profit price (Invoice price) and all the goods sup... are sold, the above cost price journal entry is passed. No further adjustme... required.

If part of the goods transferred are not sold, that is, in stock, it req... some adjustments. The opening and closing stock of the recei... department includes loading or unrealised or excessive price, hence, it sh... be calculated and transfered to the "General Profit and Loss Account".

*a) For Transfer :*

Receiving Dept a/c    Dr.
    To Supplying Dept a/c

*b) Stock Reserve on Opening stock :*

Stock Reserve a/c    Dr.
    To General P & L a/c

*c) Stock reserve on Closing stock :*

General P & L a/c    Dr.
    To Stock Reserve a/c

*Note :* If the cost plus profit margin is not given, consider the gross pr... rate as margin for the calculation of Stock Reserve.



U...

## SELF BALANCING LE...

*1) What is self balancing system?*

It is a practical system of accounting, under which ... sub-divided into different ledgers as per their nature. Each ... balanced individually, without the help of other ledgers ... known as self balancing system. Under this system verific... limited to the ledger, which does not balance. Also ... Balance" is prepared for each ledger, which is term... Account".

*2) When do you use self balancing ledgers?*

In a business where the number of personal accoun... it is difficult to locate the errors, when the trail balanc... the errors easily, a system called "Self Balancing Led...

*3) What are self balancing ledgers?*

A self balancing ledger is one whose balance... complete trail balance. For self balancing purpose... three sections :

a) Debtors or Sales Ledger
b) Creditors or Purchase Ledger
c) General Ledger

**a) Debtors Ledger :**

It is also known as sales ledger. It shows ... customers to whom goods are sold on credit. ... opened in this ledger. This ledger is opened ...

**b) Creditors Ledger :**

It is also known as purchase ledger. It ... the persons from whom the goods are ... creditors accounts are opened in this led... general ledger.

# UNIT - 10

## SELF BALANCING LEDGERS

### 1) *What is self balancing system?*

It is a practical system of accounting, under which a main ledger is sub-divided into different ledgers as per their nature. Each ledger should be balanced individually, without the help of other ledgers. This process is known as self balancing system. Under this system verification of accounts is limited to the ledger, which does not balance. Also, a separate "Trail Balance" is prepared for each ledger, which is termed as "Adjustment Account".

### 2) *When do you use self balancing ledgers?*

In a business where the number of personal accounts are more in number, it is difficult to locate the errors, when the trail balance is disagree. To detect the errors easily, a system called "Self Balancing Ledgers" are used.

### 3) *What are self balancing ledgers?*

A self balancing ledger is one whose balances when extracted, forms a complete trail balance. For self balancing purpose, the ledger is divided into three sections :

a) Debtors or Sales Ledger
b) Creditors or Purchase Ledger
c) General Ledger

**a) Debtors Ledger :**

It is also known as sales ledger. It shows the personal accounts of all the customers to whom goods are sold on credit. Only trade debtors accounts are opened in this ledger. This ledger is opened in the general ledger.

**b) Creditors Ledger :**

It is also known as purchase ledger. It shows the personal accounts of all the persons from whom the goods are purchased on credit. Only trade creditors accounts are opened in this ledger. This ledger is opened in the general ledger.



**c) General ledger :**

It is also known as nominal or main or impersonal ledger. It shows the real accounts, nominal accounts and personal accounts, excluding trade debtors and creditors.

When all the above three ledgers are made self balancing, the system is known as **"Self Balancing Ledger System"**.

### 4) *How are the ledger made self balancing?*

After preparing debtors, creditors and general ledgers, to equalise the debit and credit, a trail balance will be prepared for each ledger. It is not possible to prepare a trail balance from the above ledgers because debtors ledger consists only debit aspects, creditors ledger consists only credit aspects and the general ledger either debit or credit aspects related with debtors and creditors.

For example, credit sales are entered in debtors account debit side and general ledger credit side. There will be no corresponding credit in debtors account and debit in general ledger. Hence, the trail balance could not tally.

To rectify this and to prepare trail balance, an additional adjustment ledgers are prepared for the above three ledgers. They are

For Debtors Ledger → General Ledger Adjustment a/c
For Creditors Ledger → General Ledger Adjustment a/c
For General Ledger → a) Debtors Ledger Adjustment a/c
b) Creditors Ledger Adjustment a/c

**a) Debtors Ledger Adjustment Account :**

This ledger is prepared under general ledger account. It is same like a debtors account. It self balance the general ledger. The Proforma is

**GENERAL LEDGER**

**Debtors Ledger Adjustment A/c**

| Dr. | Rs. | | Cr. Rs. |
|---|---|---|---|
| To Opening balance<br>To General Ledger<br>Adjustment a/c<br>Credit sales<br>B/R dishonoured<br>Sundry charges | | By General Ledger<br>Adjustment a/c<br>Cash from debtors<br>Sales return<br>Bad debts<br>Discount allowed<br>B/R<br>By Closing Balance | |
| | | | |

**b) Creditors Ledger Adjustment Account :**

It is prepared under general ledger account. It is same like a creditors account. It self balance the general ledger. The proforma is :

