Financial accounting

1.Depreciation

Depreciation introduction:

When loss asset losses its efficiency its value goes down and depreciation arises. This is true case of tangible assets tools and equipment used in the factory depreciation i.e a decrease in an assets value may be caused by a number of other factors as well such as unfavorable market conditions Etc……. Machinery, equipment are some

Examples of assets that are likely to depreciation over a specific period of time.

According estimates the decrease in value using the information regarding the useful life of the assets. This is useful for estimation of property tax etc…….

Definition:

*Depreciation is the permanent and continuing demonic in the quality, quantity (or) the value of an asset. => Pickles

* Depreciation is the measure of exception of the effective life of on asset from any cost during a given period. => Spicer and Pegler

1. Explain the need of providing depreciation?

The need for providing depreciation arises due to.

*To ascertain true profit and loss.

* True profit /loss can be ascertain only when depreciation is debited to the profit and loss A/C along with other revenue expenses which is incurred for the purpose of earning revenue

* To ascertain true financial position balance sheet shows the correct financial position at the film as such to prepare balance sheet assets must be shown at their correct values by deducting the value of depreciation.

* Ascertain the true cost of production to ciliolate the cost of production it is necessary to calculate the amount of depreciation .If depreciation is not changed the cost records would not present the true cost of production.

* To hare funds for replacement of assets. A portion of profits is said in the from at depreciation every year the amount accumulated and will be available for replacement of the assets of the end of it's life.

* To fulfill the legal requirements:-

Incase of joint stock companies it is compulsory to provide depreciation on fixed assets with out provide depreciation dividends can't be declare.

2. What are the main causes of depreciation?

The main causes on depreciation are

1. Wear and tear:- When the fixed assets are put to use in the busy operations for earning revenue, the value of asset may be decreased it is said to be due to wear and tear.

2. Obsolescence:- Some assets become obsolete or outdated when new modes enter into the market so it is replaced by new and modern facilities with latest technology and the old assets looses it's value

3. Depletion:-Some assets may be existed with the extraction at raw materials out of them hence they depreciation due to depletion. Ex:- mines Queries, oil wells, etc------

4. Accidents:-The assets may reduce in value because of the accidents. It is a permanent loss Ex:- Fire, Earthquakes, Floods etc------

5. Physical forces:-When the use of assets governed by time bound agreement, the value of such assets may checreased with the passage at time. Ex: - Patents, Copyrights, and Ledges etc---------------

6. Non-use:-Machines which are idly laying become less and less useful with the passage of time certain types of machines exposed to weather conditions may have more depreciation from not using it than from its use.

7. Maintenance:- A good maintenance of machine will naturally increase its life. When there is no maintenance. There more depreciation value. The long life of machines depends upon a time.

3. Explain the different methods of depreciation?

There are several methods of providing depreciation the following are the important methods of providing depreciation

1. Straight line method.
2. Reducing balance method.
3. Annuity method.
4. Depreciation fund method.
5. Insurance policy method.
6. Machine hour rate method.
7. Depletion method.
8. Revaluation method.

1. Straight line method:-

This method depreciation is calculated at a fixed percentage on original value of the asset in every year .Those the amount of annual depreciation is uniform to year. This method is also called as fixed. Installment method (or) equal installment method (or) original cost method. The formula of annual depreciation and rate of depreciation.
*Annual depreciation= Original cost of Assets+ Expenses- Scrap value/Estimated life of assets X No of monthly use/Total no of monthly.
*Annual Depreciation:-
Original cost of assets +Exp –Scrap value X Rate of depreciation /100

Rate of depreciation=Annual depreciation./ Original cost of assets X100.

2. Reducing balance method :-

This method depreciation is charged at a fixed percentage on the book value of assets since book value keeps on reducing by the annual charge of depreciation. It is also called as written down value method (or) diminishing balance method.

3. Annuity method:-

Under this method the amount of depreciation to be written of includes the of assets and the interest of an accepted rate. The amount of interest is calculated on the book value of the asset on the ending of the each year the Calculated is calculated from the annuity Tables as a constant amount.

4. Depreciation fund method:-

Under this method a fixed amount is debited every year to depreciation account and is credited to depreciation fund A/C. The asset is shown at original. Cost in the books every year. Depreciation A/C is closed by transferring to profit and loss A/C Depreciation. Fund is invested in securities and receive interest when the asset becomes useless the investments are sold and received amount of sale of the securities this used to purchased new asset.

5. Insurance policy method:-

Under this method an amount equal to annual depreciation of an asset is invested with an insurance company by taking an endowment policy the insurance company agree to pay lump sum a written to the business for the replacement of the asset It also provide security to asset This method is suitable to those assets are costly and westerly nature.

6. Machine hour rate method:-

Under this method hourly rate of depreciation is calculated this method is also known as service hours method (or) running time method .This method is useful and suitable in cotton text tiles, jute textiles air transport etc-------------------

Formula:- Hourly depreciation =cost of asset-scrap value/Estimated working hours

7. Depletion method:-

Under this method the total cost of the mines in divided by the estimated out put of minerals so as to arrive at the rates depreciation per unit expected.

Formula:-

Annual depreciation =Cost of asset./Estimated deposits with included out put of the year.

8. Revaluation method:-

Under this method the assets are revalued at the end of each year and is treated as depreciation and charged to profit and loss A/C this method is suitable in loose tools, lives tock, Packages. And cockers etc----------------

4. Explain the merits and demerits of straight. Line method?

Under this method a fixed amount of depreciation or a fixed percentage on original cost of assets is provided every year.

Merits:-

1. It is every to understand.
2. It is easy to calculate annual depreciation and rate of depreciation.
3. The book value of the assets becomes zero equal to it’s scarp value at the end of the life

Demerits:-

1. The total charge in later years is more compared to early years,
2. It doesn’t take into consideration of interest on the capital invested in the assets.
3. It doesn’t provide for the replacement of the assets on the expire of it’s useful life.

5. Explain the merits and demerits of diminishing balance method?

Under this method depreciation is calculated at a fixed percentage on the diminishing value of the assets.

Merits:-

1. The calculation of depreciation is not necessary and when additions are made.
2. The assets is never completely written off so the charges in made to revenue every year.
3. When the value of assets decreases the amount of depreciation also decrease.

Demerits:-

1. It is difficult to calculate the rate of depreciation.
2. The book value of the assets doesn't become zero.
3. It doesn't take into consideration the interest on capital invested in the assets.
4. It doesn't provide for the replacement of the assets on the expire of it's life.

6. Explain the differences between Straight line and diminishing balance method?

Straight line	Diminishing
1) Depreciation is calculated at a fixed percentage on the original cost of the assets. 2) The annual depreciation remains constant through out life period of assets. 3) The book value of the assets becomes zero or equal to it's scrap value. 4) Total charge in later year is more as compare a to that in early year. 5) This method is suitable for those assets of less repairs and less obsolescence. 6) It is easy to calculate the rate at depreciation.	1) It is calculated at fixed percentage and the diminishing value of assets. 2) The annual doper go on decreasing year to year. 3) The book value of the assets doesn't become zero 4) Total change remains almost un form year after year 5) This method is suitable for those assets of more repairs and more obsolescence. 6) It is difficult to calculate rate of depreciation.

7. Scarf value and residual value?

Explanation:-

Scarf value is a metal from gold (or) damaged machinery (or) asset (or) Waste of things of assets residual value (or) Selvage value. It is detected from the asset value.

In book of Journal entries

Date	Particulars	Lf. no	Debit amount	Credit amount
	1. For purchase at an asset Asset A/C Dr To Cash/Bank A/C [Being Asset purchased for cash]		XXX	XXX

	2. Expenses on recondition and installation Asset A/C Dr To Cash/Bank A/C [Being Expenses paid for reconditioning and installation]		XXX	XXX
	3.For provision of depreciation Depreciation A/C Dr To Asset A/C [Being provision of depreciation]		XXX	XXX
	4.For transfer of depreciation to profit & loss A/C Profit and loss A/C Dr To Depreciation A/C [Being transfer of depreciation]		XXX	XXX
	5.For sale at an asset Cash/Bank A/C Dr To Asset A/C [Being sale of an asset]		XXX	XXX
	6.For transfer of profit on sale of on asset Asset A/C Dr To profit and loss A/C [Being Transfer of profit on sale of an asset]		XXX	XXX
	7. For transfer of loss on sale of an asset. Profit and loss A/C Dr To Asset A/C [Being transfer of loss on sale of an asset]		XXX	XXX

Straight line method:-

1. An asset is purchased for 50,000 the use full life of the asset is 10 year and the restively value is 5,000. Find out the annual depreciation and rate of depreciation and straight line method.

Annual depreciation = original cost +Exp –Scarf value /Estimate life of asset.

=50,000-5,000/10

=45,000/10

=4,500.

Rate of depreciation= Annual depreciation/Original cost of asset X 100

=4,500/50,000X100

Rate 0f depreciation=9%

2. Radha and company purchased machinery for 45,000 and 01st – 01-2010 the estimated life of the machinery 8 year and residual value at the end of is life period 5,000 .The books on close .On 31st 12 every years write journal entries and machinery depreciation 3 years and straight line method.

Annual depreciation=Original cost +Exp-Scarf value /Estimate life of asset.

=45,000-5,000/8

=40,000/8=5,000.

