

PREFACE TO THE SECOND EDITION.

The First Edition of this work having met with considerable success, an occasion has arisen to issue the Second Edition.

In preparing this new Edition, the Chapters on Partnership Accounts and Company Accounts have been considerably enlarged. An entirely new Chapter on Miscellaneous Accounts, including Reconciliation Statement, Accommodation Bills, Imprest System of Petty Cash, Analytical Petty Cash Book, Departmental Accounts and Single Entry, has been added. Additional Exercises have been set at the end of each Chapter and 40 revisional problems have been added at the end of the work.

In order to add to its usefulness, the book has been thoroughly revised and improved throughout, and it is hoped that this Edition will meet with the same favourable reception as has been accorded to the First Edition.

I must express my sincere thanks to my friends and colleagues Messrs. R. P. Dalal, F. S. A. A. and K. S. Kshirsagar, G. D. A., for the very valuable assistance they have rendered me in the general get up of the work.

JAMSHED R. BATLIBOI.

BOMBAY, 24TH AUGUST 1931.

PREFACE TO THE FIRST EDITION.

This elementary work has been specially written for readers entirely unacquainted with the subject. Naturally, it does not pretend to be exhaustive; but it is believed that a careful perusal will enable the reader to grasp the fundamental principles of the science of Account-keeping without much difficulty.

As a result of twenty-two years of teaching experience I have tried to follow the subject in its most natural lines of study, and have arranged and graded the whole matter in a manner as would facilitate the understanding of the science.

If this little book supplies an incentive to the student of book-keeping towards the study of higher and still more interesting branches of the subject, my main object in writing it will be attained.

I take this opportunity of expressing my best thanks to a band of loyal workers who have helped me considerably in the preparation of this work.

JAMSHED R. BATLIBOI.

Bombay, 10th June 1929.

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FIRST STEPS
IN
DOUBLE-ENTRY BOOK-KEEPING.

CHAPTER I.

ELEMENTS OF DOUBLE-ENTRY.

DEFINITION.

Book-keeping is the art of recording business dealings in a set of books.

OBJECTS OF BOOK-KEEPING.

The primary object of Book-keeping is to enable a person to ascertain accurately and with as little trouble as possible—

(1) The amount he has gained or lost in the business during a given period ; and

(2) The amount of his Assets, Liabilities and Capital in the business on any particular date.

In addition to the above information, however, a dealer would naturally like that his books should also show the following particulars:—

(1) How the amount he has gained or lost is made up;

(2) What amount is owing to him by each of his customers or debtors ; and

(3) What amount is owing by him to each of his creditors.

This information can only be derived if an accurate and complete record is kept of all business transactions.

DOUBLE-ENTRY.

Double-Entry is the only system of Book-keeping by the employment of which all the above objects can be achieved, and it is to the elementary study of this system that the following pages are devoted. It is this system of Book-keeping that enables the trader to obtain a permanent record of his dealings with those with whom he transacts his business, and of the exact state of his relationship with each of these individuals at any given date. It further helps him to ascertain whether the result of his transactions has been profitable or otherwise, and what his exact financial position is at any time. It is both simple and universal in its application. It may be applied with equal success to one's own domestic accounts, to the varied and voluminous transactions of the largest business enterprises, as also to the vast records of the National Exchequer.

EXPLANATION OF TERMS.

Before proceeding further, it is desirable that the reader should study the exact significance of the following terms which are constantly used in this work :—

Debtor :—A person who owes something is called a Debtor. "Dr." is an abbreviation of Debtor.

Creditor :—A person to whom something is owing is called a Creditor. "Cr." is an abbreviation of Creditor.

Thus, if A owes B Rs. 10, A is B's Debtor and B is A's Creditor.

Account :—An account is a summarised record of the transactions affecting one person, one kind of property or one class of gains or losses.

Personal Accounts :—Accounts recording transactions with Persons or Firms are known as Personal Accounts. Accounts recording transactions which do not affect particular persons, but affect business in general, are known as Impersonal Accounts. Impersonal Accounts may be either Real Accounts or Nominal Accounts.

Real Accounts are accounts of property or possessions, e. g. Goods Account, Cash Account, Bank Account, Office Furniture Account, etc.

Nominal or Fictitious Accounts record expenses, gains or losses, e.g., Rent Account, Salaries Account, Advertisement Account, etc.

Debit and Credit—In Book-keeping, the receiver of any benefit is termed a debtor and is debited, whereas the giver of any benefit is termed a creditor and is credited.

To Debit an Account means to enter a transaction on the "Debit" side of that account, i.e., the left-hand side.

To Credit an Account means to enter a transaction on the "Credit" or right-hand side of that account.

Goods:—The term "Goods" is used in general sense to include all merchandise, commodities or wares in which a trader deals.

On Credit:—To purchase or sell goods on credit, means to receive the goods or part with them without any payment of cash at the time. In case of Credit Purchases and Sales, delivery of goods is first made, and the payment is made after the expiry of an agreed period. In case of Cash Purchases and Sales, payment is made on delivery of goods.

Assets are properties of every description belonging to a person, such as, goods, cash, furniture, etc., and include all sums of money owing to him.

Liabilities are the debts owing by a person.

Capital is the excess of assets over liabilities. In other words, Capital is the amount of a person's assets remaining after providing for the discharge of his liabilities. (If, for example, a person's Assets amount to Rs. 10,000 and his Liabilities to Rs. 4,000 his Capital is Rs. 10,000 less Rs. 4,000 i.e. Rs. 6,000.)

Solvent—A person is said to be "Solvent" when his Assets exceed or equal his Liabilities.

Insolvent—A person is "Insolvent" when his Liabilities exceed his Assets.

FIRST PRINCIPLES OF DOUBLE-ENTRY.

As has been said before, Book-keeping consists in writing up Accounts in a set of books, and Accounts are records of facts relating to business transactions.

Now, there cannot be a business transaction unless there are two parties to it. Further, a transaction might either mean the receipt of a benefit in shape of money, goods or service, or the giving of such benefit. In order, therefore, to clearly indicate whether any particular transaction has resulted in the receipt of a benefit or the giving of a benefit, it has been found necessary to divide each account into two sections. [One section (the left-hand side) of each account is thus utilized for the recording of transactions in respect of which benefit has been received by that account, and the other section (the right-hand side) for recording transactions in respect of which benefit has been imparted by that account.] In this way, the total benefit received and imparted by each account may be readily perceived by looking at both the sides of that account, and the ultimate position of that account as to whether the benefits it has received are in excess of the benefits it has parted with or *vice versa*, may be easily ascertained by adding up each side and striking a balance.

Another important point to be borne in mind, at this stage, is that the following factors are common to practically every business :—

(1) That there must be a number of persons or firms with whom the trader has to deal ;

(2) That the trader must also have some goods, cash, furniture and other assets or possessions in which or with the help of which he may carry on the business ; and

(3) That certain expenses, such as, rent, wages, salaries, advertising, etc. must necessarily be incurred in course of carrying on the business, and that there must be certain sources from which the income of the business is derived.

It follows, therefore, that in order to keep a complete record of the entire transactions of any business, it would be necessary to keep the following accounts:—

(1) An account of each person or firm with whom the trader deals.

(2) An account of each property or possession dealt in by the trader in his business.

(3) An account of each head of expense or source of income.

The accounts coming under group (1) are classed as Personal Accounts, those under group (2) are called Real or Property Accounts, and those under group (3) are known as Nominal or Fictitious Accounts.

Again, every business transaction has a two-fold effect and that it affects two accounts in opposite directions, and if a complete record were to be made of each such transaction, it would be necessary to debit one account and credit another account. It is this recording of the two-fold effect of every transaction that has given rise to the term "Double Entry."

In order to decide which account is to be debited and which credited for the purpose of recording any particular transaction, the first important point is to see which class of accounts are affected by that transaction. Having ascertained that, the following rules of debit and credit will have to be followed:—

(1) **Personal Accounts:**—These accounts record a trader's dealings with other persons or firms. A separate account is kept of each such person or firm from whom goods may have been purchased or to whom goods may have been sold, so that the amounts owing to and by the trader can be readily ascertained at any time.

On the debit side of each Personal Account are recorded the transactions in respect of which the person becomes the debtor, and on the credit, those in respect of which he becomes the creditor. In other words, the account of each person or firm is debited with any benefit such person or

firm receives and is credited with any benefit such firm or person imparts.

Dr.		NAME OF PERSON OR FIRM.		Cr.	
Date.	Particulars of benefits received by the person.	Amount.		Date.	Particulars of benefits imparted by the person.
		Rs.	a. p.			Rs.	a. p.

(2) **Property or Real Accounts**:—These accounts record dealings in or with property, assets or possessions. A separate account is kept for each class of property, such as, cash; stock, plant, machinery, furniture, etc., so that by recording therein particulars of each such asset received or given away, the trader can ascertain the value of each asset on hand on any particular date.

When any asset is received, the amount is entered on the debit side (left-hand side) of that asset account, and on the asset being given away, that asset account is credited.

Dr.		NAME OF ASSET.		Cr.	
Date.	Particulars of incomings.	Amount.		Date.	Particulars of outgoings.
		Rs.	a. p.			Rs.	a. p.

(3) **Nominal or Fictitious Accounts**:—These accounts record a trader's expenses or gains. A separate account is opened for each head of expenditure or income, such as, rent, salaries, wages, printing, stationery, cartage, interest, discount, commission, etc., so that the trader can see the amount expended, lost or gained under each heading. Each such account is debited when an expense or a loss is incurred and is credited when there is any gain.

Dr.		NAME OF EXPENSE OR INCOME.		Cr.	
Date.	Particulars of amounts expended or lost.	Amount. Rs. | a. | p.	Date.	Particulars of amounts gained.	Amount. Rs. | a. | p.

The above rules of debit and credit in regard to the three classes of accounts may thus be summarised :—

Personal Accounts—Debit the receiver, and credit the giver.

Asset or Real Accounts—Debit what comes in, and credit what goes out.

Nominal or Fictitious Accounts—Debit expenses and losses, and credit gains.

It should be borne in mind that these rules never vary and will have to be rigidly followed under all conceivable conditions.

The following few illustrations will serve to emphasise the fact that every transaction affects two accounts in opposite directions and will also help to indicate how the accounts are debited and credited :—

(1) Sold goods Rs. 300/- to A (on credit)

The two-fold effect of this transaction is that A has become my debtor and Rs. 300/- worth of goods have gone out. Now, A's Account is a Personal Account, and as he has become indebted to me as a result of this sale, his account must be debited. On the other hand, Goods Account is an Asset Account and as the goods have gone out, the account will have to be credited.

The complete record of this transaction is thus made by debiting A's Account and crediting Goods Account.

(2) Bought goods Rs. 250/- from B. (on credit).

In this case, the two accounts affected are Goods Account and B's Account. As the goods have come in, Goods Account will have to be debited and since B has become my creditor, his

account will have to be credited. Thus the two-fold effect of this transaction will be recorded by debiting Goods Account and crediting B's Account.

(3) Paid B Rs. 200/- cash on account.

The two Accounts involved here are B's Account and the Cash Account. Since B has received benefit from me as a result of this transaction, his account will have to be debited and since cash has gone out, Cash Account will have to be credited.

(4) Sold goods Rs. 400/- for Cash.

As cash has come in and goods have gone out, Cash Account will be debited and Goods Account credited to record this transaction.

(5) Paid Landlord, office rent Rs. 150/-.

The two Accounts affected in this case are Rent Account and Cash Account. The two-fold effect of this transaction is that an expense under the heading of Rent has been incurred and Cash has been paid out to meet that liability. Therefore, Rent Account will be debited and Cash Account credited.

It is important to bear in mind, in this case, that although the Landlord received benefit from us in the shape of cash that we paid him, this benefit does not devolve upon him the liability to return us a corresponding amount in cash or kind, and therefore his Personal Account should not be debited. The amount we paid was for Rent, therefore Rent Account should be debited and not Landlord's.