**GENERAL LEDGER**
**Creditors Ledger Adjustment A/c**

| Dr. | Rs. | | Cr. Rs. |
|---|---|---|---|
| To General Ledger Adjustment a/c | | By Opening Balance | |
| Cash paid to creditors | | By General Ledger Adjustment a/c | |
| Purchase return | | Credit purchases | |
| Discount received | | B/P dishonoured | |
| B/P | | Sundry charges | |
| Allowances | | | |
| To Closing Balance | | | |

**c) General Ledger Adjustment Account :**

It is prepared under debtors ledger and creditors ledger. Both the general ledgers are reverse in nature of debtors and creditors ledger adjustment accounts, that is, debit as credit and vice versa. It self balance the normal debtors and creditors account. The proforma is :

**DEBTORS LEDGER**
**General Ledger Adjustment A/c**

| Dr. | Rs. | | Cr. Rs. |
|---|---|---|---|
| To Debtors Ledger Adjustment a/c | | By Opening balance | |
| Cash from debtors | | By Debtors Ledger Adjustment a/c | |
| Sales Return | | Credit sales | |
| Bad debts | | B/R dishonoured | |
| Discount allowed | | Sundry charges | |
| B/R | | | |
| To Closing Balance | | | |

**CREDITORS LEDGER**
**General Ledger Adjustment A/c**

| Dr. | Rs. | | Cr. Rs. |
|---|---|---|---|
| To Opening Balance | | By Creditors Ledger Adjustment a/c | |
| To Creditors Ledger Adjustment a/c | | Cash paid to creditors | |
| Credit purchase | | Purchase return | |
| B/P dishonoured | | Discount received | |
| Sundry charges | | B/P | |
| | | Allowances | |
| | | By Closing Balance | |



The above adjustment accounts self balance the debtors, creditors & general accounts. Hence, the trail balance can be prepared for each ledger separately.

Note : *To avoid confusion in the names of ledgers, while preparing self balancing problems, the students are memorise the names of ledgers as :*

1) ***Debtors Ledger Adjustment a/c (like Dr's a/c)***
2) ***Creditors Ledger Adjustment a/c (like Cr's a/c)***
3) ***General Ledger Adjustment a/c for Debtors***
***(Copy the Dr's ledger debit as credit and credit as debit)***
4) ***General Ledger Adjustment a/c for Creditors***
***(Copy the Cr's ledger debit as credit and credit as debit)***

5) *Give Journal entries for self balancing the debtors and creditors ledgers.*

**a) Self Balancing the Debtors Ledger :**

i) *For Credit Sales, B/R dishonoured and Sundry charges*

Debtors Ledger Adjustment a/c Dr.
To General Ledger Adjustment a/c

ii) *For Cash from Drs, Sales return, Bad debts, Discount and B/R.*

General Ledger Adjustment a/c Dr.
To Debtors Ledger Adjustment a/c

**b) Self Balancing the Creditors Ledger :**

i) *For Credit purchases, B/P dishonoured and Sundry charges*

General Ledger Adjustment a/c Dr.
To Creditors Ledger Adjustment a/c

ii) *For Cash to Creditors, Purchase return, Discount, B/P and Allowances.*

Creditors Ledger Adjustment a/c Dr.
To General Ledger Adjustment a/c

6) *How will you treat the 'transfer from one ledger to another ledger' under self balancing system?*

Sometimes goods are purchased from and sold to the same person but his personal accounts are kept in both debtors and creditors ledger. To settle his account, the balance of one account would be transferred to the other account. Transfer reduces the debtors and creditors. Therefore for transfer from one ledger to another, credit the debtors a/c and debit the creditors a/c. For this purpose three journal entries, one for transfer and two for self balancing, are passed.



For example : Mohan account in Creditors ledger shows a balance of Rs. 2,000 for goods purchased and in debtors ledger Rs. 5,000 for goods sold to him. Therefore, the credit of Rs. 2,000 is transferred to his debit balance having Rs. 5,000. The journal is :

*a) For transfer*

| | | | |
|---|---|---|---|
| Mohan a/c (Creditors ledger) | Dr. | 2,000 | |
| To Mohan a/c (Debtors ledger) | | | 2,000 |

*b) For self balancing*

| | | | |
|---|---|---|---|
| i) Creditors Ledger Adjustment a/c | Dr. | 2,000 | |
| To General Ledger Adjustment a/c (Cr's Ledger) | | | 2,000 |
| ii) General Ledger Adjustment a/c (Dr's ledger) | Dr. | 2,000 | |
| To Debtors Ledger Adjustment a/c | | | 2,[illegible] |

Note : *Students are advised that for any transfer from one ledger to another,*
***Debit → Creditors Ledger Adjustment a/c***
***Credit → Debtors Ledger Adjustment a/c***

7) *Write a note on contra balances.*

The opening balance of debtors ledger shows always debit balance and creditors ledger shows a credit balance. But in some cases a debtors ledger show a small amount of credit balance along with normal debit balance. For example, the business sold goods for Rs. 1,000 to Mohamed. He paid Rs. 800 and later returned goods for Rs. 300. In this case, there is a debit balance of Rs. 1,000 and a credit balance Rs. 100 (1,000 – 300 – 800). Likewise creditors balance show a small amount of debit balance with normal credit balance.