Journal entries in the books of Radha and co

Date	Particulars	Lf. No	Debit amount	Credit amount
2010 Jan-01	Machinery A/C Dr To Bank A/C [Being Machinery purchased for bank]		45,000	45,000
2010 Dec-31st	Depreciation A/C Dr To Machinery A/C [Being Provide depreciation on machinery]		5,000	5,000
2010 Dec-31st	Profit and bank A/C Dr To Depreciation A/C [Being Depreciation transfer to profit and loss A/C]		5,000	5,000
2011 Dec-31st	Depreciation A /C Dr To machinery A/C [Being Depreciation on machinery]		5,000	5,000
2011 Dec-31st	Profit and loss A/C Dr To Depreciation A/C [Being Depreciation transfer to profit and loss A/C]		5,000	5,000
2012 Dec-31st	Depreciation A/C Dr To machinery A/C [Being Deprecation on machinery]		5,000	5,000
2012 Dec-31st	Profit And loss A/C Dr To Depreciation A/C [Being Depreciation transfer to profit and loss A/C		5,000	5,000

Dr Machinery A/C
Cr

Date	Particulars	Amount	Date	Particular	Amount
2010 Jan-01	To Bank A/C	45,000	2010 Dec-31st	By Depreciation A/C By Balance C/d	5,000 40,000
	Total amount	45,000		Total amount	45,000
2011 Jan-01	To Balance b/d	40,000	2011 Dec-31st	By Depreciation A/C By Balance C/d	5,000 35,000
	Total amount	40,000		Total amount	40,000
2012 Jan-01	To Balance b/d	35,000	2012 Dec-31st	By Depreciation A/C By Balance C/d	5,000 30,000
	Total amount	35,000		Total amount	35,000
2013 Jan-01	To Balance b/d	30,000			

Dr Depreciation A/C
Cr

Date	Particular	Amount	Date	Particular	Amount
2010 Dec-31st	To machinery A/C	5,000	2010 Dec-31st	By Profit and loss A/C	5,000
	Total amount	5,000		Total amount	5,000
2011 Dec-31st	To machinery A/C	5,000	2011-31st	By Profit and loss A/C	5,000
	Total amount	5,000		Total amount	5,000
2012 Dec-31st	To machinery A/C	5,000	2012 Dec-31st	By Profit and loss A/c	5,000
	Total amount	5,000		Total amount	5,000

3.Vasavi and co purchased machinery for 80,000 and 01-01-2011 depreciation is provided annual act 10% on the ordinal cost Every ever year. The books are closed on 31st Dec every year. Prepare machinery A/C first 3 years.

Annual depreciation=Original cost of asset+ Exp- scarf value X Rate of depreciation/100

= 80,000X10/100

Annual depreciation =8,000

Dr Machinery A/C Cr

Date	Particulars	Amount	Date	Particulars	Amount
2011 Jan-01	To Bank A/C	80,000	2011 Dec-31st	By Depreciation A/C By Balance C/d	8,000 72,000
		80,000			80,000
2012 Jan-01	To Balance b/d	72,000	2012 Dec-31st	By Depreciation A/C By Balance c/d	8,000 64,000
		72,000			72,000
2013 Jan-01	To Balance b/d	64,000	2013 Dec-31st	By Depreciation A/C By Balance c/d	8,000 56,000
		64,000			64,000
2014 Jan-01	To Balance b/d	56,000			

4.Rama Rao and sons purchased a machine 1,40,000 on 01-7-2011 and spend 10,000 for it's installation .The firm written off depreciation at the rate of 10% on original cost every year .The books are closed on Dec 31st every year. Prepare machinery A/C and depreciation A/C for 3year

Dr Machinery A/C Cr

Date	Particulars	Amounts	Date	Particulars	Amounts
2011 July-1st July-1st	To Bank A/c To Bank A/C (Exp)	1,40,000 10,000	2011 Dec-31st Dec-31st	By Depreciation A/C 1,40,000+10,000=1,50,000 1,50,000X10/100X6/12 By Balance c/d	7,500 1,42,500
		1,50,000			1,50,000
2012 Jan-1st	To Balance b/d	1,42,500	2012 Dec-31st Dec-31st	By Depreciation A/C 1,50,000X10/100 By Balance c/d	15,000 1,27,500
		1,42,500			1,42,500
2013 Jan-	To Balance b/d	1,27,500	2013 Dec-	By Depreciation A/C	15,000

01st			31st Dec-	1,50,000X10/100 By Balance c/d	1,12,500
		1,27,500	31st		1,27,500
2014 Jan - 01st	To Balance b/d	1,12,500			

Problems :-

1. Venue Gopal trader's ltd purchased machinery on 01-07-2010 for 50,000 and spent 2000 on its installation. Depreciation is to provide at the rate at 10% for annum and straight line method book of A/C are closed on 31st -12every year show the machinery A/C for the first 3 years.

2. On first 01-10-2011 jaganadam and son purchased 90,000 and spend 10,000 installation. The book are closed on 31st -03 every the form write off depreciation at the rate of 10% on original cost every year prepare machinery A/C for first 3years.

3.Bhavani traders purchased a machinery 50,000 on 01-01-2010 another machine was brought 01-01-2011 60,000 and use from 01-07-2011 onwards .The depreciation is provided at 10% .And the straight line method the book are closed on 31 December prepare the machinery A/C For3 year.

4.On 01-07-2011 Anupama traders purchase a machine for 80,000 on 01-04-2012 the firm purchase another machine for 40,000 on 31-03-2014 the machine which was purchased on 01-04-2012 was sold for 29,000 the firm writes off 10% depreciation on original cost .The book are closed 31-03-every year show the machinery A/C for 3years.

5. Manor and co purchased a second hand machine for 18,000 on 01-04-2011 and spent 2,000 on repairs and installed the save depreciation is write off 10% per. A on straight line method on 30-06-2013 it was sold for 13,000 prepare machinery A/C assuming that the A/C closed on 31 December every year.

6. Andre sugars limited purchased a plant for 10, 00, 000 and 01-01-2011 On 01-01-2011 additional plant was purchases 50,000 .On 01-10-2013 the plant purchased on 01-01-2011 having become obsolvate was sold for 60,000 0n the same date afresh plant was purchase for 1, 25,000 depreciation is provided at 10% on straight line method prepare plant A/C are closed 31/12 every year.

7. On 01-04-2011 Rajesh transport company purchased 4 Trucks at 6, 00,000 each .The company write of depreciation of the rate of 10% per. On original cast on 01-07-2013 one at the trucks is involved in an accident and completely.

8. X-Limited company purchases on 01-01-2007 a small plant worth 20,000 and 01-07-2007 an additional plant was purchases for 10,000 on 01-10-2009 the plant purchases 01-01-2007 having become obsolete is sold of 12,000 on the same date a fresh plant was purchase for 25,000. Depreciation provided 10% on the straight line method prepare plant A/C for 3years assuming that the accounts are closed on 31-12every year.

9.Aditya Ltd which close its book of accounts every year 31-03 purchased on 01-07-2007 machinery cast 60,000 on 01-04-2009 1/3 of the machinery which was installed and 01-06-2007 become obsolvate and was sold for 18,000 show the machinery was depreciated by straight line method at 10% per.

10. Z limited as imported a machinery on 01-07-2007 2, 56,000 on paid customs duty and fright 1, 28,000 and in cord on 01-01-2008 on 01-07-2009 a portion of the impart machinery 1/3 got out of order and was sold for 55,680. Machinery was purchase to replace the same for 80,000 depreciation to calculate 20% per .On straight line basic show the machinery account for 2007, 2008, and 2009.

11. X,Y,Z Limited purchase 10 trucks at 6,00,000 each on 01-07-2006 .On 01-01-2009 one of the truck is involved in on accident and is completely destroyed . A some of 3,46,000 is received form insurance in full settlement on the same date another truck is purchases by the company for the some of 6,50,000 .The company write off 20% depreciation on the original cost close its book every year 31-03 prepare truck A/C 3years ending 31-03-2009.

*Reducing balance method (or) Diminishing balance (or) written down balance value method:-

1.Nagarjuna and co purchased plant and machinery for 70,000 an 01-01-2011 and spent 10,000 for installation exp .Depreciation is to be provide d at 10% on reducing balance method book are closed on 31-12 every year .Write the necessary journal entry and prepare plant and machinery A/C and depreciation A/C for 3years.

Journal entries plant and machinery and Nagarjuna and co

Date	Particulars	F.L no	Debtor amount	Credit amount
2011 Jan-01	Plant and machinery A/C Dr To Bank A/C [Being Plant and machinery purchased]		70,000	70,000
2011Jan-01	Plant and machinery A/C Dr To Bank A/C [Being Expenses and plant and machinery]		10,000	10,000
2011Jan-31	Depreciation A/C Dr To Plant and machinery A/C [Being Provided depreciation on plant and machinery]		8,000	8,000
2011Jan-31	Profit and loss A/C Dr To Depreciation A/C [Being Depreciation transferred to profit and loss]		8,000	8,000

2012Dec-31	Depreciation A/C Dr To Plant and Machinery A/C [Being Provided depreciation on plant and Machinery]		7,200	7,200
2012Dec-31	Profit and loss A/C Dr To Depreciation A/C [Being Depreciation transferred to profit and loss]		7,200	7,200
2013Dec 31	Depreciation A/C Dr To Plant and machinery A/C [Being Provided depreciation on plant and machinery]		6,480	6,480
2013Dec-31	Profit and loss A/C Dr To Depreciation A/C [Being Depreciation transferred to profit and loss]		6,480	6,480

Dr Plant and machinery A/C Cr

Date	Particulars	Amounts	Date	Particulars	Amounts
2011Jan1	To Bank A/C	70,000	2011Dec31	By Depreciation A/C 80,000X10/100	8,000
Jan1	To Bank A/C	10,000	2011Dec31	By Balance c/d	72,000
		80,000			80,000
2012Jan1	To Balance b/d	72,000	2012Dec31	By Depreciation A/C 72,000X10/100	7,200
			2012Dec31	By Balance c/d	64,800
		72,000			72,000
2013Jan1	To Balance b/d	64,800	2013Dec31	By Depreciation A/C 64,800X10/100	6,480
			2013Dec31	By Balance C/d	58,320
		64,800			64,800
2014Jan1	To Balance b/d	58,320			

1.Kiran enter prices purchased a printing machinery for 80,000 on 01-07-2011 and spent 10,000 on its transport and installation exp. Another machine for 70,000 was purchased on 01-01-2013 .Depreciation is charged at the rate of 20% on reducing balance method A/C for three on 31-03 every year prepare printing machine A/C for three year.