(6) Paid D his salary Rs. 75/- for June.

As a result of this transaction, the accounts affected are Salaries Account and Cash Account. As salaries represent an expense, Salaries Account will be debited, and as cash has gone out, Cash Account will be credited. It would, of course, be wrong to debit D's Account inasmuch as he does not become our debtor as a result of this payment by us.

(7) Received Rs. 400/- interest on Investments.

The Accounts concerned here are Cash and Interest. As Cash has come in, Cash Account will be debited, and as Interest represents a source of income, Interest Account will be credited.

- (8) Received from A Rs. 175/- on account.

Here, as Cash has come in and as A has imparted the benefit, Cash Account will be debited and A's Account will be credited..

- (9) Purchased Goods worth Rs. 75/- for Cash from Y.

In this case, the transaction has resulted in Goods having come in and cash having gone out. Goods Account will, therefore, be debited and Cash Account credited. As the purchase was for cash, Y's Account cannot be credited. If it was a credit purchase, Y's Account would have been credited.

- (10) Bought Office Furniture from Devji Canji for Cash Rs. 500/-.

The Accounts affected here are Office Furniture and Cash. Office Furniture Account will be debited and Cash Account credited. It should be noted that Devji Canji does not become my Creditor, as cash has been paid to him at the time of purchase. Evidently, therefore, his Account cannot be credited.

SUMMARY.

As this Chapter is of very great importance to the student, it may not be out of place to briefly re-state the subject matter herein, as under :—

- (1) Book-keeping is the art of recording transactions in money or money's worth.
- (2) Its object is to show the trader :—
 - (a) How much his customers owe him.
 - (b) What he owes to other people.
 - (c) What profit or loss he makes in the business.
 - (d) What capital he has in his business, and what assets and liabilities make up such capital.
- (3) Every Business Transaction has a two-fold aspect.
- (4) In making a complete record of any business transaction, one account will have to be debited and some other account will have to be credited.
- (5) Double-Entry is the only scientific system of Book-keeping, as it records the double or two-fold effect of every transaction.

(6) For a proper record of all business transactions, accounts are classified into (a) Personal Accounts, (b) Real Accounts and (c) Nominal Accounts.

(7) Every debit has a corresponding credit, and the rule to be applied in debiting and crediting is to debit the Account that receives and credit the Account that gives.

NOTE :—The student should answer the questions and work the exercises, given at the end of each Chapter, carefully. It is only then that he will acquire a thorough grasp of the subject.

QUESTIONS ON CHAPTER I.

1. Define Book-keeping.
 2. Mention the classes into which Ledger Accounts are divided.
 3. Explain how the term "Double-Entry" arises.
 4. Give half-a-dozen instances each of Personal Accounts, Real Accounts and Nominal Accounts.
 5. What information would you expect a dealer to obtain from a set of Books properly maintained?
 6. Explain the meaning of the expression, "Every Business Transaction has a double aspect".
 7. When would you debit and when credit Personal Accounts?
 8. Give the rules for debiting and crediting Real and Nominal Accounts.
 9. Explain the necessity of maintaining Personal Accounts, Real Accounts and Nominal Accounts.
 10. Can every transaction be recorded through the Journal?
 11. What do you understand by Liabilities of a Business?
 12. How can you find out the Capital employed in any Business?
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CHAPTER II.

RULES FOR JOURNALISING.

The student must have seen from the illustrative transactions given in the previous Chapter that the leading principle of Double-Entry is that all money and goods received become debtors to him from whom they are received, and, on the other hand, all those who receive money or goods from us become debtors to the cash or to the goods.

It must be made clear, at this stage, that although all transactions find their ultimate place in shape of Accounts in a book called the Ledger, which is the chief book of Account, they are entered first in some other books which are known as "Books of Original Entry" and are subsequently transferred from such books to their respective Ledger Accounts. The Books of Original Entry are also called "Subsidiary Books" and the transferring of the entries from the Subsidiary Books into the Ledger is termed "Posting".

Journal is one of these Subsidiary Books, and we shall study its form and use in this Chapter. The Journal literally means "Daily Record", and, in former times, all transactions used to be entered in this book. Its use now is, however, restricted to the record of certain transactions, as, in modern Book-keeping, other Subsidiary Books have taken the place of Journal.

The Journal, however, is so ruled that all transactions *can* be passed through this book and, in order to enable the student to obtain a thorough mastery of the principles of debit and credit, it is very necessary for him to learn first how to journalise any transaction.

RULING OF THE JOURNAL.

(a) Date of the Transaction.	(b) Particulars of the Transaction.	(c) Ledger Folio.	(d) The Amount to be debited.			(e) The Amount to be credited.		
			Rs.	a.	p.	Rs.	a.	p.

Column (a) is used for entering the date of the transaction.

Column (b) is used for entering the names of the Accounts which are affected by each transaction.

Column (c) is used for entering the page number of the Account in the Ledger to which the entry is finally transferred.

Column (d) is used for entering the amount to be debited to account named, and

Column (e) for the amount to be credited to account named.

The transactions given in the previous Chapter are now entered in the Journal as shown below so as to enable the student to see for himself as to how this book is written up.

TRANSACTIONS:—

Example 1.

- (1) Sold goods Rs. 300 to A (on credit).
- (2) Bought goods Rs. 250 from B (on credit).
- (3) Paid B Rs. 200 cash on account.
- (4) Sold goods Rs. 400 for cash.
- (5) Paid Landlord, office rent Rs. 150.
- (6) Paid D his salary Rs. 75 for June.
- (7) Received Rs. 400 interest on Investments.
- (8) Received from A Rs 175 on account.
- (9) Purchased goods worth Rs. 75 for cash from Y.
- (10) Bought Office Furniture from Devji Canji for cash Rs. 500.

JOURNAL ENTRIES FOR THE ABOVE TRANSACTIONS :—

		Ledger Folio.	Rs.	Rs.
(1)	A To Goods Account (For Goods supplied to A)	Dr.	300	300
(2)	Goods Account To B (For Goods purchased from B)	Dr.	250	250
(3)	B To Cash Account (For Cash paid on account)	Dr.	200	200
(4)	Cash Account To Goods Account (For Cash Sales)	Dr.	400	400
(5)	Office Rent Account To Cash Account (For Office Rent paid)	Dr.	150	150
(6)	Salaries Account To Cash Account (For Salary paid to D for June)	Dr.	75	75
(7)	Cash Account To Interest Account (For Interest received on Investments)	Dr.	400	400
(8)	Cash Account To A (For Cash received on account)	Dr.	175	175
(9)	Goods Account To Cash Account (For Cash Purchases)	Dr.	75	75
(10)	Office Furniture Account To Cash Account (For Cash Purchase of Office Furniture)	Dr.	500	500
		Rs.	2,525	2,525

The student must carefully note the following points in connection with Journal Entries:—

(1) The Account representing anything coming into the business, or the Receiver of anything is debited.

(2) The Account representing anything going out of the business, or the Giver of anything is credited.

(3) There cannot be a complete record of any business transaction without debiting one Account and crediting another Account. In other words, for every debit, there must be a corresponding credit.

(4) This debiting of one Account and crediting of another Account can be done through a book called "Journal", and the recording of the transactions through the Journal is called "Journalising".

(5) All transactions must be entered in order of dates.

(6) The date of each transaction is entered on the left-hand side.

(7) In the body of the Journal, particulars are given, showing which Account must be debited, and which credited.

(8) While journalising any transaction, the entry is split up into two lines, the debit aspect of the transaction being placed in the first line, and the credit aspect on the second line. The money value of each side is shown in the debit and credit columns respectively opposite their appropriate headings.

(9) The word "Dr." must be written after the name of the Account to be debited, as shown above.

(10) Every entry in the Journal is followed by a short description of the nature of the transaction. This is known as the "Narration". Narration to every Journal Entry is necessary as it provides a source to which recourse may be had for an

explanation as to the nature of any transaction, and at the same time it saves the necessity of entering the narrative in the Ledger Accounts.

(11) The Ledger Folio Column is used to record the number of the folio in the Ledger to which the particular amount is posted. In the Ledger, there will be similar Folio Column in each Account, to record the number of the page of the Journal from which the entry comes.

Example 2,

Journalise the following transactions —

1928.		Rs.	A.	P.		
(a)	July 1	Bought Office Furniture from Kanji & Co.	600	0	0	Cr
(b)	" 5	" Goods from F. Roy	500	0	0	Cr
(c)	" 10	" " " P. Gupta	1,000	0	0	Cr
(d)	Aug. 1	Sold " to K. Peter	400	0	0	dr
(e)	" 5	" " " P. Turpin & Co.	700	0	0	dr
(f)	" 12	Bought " from C. Henry	450	0	0	Cr
(g)	" 17	" " " J. Jones	200	0	0	Cr
(h)	" 20	Sold " to S. Sorab & Co.	1,800	0	0	dr
(i)	" 23	" " " B. Byramji	175	0	0	dr
(j)	" 25	Received Cash from P. Turpin & Co.	300	0	0	Cr
(k)	" 27	" " " K. Peter	250	0	0	Cr
(l)	" 30	Paid " to F. Roy	100	0	0	dr
(m)	" 31	" " " P. Gupta	500	0	0	dr
(n)	Sept. 4	" Salaries	200	0	0	Cr
(o)	" 5	" Office Rent	75	0	0	Cr
(p)	" 7	Sold Goods for Cash	275	0	0	dr, Cr
(q)	" 8	Bought " " "	125	0	0	Cr, dr
(r)	" 11	Paid for Stationery	25	0	0	dr, dr
(s)	" 15	Received Cash from S. Sorab & Co.	1,475	0	0	dr
(t)	" "	" " " B. Byramji	175	0	0	Cr
(u)	" 17	Paid Cash to C. Henry	350	0	0	dr
(v)	" 19	" " " J. Jones	200	0	0	dr
(w)	" 20	Purchased Goods for Cash	100	0	0	dr, dr
(x)	" 25	Paid Kanji & Co.	600	0	0	dr

JOURNAL ENTRIES.

1928.		Ledger Folio.	Rs.	Rs.
(a) July 1	Office Furniture Account Dr. To Kanji & Co. (For Office Furniture bought)		600	600
(b) " 5	Goods Account Dr. To F. Roy (For Goods bought as per Inward Invoice No. 1)		500	500
(c) " 10	Goods Account Dr. To P. Gupta (For Goods bought as per Inward Invoice No. 2)		1,000	1,000
(d) Aug. 1	K. Peter Dr. To Goods Account (For goods supplied as per our Outward Invoice No. 1)		400	400
(e) " 5	P. Turpin & Co. Dr. To Goods Account (For Goods supplied as per our Outward Invoice No. 2)		700	700
(f) " 12	Goods Account Dr. To C. Henry (For Goods bought as per Inward Invoice No. 3)		450	450
(g) " 17	Goods Account Dr. To J. Jones (For Goods bought as per Inward Invoice No. 4)		200	200
(h) " 20	S. Sorab & Co. Dr. To Goods Account (For Goods supplied as per Outward Invoice No. 3)		1,800	1,800
	Carried over Rs.		5,650	5,650

JOURNAL ENTRIES—contd.

		Ledger Folio.	Rs.	Rs.
1928.	Brought over Rs.		5,650	5,650
(i) Aug. 23	B. Byramji Dr. To Goods Account (For Goods sold as per Outward Invoice No. 4)		175	175
(j) " 25	Cash Account Dr. To P. Turpin & Co. (For Cash received on account)		300	300
(k) " 27	Cash Account Dr. To K. Peter (For Cash received on account)		250	250
(l) " 30	F. Roy Dr. To Cash Account (For Cash paid on account)		100	100
(m) " 31	P. Gupta Dr. To Cash Account (For Cash paid on account)		500	500
(n) Sept. 4	Salaries Account Dr. To Cash Account (For Salaries paid)		200	200
(o) " 5	Office Rent Account Dr. To Cash Account (For Office Rent for Aug. paid)		75	75
(p) " 7	Cash Account Dr. To Goods Account (For Cash Sales)		275	275
(q) " 8	Goods Account Dr. To Cash Account (For Cash Purchases)		125	125
	Carried over Rs.		7,650	7,650

JOURNAL ENTRIES—contd.