In such a cases, both the debit and credit balances of debtors and creditors are entered in the debtors ledger adjustment account and creditors ledger adjustment account as usual and transferred to general ledger adjustment account.

Like opening balances, closing balances are also shows both sides in the debtors and creditors ledger adjustment account.

8) *What are the advantages / benefits of self balancing system?*

The following are the important advantages of self balancing system :

a) It is easy to locate the errors.

b) It saves time, labour and money for balancing the accounts.

For example : Mohan account in Creditors ledger shows a balance of Rs. 2,000 for goods purchased and in debtors ledger Rs. 5,000 for goods sold to him. Therefore, the credit of Rs. 2,000 is transferred to his debit balance leaving Rs. 5,000. The journal is :

*a) For transfer*

| | | | |
|---|---|---|---|
| Mohan a/c (Creditors ledger) | Dr. | 2,000 | |
| To Mohan a/c (Debtors ledger) | | | 2,000 |

*b) For self balancing*

| | | | |
|---|---|---|---|
| i) Creditors Ledger Adjustment a/c | Dr. | 2,000 | |
| To General Ledger Adjustment a/c (Cr's Ledger) | | | 2,000 |
| ii) General Ledger Adjustment a/c (Dr's ledger) | Dr. | 2,000 | |
| To Debtors Ledger Adjustment a/c | | | 2,000 |

***Note : Students are advised that for any transfer from one ledger to another,***
***Debit → Creditors Ledger Adjustment a/c***
***Credit → Debtors Ledger Adjustment a/c***

### 7) *Write a note on contra balances.*

The opening balance of debtors ledger shows always debit balance and a creditors ledger shows a credit balance. But in some cases a debtors ledger show a small amount of credit balance along with normal debit balance. For example, the business sold goods for Rs. 1,000 to Mohamed. He remit Rs. 800 and later returned goods for Rs. 300. In this case, there is a debit balance of Rs. 1,000 and a credit balance Rs. 100 (1,000 – 300 – 800) for him. Likewise creditors balance show a small amount of debit balance along with normal credit balance.

In such a cases, both the debit and credit balances of debtors and creditors are entered in the debtors ledger adjustment account and creditors ledger adjustment account as usual and transferred to general ledger adjustment account.

Like opening balances, closing balances are also shows both balances in the debtors and creditors ledger adjustment account.

### 8) *What are the advantages / benefits of self balancing ledgers?*

The following are the important advantages of self balancing ledgers :

a) It is easy to locate the errors.
b) It saves time, labour and money for balancing the accounts.



c) It is easy to compile trail balance, which helps to prepare interim accounts and final accounts quickly.
d) It is very useful when the debtors and creditors are large in numbers.
e) It is possible to make efficient control with the help of adjustment accounts.
f) It helps to reduce fraud because different ledgers are prepared by different clerks.
g) It maintains secrecy among capital and profit, if they are kept under the higher authorities.
h) It promotes specialisation and increase efficiency.

### 9) *What are the objects / features of self balancing ledgers?*

The following are the essential features of self balancing ledgers :

a) In the "Debtors Ledger" along with trade debtors, a general ledger adjustment account is opened.
b) In the "Creditors Ledger" along with trade creditors, a general ledger adjustment is opened.
c) In "General Ledger" along with other accounts, both debtors and creditors ledger adjustment account are opened.
d) Along with normal accounting entries, additional entries are passed at the end of period for the adjustment accounts.
e) Since there is a complete double entry for each ledgers, trail balance can be prepared and accuracy can be checked.

### 10) *What is sectional balancing?*

Sectional balancing differ from self balancing system. Under self balancing system, trail balance is prepared for each ledger, where as in sectional balancing, a section of the group of ledgers is self balanced.

Under sectional balancing system, the correctness of debtors and creditors ledger can be checked by preparing "Total Debtors" and "Total Creditors" in "General Ledger". Therefore, the trail balance is prepared only for general ledger.

*Total Debtors Account :*

It is prepared in the general ledger. It is debited with the sum of all the items of personal accounts debited in the debtors ledger and credited with the sum of all the items of credited in the debtors ledger. The balance is equal to sum of all the balances in the debtors ledger.

*Total Creditors Account :*

It is prepared in the general ledger. The sum of all the debit and credit items of creditors ledger are posted here. The balance equals with the sum of all the balances in the creditors ledgers.

***11) How would you rectify the errors affecting the self balancing ledgers?***

The technique of rectification of errors can be applied to all the ledgers including self balancing ledgers. A little deviation can be applied to rectify the self balancing ledger errors. The errors may be classified as :

a) Errors affecting the total of a subsidiary book.
b) Errors related to amount transferred from one ledger to another ledger.

**a) Error in Subsidiary book :**

If an error affects the sales book, purchase book, return book, B/R, B/P, cash column of debtors and creditors, it should be rectified, by passing usual entry, with additional entry for the self balancing ledger.

*For example* : Sales book undercast by Rs. 200.