2.On 01-01-2011 Baraga traders purchased machinery per 40,000 .on 01-07-2011 year the firm purchased machinery additional machinery 20,000 on o1-07-2013 the machinery purchased 01-07-2011 having become obsolvate it was sold for 32,000 the book are closed on 31-12every year.

Prepare machinery A/C for three years providing depreciation at the rate of 10%on reducing balance method.

3.Saraswathi entre prices purchased a machine for 40, 000 on 01-07-2011 and spent 5,000 on its installation anther machine for 35,000 was purchase on 01-01-2013 .Depreciation is charged at the rate of 20% per on reducing balance method book are closed on 31-03 every year prepare machinery A/C for 3years.

4.On 01-01-2006 sumac limited purchased a machinery for 1,16,000 and spent 4,000 on its erection .On 01-07-2006 0n addition machinery costing 40,000 was purchased. And 01-07-2008 the machine purchase and a cost of 80,000 show the machinery to reducing balance method taking the rate of depreciation at 10% per

5.On 01-01-2012 Swathe&co purchased plant for 3,00,000 0n 01-10-2012 another plant was purchase 1,00,000depreciation is charge at the rate of 10% per on reducing balance method .On 01-10-2013 the first plant was sold for 2,20,000 .Prepare plant A/c for three years assuming that the accounts are closed on 31-12 every year.

7.On 01-04-2006 (Y) limited purchased a second hand machine for 1,36,and 000 and spent 14,000 on its reduction . On 01-10-2008 this machine was sold for 65,000 .Prepare machinery A/C for the first 3year according to reducing balance method . The rate of depreciation is at 10% per assuming that the accounts are closed 31-03every year.

8.A firm purchased on 01-01-2005 machinery worth 50,000 01-07-2005 additional machinery cost 20,000 acquired was 01-10-2007 the machinery .Acquired on 01-01-2008 was sold for 30,000 on the same date new machinery was purchase costing 40,000 assuming that 10% depreciation is charge under diminishing balance method show the machinery A/C up to 31-12-2008.

9.Sri kalyani &co purchased furniture worth 20,000 on 1-1-2006 1April 2007 additional furniture worth8,000 was purchase and 2,000 spent on its creation on 31st Dec2007. The furniture purchase on 1-1-2006 was sold for 15,000 charging depreciation at 12% as per diminishing balance method.

*Change in the method of depreciation:-

1. Sudha traders purchased a second hand plant for 40,000 0n 01-01-2006 and immediately spent 20,000 and an expense it on 01-07-2006 additional machinery costing 50,000 was purchased on 01-01-2006 become obstacle and was sold for 20,000 on that date new machinery was purchased at a cost for 60,000.

Depreciation was provided on 31-12every year at rate of 10% per on Original cost at of assed in 2009 the firm changed the method of providing depreciation and adopted the method of written off depreciation of the rate of 15% per on the plant diminishing value show the machinery A/C as it good appear in the book of the firm from 2006-2009.

*.Annuity method:-

1.On 1st January 2010 A Company purchased a lease at cost of 15,000 it is proposed to depreciated the lease by annuity method charging 6% interest reference to annuity tables indicate that depreciated by charge annuity 0.2,37,396 show the lease account.

15,000X0.2.37,396=3,560.94.

Dr Machinery A/C Cr

Date	Particular	Amount	Date	particular	Amount
2010Jan1st	To Bank A/C	15,000	2010Dec31	By Depreciation A/C	3560.94
2010Dec31st	To Interest A/C 15,000X6/100	900	2010Dec31	By Balance c/d	12,339.06
		15,900			15,900
2011Jan1	To Balance b/d	12,339.06	2011Dec31	By Depreciation A/C	3,560.94
2011Dec31	To Interest A/C 12,339.06X6/100	740.3436	2011Dec31	By Balance c/d	9,518.4636
		13,079.4036			13,079.4036
2012Jan1	To Balance b/d	9,518.4636	2012Dec31	By Depreciation A/C	3560.94
2012Dec31	To Interest A/C 9,518.4636X6/100	571.10	2012Dec31	By Balance c/d	6,528.62
		10,089.56			10,089.56
2013Jan1	To Balance b/d	6,528.62			

2.Amachinery acquired on 1jan2011 at the cost of 30,000.It was decided to depreciate it under the annuity method at 5% interest. Annuity tables show that at the rate of 5% over 5year is equivalent to 0.230975 annually write up the lease account for 5years.

3. A company acquire a lease costing 1,00,000 a term of 4years you find from the annuity tables. That order to write off the lease on annuity method at 5% interest per annum the amount to be written off annually as depreciation amount to 28,201 prepare ledger accounts for 4years and show the net charge to profit &loss A/C during each of the 4 year.

Unit-2 Provision and Reserves

- **Meaning of provision:-** The term provision means any amount written of retained by way of providing depreciation reserves in the value of assets (or) Rationed by way of providing for know liability which may not be determine with substance accuracy.

Provision for depreciation provision for bad and doubt full dates provision for tax's and provision for repairs and rewals reserve one some examples of provision.

- **Meaning of Reserve:-** Any sum which as appropriated out of profit and loss appropriation account and his net meant to cover up liability contingency. Commitment in the value of on asset is a reserve. It is provided for meeting prospective losses (or) Liability creation of reserve to increase the working capital in business. Strong than it financial position to equalize the period of adequate profit to compty legal requirements.

1. **Distinguish between capital reserve and general reserve.**

Capital reserve	General Reserve
1. Capital reserve to a fund. That is created of finance long term project or writes off capital expenses.	1. Reserve refers to the sum of money retained in business so as to meet out future contingencies.
2. Capital profit of the firm is the source of capital reserve.	2. Revenue profit of the firm is the source of revenue reserve.
3. To here to the statutory requirements or accounting principles.	3. To meet unforeseen tangencies and improve entity financial position.
4. Capital reserve can be utilized for the purpose for which it is created.	4. Based on the type of reserve it can be utilized for any or particular purpose only.
5. It is not available for distribution as dividend.	5. It is freely available for distribution as dividend.

1. For the creation of PBDD at the given 1st year end
   Profit& loss A/C Dr
   To PBDD A/C
2. For the 2nd and subsequent years end for Actual bad debts at year end.
   Bad debts A/C Dr
   To Debtors A/C
3. For transferring bad debts to PBDD A/C at every year end
   PBDD A/C Dr
   To Bad debts A/C
4. For the creation of new PBDD at year end
   Profit &loss A/C Dr
   To Bad debts A/C

5. For the transferring excess PBDD amount than required
   PBDDA/C Dr

   To profit & loss A/C

Problems

1. On31-12-2015 the debtor's 5,00,000 in the year 2016 the date's for 20,000 you are required to created a PBDD at 5% on debtors post journal entries.

Date	Particular	Lf no	Debit	credit
31-12-15	Profit and loss A/C Dr To PBDD A/C [Being PBDD created for bad debts 5,000,000*5%		25,000	25,000
31-12-16	Bad debt's A/C Dr To Debit A/C g bad debits premised]		20,000	20,000
31-12-16	) A/C Dr Bad debts A/C g bad debts transferred to PBDD]		20,000	20,000
31-12-16	) A/C Dr To profit& loss A/C g equal value transfer to p and L A/C		5,000	5,000

2. Trail balance of a manufacturing company as follows use draw the A/C.

Profit & loss	Debit	Credit
Bad dates on 31-12-2020	4,000	
Debtor's on 31-12-2020	1,50,000	
Reserve for bad and doubt full dates on 1-1-2020		6,000

It is decided to main a reserve of 5% for bad and doubt full date's give journal entries and prepare bad date's A/C reserve for bad and doubt full dates.

Journal entries

Date	particular	L.f	Debit	Credit
31-12-20	Bad debtor's A/C To Debtor's A/C [Being bad date's created]		4,000	4,000
31-12-20	RBDD A/C To Bad date's A/C [Being bad date's to prefixed to Rbdd A/C]		4,000	4,000
31-12-20	P and L A/C To RBDD A/C [Being equal value transfer to p and L A/C]		5,500	5,500

Dr **Bad date's A/C** **Cr**

Date	Particular	Amount	Date	particular	Amount
31-12-20	To Debtors A/C	4,000	31-12-20	By Rbdd A/C	4,000
		4,000			4,000

Dr **RBDD A/C** **Cr**

Date	Particular	Amount	Date	particular	Amount
31-12-20	To Debtors A/C	4,000	1-1-20	By Bad debts A/C	6,000
31-12-20	To Balance c/d [15,00,000X5/100]	7,500	31-12-20	By profit & lossA/C	5,500
		11,500			11,500
			1-1-21	By Balance b/d	7,500

3. 1-1-18 in the books of chinnu the receiver for bad dates account show a credit balance of 15,000 the bad dates during the year amount to 9500 . On31-12-2020 the debtors 2,60,000 and 5% Rbdd is required be minted.

   In 2021 the bad dates 16,000 0n 31-12-2021 the debtors to 2,60,000 and 5% Rbdd in required.

   In bad dates in the year 2022 is 4,000 0n 31-12-2022 is 1,00,000 it is required minted at 5% for Rbdd show bad dates A/C Rbdd A/C.