			Ledger Folio.	Rs.	Rs.
1928.		Brought over Rs.		7,650	7,650
(r)	Sept. 11	Printing & Stationery A/c. Dr. To Cash Account (For Stationery Bill paid)		25	25
(s)	" 15	Cash Account Dr. To S. Sorab & Co. (For Cash received on account)		1,475	1,475
(t)	" "	Cash Account Dr. To B. Byramji (For Cash received on account)		175	175
(u)	" 17	C. Henry Dr. To Cash Account (For Cash paid on account)		350	350
(v)	" 19	J. Jones Dr. To Cash Account (For amount paid on account)		200	200
(w)	" 20	Goods Account Dr. To Cash Account (For Cash Purchases)		100	100
(x)	" 25	Kanji & Co. Dr. To Cash Account (For amount paid)		600	600
		Total Rs.		10,575	10,575

EXPLANATION OF THE ABOVE JOURNAL ENTRIES:—

Transaction (a)—Office Furniture is received by us and Kanji & Co. give us the same. Therefore, Office Furniture Account is debited and Kanji & Co.'s Account is credited.

Transaction (b)—Here, as Goods are received, Goods Account is debited, and as F. Roy imports us the benefit of same, his Account is credited.

Transaction (c)—Same as (b).

„ (d)—In this case, we part with the Goods and K. Peter receives the same. Therefore, K. Peter's Account is debited and Goods Account is credited.

Transaction (e)—Same as (d).

„ (f)—Same as (b).

„ (g)—Same as above.

„ (h)—Same as (d).

„ (i)—Same as above.

„ (j)—Cash is received and Turpin & Co. give us the same. Therefore, Cash Account is debited and Turpin & Co.'s Account is credited.

Transaction (k)—Same as above.

„ (l)—Here, we part with Cash and F. Roy receives the same. Therefore, F. Roy's Account is debited and Cash Account is credited.

Transaction (m)—Same as above.

„ (n)—Here Cash is paid on account of salaries. Therefore, Salaries Account is debited and Cash Account is credited.

Transaction (o)—Same as above.

„ (p)—Here, Cash is received and Goods go out. Therefore, Cash Account is debited and Goods Account is credited.

Transaction (q)—In this case, Goods are received and Cash is parted with. Therefore, Goods Account is debited and Cash Account is credited.

Transaction (r)—Same as (n) and (o).

„ (s)—As Cash is received and Sorab & Co. pay us the same, Cash Account is debited and Sorab & Co.'s Account is credited.

Transaction (t)—Same as above.

Transaction (u)—As Cash is parted with and Henry receives it, Henry's Account is debited and Cash Account is credited.

Transaction (v)—Same as above.

„ (w)—Same as (q).

„ (x)—Same as (v).

The above transactions when posted to their respective Ledger Accounts will appear as set out below. In order that the student may trace each and every entry into the Ledger Account concerned, every transaction is given an alphabetical letter and the same letter is indicated against the entry in the Ledger Account.

KANJI & Co. ✓

1928 Sept. 25	To Cash	...	x	Rs. 600	1928 July 1	By Office Fur- niture	...	a	Rs. 600
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F. ROY. ✓

1928 Aug. 30	To Cash	...	l	Rs. 100	1928 July 5	By Goods	...	b	Rs. 500
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P. GUPTA. ✓

1928 Aug. 31	To Cash	...	m	Rs. 500	1928 July 10	By Goods	...	c	Rs. 1,000
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K. PETER. ✓

1928 Aug. 1	To Goods	...	d	Rs. 400	1928 Aug. 27	By Cash	...	k	Rs. 250
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P. TURPIN & Co. ✓

1928 Aug. 5	To Goods	...	e	Rs. 700	1928 Aug. 25	By Cash	...	j	Rs. 300
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C. HENRY. ✓

1928 Sept. 17	To Cash	...	u	Rs. 350	1928 Aug. 12	By Goods	...	f	Rs. 450
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J. JONES. ✓

1928 Sept. 19	To Cash	...	v	Rs. 200	1928 Aug. 17	By Goods	...	g	Rs. 200
------------------	---------	-----	---	------------	-----------------	----------	-----	---	------------

S. SORAB & Co. ✓

1928 Aug. 20	To Goods	...	h	Rs. 1,800	1928 Sept. 15	By Cash	...	s	Rs. 1,475
-----------------	----------	-----	---	--------------	------------------	---------	-----	---	--------------

B. BYRAMJI. ✓

1928 Aug. 23	To Goods	...	i	Rs. 175	1928 Sept. 15	By Cash	...	t	Rs. 175
-----------------	----------	-----	---	------------	------------------	---------	-----	---	------------

OFFICE FURNITURE ACCOUNT.

1928 July 1	To Kanji & Co.		a	Rs. 600					
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GOODS ACCOUNT.

1928				1928			
July 5	To F. Roy ...	b	Rs. 500	Aug. 1	By K. Peter ...	d	Rs. 400
" 10	" P. Gupta ...	c	1,000	" 5	" P. Turpin & Co. ...	e	700
Aug. 12	" C. Henry ...	f	450	" 20	" S. Sorab & Co. ...	h	1,800
" 17	" J. Jones ...	g	200	" 23	" B. Byramji... i		175
Sept. 8	" Cash ...	q	125	Sept. 7	" Cash ...	p	275
" 20	" Cash ...	w	100				

CASH ACCOUNT.

1928				1928			
Aug. 25	To P. Turpin & Co. ...	j	Rs. 300	Aug. 30	By F. Roy ...	l	Rs. 100
" 27	" K. Peter ...	k	250	" 31	" P. Gupta ...	m	500
Sept. 7	" Goods ...	p	275	Sept. 4	" Salaries ...	n	200
" 15	" S. Sorab & Co. ...	s	1,475	" 5	" Office Rent... o		75
" 15	" B. Byramji... t	t	175	" 8	" Goods ...	q	125
				" 11	" Printing and Stationery	r	25
				" 17	" C. Henry ...	u	350
				" 19	" J. Jones ...	v	200
				" 20	" Goods ...	w	100
				" 25	" Kanji & Co x	x	600

SALARIES ACCOUNT.

1928							
Sept. 4	To Cash ...	n	Rs. 200				

OFFICE RENT ACCOUNT.

1928							
Sept. 5	To Cash ...	o	Rs. 75				

PRINTING & STATIONERY ACCOUNT.

1928							
Sept. 11	To Cash ...	r	Rs. 25				

QUESTIONS ON CHAPTER II.

1. What is Journal? Explain Journalising.
2. On What principle does Double-Entry Book-keeping rest?
3. What kind of dealings requires a Personal Account?
4. How do you open a Personal Account?
5. Explain the expression, "Every Journal Entry should have a Narration."
6. What do you understand by Ledger?
7. What is the advantage of maintaining a Ledger?
8. Will it not do to simply journalise the transactions and not transfer these in the Ledger?

EXERCISE No. 1.

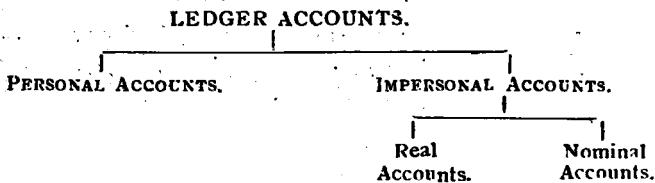
Journalise the following transactions:—

1929.		Rs.
Jan. 5	Bought Goods from Smith & Co.	2,000
" 7	Sold Goods to King & Co.	600
" 8	Sold Goods to W. Martin	700
" 10	" " " James and Co. for cash	500
" 12	Received Cash from King & Co.	350
" 13	" " Cheque from W. Martin on account	400
" 15	Paid Smith & Co. on account	1,200
" 16	Bought Goods from Hiraji & Co.	900
" 17	Sold Goods for Cash to Longman & Co.	975
" 18	Sold Goods to P. Rao	325
" 19	King & Co. return us Goods worth	75
" "	We return Goods to Smith & Co. worth	100
" 20	Bought Goods from Gupta & Co. for Cash	200
" 21	Gave Loan to W. Brown	200
" 22	Received for Cash Sales	375
" 27	Bought Goods from Henry & Co.	300
" 28	Sold Goods to W. Green	400
" 29	Paid for Office Rent	150
" 30	" " Salaries	250
" "	" " Sundry Trade Expenses	35
" "	Purchased Goods for Cash	100
" "	Bought Office Furniture for Cash	75
" 31	" " " from Devji & Co.	500

CHAPTER III.

LEDGER ACCOUNTS.

The following Diagram shows the division of Accounts into different classes:—



As has been already stated, the Ledger is the chief book of Account, and it is in this book that all the business transactions would ultimately find their place under their respective accounts in a duly classified form. This process of transferring the transactions which have been previously recorded in the Journal into the appropriate accounts in the Ledger is called "Posting." The *debit aspects* of the transactions as entered in the debit column of the Journal are posted to the *debit side* of the Ledger Accounts concerned, whilst the *credit aspects* are entered on the *credit side*. In posting the entries from the journal, therefore, each item is entered into the Ledger, on the same side as it appears in the journal; thus, a debit amount in the Journal would become a debit amount in the Ledger and a credit amount in the Journal would become a credit amount in the Ledger.

The importance of transferring all the entries from the Journal into the Ledger in a well-arranged and classified form needs to be thoroughly understood. Now, one of the objects of Book-keeping is to ascertain, with the least amount of trouble, what is owing to a dealer by each of his customers, and what is owing by him to each of his creditors, and it is clear that this cannot be readily done by recording the transactions in the

Journal alone. For instance, if at different times I sell goods on credit to A, and at different times he pays me cash on account of his debt, I cannot readily tell from a look at the Journal entries to what extent A is indebted to me, on any one particular date. In order to get this information, I must search through all the entries relating to goods sold to A, and thus ascertain the total value of the goods I have sold him. Then again, I must sort out entries relating to the various sums of money I have received from him to find out the total amount paid by him. It is clear, therefore, that if this process is to be gone through in order to ascertain my position with every person or firm I deal with, the object of Book-keeping would be only partly realised. Some readier means of bringing together the entries referring to each person or firm must, therefore, be found. This is done by collecting and condensing in another book, called the Ledger, in the form of Debtor and Creditor Accounts, all the entries relating to each person which so far stand dispersed through the Journal. This is why the Ledger becomes an indispensable book in Account-keeping.

The following examples would further illustrate the manner in which Personal, Real and Nominal Accounts are written in the Ledger.

Example 3.

Write out the Account of B. Thomas from the following transactions:—

1928.

- Jan. 1 Sold ^{him} him Goods, invoiced at Rs. 900/-.
- " 5 He sent me Rs. 350/- on account.
- " 7 Purchased from him Goods worth Rs. 300/-.
- " 10 Received from him further Cash Rs. 100/-.
- " 11 Sold him Goods Rs. 150/-.
- " 12 He returned to me Goods Rs. 50/-.
- " 14 I lent him Rs. 125/-.
- " 18 He repaid the loan Rs. 125/-.

Dr.		B. THOMAS.		Cr.			
1928		Folio.	Rs.	1928		Folio.	Rs.
Jan. 1	To Goods...		900	Jan. 5	By Cash ...		350
11	„ Goods...		150	7	„ Goods...		300
24	„ Cash ...		125	10	„ Cash ...		100
				12	„ Goods...		50
				18	„ Cash ...		125
				31	„ Balance carried down ...		250
		Rs.	1,175			Rs.	1,175
Feb. 1	To Balance brought down...		250				

Example 4.

From the following transactions, make out the Account of S. Green:—

1928.

Feb. 7 Bought from him Goods worth Rs. 800.

„ 12 Sent him Cash on account Rs. 200.