*i) Normal rectification entry :*

| | | | |
|---|---|---|---|
| Suspense a/c | Dr. | 200 | |
| To Sales a/c | | | 200 |

*ii) Additional self balancing entry :*

| | | | |
|---|---|---|---|
| Debtors Ledger Adjustment a/c | Dr. | 200 | |
| To General Ledger Adjustment a/c | | | 200 |

**b) Error in Transfer :**

If an error made in transfer and it does not affect the total of some subsidiary book, it should be rectified, by passing normal entry. For example, Goods purchased from Ram for Rs. 500 posted to Ramu as Rs. 50.

*Rectifying entry :*

| | | | |
|---|---|---|---|
| Suspense a/c | Dr. | 450 | |
| Ramu a/c | Dr. | 50 | |
| To Ram a/c | | | 500 |

If it affects the both the ledgers, we must pass normal rectification entry with additional two self balancing entries.

*a) For transfer*

| | | | |
|---|---|---|---|
| Mohan a/c (Creditors ledger) | Dr. | 2,000 | |
| To Mohan a/c (Debtors ledger) | | | 2,000 |

*b) For self balancing*

| | | | |
|---|---|---|---|
| i) Creditors Ledger Adjustment a/c | Dr. | 2,000 | |
| To General Ledger Adjustment a/c (Cr's Ledger) | | | 2,000 |
| ii) General Ledger Adjustment a/c (Dr's ledger) | Dr. | 2,000 | |
| To Debtors Ledger Adjustment a/c | | | 2,000 |



## SOLVED PROBLEMS

## SELF-BALANCING LEDGERS

***Illustration : 1***

*In the General Ledger of Dinesh Company Ltd., Prepare Sales Ledger Adjustment from the following particulars :*

| 1984 | | Rs. | | Rs. |
|---|---|---|---|---|
| Jan. 1 | Balance of debtors | 80,000 | Return Inward | 17,500 |
| | Credit Purchases | 45,000 | Returns Outward | 6,000 |
| Dec. 31 | Credit Sales | 1,96,000 | Rebate to debtors | 5,500 |
| | Cash from debtors | 1,56,000 | Bad debts | 9,000 |
| | Allowed discount | 4,000 | B/R dishonoured | 7,500 |
| | Bills received | 30,000 | | |

**Solution :**

**GENERAL LEDGER**
**Debtors Ledger Adjustment Account**

| Dr. | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| 1984 | | | 1984 | | |
| Jan. 1 | To Balance b/d | 80,000 | Dec. 31 | By General Ledger Adjustment a/c : | |
| Dec. 31 | To General Ledger Adjustment a/c : | | | Cash | 1,56,000 |
| | Sales | 1,96,000 | | Discount | 4,000 |
| | B/R dishonoured | 7,500 | | B/R | 30,000 |
| | | | | Sales Return | 17,500 |
| | | | | Rebate | 5,500 |
| | | | | Bad debts | 9,000 |
| | | | | By Balance c/d (B.Fig) | 61,500 |
| | | 2,83,500 | | | 2,83,500 |
| 1985 | | | | | |
| Jan. 1 | To Balance b/d | 61,500 | | | |

**Note :** *Credit purchases and Return outward are not relating to Debtors Ledger Adjustment account.*

***Illustration : 2***

*From the following prepare a Creditors ledger Adjustment a/c.*

| | | |
|---|---|---|
| 1.1.93 | Creditors Balance (Cr) | 12,000 |
| | Creditors Balance (Dr.) | 150 |
| 31.12.93 | Total Purchases | 40,000 |
| | Cash Purchases | 4,000 |
| | Cash Paid | 20,000 |



*The person on whom the bill is drawn is called the*
a) drawer b) drawee c) seller

*A promissory note is made by the*
a) seller b) purchaser c) endorsee

*When a bill of exchange is dishonoured, noting ultimately payable by*
a) drawer b) drawee c) bank

*A promissory note contains*
a) an unconditional order b) a promise
c) a request d) an order

*A bill of exchange contains*
a) an unconditional order b) a promise
c) a request d) an order

*A bill of exchange is renewed generally at the re*
a) drawer b) bank c) drawee

*At the end of the accounting period, discounted b*
a) contingent liability b) actual liability c) liabili

*A bill of exchange is generally endorsed in fa*
a) creditor b) debtor c) bank

*A bill of exchange is dishonoured by*
a) drawer b) drawee c) ban

*Discount allowed on a retired bill is a*
a) gain for the drawer b) loss for the drawee
c) gain for the debtor d) loss for the debtor

*Answers :*

a) 2. b) 3. a) 4. c) 5. b) 6. b) 7. b) 8. c)
b) 12. a) 13. a) 14. a) 15. a) 16. b) 17. a) 18.
b) 22. b) 23. a) 24. c) 25. a) 26. a) 27. b) 28.