4. On extract of from the books of chinnu and Raja enter prices 31-03-2015 given below.

Particular	Debtor's	Creditors

Sunder's debtor's Bad date's Pbdd	50,000 6,000	 4,000

1. Bad date's provide bad not recorded amounted 2,000.
2. Provision is to be minted at 8% debtor's give necessary accounting entries writing off the bad and creating pbdd A/C.

5.On extract trail balance from the books of Raju and chinnu entries. On 31st-12-2005 is given below Rbdd A/C show a credit balance show of 20,000 the bad date's during the year 12,000 the debtors at 31-12-2005 are 3,50,000 and 5% Rbdd is required to be minted. The bad dates 2007 amount to 5,000 on 31-12-2000 the debtor's are 2,00,000 and 5% Rbdd is minted prepare required A/C.

6. A business chinnu decided to provided 1000 for the repairs and renewals of a machine used in the process of manufacture from the year 1981.In the first 5year the amount of spent on repairs was 300,325,480,700&1200 prepare provisions for repairs and renewals A/C for 5years.

7. A from desires to debit p and L with uniform figure every year in respect of repairs and renewals it expected that considering the life of the asset as 10,000 will the average amount to be spent per annum actual repairs 1,000 in first year 2300 in the second year 3700 in the third year.

Show the provisions repairs and renewals A/C.

8.On 1-1-2018 provision for bad doubt full dates account show credit balance 4,000 bad dates during the year 2018,2019,and 2020 ware 2,600 ,1300,600 respectfully. The debtors 0n 31-12-2018 ,2019, 2020 were 40,000 ,50,000, 18,000 respectfully provision bad doubt full dates is required at 5% very year.

Prepare provision bad and doubt full dates the above the minted 3years and also show . These items will appeal in the P&L and balance sheet if cash of 3year.

8. The provision for bad doubt full A/C show a balance of 2,000 0n1-1-2-2020 the year 2014 amount to 1,600 the sundry debtors on 31-12-2020 are 32,000 created a new PBDD at 5% show the journal, ledger, p and L and balance sheet.

9. On1-1-2019 a reserve for doubt full date A/C show a credit balance 16000 the debts during the year amount 10,500 the debtors at December 31-2019 are 3,00,000 at Rbdd required to be maintained the bad debts in 2020 amount to 16250 on 31-12-2020 debtors 3,00,000 and a5%Rbdd is required to kept the bad debts in 2021 amount to 4,500 31-12-21 the debtor are,45,000,5% Rbdd is to be maintained.

The pass journal entries and open bad dates A/C and Rbdd A/C for all three.

Prepare P&L A/C and balance sheet for three years.

❖ **Discount debtors:-**

Provision for discount debtors:-

Provision for discount debtors show the reserve for objecting due to discount allowed to our debtors very business man want to get money faster from the customer business man actual from those money who will pay before actual debt of the end the year we made provision for next due discount allowed.

So these provision will called provision debtors. These provision made on the base of cost expenses with customer.

❖ For the creation of provision for discount on debtors pdd at the end of given first year.

P&L A/C Dr
To PDD A/C

❖ For actual discount to very end.

Discount allowed A/C Dr

To Debtors A/C

- ❖ For transferring discount allowed to pdd.
  Pdd A/C Dr
  To Discount allowed A/C
- ❖ For transferring excess paid required
  Pdd A/C Dr
  To P&L A/C

11.On 1-1-18 in the books of Chinnu the reserve for bad dates account reserve discount on debtors A/C showing 900,300,respctly.

On 31-12-18 the sundry debtors 20600 of which 600 ware dates for discount allowed during the year 160 .

On 31-12-19 the sundry debtors 19,600 of which 1600 your bad date's the discount allowed to the debtors during the year amount 560.

On 31-12-20 the Sundry debtors debtors 12,350 which 350 bad dates the discount allowed to the 160 debtors.

It is was decised the to minted 5% reserved bad dates and to 2% discount on debtors for all the year.

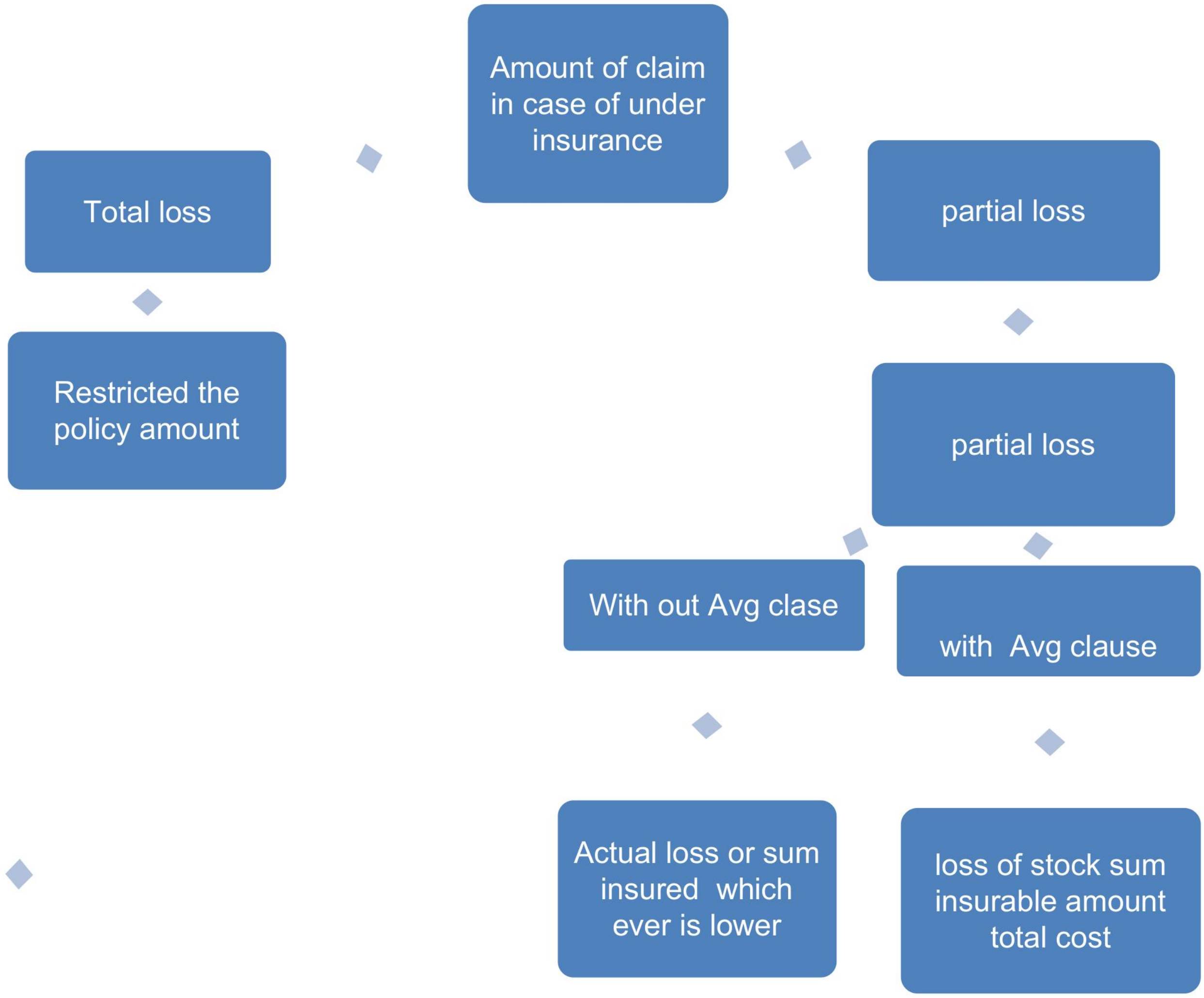
Show bad date's A/c Rbdd discount allowed Reserve discount allowed.

10. A trader minted a provision for doubt full debts at 5% a provision for discount 2% on debtors and for discount 2% on creditors which on 1-1-2014 stooted at 1500, 500,400 respectfully this balance as 31-12-2014 and2015 ware as follows.

Particular	31-12-2014	31-12-2015
Bad dates written off	1800	300
Discount allowed	600	200
Sundry debtors	20,000	6,000
Discount received	300	50
Sundry creditors	15,000	10,000

Show the necessary account In the ledger also show the items would in the finical A/C of each of the 3year.

Unit-3 INSURANCE CLAIM



Int
roduction:

Business enter prices get insured against to the loss of stock on the happing of certain an even such as fire, food, theft, earthquakes, insurance being a contract of indemnity, the claim for the loss is restricted to the actual law of assets. Some times an enter prices also gets itself insured against consequential loss of profit due to decreased ever increased expenses etc.

If loss consequential to the loss of stock is also insured the policy is now as loss of profit [or] Consequential loss policy.

- ❖ Insurance claim can be studied under two parts as under.
- ❖ Claim for loss of stock.
- ❖ Claim for loss of profit.

Meaning:-

The business world is dynamic and full of risk and uncertainties. In the cause running the business is expose to a number of risk such as fire accidents, theft, etc…… out of all this risk the fire risk is most damages a product business concern success it self against such losses by taking a fire insurance policy. Such fire insurance policy may be taken two types of losses.

- ➤ Lost the property such as plant, stock, buildings, etc.
- ➤ Loss of profit on account of this location of the business.

From the accounting point of view claim for loss of stock and loss of profits required an treatment for computation of claims.

Loss of stock:-

It is easy to make a claim in respect of asset lost in the such as buildings, machinery, furniture etc… As the book value of asset are know when the stock is lost in fire, it is very difficult to make a claim due to the fact that usually no accounts apex in accounting records.

To make a claim with insurance company for the loss of the stock by fire. Among the value of the stock by fire, the value of stock in trade on the date fire has to be estimating the value of stock lost.