„ 15 Supplied him Goods, as ordered Rs. 75.

„ 17 Bought from him Goods, Rs. 100.

„ 20 Sent him Goods Rs. 425.

„ 21 Sent him Cash Rs. 100.

Dr.		S. GREEN.					
1928		Folio.	Rs.	1928		Folio.	Rs.
Feb. 12	To Cash ...		200	Feb. 7	By Goods ...		800
15	„ Goods...		75	17	„ „ ...		100
20	„ „ ...		425				
21	„ Cash ...		100				
28	„ Balance carried down ...		100				
		Rs.	900			Rs.	900
				Mar. 1	By Balance brought down ...		100

Example 5.

From my above transactions with B. Thomas and S. Green, prepare my Cash Account and Goods Account.

Dr.		CASH ACCOUNT.				Cr.	
1928		Folio.	Rs.	1928		Folio.	Rs.
Jan. 5	To B. Thomas		350	Jan. 14	By B. Thomas		125
" 10	" "		100	Feb. 12	" S. Green		200
" 18	" "		125	" 21	" "		100
				" "	<u>Balance</u>		
				" "	<u>carried</u>		
				" "	<u>down</u>		150
		Rs.	575			Rs.	575
Feb. 22	To Balance brought down ...		150				

Dr.		GOODS ACCOUNT.				Cr.	
1928		Folio.	Rs.	1928		Folio.	Rs.
Jan. 7	To B. Thomas		300	Jan. 1	By B. Thomas		900
" 12	" "		50	" 11	" "		150
Feb. 7	" S. Green		800	Feb. 15	" S. Green		75
" 17	" " "		100	" 20	" " "		425

150 THE POINTS TO BE NOTED ARE:—

- ✓ 1. The transactions are entered in the Ledger Accounts in order of dates.
- ✓ 2. Every entry must be dated, and the date shown on the left-hand side of the entry.
- ✓ 3. Each entry on the debit (left-hand) side of the Account commences with the word "To".
- ✓ 4. Each entry on the credit (right-hand) side of the Account commences with the word "By."

✓5. The transactions in respect of which the Accounts receive benefit from us in shape of cash or goods are entered on the debit side and those which result in their giving us benefit in cash or goods are entered on the credit side.

✓6. In the Folio Column of the Ledger Accounts would be entered the pages of the Journal from which the entries are here posted i. e., transferred. Similarly, in the Folio Column of the Journal, the page of the Ledger Account to which the entry is posted is entered.

BALANCING PERSONAL ACCOUNTS.

It will be remembered that "the Receiver is debited and the Giver is credited", and in order to find out, in case of Personal Accounts, whether the person in question has received more than he has given, or *vice versa*, and consequently, whether there is any amount due by that person or due to that person, on any particular date, it is necessary to balance that Account. This process is known as "Balancing the Account" or "Striking the Balance".

Whenever it is desired to balance an Account, the two sides are added up, and if the debit and credit totals are unequal, the difference is inserted on the lesser side, to make the two sides equal. The amount which is thus found necessary to insert is the *balance* of the account.

If the total of the debit side is heavier than the credit, the balance will fall on credit side with the words "By Balance carried down". It is important to note, however, that such a balance would be called a "Debit Balance", and, after closing the Account, it will be shown again on the debit side with the words "To Balance brought down". It would then mean that the person is our *debtor* to the extent of the balance on the date the account is balanced.

If the credit total of an account is heavier than the debit, the difference would signify a *credit balance*, and the amount will have to be put on the debit side to make the two sides equal, with the words "To Balance carried down." After closing the Account, the balance will again be shown on the credit side with the words "By Balance brought down," and it

would then mean that the person is our *creditor* to the extent of the balance.

Balancing of Personal Accounts at periodical intervals is very necessary in order that the result of the transactions with any particular person for a given period, may be seen at a glance in a concrete form. Besides, it is after balancing the Personal Accounts on any date that the dealer can ascertain the total amount of his Debtors and Creditors, i. e., the debts *owing to* the business and the amounts *owing by* the business.

In Example 3, the Account of B. Thomas is debited with the value of the Goods and Cash he has received from us and is credited with the value of the Goods and Cash he has given to us. It is found on 31st January, that whereas the total benefit he has received from us during the month amounts to Rs. 1,175/-, the total benefit imparted by him to us amounts to Rs. 925/- only. His Account, therefore, shows a debit balance of Rs. 250/-, the debit side being heavier by that amount. This balance is shown on the credit side to make the two sides equal, and the same is brought down on the debit side to indicate that, to begin the month of February, he was our debtor for Rs. 250/-.

In Example 4, S. Green has imparted benefit to us to the extent of Rs. 900/-, whereas the benefit he has received from us amounts only to Rs. 800/-. He is, therefore, our Creditor to the extent of Rs. 100/-, which fact is shown by bringing that balance down on the credit side of his Account. This indicates that, on the 1st March, he was our creditor for Rs. 100.

CASH ACCOUNT.

The object of Cash Account is to keep a record of all Cash received and all Cash paid, from day to day. All sums received are entered on the Debit (left-hand) Side, and all sums paid are entered on the Credit (right-hand) Side of the Cash account. This Account belongs to the class of Real Accounts, as it records dealings in *property*.

When the total of the Receipts Side is the same as the total of the Payments Side, it would signify that the whole of

the Cash received is used in payments, and there is no Cash on hand. If the Receipts Side is heavier than the Payments Side, the difference would signify that there is so much *Cash Balance* on hand.

When it is desired to close the Cash Account, the difference between the two sides is entered on the Credit Side, with the words "By Balance carried down". The two sides will now be equal, and the balance will be brought down on the Debit Side, with the words "To Balance brought down".

It is important to note that, if there is any balance of Cash on hand, the Cash Account must necessarily show a debit balance. You can never pay away more cash than you have received, and, therefore, the Credit Side of a Cash Account can never be greater than the Debit Side.

All Money Orders, Postal Orders, Bank Notes and Cheques received should be treated as Cash.

The advantage of keeping a Cash Account lies in the fact that it shows the trader his cash dealings and helps him to check the cash balance on hand, from time to time. If at any time he wishes to test the accuracy of the cash balance as found in the cash box, he has to balance the Cash Account, i. e., find out by what amount the receipts are heavier than the payments. The cash balance thus ascertained from the Cash Account must tally with the actual sum on hand. Should the apparent balance and the actual cash on hand not agree, it is evident that either an error has been made in entering up the Cash Account or some cash has been stolen. It is thus that the Cash Account serves as a check on the Cash Balance.

In Example 5, the Cash Account shows that the total Cash received during the months of January and February amounts to Rs. 575/- whereas the total Cash paid out during the same period amounts to Rs. 425/-. In other words, the total receipts exceed the payments by Rs. 150/-. This balance is shown on the credit side to make the two sides equal, and is again brought down on the debit side to indicate that there was a cash balance of Rs. 150/- on hand on the date of closing.

GOODS ACCOUNT.

The object of opening a Goods Account is to record therein all the Goods purchased and the Sales made thereout, in order to enable a trader to find out for himself as to whether his dealings in Goods have resulted in a profit or loss.

The Goods Account is a Real Account as it is an Account of *property*, and not an Account with a person.

On the Debit Side (left-hand side) of this Account will be entered the value of all the Goods purchased by the trader in order of dates, and on the Credit Side (right-hand side) the value of all Goods sold. If all the Goods purchased are sold out, the Credit Side will be heavier. This is evident, as the sales will have fetched a higher price than the cost of the purchase. The credit balance will then represent the profit made by the dealer in the buying and selling of Goods. This profit, however, is called "Gross Profit", and after all the other expenses incurred in carrying on the business are deducted from it, the dealer would be able to find out what his "Net Profit" in the business has been. The term "Net Profit", therefore, means the actual profit made by the dealer in the business, during a particular period.

A dealer, however, will most likely have some *unsold Goods* on hand, at the end of the year, as the whole of the Goods purchased may not have been sold. In such a case, before he can find out profit or loss made on the buying and selling of Goods, he must first ascertain *the value of the Goods on hand*, and enter this amount on the Credit Side of the Goods Account. This is necessary, as unless the value of unsold Goods is shown on the same side as the sales, the Goods Account would be incomplete.

The value of the unsold Goods on hand is always ascertained by *taking stock*, i. e., by making a list of all the articles unsold and valuing these at cost price. It is after placing the value of the unsold stock on the Credit Side of the Goods Account that the Goods Account will be balanced. If the Credit Side is heavier,

the balance will represent *gross profit*. If the Debit Side is heavier, the difference will mean *gross loss*.

From Example 5, looking at the Goods Account it appears that the value of the total Goods received during the months of January and February amounts to Rs. 1,250/-. This fact is indicated on the debit side of the Goods Account. The credit side of this Account discloses the fact that the total Goods sold during these two months amount to Rs. 1,550/-. Thus, the total Goods purchased amount to Rs. 1,250/- whereas the sales amount to Rs. 1,550/-. If the whole of the Goods purchased are sold out and there is no balance of unsold Goods on hand, the credit balance of Rs. 300/- means that a profit of Rs. 300/- (Gross Profit) has been made on the buying and selling of Goods.

If we assume, however, that on the date of closing there was a balance of unsold Goods amounting to Rs. 400/-, then this amount will have to be shown on the credit side of the Goods Account with the words "By Balance". After this value of Closing Stock is placed on the credit side, the difference between the two sides of the Goods Account will now show the gross profit.

The following illustration serves to indicate as to how the Goods Account will be closed (a) when there is no balance of unsold Stock on hand, and (b) when we assume that the unsold Stock amounted to Rs. 400/-.

Dr.		(a) GOODS ACCOUNT.		Cr.			
1928		Fol.	Rs.	1928		Fol.	Rs.
Jan. 7	To B. Thomas		300	Jan. 1	By B. Thomas		900
" 12	" " "		50	" 11	" " "		150
Feb. 7	" S. Green ...		800	Feb. 15	" S. Green ...		75
" 17	" " "		100	" 20	" " "		425
" 20	" Gross Profit ...		300				
		Rs.	<u>1,550</u>			Rs.	<u>1,550</u>

Dr.		(b)		GOODS ACCOUNT.		Cr.	
1928		Fol.	Rs.	1928		Fol.	Rs.
Jan. 7	To B. Thomas.		300	Jan. 1	By B. Thomas		900
" 12	" " "		50	" 11	" " "		150
Feb. 7	" S. Green ...		800	Feb. 15	" S. Green ...		75
" 17	" " "		100	" 20	" " "		425
" 20	" Gross Profit ...		700	" "	" Balance carried down ...		400
		Rs.	1,950			Rs.	1,950
Feb. 21	To Balance brought down ...		400				

CLOSING OF REAL ACCOUNTS.

Real Accounts are always closed by Balance, and the balance would always be a *Debit Balance*. The reason is that whatever is in possession of the trader on any one date must have been received by him on some previous occasion, and all incomings of assets or properties are entered on the debit side. As the student will learn later on, the balances on Real Accounts are transferred by the trader to another statement called the "Balance Sheet", whenever he wishes to ascertain his exact financial position showing what Assets he possesses and what Liabilities he owes on any one date.

CLOSING OF NOMINAL OR FICTITIOUS ACCOUNTS.

Whereas Real Accounts are accounts of things which belong to the proprietor of the business in shape of property, cash or goods, and record the incomings and outgoings of these, Nominal or Fictitious Accounts, are so called because, unlike Real Accounts, they do not represent anything real. They are accounts showing the various heads of expenses and sources of income, and help towards preparation of the *Profit & Loss Account*. By transferring all the gains on the credit side of Profit and Loss Account and setting off against these all the expenses incurred in carrying on the business on the debit

side, the dealer is able to find out what Net Profit or Net Loss he has made during any given period. Nominal Accounts are thus closed by transfer to Profit and Loss Account.

CAPITAL ACCOUNT.

The position of the trader in relation to his business is reflected in his Capital Account. The trader's own account in the business would, therefore, be his Capital Account which would be written up just like any other Personal Account.