The person on whom the bill is drawn is called the

a) drawer b) drawee c) seller d) purchaser

A promissory note is made by the

a) seller b) purchaser c) endorsee d) drawer

When a bill of exchange is dishonoured, noting charges is ultimately payable by

a) drawer b) drawee c) bank d) seller

2) A promissory note contains

a) an unconditional order
b) a promise
c) a request
d) an order

3) A bill of exchange contains

a) an unconditional order
b) a promise
c) a request
d) an order

4) A bill of exchange is renewed generally at the request of the

a) drawer b) bank c) drawee d) third party

25) At the end of the accounting period, discounted bills receivable is a

a) contingent liability b) actual liability c) liability d) asset

26) A bill of exchange is generally endorsed in favour of a

a) creditor b) debtor c) bank d) employee

7) A bill of exchange is dishonoured by

a) drawer b) drawee c) bank d) third party

8) Discount allowed on a retired bill is a

a) gain for the drawer
b) loss for the drawee
c) gain for the debtor
d) loss for the debtor

Answers :

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| .a) | 2. b) | 3.a) | 4.c) | 5.b) | 6.b) | 7.b) | 8.c) | 9.c) | 10.a) |
| 1.b) | 12.a) | 13.a) | 14.a) | 15.a) | 16.b) | 17.a) | 18.b) | 19.b) | 20.b) |
| 1.b) | 22.b) | 23.a) | 24.c) | 25.a) | 26.a) | 27.b) | 28.c) | | |



UNIT - 14

# INSOLVENCY ACCOUNTS

**Individual and Firm insolvency - Meaning - Statement of affairs - Difference between balance sheet and statement of affairs - Deficiency and surplus accounts.**

1. ***Who is called an insolvent?***

A person is said to be insolvent when his liabilities exceed his assets and against whom the court has passed an adjudication order.

2. ***What is meant by a statement of affairs?***

Statement of affairs presents the expected realisable value of assets owned by the debtor and a list of liabilities indicating their classification and rank.

It is prepared in the prescribed form and contains schedules A to H successively detailing the list of different types of creditors and of debtors' property.

3. ***Discuss the contents of statement of affairs. (OR) Explain the various lists shown in the statement of affairs.***

**i) List A - Unsecured Creditors :**

This includes creditors for goods, creditors for expenses, creditors on bills payable and creditors on unsecured loans. This list will also include both the business and private liabilities of the insolvent.

The total amount payable to unsecured creditors is taken to the column 'Expected to Rank'.

**ii) List B – Fully Secured Creditors :**

Secured creditors are those who are holding a mortgage, charge or lien on the property of the debtors. In fully secured creditors the value of security will be more and that of the liability will be less. The excess amount is known as surplus and transferred to the asset side of the statement of affairs under the head 'surplus from securities' (as per contra)

In case the partly secured creditors hold a second mortgage or charge on assets then surplus is transferred to list C.

**ii) List C – Partly Secured Creditors :**

This includes creditors who hold securities which are insufficient to meet the entire debt. The value of securities are deducted from the liabilities and deficiency is extended to the main column 'Expected to Rank'.

**iv) List D – Preferential Creditors :**

This includes preferential creditors which are shown in the liabilities side of the statement of affairs but the amount is not extended to the outer column. It is deducted on the asset side as they are payable in full.

**List E – Properties :**

This list includes all the assets of the insolvent, except Book Debts, Bills Receivable and assets which have been given as security to creditors.

**List F – Book Debts :**

All the debtors of the insolvent are shown in this list. Good, Doubtful and Bad debts are shown separately.

**List G – Bill of Exchange :**

This list contains the information about Bills Receivable and Promissory Notes. The book value and the realisable values are shown separately.

**List H – Deficiency Accounts :**

This list shows the liabilities of the debtors over realisable value of his assets.

4. ***Give the specimen of statement of affairs.***

The statement of affairs has two sides. Liabilities are recorded on the left-hand side and assets are presented on the right-hand side.

A format of statement of affairs is given below :



**STATEMENT OF AFFAIRS**
**(as required by the Indian Insolvency Act)**
**In the Court of Justice at ..... in Insolvency**

| Gross Liabilities Rs. | Liabilities (Estimated by Debtors) | | Expected to Rank Rs. | Assets (Estimated by Debtors) | Book Value Rs. | Expected to produce Rs. |
|---|---|---|---|---|---|---|
| | **Unsecured Creditors** | | | **Property as per List E** | | |
| xxx | **as per List A** | | xxx | i) Cash at Bank | xxx | xxx |
| | | | | ii) Cash in hand | xxx | xxx |
| | **Fully secured Crs.** | | | iii) Cash deposited with solicitor for cost of petition | xxx | xxx |
| xxx | **as per List B** | xxx | | iv) Stock-in-trade | xxx | xxx |
| | Less : Estimated value of securities | xxx | | v) Machinery | xxx | xxx |
| | Surplus | xxx | | vi) Fixtures, Fittings, Utensils | xxx | xxx |
| | Less: Amount thereof carried to List C | xxx | | v) Furniture | xxx | xxx |
| | Balance thereof asper contra | xxx | | vi) Life policies | xxx | xxx |
| | | | | vii) Other properties | xxx | xxx |
| | **Partly secured Crs.** | | | **Book Debts as per List F** | | |
| xxx | **as per List C** | xxx | | Good | xxx | xxx |
| | Less : Estimated value of securities | xxx | xxx | Doubtful | xxx | xxx |
| | | | | Bad | xxx | — |
| | **Preferential Crs. as** | | | **Bill of Exchange** | | |
| xxx | **per List D** | xxx | | **as per List G** | xxx | xxx |
| | Deducted as per contra | xxx | | Surplus in the hands of fully secured Crs. (Per contra) | | xxx |
| | | Nil | | | | xxx |
| | | | | Deduct preferential crs. as per List D (Per contra) | | xxx |
| | | | | | | xxx |
| | | | | Deficiency as per List H | | xxx |
| xxx | | | xxx | | xxx | xxx |

5. ***Who is a preferential creditor?***

Preferential creditors are those who are given preference in payment over all other unsecured creditors.