- ➔ It is usually to take the figures of sales and gross profit relating to the previous accounting period for the computing the percentage.

Incase of information is variable with regard to sales and gross profit of several previous years It is necessary to take the average of this figure to get over the problem of abnormal in both directions.

- ➔ Prepare memorandum of taking account from the beginning of the accounting year to the date of fire accident, putting their on the figure were for opening stock, purchases sales and direct exp relating to this period also put the amount of estimated graphs gross profit on sales the balancing figure in the memorandum of trading a/c will be the estimated value of stock in hand on the date of fire.
- ➔ Deduces the value of goods saved if any from the estimated of stock on the of the fire as ascertained in above two steps.

Dr memorandum trading A/C for the year ended

Cr

Particular	Amount	particular	Amount
To opening stock	XXX	By sales	
To purchases	XXX	XXX	XXX
To wages	XXX	Less returns	XXX
To manufacturing exp	XXX	XXX	
To gross profit	XXX	By Closing stock [bal figure]	XXX
	XXX	[i.e value of stock on close of stock]	XXX

Calculation of claim to be with insurance [or] value of stock destroyed on the

Particular	[ps]amount	Amount
Value of stock of fire	XXX	
Less:- Stock value salvage [or] stock saved	XXX	
Claim to the lodged [or] value of stock on date of fire.		XXX XXX
		XXX

Average clause:-

____ In order to discourage under insurance, usually the average of the clause is inserted in all contracts of fire insurance. In the property is under insured the owner himself acts as an insurer to the extent to insured property. The insurance company compensates the insured only to the extent of actual insurance incase of full loss[or] at proportionately less amount if the loss is less than the real value of property. Claim under average clause is calculated as follows.

$$\text{Claim under average clause} = \frac{\text{Insurance policy value}}{\text{Value of stock on the date of the fire}} \times \text{value of stock destroy in the fire}$$

Relevant points:-

- ❖ Where stock records are maintained &such records not destroyed by fire the value of the stock as at the date of the fire can be easy carried at.
- ❖ Where either stock records are not a available[or] were they are destroyed by the fire value of stock of the date of lost accounting year after allowing the for gross profit the fig of closing stock on the data at the fire can be assigned balancing item
- ❖ Where books of accounts are destroyed the task of building up the trading A/C becomes difficult. In the case of information is abstain from sales and purchases.
- ❖ After the insurance company makes payment for total loss it has the same hights which the insured as over the damaged stock these are subrogated to the insurance company. In practice in deterring of the claim credit is given for damaged and salvaged stock.

Important points to be noted:-

1) Gross profit Ratio.
2) Incase gross profit ratio is not given in the problem a student should require to go for preparation of previous your trading account.
3) Gross profit ratio will be calculated by applying the below formula.
   $$\text{Gross profit ratio} = \frac{\text{Gross profit}}{\text{Sales}} \times 100$$
4) Normally gross profit ratio will be calculated percentage on sales.
5) Memorandum of trading A/C is named because it is proposed on the date of fire.

Problems:-

1. From the following information a section the value of stock as 31-mar-2012.

Calculate of loss of stock

Particulars	Amount
Stock as on 1-4-2011	28,500
Purchases	1,52,500
Manufacturing exp	30,000
Selling exp	12,100
Adm exp	6,000
Financial exp	4,300
sales	2,49,000

At the time of valuing stock as on31-03-2011 a sum of 35,000 was written off on a particular item which was originally purchased for 10,000 was sold during the year for 9,000 bring the transaction relating to this item. The gross profit earned during the year was 20% on sales.

Calculated of ascertain value of stock 31-03-12

Particular	Amount	Amount
Stock as on 1-4-2011	28500	
Less:- Abnormal loss [10000-3500]	6500	22,000
Add:-purchases	1,52,500	
Mfg exp	30,000	1,82,500
		2,04,500
Less:- cost of sales		
Sales	2,49,000	
Less:-sales of al	9,000	
	2,40,000	
Less:-Gp [2,40,000X20/100]	48,000	1,92,000
Closing stock		12,500

<u>**Stock:- salvage value**</u>:-

Salvage value is the estimated book value of an asset after dep is complete based on what a company exp to receive in exchange for the assets the end of its use full Life. As such, an asset estimated salvage value is an important company in the calculation a depreciation schedule.

2. Mr.Chinnnu accounts on 30th sep each year but on 31st Dec 2011 fire destroyed the greater part of his stock following information was collection from his book.

Particular	Amount
Stock as an 1-10-2011	29700
Purchases from 1-10-11 to 31-12-2011	75,000
Wages from 1-10-11 to 31-12-2011	33,000
Sales from 1-10-11 to 31-12-2011	1,40,000

<u>**Additional information**</u>:-

- Stock of the beginning was calculate at 10% less than cost
- A plant was installed by firms own marker he was paid 500 which was installed by firms own worker he was paid 500 which was included in wages.
- Purchases include the purchases of plant 5000 .

You are required to calculate the claim for the loss of.

Dr memorandum trading A/C for the year ended 31-12-2011 Cr

Particular	Amount	Particular	Amount
To opening stock [29700X100/90	53,000	By sales A/C	1,40,000
		BY Closing stock	30,500
To purchases 75,000			
Less plant 5,000	70,000		
To wages 33,000			
Less:- wages [plant]	32,500		
To gross profit A/C 140,000X 25/100	35,000		
	1,70,500		1.70,500

Calculation loss of stock A/C

Particular	Amount
Stock on the data of fire Less:- salvage stock Loss of stock	30500 3000 27500

Insurance claim= $\frac{\text{insured value}}{\text{Closing stock}}$ X loss of stock

$= \frac{2500}{30500} X27500$

[i.c] =22541.

3. On 20th oct 2011 the go down and business premises of a man limited were attected by firm the salvaged accounts records the following information a variable .

Particular	Amount
Stock of goods at 10% lower than cost as on 31-3 -11	2,16,000
Purchases less returns [1-4-2011 to 20-10-11]	2,80,000
Sales less returns [1-4-11]to 20-10-11]	6,20,000

Additional information:-

- Sales up to 20-oct-11 include 80,000 for which goods had not been dis paraded.
- Purchases up to 20-oct-11 did not include 40,000 for which purchase invoice had not been received from suppliers thought goods have been required in go down.
- Past records dhow the gross profit rate 25%
- The value of goods salvage from fire 31,000
- A man limited has insured their stock was 1,00,000.

Compute the amount of claim to the ledger to the insurance company.

4.On 12-6-2012 fire accrued in the premises of NR patels a paper merchant most of the stock was destroyed cost of stock salvage in a damaged condition on and its value in that condition was 10500 from the books account the following particular were available.

- Is stock at the close of A/C on 31dec 2011 uses value of 83,500
- Is purchases from 1-1-2012 to 12-62012 amounted to 1,12,000 in sales during 1,54,000
  On the basis of his amount for the fast three year if he arms on in arrange gross profit of 30% ofsales patels as insured is stock for 60000 computer the amounted of the claim.

5.Abnormal loss :-under loss stock [2years given]

On1st -4-2012 the stock of chinnu was destroyed by fire but sufficient records were saved which following particulars were ascertained.

$$\text{Rate of gross profit} = \frac{\text{Gross profit}}{\text{Sales}} \times 100$$

Particular	Amounts
Stock at 1-1-2011	73,500
Stock at cost 31-12-2011	79,600
Purchases year ended 31-12-2011	3,98,000
Sales year ended 31-12-2011	4,87,000
Purchase 1-1-2012to 31-3-2012	1,62,000
Sales 1-1-2012 to 31-03-2012	2,31,200

In valuing stock per the balance sheet at 31-12-2011 2,300 had bee written off on certain stock which was a poor selling line have the cost 6900 a position of this goods were sold in march2012 at loss of 250 on orginal cost of 3450 the reminder to the stock was now statement to the were original cost subject to above exception gross profit had remained at a uniform red through out the year the value stock salvage was 5800 the policy was per 50,000 and was subject out to the average clause work out the amount of the claim loss by fire.

6.On 19th may 2012 the promises of Raja by destroyed by fire sufficient records were saved ware from the following particular were assigned.

Particular	Amount
Stock at cost on 1-1-2011	36,750
Stock at cost on 31-12-2011	39,800
Purchases less returns 2011	1,00,000
Purchases less returns during 1-1-2012 to 19-5-2012	81,000
Sales less returns during 2011	2,43,500
Sales less returns during 1-1-2012 to 19-5-2012	1,15,600

In having the stock for the balance sheet as on 31-12-2011 1,150/- had been return of on cretin stock which was for selling line having the cost 3450/- A provision these goods were sold in march 2012 at a loss of 125/- on original cost of 1725/-.The reminder dustup was now estimated to be worth the original cost subject to the above exception gross profit has been remained at uniform rate through out the stock salvaged for 2900/-

Show the amount of the claim of stock destroyed by five memordom trading all to be prepared for the period from -1-1-2012 to 19-5-2012 for normal and abnormal items.

7.Afire acquired in the premises of a merchant 15-6-2020 and a considerable part of the destroyed the value of stock saved was 4500 the book disclosed that on 1-4-2020 the stock valued at 36750 the purchases to the data of the fire amounted to 1,04,940 and the fast 5year the average gross profit on sales was 36% calculate the claim to the made.

8.A fire in the primes Raja and co on1-4-2021 and resulted in a mager destruction of stock from the following particular action the amount of claim to be large in case of the loss of stock which was insured

- Purchases from 1-1-2021 the date of fire 2,10,000
- Sales from 01-1-2021 to the data of fire 3,20,000
- Wages paid 1-1-2021 to the data of fire 15,000 [including was of 3000]paid installing a new machinery on 1-3-2021.
- Closing stock as on 31-12-2020- 60,000
- Carriage in word for the period from 1-1-2021 to 1-4-2021 -5,000
- Carriage out word for the period from 1-1-2021 to 1-4-2021 -7,000
- Gross profit ratio on sales for the last three years were as formulas 2018-20% 2019-25% 2020-24% valued of goods salvaged 600/- policy amount for loss of stock due to fire -32,000
- Average class applicable.