DRAWINGS ACCOUNT.

It is desirable, however, that the withdrawals of money from out of the business by the proprietor for his personal use should be shown, in the first instance, on a separate account called the "Drawings Account". At the end of each financial period, the total amount withdrawn as shown by the debit side of the Drawings Account should be transferred to the debit of the Capital Account. The object of the Drawings Account is thus to show in details what sums of money the trader has withdrawn from the business for his personal use. The reason for transferring the total drawings to the Capital Account is that such withdrawals necessarily reduce the capital the trader had originally contributed in the business.

SUMMARY.

1. All transactions originally entered in the Journal must subsequently be transferred to their proper accounts in the Ledger.

2. The object of Ledger Accounts is to clearly indicate the position of each account in relation to the trader.

3. The double effect of every transaction is thus reflected in the Ledger in shape of accounts in a well-arranged form for clearness and easy reference.

4. Personal Accounts serve to indicate whether the person is a debtor or creditor of the trader on any one date.

5. Real Accounts serve to show the incomings and outgoings of the several assets dealt in by the trader.

6. Nominal Accounts serve to show under what headings expenses were incurred in carrying on the business and what were the sources of income.

7. Personal and Real Accounts are closed by "balance", and Nominal Accounts are closed by transfer to Profit and Loss Account.

8. Goods Account should not be closed until the value of "unsold goods" is shown on the credit side of that Account.

9. The difference between the debit total and the credit total in any account is called the "Balance".

10. If the debit total is larger, the balance is a debit balance. This balance will be placed on the credit side to make the two sides equal, and will be again brought down on the debit side, after closing the account.

11. If the credit total is heavier, the balance is a credit balance. This balance will be placed on the debit side to make the two sides equal, and will be again brought down on the credit, after closing the account.

12. Personal Accounts should only be debited or credited when there is a *credit* transaction. Where the transaction is for *cash* there is no need to open a Personal Account.

13. The trader's own account is known as the Capital Account.

14. The Drawings Account serves to indicate in details the amount withdrawn by the trader for his personal use.

15. Whereas the amount of Capital contributed by the trader is shown on the credit side of his Capital Account, the sums withdrawn by him for personal use appear on the debit of the Drawings Account.

16. At the end of each financial period, the Drawings Account is closed by transfer to the Capital Account.

QUESTIONS ON CHAPTER III.

1. What is an Account?
2. What do you mean by "Balancing an Account"?
3. How do you close a Personal Account? What does a Balance on a Personal Account signify?
4. Why should you maintain a Cash Account?
5. How do you write up a Cash Account?
6. What balance would a Cash Account always show? What would that Balance mean?
7. How do you close a Cash Account? When may there be no Balance in a Cash Account?
8. What purpose do Real Accounts serve?

9. How does a Real Account differ from a Personal Account?
10. How does a Nominal Account differ from a Real Account?
11. Why is a Goods Account kept?
12. How is Goods Account closed?
13. Which side of the Goods Account "should be heavier, if I have gained on my Goods?"
14. Name some of the Real Accounts ordinarily opened in a trader's Ledger.
15. Show the value of Cash Account in detecting fraud or mistake.
16. How do you expect Goods Account to show if I have lost on my Goods?
17. Explain the meaning of "Stock-Taking."
18. What do you understand by "Gross Profit" and "Net Profit?"
19. How are Real Accounts closed?
20. How are Nominal Accounts closed?
21. Explain the use of the Capital Account and the Drawings Account.
22. How is the Drawings Account closed?

EXERCISE No. 1.

Journalise the following transactions and post the same to their respective Ledger Accounts:—

1929		Rs.
Jan. 3	R. Rao commences business with ...	5,000
" 4	Purchased from B. Bath, goods on credit ...	600
" 6	Sold to C. Cocktail, goods ...	500
" 7	" goods for cash ...	250
" 8	Bought goods from B. Butler ...	450
" 13	Sold goods to D. Doctor ...	750
" 15	Purchased goods for cash ...	800
" 17	Sold goods for cash ...	350
" 20	Bought from T. Taylor, goods ...	900
" "	Sold to E. Earnest, goods ...	275
" 21	" " F. Flower, " ...	375
" 24	Received from C. Cocktail ...	200
" "	" " D. Doctor ...	400

LEDGER ACCOUNTS.

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1929		Rs.
Jan. 25	Paid to B. Bath on account	300
" "	" " T. Taylor	500
" 26	Received from D. Doctor cheque	100
" "	Bought goods for cash	690
" 27	Paid to B. Butler	150
" "	Sold goods to W. Turner	600
" "	" " " P. Pope	175
" "	Bought goods from Thomson & Co.	325
" 28	" " " C. Maxwell	200
" "	Remitted cash to B. Bath	200
" "	" " " B. Butler	100
" "	" " " T. Taylor	400
" 29	Received cash from C. Cocktail	200
" "	" " " D. Doctor	125
" "	" " " E. Earnest	75
" "	" " " F. Flower	175
" "	Purchased goods for cash	200
" "	Sold goods for cash	225
" 30	E. Earnest returned goods	25
" "	F. Flower " "	50
" "	W. Turner " "	200
" 31	Returned goods to Thomson & Co.	60
" "	" " " C. Maxwell	30
" "	" " " B. Butler	40
" "	Received goods returned from P. Pope	45
" "	Paid for Office Rent	150
" "	" " Salaries	275
" "	" " Stationery	35
" "	Sent cash to C. Maxwell	70
" "	R. Rao withdrew for his personal use	300
	Value of unsold goods on hand Rs. 1,900/-	

CHAPTER IV.

SUB-DIVISIONS OF JOURNAL.

PURCHASES BOOK—SALES BOOK—RETURNS INWARDS AND OUTWARDS BOOKS.

From the previous pages, the student must have seen how it is possible to record any conceivable series of transactions through the two books—the Journal and the Ledger. These are, no doubt, the main books in Double-entry Book-keeping even now; but, if all business transactions were passed through the Journal, the labour of recording each transaction with its separate narration in the Journal and then posting each such entry to two different accounts in the Ledger would be enormous in a business of any large dimensions necessarily involving a large number of transactions. Labour-saving methods have, therefore, been applied to the art of Book-keeping.

Experience has shown that transactions in a trading or manufacturing concern consist mainly of:—

- (1) Receipts or Payments of Cash; and
- (2) Purchases or Sales of Goods; and it has been found that if *transactions of a similar nature were recorded together*, through some altered forms of the Journal, a considerable amount of labour can be saved. We find, therefore, that in modern Book-keeping, the original Journal has been superseded by subsidiary Journals, each used for recording a certain class of transactions.

The following Subsidiary Journals have thus found their place in modern Book-keeping:—

- (1) The PURCHASES BOOK to record all *Credit Purchases*.
- (2) The SALES BOOK to record all *Credit Sales*.

- (3) The RETURNS INWARDS BOOK to record all goods returned to us by our customers.
- (4) The RETURNS OUTWARDS BOOK to record all goods returned by us to our suppliers.
- ↓ (5) The CASH BOOK to record all cash received and paid.
- (6) The BILLS RECEIVABLE BOOK to record all Bills received duly accepted by our debtors.
- (7) The BILLS PAYABLE BOOK to record all Bills granted by us to our creditors.

The original JOURNAL is now retained only for the purpose of recording transactions of an extraordinary nature which do not fall within any of the above sub-divisions.

We now proceed to consider the Purchases and the Sales Books and the Returns Inwards and Outwards Books in this Chapter.

THE PURCHASES BOOK. (INVOICE)

This book is used for the purpose of recording all *Credit Purchases* of goods. It is also known as the Invoice Book, Bought Book or Purchases Journal.

When goods are bought by us on credit, we receive through the Post or along with the goods themselves, a statement giving the particulars of the goods we have purchased. This statement is called an Invoice.

On receipt of each such Invoice, the quantities of goods as shown therein will be compared with the quantities actually received. It would also be seen as to whether the rates charged are proper and that all calculations are correct. On the Invoice having been checked in this manner, it would be given a running number, after which the contents will be entered in the Purchases Book. Each Invoice would then be properly filed in consecutive order.

The following illustration shows how a Purchase Invoice will appear :—

FORM OF INVOICE.

T. A. "Finestuff", 117, New Street.
Cawnpore. Cawnpore, 21st Jan. 1929.
Tel. 4158.

Messrs. P. Cullindas & Co., Bombay.
Bought of SMITHSON & Co.,
Leather Merchants, Cawnpore.

Terms 2½ per cent., 30 days.

	Rs.	a.	p.
10 doz. Black Box Calf Stout 1287 ft. @ 12 annas per ft.	965	4	0
4 " Coloured Box Calf Stout 469½ ft. @ Re. 1 per ft.	469	12	0
20 " Brown Calf @ Rs. 40 per doz. ...	800	0	0
10 " Waxed Calf Quality No. 1 296 lbs. @ Rs. 2⅞ per lb.	740	0	0
	2,975	0	0
Less Trade Discount 10%	297	8	0
	Rs. 2,677	8	0

Per G. I. P. Rly., Carriage Paid.

It must be noted that only *Credit Purchases* should be entered through this book. While entering the Invoices in the Purchases Book, it is not at all necessary to record full details in the Purchases Book, as the Invoices themselves are carefully filed and are available for reference whenever it is necessary to look into the details of any purchase.

The following example will enable the student to see how Credit Purchases are entered in the Purchases Book:—

Example 6.

Enter the following transactions in the Bought Book :—
1929.

- Jan. 5 Bought of B. Bansilal, Bombay—
10 lbs. Cocoa at Re. 1 per lb.
15 " Tea at Rs. 1-14 per lb.
- " 7 Bought of A. Arnold, Rangoon—
12 bags Rice at Rs. 20 a bag.
- " 10 Bought from C. Chatterji, Calcutta—
3 cwt. Sugar at Rs. 14 per cwt.

- Jan. 15 Bought of D. Douglas, Madras—
 5 Chests Tea each 28 lbs. @ Rs. 1/2 per lb.
 25 lbs. Coffee @ Re. 1/-per lb.
- „ 22 Purchased from Desai & Co., Surat—
 10 Boxes of Indian Biscuits each of 5 lbs. @ Ans. 6 a lb. and
 9 Boxes of Indian Sweets, each of 5 lbs. @ Ans. 12 per lb.
- „ 31 Bought of Damodar & Co., Bombay—
 2 cwt. Sugar @ Rs. 13/8 per cwt.
 20 lbs. Tea @ Rs. 1/3 per lb.
 10 „ Coffee @ Ans. 15' per lb.

* PURCHASES BOOK.

Date.	Particulars.	L. F.	Amount.		
			Rs.	as.	ps.
1920					
Jan. 5	B. Bansilal, Bombay, Goods as per Invoice No. 1	...	38	2	0
„ 7	A. Arnold, Rangoon, Goods as per Invoice No. 2	...	240	0	0
„ 10	C. Chatterji, Calcutta, Goods as per Invoice No. 3	...	42	0	0
„ 15	D. Douglas, Madras, Goods as per Invoice No. 4	...	182	8	0
„ 22	Desai & Co., Surat, Goods as per Invoice No. 5	...	41	4	0
„ 31	Domodar & Co, Bombay, Goods as per Invoice No. 6	...	60	2	0
		Rs.	604	0	0

From the above, it would be seen that all that is necessary is to enter in the Purchases Book the date of the purchase, the name and address of the seller, the consecutive number of the Invoice and the total amount of the Invoice. As has been said before, it is useless to copy each Invoice in this book as it would simply mean unnecessary duplication of work. By means of references to the Invoice numbers in the Purchases Book, any details required as to any particular purchase can be promptly ascertained whenever desired. The Invoice File is carefully retained by the purchaser as a permanent record of the purchase and its costs.

The student will thus remember that the entries in the Purchases Journal originate from Invoices Inwards.

POSTING THE PURCHASES BOOK.