For example : taxes, rates, wages, salaries etc.



6. ***What are preferential creditors according to the Presiden[cy] Towns Insolvency Act and Provincial Insolvency Act?***

| | Creditors | Presidency Towns Insolvency Act, 1909 | Provincial Insolvency Act, 1920 |
|---|---|---|---|
| 1. | Amounts due to Government, State, Central, local etc. | Fully preferential | Fully preferential |
| 2. | Salaries | 4 months salary or Rs. 300 whichever is less for each person is preferential. | Rs. 20 flat for each pe[rson] is preferential. |
| 3. | Wages | 4 months wages or Rs. 100 whichever is less for each person is preferential. | Rs. 20 flat for each p[erson] is preferential. |
| 4. | Rent payable to landlord | One month's rent whatever is the amount is preferential. | Rent is not preferenti[al] |

**Note :** Any salary, rent and wages beyond the limits given above sh[ould be] added to unsecured creditors in List A.

7. ***What do you under stand by the Deficiency Account?***

Deficiency account is prepared by the insolvent debtors which [shows] as to how the deficiency shown in the statement of affairs has ari[sen] insolvent debtor is required to prepare this account for the loss to th[e] of his capital and of his creditors.

8. ***Give the Specimen of Deficiency or Surplus Account.***

The format of Deficiency Account is given below.

**Deficiency or Surplus Account as per List H**

| | Rs. | |
|---|---|---|
| Excess of Assets over liabilities | xxx | Excess of liabilities over assets |
| Net Profit arising from carrying on business | xxx | Net loss from business |
| Interest on Capital | xxx | Drawings |
| Income or Profit from private assets | xxx | Bad debts as per List F |
| Deficiency as per statement of affairs* | xxx | Expenditure incurred other than business expendit[ure] |
| | | Other Losses (Speculation loss, Realisation loss) |
| | | Surplus as per Statement [of] affairs * |
| | xxx | |

* only one will appear.

6. *What are preferential creditors according to the Presidency Towns Insolvency Act and Provincial Insolvency Act?*

| | Creditors | *Presidency Towns Insolvency Act, 1909* | *Provincial Insolvency Act, 1920* |
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7. *What do you under stand by the Deficiency Account?*

Deficiency account is prepared by the insolvent debtors which explains as to how the deficiency shown in the statement of affairs has arisen. The insolvent debtor is required to prepare this account for the loss to the amount of his capital and of his creditors.

8. *Give the Specimen of Deficiency or Surplus Account.*

The format of Deficiency Account is given below.

**Deficiency or Surplus Account as per List H**

| | Rs. | | Rs. |
|---|---|---|---|
| Excess of Assets over liabilities | xxx | Excess of liabilities over assets | xxx |
| Net Profit arising from carrying on business | xxx | Net loss from business | xxx |
| Interest on Capital | xxx | Drawings | xxx |
| Income or Profit from private assets | xxx | Bad debts as per List F | xxx |
| Deficiency as per statement of affairs* | xxx | Expenditure incurred other than business expenditure | xxx |
| | | Other Losses (Speculation loss, Realisation loss) | xxx |
| | | Surplus as per Statement of affairs * | xxx |
| | xxx | | xxx |

* only one will appear.



Note :

**a) The term Income or Profit from other sources included the following :**

i) Private assets not shown in the Balance sheet.

ii) Private assets like jewellery of proprietor's wife, if surrendered by her.

iii) Wife's loan it is not payable. If it is given out of her personal property or Dowry or Self earned income then the amount of loan is included in creditors.

iv) Any Creditors giving up their claims.

v) Profit on realisation of assets

vi) Reserve for doubtful debts

**b) The term Net loss included the following :**

a) Losses of previous years

b) If the losses were after charging interest on capital, the interest can be deducted from losses and the balance only be shown.

**c) Other Losses :**

a) Loss from betting and speculation

b) Private liabilities

c) Liabilities not shown in the balance sheet materialising

d) Contingent liabilities expected to rank.

**d) Drawings :**

a) If drawings of different years are given add them and show as a single data.

b) Any amount given by proprietor to his wife, son, etc. are also treated as drawings.