9.A premises of the merchant caught fire on 1-1-2021 and his stock was damaged. The stock was fully insured the merchant had made his account to 31-12 each year the following information was variable.

Particular	Amount	Particular	Amount
Stock on 31-12-2020	26,544	Stock on 31-12-2019	19,228
Purchase from 1-1-2021to the data of fire	70,000	Purchase up to 31-12-2020	90516
Sales up to 31-12-2020	1,04,000	Sales from 1-1-2021 to data fire 1,00,000	1,00,000

Additional information:-

- In may 2021 goods costing 5,000 were given as free sample for advertising purpose no entry was made in this books.
- During 2021 a clerk has miss appropriated un recorded cash sales2,000
- The rate of gross profit is constant.
- The stock salvaged was 1,500.

10.On 1st April 2019 the go down of Hindustan limited was destroyed by fire from the books of A/C the following particulars are gathered.

Particular	Amount
Stock cost on 1-1-2018	27,570
Stock as per balance sheet 31-12-2019	51,120
Purchases during 2018	2,71,350
Purchases from 01-1-2019 to 31-03-2019	75,000
Sales during 2018	3,51,000
Sales from 1-1-2019 to 31-3-2019	91,500
Value of goods salvaged	6,300

Goods which original cost was 3600 had been valued at 1500 on 31-12-2019 this were sold in march 2019 for 2700 expect this transaction the rate gross profit loss remained constant.

On31-3-2019 goods worth 15,000 had been received A/C by the go down keeper but had not been entered in the purchase A/C calculate these value of goods destroyed by fire.

Unit-4 Consignment Accounts

Define consignment?

The person goods transfer from .One place to another place of another person. [Agent]

for the purpose of sales through and agent on commission basic is called consignment

1. Explain the who is the consigner and consignee?
   * Consigner:- The person who goods transfer an consignment that person can be known has consigner .He is a owner of the consignment.
   * Consignee:- The person receive the goods and sold on commission basic that person can be known as a consignee .He is a agent on consignment.

3. Explain the performer in voice?

Performer invoice is a document (or) statement it prepare on the time of goods

transfer to consignee .the document the document can be details for goods .

like quality, quantity, weight prize, discount and tax and other relevant details.

4. Explain the account sales?

Account sales is a document it prepared consignment and sent to consigner from the

time to time .In these document giving a description of the goods the weight quality,

quantity, prize, discount, sales and balance and commission of the consignment .

The document can be known as a account sales document.

3. Explain the different types of commission on consignment?
   The consignee can be sold goods on commission basic. That commission can be given by consigner .or grass sales that commission can be classified three types they are:- 1.Ordinary commission. 2. Del cradle commission .3.Overriding commission.

*Ordinary commission-: Ordinary commission is the commission generally paid by the

consigner to the consignee. It calculated as fixed percentage on the gross sales such a commission can be known as a ordinary commission. These commission doesn't provide any security to the consignee from the bad debts.

*Del cradle commission;-These commission is given to the consignee to cover the risk of loss relating to bad debts, he will become responsible for all losses on bad debts and credit sales in order to avoid they risk of bad debts the consignment provides an additional commission that commission is known as a del cradle commission .These commission is known as a del cradle commission .These commission can be calculated by the gross sales.

* Overriding commission :- It is an extra commission allowed over the normal commission this commission is generally offered when an agent is required to work hard either to introduce a new product and sold the higher price that commission can be known as a overriding commission .It calculated on gross sales.

6.Explain the differences between consignment and sales?

Basic differences	Consignment	Sales
Owner ship	Owner ship visit with the consigner	Ownership passes from the seller to the buyer.
Relation ship	Relationship is that of a principle and agent	Relationship is that of a buyer and seller i.e debtors creditor
Return of goods	Consignee may return the goods if they are not sold	Goods sold can't be return
Risk	Consignment all the risk attach to the goods	The risk poses with the ownership to the buyer
Expenses	The expenses are borne by the consignment	After sales the expenses are borne by the buyer
Order	There is no order from the consignee	There must be an order from the buyer to the seller.
Account sales	Consignee sent to consigner account sales from time to time	The buyer doesn't needs to sent any account sales to seller.
Profit (or) loss	The profit (or) loss on consignment belongs to the consigner	The profit (or) loss on sales belongs to the seller.

7.Explain the accounting processor of consignment ?

The books of consigner:- Generally in the to record each and every consignment Transaction then the consigner main tense the following accounts they are:-1 Consignment account 2. Consignee accounts3 Good sent on consignment account.

* Consignment account:- The consigner can be find out the profit and loss in the consignment business. Then the consigner open a one separate account can be prepare in nominal account nature.

* Consignee account :- The consignment account can be prepare personal account nature this account show the balance due to (or) balance due from the consignee generally these account show debit balance.

* Good sent on consignment account :- These account can be prepare it's real account nature these account is credited when goods are sent to the consignee and his debited when goods are returned by the consignment .good sent on consignment account is closed by transferring the balance to the purchase / trending account.

* In the book of consignee:- Good received by the consignee an account of consignment

cannot be treated as purchase because the legal ownership of the goods is not transfer to him .Then the no entry is passed in the his book on the receipt of good . the main tense only consigner account and stock register.

Journal entries in the book of account consigner

Date	Particulars	L.F NO	Debtor amount	Creditor amount
01	When goods are sent on consignment			

	Consignment A/C Dr To Good sent on consignment A/C [Being The goods sent an consignment]		XXX	 XXX
02	When expense are in cured by the consigner Consignment A/C Dr To Bank/Cash A/C [Being the expense meet by consigner]		 XXX	 XXX
03	When advance is receive Cash/Bank/Bill Receivable A/C Dr To Consignee A/C [Being the advance receive]		 XXX	 XXX
04	When the bill is discounted with bank Bank A/C Dr Discount A/C To Bill Receivable A/C [Being The bills discounted with the bank]		 XXX	 XXX
05	For sales reported by consignment Consignee A/C Dr To consignment A/C [Being Sales proceeds received]		 XXX	 XXX
06	For exp incurred by the consignee Consignment A/C Dr To consignee A/C [Being the exp incurred by the consignee]		 XXX	 XXX
07	For commission payable to consignee Consignment A/C Dr To Consignee A/C [Being The commission due to consignee]		 XXX	 XXX
08	For unsold stock remaining with consignee Consignment stock A/C Dr To Consignment A/C [Being These transferred consignment A/C]		 XXX	 XXX
09	For transferring profit to profit and loss A/C Consignment A/C Dr To Profit and loss A/C [Being The profit transferred to profit and loss A/C]		 XXX	 XXX
10	For loss transferred to profit and loss A/c Profit and loss A/C Dr To Consignment A/C [Being the loss transferred to profit and loss]		XXX	 XXX

11	For the settlement of account bill the consignee Cash /Bank/bill receivable A/C Dr To Consignee A/C [Being The balance received from consignee]		XXX	XXX
12	For dosing good sent on consignment account Goods sent on consignment A/C To Purchase A/C To Trending A/C [Being goods sent on account closed by the purchases /trading A/C]		XXX XXX	XXX XXX XXX

Journal entries in the book of consignee

Date	Particulars	L.F No	Debtor Amount	Creditor amount
01	When the goods are received from consignee No entry is made in the books of consignee.			
02	For the expenses in curried by the consigner. No entry is made in the books of consignee.			
03	For Advance sent to consigner Consigner A/c Dr To Cash/Bank/Bill payable A/C [Being the advance paid]		XXX	XXX
04	For the expenses in curried by the consignee Consigner A/C Dr To cash/Bank A/C [Being The Expenses in curried by consignment]		XXX	XXX
05	When consignment sales goods Cash/Bank/debtors A/C Dr To consigners A/c [Being The goods sold }		XXX	XXX
06	When the commission on sales is due Consigner A/C Dr To Commission A/C [Being commission due]		XXX	XXX
07	For the final remittance sent to consigner Consigner A/C Dr To Cash/Bank/Bill payable A/C [Being The final balance remitted]		XXX	XXX
08	For sold with the consignee			

	No entry is made in books of A/C				

*In the books of consignment:-

Dr Consignment A/C Cr

Date	Particulars	Amounts	Date	Particulars	Amounts
	To Good sent on consignment A/c To Bank/cash A/c[Consigner exp] To Consignee A/c[Consignee exp] To consignee A/C[Consignee commission] To Profit and loss A/c[Profit]	XXX XXX XXX XXX XXX		By Consignee [sales] By Consignment stock A/C [unsold stock] By profit and loss A/C [loss]	XXX XXX XXX
	Total amount	XXX		Total amount	XXX

Dr Consignee A/C Cr

Date	Particulars	Amounts	Date	Particulars	Amounts
	To Consignment A/C [sales]	XXX		By Cash /Bank/Bill Receivable A/C[Advance] By Consignment A/C [Consignee Exp] By Profit and loss A/C [loss]	XXX XXX XXX
	Total amount	XXX		Total amount	XXX

Dr Goods send on consignment A/c Cr

Date	Particulars	Amounts	Date	Particulars	Amounts
	To Trending are purchaseA/C	XXX		By Consignment A/C	XXX
	Total amount	XXX		Total amount	XXX

Dr In the books of consignee and consigner A/C Cr

Date	Particulars	Amounts	Date	Particulars	Amounts
	To Cash/Bank/B. p A/C[Advance] To Cash /Bank A/C To Commission A/C To Cash/Bank/B. p A/C	XXX XXX XXX XXX		By Cash/Bank/Debtor A/C [Sales]	XXX
	Total amount	XXX		Total amount	XXX

1. Raju of Vijayawada consigned good of the value of 50,000 to their agent Karan of genitor. Raja paid fright insurance and other change 15, 00 and draw a bill on Karan for 20,000.at two months .The bill is discounted with banker for 19,800.