A separate account will have to be opened in the Ledger for each supplier of goods and the amount of each purchase would be *credited* to its respective Personal Account. The Double-Entry of this book would be completed by taking the monthly total of the purchases and debiting the same to Goods Account.

If every credit purchase were recorded in the Journal, the entry for each such transaction would be to debit the Goods Account and credit the Personal Account of the supplier. Further, each such entry would need to be posted, once to the debit of the Goods Account and than again to the credit of the Personal Account. There is, however, no particular advantage to be gained by debiting each credit purchase individually to Goods Account, and a considerable saving of labour in posting is brought about by adopting the subsidiary Journal called the Purchases Book for the record of all Credit Purchases. (From this book, whereas *individual credit* would be given to each Personal Account concerned, the debit to the Goods Account need only be given *in total* periodically.)

The above entries in the Purchases Book, when posted into the Ledger, will appear as under :—

Dr.	B. BANSILAL, Bombay.				Cr.
	Rs.	a.	p.	1929	Rs. a. p.
				Jan 5	By goods ... 38 2 0

Dr.	A. ARNOLD, Rangoon.				Cr.
	Rs.	a.	p.	1929	Rs. a. p.
				Jan 7	By Goods ... 240 0 0

Dr.		C. CHATTERJI, Calcutta.				Cr.		
		Rs.	a.	p.	1929	Rs.	a.	p.
					Jan. 10	By Goods ...	42	0 0

Dr.		D. DOUGLAS, Madras.				Cr.		
		Rs.	a.	p.	1929	Rs.	a.	p.
					Jan. 15	By Goods ...	182	8 0

Dr.		DESAI & Co., Surat.				Cr.		
		Rs.	a.	p.	1929	Rs.	a.	p.
					Jan. 22	By Goods ...	41	4 0

Dr.		DAMODAR & Co., Bombay.				Cr.		
		Rs.	a.	p.	1929	Rs.	a.	p.
					Jan. 31	By Goods ...	60	2 0

Dr.		GOODS ACCOUNT				Cr.		
		Rs.	a.	p.		Rs.	a.	p.
1929								
Jan. 31	To Sundries...	604	0	0				

THE SALES BOOK.

In the Sales Book are entered the particulars of Goods sold *on credit*, from day to day. As in majority of businesses the largest number of transactions would consist of Credit Sales, an enormous amount of labour would be entailed if all such transactions were passed through the Journal and then posted to the Ledger Accounts concerned. The ordinary Journal entry for

each Credit Sale would be to debit the Personal Account of the customer and credit the Goods Account. Thus, if there are a hundred transactions of Credit Sales in one month, and if these are entered through the Journal, there would be a hundred debits to be given to the Personal Accounts of the customers concerned and a hundred credits to be given to the Goods Account.

Now, by entering all Credit Sales in a separate subsidiary Journal called the Sales Book, the hundred individual credits to Goods Account as above said, would be avoided, as the postings from the Sales Day Book would be to the debit of the Personal Account of each customer and the credit would be to Goods Account in shape of the *periodical total* of the Sales Book. Thus, a great advantage is gained by not recording the Credit Sales through the Journal, but by entering them in a special book called the Sales Book, or the Sales Day Book or the Sold Book or the Sales Journal.

The entries in the Sales Book are made from the Outward Invoice Book which will contain an exact copy of each Invoice sent out to the customer. Each such Invoice is numbered consecutively, and the reference to each Invoice number is given in the entry in the Sales Book. There would, therefore, be no necessity to give the details of each sale in this book. Each entry would indicate the date of the sale, the name of the buyer, the number of the Outward Invoice and the total amount of the Invoice. On the Personal Account of the buyer being debited in the Ledger, the folio of the Ledger Account will be entered in the Folio Column.

POSTING THE SALES BOOK

A separate Account will have to be opened in the Ledger for each customer to whom the goods have been sold on credit and will be debited with the amount of each sale. At the end of the month, the credit sales would be added and the total thus ascertained would be credited to Goods Account. The Double Entry of the Sales Book would thus be completed.)

The following example will illustrate the use of the Sales Book :—

Example 7.

Enter the following transactions in the Sales Book :—

1929.

- Feb. 7 Sold to E. Evans, Calcutta,
20 lbs. sugar at Rs. 1/4 a lb.
10 „ tea at Re. 1 per lb.
- „ 10 Sold to C. Tripathi, Karachi,
15 tons of Coal at Rs. 2 per ton.
- „ 15 Sold to F. Francis, Madras,
20 bags of rice at Rs. 3 a bag.
15 lbs. cocœa at Rs. 1/8 per lb.
- „ 20 Sold to J. Jones, Rangoon,
10 doz. boxes of Indian Biscuits at Rs. 2/4 per doz.
- „ 23 Sold to T. Shah, Bombay,
25 lbs. sugar at Re. 1/2 per lb.
5 „ tea at ans. 12 per lb.
5 „ cocoa at Re. 1 per lb.

SALES BOOK.

Date.	Particulars.	L. F.	Amount.		
			Rs.	as.	p.
1929					
Feb. 7	E. Evans, Calcutta, Goods as per Outward Invoice No. 1		35	0	0
„ 10	C. Tripathi, Karachi, Goods as per Outward Invoice No. 2		30	0	0
„ 15	F. Francis, Madras, Goods as per Outward Invoice No. 3		82	8	0
„ 20	J. Jones, Rangoon, Goods as per Outward Invoice No. 4		22	8	0
„ 23	T. Shah, Bombay, Goods as per Outward Invoice No. 5		36	14	0
		Rs.	206	14	0

The above entries when posted in the Ledger will appear as under :—

E. EVANS, Calcutta.

1929		Rs.	a.	p.		Rs.	a.	p.
Feb. 7	To Goods ...	35	0	0				

C. TRIPATHI, Karachi.

1929		Rs.	a.	p.				Rs.	a.	p.
Feb. 10	To Goods ...	30	0	0						

F FRANCIS, Madras. •

1929		Rs.	a.	p.				Rs.	a.	p.
Feb. 15	To Goods ...	82	8	0						

J. JONES, Rangoon.

1929		Rs.	a.	p.				Rs.	a.	p.
Feb. 20	To Goods ...	22	8	0						

T. SHAH, Bombay.

1929		Rs.	a.	p.				Rs.	a.	p.
Feb. 23	To Goods ...	36	14	0						

GOODS ACCOUNT.

		Rs.	a.	p.	1929				Rs.	a.	p.	
					Feb. 28	By Sundries...				206	14	0

The student will have noticed from the above that the form of the Sales Book is exactly like that of the Purchases Book. (The Sales Book forms the basis for the entries in the Ledger Accounts of the various customers in respect of goods sold to them on *credit*.) and the (Purchases Book forms the basis of the entries in the Ledger Accounts of the various creditors in respect of the Goods bought from them on *credit*.) Evidently, therefore, whereas each (Personal Account from the Sales Book

would be debited in the Ledger with the amount of the sale, each Personal Account from the Purchases Book will be credited in the Ledger with the amount of the purchase. (The periodical total of the Sales Book will, however, be credited to the Goods Account in the Ledger and that of the Purchases Book would be debited to the Goods Account.)

RETURNS.

It frequently happens in actual business that a trader, in his capacity as a purchaser, may have occasion to return goods to the seller. It may also be that in his capacity as a seller, he may have to accept goods returned to him by customers who originally bought the goods from him. Such "Returns" generally arise in course of business for several reasons, viz., that the goods may not be upto the sample or according to the order, or they may have been sent in error or may be subject to some other defects.

On such "Returns" being accepted, the receiver of the goods usually sends a Credit Note, as shown below which states the particulars of the goods returned and the amount which is credited by the recipient to the account of the sender. The Credit Notes are generally printed in red ink to distinguish them from Invoices.

CREDIT NOTE.

Bombay, 5th March 1929.

Messrs. Ram Govind & Son.

Credited by RAM PRASAD & Co.

<i>By Returns</i>	Rs.	as.	p.
12, 1 lb. Tins of Cofee @ Re. 1/- per lb.	12	0	0

RETURNS INWARDS & OUTWARDS BOOKS.

These Returns are entered in books called "Returns Books". The goods returned to the trader by his customers are called "Returns Inwards", and are entered in the book called the "Inwards Returns Book". The goods returned by

the trader to his suppliers are known as Returns Outwards and are entered in a book called the "Outwards Returns Book".

The Rulings of these two books are similar to those of the Purchases and Sales Books, and the entries are made therein in just the same manner as those made in the Purchases and Sales Books.

POSTINGS OF RETURNS BOOKS.

From the Inwards Returns Book, the postings would be to credit the Personal Account of each customer concerned and to debit the Goods Account with the periodical total of the book.

From the Outwards Returns Book, the postings would be to debit the Personal Account of each supplier concerned and to credit the Goods Account with the periodical total of the book.

SUMMARY.

1. All *Credit Purchases* of Goods only are entered in the Purchases Book, and from here the account of each person supplying the goods is individually credited in the Ledger.

2. The periodical total of the Purchases Book is debited to the Goods Account.

3. The entries in the Purchases Book are made from Inward Invoices.

4. The details of the Inward Invoices are not copied in the Purchases Book, but only the date of purchase, name of the supplier, the Invoice number and the net Invoice amount are entered.

5. When goods are returned to the supplier, such returns are entered in the Returns Outwards Book, which is ruled like the Purchases Book.

6. The posting from the Outward Returns Book are to the debit of the suppliers individually and to the credit of the Goods Account in periodical total.

7. All *Credit Sales* of Goods only are entered through the Sales Book, and from here, the account of each customer is individually debited in the Ledger.

8. The periodical total of the Sales Book is credited to the Goods Account.

9. The entries in the Sales Book are made from the outgoing Invoices.

10. It is not necessary to copy the Outward Invoices bodily in the Sales Book, and only the date of each credit sale, the customer's name, the Invoice number and the net amount of the Invoice need be entered.

11. All Returns from Customers are entered in Returns Inwards Book, which is ruled exactly like the Purchases or the Sales Book.

12. The postings from Returns Inwards Book are to the credit of each customer individually and to the debit of Goods Account in periodical total.

13. The entries in the Returns Outwards Book are made from the Debit Notes sent to the suppliers along with the goods; the entries in the Returns Inwards Book are made from the Credit Notes sent out to the customers acknowledging the Returns.

14. The Purchases Book, the Sales Book and the Returns Inwards and Outwards Books are sub-divisions of the Journal devised with a view to save clerical labour.

QUESTIONS ON CHAPTER IV.

1. What is the difference between a Purchases Day Book and a Sales Day Book?
2. What are the functions of the Purchases and Sales Returns Journals?
3. How are the entries contained in the Returns Books dealt with in the Ledger?
4. For what reason would goods be returned by a purchaser?
5. From what documents would entries be made in (a) the Purchases Book and (b) the Purchases Returns Book?
6. How would you post the Purchases Book?
7. Is it necessary to enter details of each Invoice in the Purchases Book?
8. What sales would appear in the Sales Book, and how would this Book be posted?
9. Explain what is meant by "Debit Note", and "Credit Note".
10. What entries would you find on the debit and credit sides of the Goods Account?

50 FIRST STEPS IN DOUBLE-ENTRY BOOK-KEEPING.

11. Explain what advantage is secured by entering the Credit Purchases and Sales transactions in the Purchases and Sales Books instead of recording them in the Journal.

12. What balance would you expect a customer's Account to show generally?

13. Explain the Double-entry working of the Purchases Book.

14. Show how the Double-entry principles are satisfied from the Sales Book.

EXERCISE No. 1.