9. *Differentiate between the Statement of Affairs and Balance Sheet.*

| | *Statement of Affairs* | *Balance Sheet* |
|---|---|---|
| i) | It is prepared according to Insolvency Act. | It is prepared for the sake of proprietor and others. |
| ii) | It is prepared on the eve of liquidation of business. | It is prepared on the last day of accounting year. |
| iii) | It is prepared to show the inability of the debtor to pay off the liabilities. | It is prepared to show the financial position of the business. |

| | | |
|---|---|---|
| iv) | It exhibits the book value of assets and liabilities with their expected to rank or realisable value. | It exhibits the book value of assets and liabilities. |
| v) | Intangible assets like goodwill, preliminary expenses are not presented. | They are presented |
| vi) | It has various lists for placing assets and liabilities. | It has no list for the grouping of assets and liabilities. |
| vii) | Assets are classified as properties, book debts and bills of exchange. | Assets are presented either in the order of liquidity or order of permanence. |
| viii) | It divides the creditors as fully secured, partly secured and preferential creditors. | It does not divide so. |
| ix) | Personal assets and liabilities are included. | Personal assets and liabilities are not included. |
| x) | Contingent liabilities appear on the liabilities side to the extent they are expected to rank. | These are not shown in the Balance Sheet as they appear as a foot note in the Balance Sheet. |
| xi) | It shows the assets at a value for which they can be disposed off in the market. | It shows the book value of fixed assets, less depreciation, which may differ from its market value. |
| xii) | Capital, interest on capital, drawings are not presented. | These are presented. |

## SOLVED PROBLEMS

## CALCULATION OF PREFERENTIAL CREDITORS

***Illustration : 1***

*Calculate preferential creditors and unsecured creditors from the following data regarding Mr. Eswar as per presidency Towns Insolvency Act and Provisional Insolvency Act :*

| | Rs. | | Rs. |
|---|---|---|---|
| 4 Month's salary for 4 clerks | 12,800 | Wages due for 4 labourers for 50 weeks | 12,000 |
| Sales Tax | 21,000 | 3 Month's rent due to landlord | 24,000 |
| Income Tax | 25,000 | Wages of 4 servants | 12,000 |
| Municipal Tax | 10,000 | | |



**Solution :**

**Calculation of Preferential Creditors**

| Gross Liability Rs. | Particulars | Under Provincial Insolvency Act | | Under Presidency Insolvency Act. | |
|---|---|---|---|---|---|
| | | Preferential Creditors Rs. | Non-preferential Creditors Rs. | Preferential Creditors Rs. | Non-preferential Creditors Rs. |
| 12,800 | Salary for 4 clerks for 4 months | 80 | 12,720 | 1,200 | 11,600 |
| 12,000 | Wages of 4 labourers for 50 weeks | 80 | 11,920 | 400 | 11,600 |
| 21,000 | Sales Tax | 21,000 | – | 21,000 | – |
| 24,000 | 3 Months rent due to landlord | – | 24,000 | 8,000 | 16,000 |
| 25,000 | Income Tax | 25,000 | – | 25,000 | – |
| 12,000 | Wages of 4 servants | 80 | 11,920 | 400 | 11,600 |
| 10,000 | Municipal Tax | 10,000 | – | 10,000 | – |
| 1,16,800 | | 56,240 | 60,560 | 66,000 | 50,800 |

***Illustration : 2***

*Findout the preferential creditors and unsecured creditors from the liabilities of an insolvent, Mr. Kumar, according to the Presidency Town Insolvency Act and Provincial Insolvency Act.*

| | | | |
|---|---|---|---|
| Salaries | 1,000 | Rent for 3 months | 900 |
| Sales Tax | 300 | Municipal Taxes | 250 |
| One month wages of 10 labourers | 1,200 | Salary for four clerk for two months | 1,500 |
| Income Tax | 700 | Wages of 3 servants | 900 |

**Solution :**

**Calculation of Preferential Creditors**

| Gross Liability Rs. | Particulars | Under Provincial Insolvency Act | | Under Presidency Insolvency Act. | |
|---|---|---|---|---|---|
| | | Preferential Creditors Rs. | Non-preferential Creditors Rs. | Preferential Creditors Rs. | Non-preferential Creditors Rs. |
| 1,000 | Salaries | 1,000 | – | 1,000 | – |
| 300 | Sales Tax | 300 | – | 300 | – |
| 1,200 | Wages of 10 Labourers | 200 | 1,000 | 1,000 | 200 |
| 700 | Income Tax | 700 | – | 700 | – |
| 900 | Rent | Nil | 900 | 300 | 600 |
| 250 | Municipal Tax | 250 | – | 250 | – |
| 1,500 | Salary for four clerk | 80 | 1,420 | 1,200 | 300 |
| 900 | Wages of 3 servants | 60 | 840 | 300 | 600 |
| 6,750 | | 2,590 | 4,160 | 5,050 | 1,700 |

Q Answer the following.

1) what is Hire purchase?

* Hire purchase and instalment System are responsible for ~~bya~~ bringing high value durable goods ~~lifa~~ like cars, television into the reach of middle class and middle class people These System have revolutions the world of commerce

2) who is a Hirer?

* The buyer of the goods on hire purchase basis

3) What do you meant by Down payment?

* This is the advantage payable by the buyer while Singning the hire purchase agreement. It is al a part of the hire purchase price.

4) what is complete Ropossession?

* The hirer vendor may away take all the goods on which there is Default of instalment.

5) what is partial possessions?