Raja Received account sales of the consignment form Karan showing the following details.

*Gross sales-80,000. *Godonrent-1,500.

*Advertisenment-1,500. *Selling exp-1,000

*Commission at the ratio of 10% on sales.

*Karan remitted the balance due to raja by demand draft .Pass journal entries and show necessary ledger A\C in the book of both the parties.

Dr Journal entries in the books of consigner Raju Cr

Date	Particulars	L.F No	Debtor amount	Creditor amount
01	Consignment A/C Dr		50,000	
	To Good send on consignmentA/C			50,000
	[Being The goods send on consignment]			
02	Consignment A/C Dr		1,500	
	To Bank A/C			1,500
	[Being The expenses meet by consigner]			
03	Bill received A/C Dr		20,000	
	To Kiran A/C			20,000
	[Being Bill received from kiran]			
04	Bank A/C		19,800	
	Dr Discount A/C		200	
	Dr			20,000
	To Bill Receivable A/C			
05	[Being Bill discounted from the bankers]		80,000	
	Kiran A/C			80,000
	Dr			
06	To Consignment A/C		4,000	
	[Being the sales reported by kiran]			4,000
	Consignment A/C Dr			
07	To Kiran A/C		8,000	
	[Being expenses paid by consignee]			8,000
	Consignment A/C Dr			
08	To Kiran A/C		48,000	
	[Being Commission due to kiran]			48,000
	Bank A/C			
09	Dr			
	To Kiran A/C		16,500	
	[Being Balance receive from kiran]			16,500
10	Consignment A/C Dr			
	To Profit and loss A/C		50,000	
	[Being Profit on consignment]			50,000
	Good sent on consignment A/C Dr			

	To Trading A/C [Being Goods sent on consignment A/CClosed]			

Dr Journal entries in the books of consignee [kiran] Cr

Date	Particulars	L.F no	Debtor amount	Creditor amount
01	Raju A/C Dr To Bill payable A/C [Being bill accepted by Raju]		20,000	20,000
02	Bank A/C Dr To Raju A/C [Being Goods sold and due to raju]		80,000	80,000
03	Raju A/C Dr To Bank A/C [Being Exp amount due from Raju]		4,000	4,000
04	Raju A/C Dr To commission A/c [Being Commission due by Raju]		8,000	8,000
05	Raju A/C Dr To Bank A/C [Being Balance paid to raju]		48,000	48,000

Dr In the books of consignment A/C Cr

Date	particulars	Amounts	Date	Particulars	Amounts
	To Goods send on consignment A/C To Bank A/C To Kiran A/C To Kiran A/C To Profit and loss A/C	50,000 15,000 4,000 8,000 16,500		By Kiran A/C	80,000
	Total amount	80,000		Total amount	80,000

Dr [Guntur consignment A/C Kiran] Kiran A/C Cr

Date	Particulars	Amounts	Date	Particulars	Amounts
	To Consignment A/C	80,000		By Bill receivable A/C By Consignment A/C By Consignment A/c	20,000 4,000 8,000

				By Bank A/C	48,000
	Total amount	80,000		Total amount	80,000

Dr Good sent on consignment A/C Cr

Date	Particulars	Amounts	Date	Particulars	Amounts
	To Trading A/C	50,000		By consignment A/C	50,000
	Total amount	50,000		Total amount	50,000

Dr In the books of consignee Raju A/C [Consignment] Cr

Date	Particulars	Amounts	Date	Particulars	Amounts
	To Bill payable A/C To Bank A/c To Commission A/C To Bank A/C	20,000 4,000 8,000 48,000		By Bank A/C	80,000
	Total amount	80,000		Total amount	80,000

Unsold stock:-

*Which stock are sold at the end of the period that stock can be known as a un sold stock .The un sold stock return to consignment by consignee .The unsold stock valued by the consigner then added to the non recurring Exp.

* Non recurring exp of consigner and consignee:-

Consigner	Consignee
* Fright * Carriage [or] cortege * insurance * Pinking * Dock dues * Loading charges * Customs duty	* un loading charges * Fright * Dock dues * Customs duty * Octrol

*Recurring Exp of consigner and consignee.

Consigner	Consignee
*Bank changes for discounting The (or) cheques receive *Exp in curried on damaged goods	Godam Rent Godown insurance Sales Exp Sales man salary Advertisement Other Exp Incurred Exp Commission Establishment Exp

2. Murali and co of vernal consigned 500 ratio sets to hair and coo of HYD .The cost of each ratio 500 mural Fright 15,000 .Accounts sales received form hair and co showing the following particular.

*400 ratio set sold each at 600.

*Advertisement exp 20,000.

*Commission 10%on sales.

*Hair and co sent a bank draft for the balance due to consigner show the necessary ledger A\C in the book of both .The parties.

3.On 01-01-2009 soda of sere nagger consigned goods value of 20,000 to Indri of Warangal soda paid cortege and other exp 1,500 .And 01-04-2009 Indri sent on account sales with following information .

*1/2 goods sold for 15,000.

*Indri incurred exp of 750.

*Indri is entertained to receive commission at the rate 5%on sales.

Bank draft was enclosed for the balance due prepare necessary ledger A\c in the book of soda and Indri.

4. On 01-01-2012 goopy of HYD consigned goods value at 30,000 to usher of madras .Gobi paid cartage and other exp 2,000 on 01-04-2012 usher sent the account sales with the following information.

*50%of the good sold for 22,000.

*Usher incurred exp 1,200.

*usher is entertained to receive commission of the rate 5% on sales.

Bank draft was enclosed for the balance due prepares the necessary ledger A\C in the books

of both the goopy and usher.

5. Raj of Bandar sent 200 T.V sets each eating 15,000 to rain of gun tour to be sold on consignment basis. He incurred the following exp fright 2,000, Loading and un unloading charges 2,000, and insurance 5,000, Rain sold 185 T.V sets for 30, 00,000 and paid 10,000 as shop rent which is to be gone by raj as per terms and conditions of consignment . Consignee is an entertained for commission of 200, per T.V sold assuming that rain settles the account by sending bank draft to raj.

Prepare necessary ledger A\C in the book of raj and rain.

6. Amar consignee 100 bases of cloth to Akbar at 5,000 for bank ajar insurance the following exp.

Packing and for wording change 500 insurance in transport 2,000.

Akbar receives the consignment and sold 80 bales at 800 for bale .they incurred the following exp.

*Fright at carriage 3,000.

*Insurance of good 400.

*Sales man salary 1,600.

*commission 10%on sales ascertains the value of a consignment.

Prepare necessary ledger and both the parties.

7. On 01-01-2009 Derain of HYD sent 400 cycles to be sold on consignment to Deere of Warangal. The cycles were for forma invoice price at 1,000 per peace carriage and other exp amounts sales.

On 15-03-2009 100 cycles for sold at 1450 for peace on which 5% commission was charged

and 3,750 well directed as expenses.

10-04- 2009 150 Cycles for sold at 1,400 for peace on which 5% commission was charged and 2,900 were directed as exp incurred after 13th march prepare the necessary A/C in book of both the A/C.

8.In the books of consignor Williams of madras consider 300 cases of T at 2,000 per cases to Johnson of new Delhi pay in fright 4,000 and other exp 2,000 Johnson sold 250 case at 2,500 per case on credit and 25 cases 2200 per cases for cash.

Johnson spent for fright and octrain 3,000 and other expenses 1,000 He remitted the amount due to Williams after debating his commission at 5%[normal]2 ½ percent[over raiding] half1/2 percent [del-creder commission]

Johnson found that one customer to whom of 40 days was allowed paid only 4800 only out of the total amount 5,000 due from him in full settlement of account .

Show ledger accounts in the books of consignor.

9.wrote:-

- Rail way fright paid by consignee.
- Bill on discount does not recorded in the consignor & consignee we have to create separate A/C

- Swathi ltd forwarded on 1st jun 2015 100 bicycles to narderad &co Delhi to be sold on be half of swathi ltd the cost of one bicycle was 250 but the invoice price 300 swathi ltd incurred 1000 on fright& insurance received 10,000 as advance from nardend &co paid 500 as octori&carriage400 as rent 300 as insurance by 30th -6-2015 had disposed of 50 bicycles for 25000 nardend&co is entitle to on sales at 5% invoice price 25% of any circular price realized nardend&co remitted the amount due from them by a bank draft.

You are required to prepare necessary A/C in the books of consignor.

10.Raja mills mpl consigned 5,000kg of cbk ghee to vijay dealers Chandigarh of each kg ghee costs 80 Raja mills paid 500 as carriage 25,00 as fright and 2,000 as insurance in transit. During transit 500kg were accidentally destroyed for which the insurance company paid directly to the consignors25,000 in full settlement of the claim.

After three months from the data of the consignment of the goods to Chandigarh vijay dealers reported that 3500kg of ghee was sold 95 perkg and exp being on go down rent 5,000 and on sales man salary 7500 vijay dealers are entitled to a 5% commission on sales vijay dealers also reported also of 20kg due to leakage.

Prepare the necessary accounts in the books of consignor.

11.Gupta&co Calcutta consigned 100 cases of toys to meenkshi&co of mpl the cost of each case was 300 the in voice price was fixed at 450 per case the consignor paid 1000 for fright and insurance.

10 cases were damaged in transit A claim on the rail ways for the loss was settled for 1800 and the consignors directly received each from the rail ways .