Enter the following transactions in their proper subsidiary Books and post the same in the Ledger —

1929		Rs.
Jan. 1	Purchased goods from C. Mehta	200
" 3	Sold goods to P. Pavri	125
" "	Sold goods to K. Ayer	210
" 5	Bought of S. Kanji, goods	325
" 6	Bought of J. John, goods	220
" 9	Received goods returned by P. Pavri	50
" 10	Purchased from G. Desai, goods	345
" "	Returned goods to C. Mehta	75
" 13	Sold to W. Wadia, goods	400
" 15	Returned goods to J. John	40
" 17	K. Ayer returned goods	65
" "	Sold to K. Sykes, goods	310
" 19	Purchased goods from W. White	250
" 20	Bought of S. Raje, goods	300
" 23	Sold goods to J. Kale	500
" "	Received goods returned by W. Wadia	125
" 24	Returned to G. Desai, goods	150
" 25	Sold to K. Baxi goods	350
" 26	Sold to P. Pavri, goods	215
" "	Bought of C. Mehta, goods	175
" 28	Returned goods to W. White	75
" 30	Sold to K. Sykes, goods	180
" 31	Purchased goods from S. Kanji	200
" "	W. Wadia returned goods	55

CHAPTER V.

THE CASH BOOK.

Probably, the most numerous items to be recorded in a trader's books would relate to Cash transactions. In actual business, there are so many entries relating to Cash that a special book is set apart for this purpose. The function of a Cash Book is, therefore, to record all the Cash transactions, i. e., Cash Receipts and Cash Payments from day to day.

The advantage of entering all Cash transactions in a separate book arises this way. It is a matter of common knowledge that all business dealings ultimately resolve themselves into cash transactions, and as a result, records of dealings in cash in any business must naturally be by far the largest. Now, if every cash transaction were recorded in the Journal, an enormous amount of unnecessary labour would be entailed in debiting or crediting Cash Account every time cash is received or paid. It is by this device of passing cash transactions through the Cash Book, that the labour of posting every item of receipt or payment of cash individually to Cash Account in the Ledger is avoided, and the advantage thus arising from the use of the Cash Book is far greater than that appertaining to the sub-divisions of the Journal into the Purchases, Sales and Returns Books.

In case of a Cash Book, one page is used for recording money received and the opposite page for money paid out. In fact, the Cash Book is written in just the same manner as the Cash Account in the Ledger, as already explained. All Cash received is recorded on the left-hand side of the Cash Book, and all Cash payments on the right-hand side, the difference between the two totals representing Cash in hand.

The student should regard this book as a book of Original Entry, as entries relating to all Cash transactions are made

direct into it, without passing through any other Subsidiary Book. It may also be noted that it is nothing else but a part of the Ledger, bound separately. The reason as to why Cash received is entered on the debit side is that Cash Account receives the benefit of the amount received. Similarly, when Cash is paid out, Cash Account gives the benefit of the amount, and is therefore, credited with the same.

The simplest form of Cash Book will have the same rulings as a Ledger Account, there being columns for the date, particulars, folio and the amount. Besides, there are two sides as above said, the left-hand side being used to record all Cash received and the right-hand side for all Cash paid.

As the Cash Book is written in form of a Ledger Account, it takes the place of Cash Account, and it is not, therefore, necessary to open a separate Cash Account in the Ledger.

The following example will indicate as to how this form of Cash Book is written up.

Example 8.

Write the following transactions in the simplest form of Cash Book:—

1929					Rs.
Jan.	5	Received from J. Jones	...	...	900
"	7	Paid Smith & Co.	...	...	200
"	10	Paid Palia & Co.	...	...	100
"	12	Received interest from C. Gupta on loan granted to him...	...	...	450
"	13	Received from Cash Sales...	...	...	375
"	15	Purchased goods for Cash	...	...	125
"	16	Received from W. Walker	...	...	95
"	17	Paid to S. Sen & Co.	...	...	80
"	20	Remitted to Rao & Co.	...	...	225
"	21	Paid for Office Furniture...	...	...	300
"	24	Received from Kirk & Co...	...	...	115
"	27	Paid to Thomas & Co.	...	...	140
"	29	Paid for Salaries	...	...	165
"	30	Paid for Advertisement	...	...	35
"	31	Drew for personal use	...	...	200
"	"	Paid Office Rent	...	...	125

Dr.		CASH BOOK.				Cr.	
Date.	Particulars.	Rs.	Amt.	Date.	Particulars.	Rs.	Amt.
1929			Rs	1929			Rs.
Jan. 5	To J. Jones ...		900	Jan. 7	By Smith & Co.		200
" 12	" Interest A/c.		450	" 10	" Palia & Co.		100
" 13	" Goods A/c...		375	" 15	" Goods A/c...		125
" 16	" W. Walker..		95	" 17	" S. Sen & Co.		80
" 24	" Kirk & Co.		115	" 20	" Rao & Co. ...		225
			<u>21</u>	" 21	" Office		
			1935	" 21	" Furniture A/c		300
				" 27	" Thomas & Co.		140
				" 29	" Salaries A/c		165
				" 30	" Advertise- ment A/c		35
				" 31	" Drawings "		200
				" "	" Office Rent "		125
				" "	" Balance carried forward		<u>1685</u>
							240
		Rs.	<u>1,935</u>			Rs.	<u>1,935</u>
Feb. 1	To Balance brought forward		240				

CASH DISCOUNT.

The item of Cash Discount usually occurs in settlement of trade debts, and it is necessary for the student to understand at this stage the exact meaning of this term. Cash Discount may be defined as an allowance made by the receiver of Cash to the payer for prompt payment.

I sell goods to B. Cama for Rs. 100/- on terms of $2\frac{1}{2}\%$ discount for payment within one month of delivery. The object of this allowance offered by me is to induce Cama to pay me promptly by taking advantage of the $2\frac{1}{2}\%$ concession in the way of discount. If he pays me within one month, he need pay only Rs. $97\frac{5}{8}$ in full settlement of his debt for Rs. 100/-, the difference of Rs. $2\frac{5}{8}$ being the *Cash Discount* allowed by me to him. The reason why I am prompted to make this allowance is that the Cash paid by him to me may enable me to pay my creditors who will in return make me a similar or even greater allowance for prompt payment.

TRADE DISCOUNT.

The student, however, should not mix up Cash Discount with Trade Discount. Trade Discount is an allowance made by wholesale dealers to retailers off the Catalogue or Invoice price. This allowance is thus made between buyers and sellers engaged in the same class of trade. The object of Trade Discount being allowed by the wholesale dealer to the retailer is to enable the latter to sell the goods at the price mentioned in the Catalogue or Price List issued by the wholesale trader. The Trade Discount would enable the retailer to meet all the necessary business expenses and yet leave him a margin of profit. The amount of Trade Discount allowed varies considerably according to different trades and even on different articles in the same trade.

Cash Discount is thus an allowance in addition to Trade Discount made by the seller to the purchaser, provided the latter settles his account promptly or within a specified time, known as the "Period of Credit".

Cash Discount being an allowance for the prompt payment of the account may be either receivable or payable. It is received by the trader when he pays his account promptly or within the Period of Credit, and is allowed by him to his own customers in consideration of the prompt settlement of amounts due to him. In view of the fact that Cash Discount is always allowed or received when the payment is made, it is necessary to record this fact at the same place where the cash transaction is recorded. In order to enable this to be done, the Cash Book is usually provided with two additional columns, one on each side, the debit column being used for recording Discount allowed on receipt of Cash, and the credit column for recording Discount received at the time of payment.

In the books of the wholesale dealer, Trade Discount is deducted from the Outward Invoice sent to the retailer, and the entry in the Sales Book is also made of the net amount, because the actual amount realisable by him is the Catalogue price less the Trade Discount. Similarly, in the books of the retailer, the entry in the Purchases Book is made of the net amount, i. e., the amount for which he is liable. Thus, Trade Discount as a rule does not appear in the books either of the seller or of the purchaser.

POSTING OF CASH BOOK.

It must always be remembered that the account which *receives* the benefit is debited, and the account which *yields* the benefit is credited. This is why the Cash Receipts are recorded on the debit or left-hand side of the Cash Book and the Cash Payments on the credit or right-hand side. On receipt of Cash, Cash Account receives the benefit of the amount received, and is consequently debited. The account of the person from whom the Cash was received is credited, because that account has yielded the benefit. Similarly, on Cash being paid, Cash Account yields the benefit of the amount and is, therefore, credited with the same. The account of the person who receives the Cash is debited because that account has received the benefit of the amount paid.

It would thus be seen that the postings from the debit side of the Cash Book would be to the credit of the various accounts concerned, and the postings from the credit side of the Cash Book would be to the debit of the respective accounts.

While posting the entries from the Receipts side of the Cash Book, care must be taken to post the actual Cash received as also the Discount, if any, allowed to the credit of the Personal Account concerned. Similarly, while posting the entries from the Payments side of the Cash Book, if any Discount is received from the Creditor, the account of the latter should be debited not only with the actual cash paid but also with the Discount received from him.

It must further be understood that as Discounts allowed by us to our customers represent a loss to us, the Discount column on the Receipts side of the Cash Book should be added up at periodical intervals, and the total thus ascertained should be debited to the Discount Account in the Ledger. Similarly, as the Discounts received by us on payment of accounts represent our gain, the periodical total of the Discount column on the Payments side of the Cash Book must be credited to the Discount Account.

The figures in the Folio Column would represent the pages in the Ledger on which the postings to the various accounts are made.

BALANCING THE CASH BOOK.

The Cash Book is balanced in the same manner as a Ledger Account. To ascertain that the entries have been correctly made, this should be done daily, but the balance need not be entered in the Cash Book. If the entries have been correctly made, the Balance as shown by the Cash Book will agree with the actual cash in hand.

As more Cash cannot be paid than received, the credit side of the Cash Book can never exceed the debit side. The Cash Balance, therefore, (if any) must always be a Debit Balance and should be entered on the credit side, for the purpose of closing the Cash Book. After closing the Cash Book, the Balance must again be shown on the debit side, as the Opening Balance of Cash in hand for the next period.

The following illustration will serve to indicate how a Cash Book with Cash and Discount Columns is written up and how postings are made from Cash Book into the Ledger Accounts:—

Example 9.

From the following transactions, compile a Cash Book with Cash and Discount columns, and post the same into the Ledger:—

1929					Rs.
Jan.	1	Opening balance of Cash	...	...	450
"	3	Received from C. Cooper...	...	...	380
		and allowed him discount	...	...	20
"	5	Received from B. Bamji ..	...	...	290
		and allowed him as discount	...	...	10
"	7	Paid H. Hussein	...	...	315
		and was allowed discount	...	...	15
"	9	Received Interest on Investments	...	...	250
"	10	Paid L. Hosie	...	...	200
"	17	Sold goods for cash	...	...	185
"	20	Received from C. Gama	...	...	115
"	21	Bought of S. Sethi for cash, goods	...	...	85
"	23	Paid for Office Furniture	...	...	275
"	28	Paid to P. Pitale on account	...	...	120
		who allowed us as discount	...	...	10
"	29	Paid for Salaries	...	...	190
"	30	Paid for Advertisement	...	...	45

Dr. CASH BOOK WITH CASH & DISCOUNT COLUMNS. Cr.

Date.	Particulars.	Discount.		Cash.	Date.	Particulars.	Discount.		Cash.
		L. F.					L. F.		
1929				Rs. Rs.	1929			Rs. Rs.	
Jan. 1	To Balance...			450	Jan. 7	By H. Hussein (Paid him on account) ...	15		315
" 3	" C Cooper (Recd. from him on a/c.)	20		380	" 10	" L. Hosie (Being amt. paid on a/c.)			200
" 5	" B. Bamji (Recd. from him on a/c.)	10		290	" 21	" Goods A/c. (Cash Pur- chases) ...			.85
" 9	" Interest a/c (Being Interest on Invest- ments for 6 months end- ing 31st Dec. 1928)			250	" 23	" Office Fur- niture A/c. (Furniture purchased for cash) ...			275
" 17	" Goods A/c. (Being Cash Sales)			185	" 28	" P. Pitale (Paid him on a/c.) ...	10		120
" 20	" C. Gama (Recd. from him on a/c.)			115	" 29	" Salaries A/c (Salaries paid to staff for Dec.) ...			190
					" 30	" Advertise- ment A/c. ... (Bill of Times of India paid for Dec.) ...			45
					" 31	" Balance carried forward ...			440
		Rs.		30 1,670			Rs.	25 1,670	
Feb. 1	To Balance brought forward			440					

Dr. C. COOPER. Cr.