* The hirer vendor may take away only a portion of the goods on which there is default of instalments.

b) what is instalment system?

* In Instalment purchase System also an agreement is entered into by the sellers and buyers. An advance or down payment is paid an possession as well as ownership in the goods is transferred to the buyers.

Big Questions:-

1) Important terms used in Hire purchase - Discuss

* cash price
* Hire purchase price
* Interest
* Hire on instalment.
* Down payment
* Hirer
* Hire vendor or owner.

Cash price:-

unit - 3.

Self Balancing and Sectional Balancing Ledgers. Royalty account.

I Answer the following

1) what is Self Balancing?

*After the process of posting as indicated above is over it becomes necessary to prove the equality between total distance Debtor and total creditors. This is done by preparing trial balance for each ledger.

2) what is Sectional balancing?

*under Sectional balancing, only a Section of the ledger is made Self-Balanced. the general ledger is made full fledged by opening two extra accounts i.e., 'Total Debtors a/c' and 'Total creditors a/c'

3) what is Royalty?

*Royalty is an amount payable by one person is another for the use of an assets of right or monopoly. is a periodical payment in the nature of rents made to a persons property.

4) what is Short - working?

* Excess of minimum rent over actual royalty paid to the landlord is known as Shortworking. It does not arise if actual royalty is more than minimum rent.

5) who is called lessor and lessee?

Lessor and Lessee:-

*when a person, (lessor) having an exclusive right to Some kind, surrenders it is to another.

person (lessee) in exchange for a certain amount

6) what is Sub-lease?

* when the terms of the original lease given powers to the lessee to sub-let a part of the land or rights to another persons, this previlege is known as an Sub-lease.

7) what is minimum or Dead rent?

* This is a guaranteed minimum amount payable by the lessees (tenant) to the landlord (lessor) irrespective of the actual output of Sales of the lessee.

8) what is ground rent or Surface rent?

* As a legal term, ground rent generally specifically refers to regulator payments made by a holders of a leasehold property to the freeholder or a Superior leasehold as required under a lease.

unit - 4

Fire Insurance.

Q Answer the following.

1) what is fire Insurance?

* Fire, in the business premises of any firm can damage a number of assets like stock, building, furniture, machinery etc. In addition, the normal working of a firm is affected for a number of days or month, resulting loss of sales and loss of profit.

2) what is claim?

* Business units who have insured their godown or store against the risk of loss of stock by fire are eligible to lodge loss of stock claims when a fire causes loss of their stock.

3) what is loss of stock?

* when claim is lodged for loss of stock, stock salvaged is subtracted from stock on the date of fire and claim is made for the balance account.

4) what is loss of profit?

* Insurance policy taken for loss of profit are also called, as consequential policies. under a consequential policy, the insurer idemnifies the policy holders against losses arising from the suspension wholy or partly caused by fire.

5) what is sales?

* The terms sales used to describe the activities that lead of the selling of goods or services.

unit - 5.

Insolvency Accounts.

I Answer the following.

1) what is insolvency?

*Insolvency who has ceased to pay his debts as they become due whether he has committed an act of insolvency or not.

2) who is called insolvent?

*Insolvent is one who is not able to pay his debts and when they are due.

3) what is voluntery transfer?

*voluntary transfers of property by the debtors in the previous two years without receiving an consideration are treated as void. The exception is transfer in consideration of marriage or in favour a purchase or encumberance.

4) what is preferential creditors?

*These are creditors who must be fully paid through they have no specific security. There is some difference between the two insolvency Act.

Accounting.

Answer the following:-

1) What is Branch?

*) In order to increase the sale the business houses are required market is a produced over a larger place. If it is located in different place either in the same town or different town is known as Branch.

2) What is Branch office?

*) Every branch office had one administrative office that is known as Branch office. It maintains all details about branch office.

3) What is head office?

*) Every branch office had one administrative office that is known as head office. It maintains all details about branch office.

4) What is debtor System?

*) This system is adopted in case of branches of small size, under this system a branch account is opened separetly for each branch in the book of head office. This account is nominal account

5) what is analytical method?

*) Profit or loss of a branch can be found out by preparing branch account with has been included early but there is another method for a same purpose. This method is called 'stock and Debtors method'. Or 'Analytical method'.

6) what is invoice price method?

*) when the goods are sent by the head office to the branch at invoice price. i.e. cost plus some percentage of profit, the branch manager is required to sells the good at invoice price only.

7) what is Goods in transit?

*) Goods in transit is the Difference between goods sent by head office and received by the branch such goods will be shown either on the both side of the branch account or will be ignored totally while preparing the branch accoun

8) what is cash in transit?

*) Sometimes the branch is remitting the cash to the head office before the close of the accounting yea say on 28th December. when the accounts are clos on 31st December

Q) what is Departmental Accounting?

*) Business sells different types of goods or carried on several activities under one room, it is generally split up into a number of department. This is generally done to have smooth and efficient running of a business.

Big Questions:-

1) Distinction between Departmental Accounts and Branch Accounts?

| Basis of Distinction | Departmental Account | Branch Account. |
|---|---|---|
| Location | All departments are located with in a single premises. | Branch are located in different geographical areas physically separated from the head office |