The consignee took delivery of the remaining 90cases and incurred exp as follow carriage go down 450 and go down rent 400 they also reported that 80 cases were sold at 500 each they are entitled to a commission 8% on sales the consignment settled their account by sending cheque for the balance due from then given ledger account in the books of Gupta&co.

12.Vamsi of Vijayawada sent 100 T.v set to sinha of madras on consignment basis. The cost price of each set is 5000 vamsi paid 500 for carriage 1500 for railway fright and 500 for insurance he drew a bills receivable for 50,000 on sinha as a advance against the consignment the acceptance was discounted for 49500. 50sets were damaged in transit and a sum of 25000 was recovered from the insurance company.

Sinha receives the remaining sets and paid 700 as go down rent and 300 as Sundry exp. He sold 40 sets at 5,400 each he could not realize the sales proceeds of 5sets from the customers he was entitled to receive 4% ordinary commission and 1% del credere commission on grass sales the net amount due from sinha was received in time.

Prepare necessary ladger accounts in the books of vamsi

<u>Unit -5</u> . <u>Joint venture account</u>

Introduction:-

A joint venture is a very short duration business entered In by two or more persons jointly.

It may be described as a temporally partnership between two or more persons with out the use of the name firm name for a limited purpose venture may be for the constriction of building or bridge for supply of certain quality of material or labor even for the supply of technical services the person who have agreed to under take a joint venture are know as joint venture [or] co-venture this limited for partnership automatically express on the completion of the venture for which it was formed.

1. Futures of joint venture:-

- It is short duration special purpose partner ship.
- Parties in venture are called co ‘venture’s
- It is easy to from their no legal parameters like registration etc
- Co ‘venture may contribute founds for running the venture[or] supply stock from their regular business
- Co venture’s shop profit are loss of the venture at an agreed ratio.
- Co ‘venture’s can carry on this man business in addition to the joint the.
- Profit are loss of the venture is computer complication of venture.
- Going concern accounts is not for the joint venture A/C
- The A/c treatment is easy normally there is no need to balance in a year hence there is no need to balance sheet only joint venture Account prepare.

2.Explin the different between joint venture and consignment.

Basic	Joint venture	Consignment
Relation ship	The relation ship b/w co ‘venture is that of is co ‘owners both	The relation ship b/w consigner and consignee is that of principal and agent
Owner ship and risk	Both this remain with co ventures	Both this remain with consigner
Account sales	No A/C sales is prepared by co venture	It is prepared by the consignee and sent to the consingner
Profit[and] loss A/c	It is shared by the co ‘venture in greed ration	Profit and loss by the consigner
Number of partners	There are may be two are more persons.	There are two persons consignor and consignee.
Partner ship	It is tempary partner’s ship	It not a tempary
Capital	It is contributed by the co ‘venture	It is contributed by the consigner
Methods recording	There are three methods recording	There are only one method of recording
Persons	The persons are called co ‘ventures	The particles are called consigner and consignee
powers	All the co ‘ventures of equal	The agent’s [consignee] that not any

	powers	power

What is joint bank account?

When the size of the venture is large and durations protruded ,then separate book maintained for joint venture transactions . For better financial control a joint bank is open specially for the joint venture. The co- ventures operate this account jointly . This account is just like a cash book. All cash deposited into bank is debited. All withdraws are credited. Generally capital contribution venture and sales proceeds are deposited in this account all payments are form this account. It is finally closed by payment to the co-venture.

Joint venture account is like an “ordinary cash book “or bank A\C. all incomes included in the capital contribution by the joint venture appear on the debit side own this all. Where as all expenses of the venture appear on the credit side to the co-venture level no balance other

Explain the methods of recording joint venture transactions?

Joint venture is a temporary partnership without firm. It also known as “joint venture” or “joint trade”. The maintains of accounts joint venture is different. The features of joint venture business there are three ways of making joint venture account.

- ➔ Where only one party maintain the books

  Under this method only one party records all the transactions in this book. This method is follows most of the buying and selling account of joint venture is managed by co-ventures.
- ➔ Where each party maintain books of account.

  Under this method each of the co-venture opens joint venture account and account of other co-venture. He records not only his own transaction in connection with joint venture business
  but also transaction of other co-venture
- ➔ .where separate books are maintain for the co-venture.

  Under this method no individual co-venture makes a record in individual book at a complete set of double entry book is used to record joint venture transaction. This method followed whether at the venture are at same place its it take for large works.

What is joint venture ?

A joint venture is a temporary partner form business where two or more persons joint together .

What are co-ventures?

There are two or more people who start joint venture to achieve the short term objective and ready to share the risk is called co-ventures. There similar to partnership in form.

Journal entries when separate set of books is kept

1.For cash contributed by each venture to word the joint venture.

Joint bank A/C Dr

To Respective co-venture

2.On making purchase for joint venture operation.

a) Cash purchase joint venture A/C

b)Joint venture to joint

Joint venture All A/C Dr

To Joint bank A/C

B)Joint venture A/C Dr

To creditors A/C

c)For material supplied by venture joint

Venture to respective A/C Dr

To Co-venture A/C

3.On incurring expenses for joint venture.

a) When they are paid form joint funds
Joint venture A/C Dr
To Joint bank A/C
b)When they are paid by a venture.
Joint venture A/C Dr
To Respective co-venture A/C
4.On sales of goods collection of contract
a) when a collection joint points.
Joint bank A/C Dr
To Joint venture A/C
b)When collection by a venture directly.
Receipt venture A/C Dr
To Joint venture A/C
5.For goods sold on credit.
Debtors A/C Dr
To joint venture A/C
6.For payment made on the creditors
Creditor A/C Dr
To Joint bank A/C
To Joint bank A/C
7.For payment received from debtors.
Joint bank A/C Dr
Joint venture A/C Dr
To debtors A/c

8. For bill accepted by co ‘venture for material accodmation.
Bills receivable A/C
To respective co-venture A/C
9. For discounting of the bill
Joint bank A/C Dr
Joint bank A/C Dr
To bills receivable A/C

10. For goods taken over by a co ‘venture
Respective co ‘venture A/C Dr
To Joint venture A/C
11. For collection of the result of the venture.
a)If profit
Joint venture A/c Dr
To each venture's A/C
12. For settlement A/c with the co ‘ventures.
Each co venture A/C Dr
To joint bank A/C
[or]
Joint bank A/C Dr
To Each co venture A/C

Note:-
The above entry will closed joint bank A/C and each co ‘venture A/C and the separate safe of the books will be eloved on completion of the venture.

Specimen ledger Accounts:-

Dr joint venture A/C Cr

Problem 1

A and B partner in a joint venture show in Profit and loss in proportion of 10:9 each party maintain the complete record in this own books. A supply goods to the value 25000 and incurred an expenditure of 500 “B” supplied goods to the value of 21000 and is expenditure their on 1000. A sold out the goods 70000.For which he was entitled to receive a commission of 5% A\C of settled by a bank draft A\C

Give journal entries and necessary accounts in the books of A account.

Problem 2

Anand and Bala enter a joint venture sharing profits and loss in the ratio of 3:2. Anand purchased and send them to Bala for sales. Anand purchased goods worth of 12000 and paid 1000 as expenses. Bala received the goods expected abill 9000. Anand got discount for 8800. Bala sold goods for 70000 and paid 300 rent. The remaining stock 1000 and used by bala . he give to commission 5% on sales. Pass entries in the books of anand also show ledger accounts.

Problem 3

Rajasekhar and Parthu are co ventures in a joint venture sharing profit and loss in the proportion of 4\5 and 1\5 respectively.Rajasekhar supplied goods to the value of 50000 and incurred expenses amounting to 5400. Parthu supplied goods to the value of 14000. In expenses amount to 800. Parthu sold goods behalf of the join venture and Realized 92000 Parthu is entitled to commission of 5% on sales Parthu settled his Account by bank draft prepare necessary accounts in the books of rajasekhar.

Problem 4

Ramesh and Naresh under took to construction of a building for ideal engineering company ltd for a contact prize 3000000, payable 2000000 by in on installment 1000000 in fully paid of the company.

Ramesh contribution 7,50,000 and Naresh 4,50,000and offer the joint Bank A\C. they are to share profit and loss equally. Following expences were spent on

- On wages 7,50,000.
- On material 15,80,000.
- On plant 20,00,000

On contract and the price dual receivables the joint venture by Ramesh taking all debenture at agreed valuation 2,50,000 half of plant taken over by and on the half was sold for 1,20,000.Naresh also took over un used stock of material for 80,000.Show the necessary ledger account.

Problem 5

Roopesh and pallavi both are constructers under took jointly constructed a building for

joint venture the contract price 12,00,000 to be paid share at an agreed value 12\- for

share which were later on disposed of 12.50\-per share. Abank A\C is open in their

Roopesh paying 2,50,000 and Pallavi 1,50,000 they are to share profit and loss 2:1 their

transaction follows.

- Salaries paid 45000.
- Wages paid 1,85,000.
- Wages out standing 20,000.
- Purchase of material 5,00,000.
- Material supplied by Roopesh 50,000.
- Material supplied by pallavi 40,000.
- Paid for carriage 60000.
- Architect fee paid by Roopesh 20,000.

The contract was completed and price duly received and paid out standing exp. Pallavi took over the stock of Pallavi material at an agree valuation of 30,000.

Problem 6

Chandra and Deeraj doing business separately as building constructors under take jointly construct a building for a newly started joint venture company in Vijayawada for a contract price 2,00,000, as to 1,60,000 by installements in cash 40,000 in fully paid shares of new company. A bank account has been opened in there joint names .Chandra paying 50,000 and Deeraj 30,000 they are to share profits and loss in proportionate 2\3 and 1\3