Date.	Particulars.	Discount.		Cash.	Date.	Particulars.	Discount.		Cash.
		L. F.					L. F.		
1929				Rs. a. p.	1929			Rs. a. p.	
Jan. 3	By Cash ...			380 0 0	Jan. 3	By Cash ...			380 0 0
" "	" Discount.			20 0 0	" "	" Discount.			20 0 0

Dr.		B. BAMJI.				Cr.			
		Rs.	a.	p.	1929		Rs.	a.	p.
					Jan. 5	By Cash ...	290	0	0
					" "	" Discount.	10	0	0

Dr.		C. GAMA.				Cr.			
		Rs.	a.	p.	1929		Rs.	a.	p.
					Jan. 20	By Cash ...	115	0	0

Dr.		H. HUSSEIN.				Cr.			
		Rs.	a.	p.	1929		Rs.	a.	p.
1929									
Jan. 7	To Cash ...	315	0	0					
" "	" Discount.	15	0	0					

Dr.		I. HOSIE.				Cr.			
		Rs.	a.	p.	1929		Rs.	a.	p.
1929									
Jan. 10	To Cash ...	200	0	0					

Dr.		P. PITALE.				Cr.			
		Rs.	a.	p.	1929		Rs.	a.	p.
1929									
Jan. 28	To Cash ...	120	0	0					
" "	" Discount.	10	0	0					

Dr.		INTEREST ACCOUNT.				Cr.			
		Rs.	a.	p.	1929		Rs.	a.	p.
					Jan. 9	By Cash ...	250	0	0

Dr.		SALARIES ACCOUNT.				Cr.		
1929		Rs.	a.	p.		Rs.	a.	p.
Jan. 29	To Cash ...	190	0	0				

Dr.		ADVERTISEMENT ACCOUNT.				Cr.		
1929		Rs.	a.	p.		Rs.	a.	p.
Jan. 30	To Cash ...	45	0	0				

Dr.		OFFICE FURNITURE ACCOUNT.				Cr.		
1929		Rs.	a.	p.		Rs.	a.	p.
Jan. 23	To Cash ...	275	0	0				

Dr.		GOODS ACCOUNT.				Cr.			
1929		Rs.	a.	p.	1929	Rs.	a.	p.	
Jan. 21	To Cash ...	85	0	0	Jan. 17	By Cash ...	185	0	0

Dr.		DISCOUNT ACCOUNT.				Cr.			
1929		Rs.	a.	p.	1929	Rs.	a.	p.	
Jan. 31	To Sundries..	30	0	0	Jan. 31	By Sundries...	25	0	0

SUMMARY.

- (1) As Cash transactions are numerous, they are recorded in a separate book called the Cash Book.
- (2) The Cash Book is written in the same manner as the Cash Account.
- (3) As the Cash Book represents Cash Account, and as Cash is an asset, all receipts are debited and all payments credited.

(4) From the debit side of the Cash Book all items are posted to the credit of the accounts concerned.

(5) From the credit side of the Cash Book the items are posted to the debit of the accounts concerned.

(6) The total of the Discount Column on the debit side of the Cash Book is posted to the debit of Discount Account, as it means a loss to the business.

(7) The total of the Discount column on the credit side of the Cash Book is credited to Discount Account as it means a gain to the business.

(8) Trade Discount is allowed by one trader to another and is a deduction from the Invoice amount. As the entry by the seller in the Sales Book and the entry by the buyer in the Purchases Book is made with the *net* Invoice amount, Trade Discount does not appear in the Ledger.

(9) Cash Discount always accompanies payments of Cash. The person receiving Cash allows discount, and the person paying Cash receives discount. As discount received is a gain and discount allowed is a loss, it is necessary to bring these items into record.

(10) Cash Discount is always recorded in the Discount Columns opened in the Cash Book.

(11) While posting Cash received to the credit of the payer, the discount allowed to him should also be credited to his account.

(12) When posting the Cash paid out to the debit of the receiver, the discount received from him should also be debited to his account.

(13) The Cash columns of the Cash Book in themselves represent the Cash Account, and it is not, therefore, necessary to open another Cash Account in the Ledger.

QUESTIONS ON CHAPTER V.

1. Distinguish between Cash Discount and Trade Discount.
2. Explain how Cash Discount is entered in the Cash Book.
3. To what Class of Accounts does Discount Account belong?
4. How is the Cash Book balanced at periodical intervals?
5. How are entries in the Cash Book posted?
6. What Balance should a Cash Book always show?
7. Trade Discount, as a rule, does not appear in the books of either the buyer or the seller. Discuss this statement.
8. While balancing the Cash Book, what procedure should be adopted so far as Discount Columns are concerned?
9. What advantage is secured by entering the Cash transactions through the Cash Book instead of the Journal?
10. Explain why it is not necessary to open a Cash Account in the Ledger.

EXERCISE I.

From the following transactions, write out the necessary subsidiary Books and post them in the Ledger :—

1929		Rs.
Jan. 15	B. Basu commenced business with Cash	2,000
" 20	Bought goods from J. Jones	1,000
" 22	Sold goods to C. Chari & Co.	750
" 25	" " " R. Richards	975
" "	" " " for cash	200
" 27	Purchased goods for cash	325
" 30	" " on credit from C. Smith	1,200
" 31	Bought Office Furniture from Roberts & Co. on credit	800
Feb. 7	Paid Roberts & Co. on account	400
" 8	Received from C. Chari & Co. cash Rs. 730 and allowed them discount Rs. 20/-.	
" 10	R. Richards paid Rs. 900 and was allowed discount	75
" 12	Paid J. Jones on account	500
" 15	" S. Smith on account	600
" 20	Sold goods to D. David	450
" 22	Bought goods from N. Nanavati	1,700
" 25	Sold goods to S. Narayan	395
" 28	Purchased goods from Green & Co.	485
" "	Paid Office Rent—January	200
" "	" Staff Salaries—January	400

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1929		Rs.
Mar. 1	D. David returned goods	50
	and paid Cash Rs. 190 and was allowed discount	10
" 3	S. Narayan returned goods	45
" 4	Returned goods to Green & Co.	85
" 6	Returned goods to N. Nanavati	300
" 8	Made Cash Sales	1,250
" 10	S. Narayan paid Cash Rs. 110 and was allowed discount	10
" 12	Received Cash from D. David on account	75
" 15	Paid N. Nanavati Rs. 1,000 and was allowed discount	50
" 17	Paid Green & Co. Rs. 188 and was allowed discount	12
" 18	Returned goods to J. Jones	100
" 19	Paid S. Smith Rs. 300 and was allowed discount	20
" 20	Paid J. Jones Rs. 185 and was allowed discount	15
" 21	Bought from W. White, goods	575
" 25	Sold goods to Red & Co.	600
" 27	Paid for Advertising	125
" 28	" " Office Rent—February	200
" 31	" " Staff Salaries—February	400
" "	Received for Cash Sales	700
" "	Paid for Cash Purchases	500
" "	" " Roberts & Co. in full settlement	400
" "	Returned to W. White, goods	75
" "	Red & Co. returned us goods	150

EXERCISE II.

Journalise all the above transactions and post the same to the Ledger Accounts.

CHAPTER VI.

BANKING TRANSACTIONS.

When a trader has at his disposal an amount greatly in excess of his immediate requirements, he lodges the same with a banker. He opens an account with the banker with a certain sum, and is at liberty to add thereto or withdraw therefrom amounts from time to time, as occasion may require. The cash so deposited with the banker is said to be on *Current Account*.

The advantages of opening a Current Account with a Banker are:—

- (a) The money remains with the Bank in safe custody;
- (b) The banker allows a certain rate of interest on the Cash placed in his keeping; and
- (c) The payments by the merchant to his creditors are greatly facilitated as these would be made by means of *Cheques*, i. e., orders on the banker.

On the trader wishing to discharge a debt, he signs a written order on the Banker, authorizing him to pay a certain sum of money as mentioned therein to his creditor. This order is termed a *cheque*. The banker supplies the trader with a cheque book and a paying-in-slip book. The latter is utilised from time to time as and when the trader pays in further sums, which amounts are duly credited to the trader's account in the books of the bank.

Cheques are either payable to *Bearer* or to *Order*. A bearer cheque can be cashed at the bank by any person who holds the same. When a cheque is drawn payable to order, the person named in the cheque must sign his name on the back of the document before parting with such cheque. In this case, the cheque is said to be *endorsed*, and the signature on the back of the cheque is called an *endorsement*. This makes the cheque

negotiable, which means that the holder can transfer the cheque to some other person who acquires the right to be paid by the Bank the sum stated upon it. After endorsement, the holder of the cheque must present it to the bankers on whom it is drawn, who, if they have funds belonging to the person who originally drew the cheque, and are otherwise satisfied as to its validity, pay to the person presenting the cheque the amount named therein.

It is usual, however, for the holder of a cheque to *pay in* the same to his own account with his Bankers. The Bankers then would collect the proceeds of the cheque from the Bankers on whom it is drawn, and credit the amount to the account of their customer.

When a cheque is to be sent through the post, it is desirable to draw across it two parallel lines with or without the words "& Co." between the lines. This is called *crossing the cheque*. The effect of such *crossing* is that the *payee*, i. e., the person to whom it has been made payable, cannot receive cash in exchange for it upon presentation at the Bank, but must pay the same into his own Bank Account. If the payee has no Banking Account, he must get a person possessing a Bank Account to cash that cheque for him. The object of crossing cheques is to prevent their falling into wrong hands and their being cashed by persons for whom they are not intended.

The following are examples of the various ways of crossing Cheques:

GENERAL CROSSINGS.

1	2	3
	& Co.	Not Negotiable & Co.

SPECIAL CROSSINGS.

4	5	6
The Bank of India Ltd.	The Bank of India Ltd. The A/c. of Payee.	Not Negotiable. The Bank of India Ltd.

Examples Nos. 1, 2 and 3 are specimens of *General Crossings* and Nos. 4, 5 & 6 are specimens of *Special Crossings*. When a cheque is specially crossed, only the special Bank named therein can receive payment. Where the words "Not Negotiable" are part of the crossing, such words do not destroy the negotiability of the cheque, and the cheque can still be transferred by endorsement and delivery. The effect of such crossing would be that the person taking a cheque so crossed does not acquire a better title to it than the previous holder. Thus, if X stole a cheque crossed "Not Negotiable" from Y, and endorsed it on to Z, X can only give to Z as good a title to the cheque as he himself had, which is no title at all.

It happens sometimes that the person who has drawn the cheque has not sufficient funds with his Banker. In such a case, the Bankers will on presentation of such cheque doubtless refuse to cash the same, and the cheque will be said to be *dishonoured*.

The receipt and payment of money by means of cheques has obviated the necessity of the transfer of specie. The trader now need no longer keep on hand large sums of money in hard cash with all the attendant risks of theft or defalcations. By opening a Current Account with a banker and by the use of cheques, he may carry out all his monetary transactions without handling any actual cash whatever. Besides, cheques always present a better evidence of payment than cash, and

the Bankers record of the moneys deposited by the trader and the withdrawals therefrom, is always available to the trader and this helps the latter considerably in checking his own Bank transactions. The student would thus see to what considerable extent modern Banking practice offers facilities to businessmen in conducting their cash transactions.

RECORD OF BANK TRANSACTIONS.

When cheques are received from customers, they are to be treated as Cash. The reason is that such cheques do not affect the trader's Banking Account until he pays them into it. In the same manner, all documents payable on demand such as Bank Drafts, Postal Orders, etc., go to Cash Account. In fact, everything that comes into the cash box or goes out of the cash box goes to the Cash Account.

In the books of the trader, the Bank Account will be debited with the amounts paid into the Bank, and will be credited with the amounts drawn out of the Bank by means of cheques. In other words, the Bank Account is treated just like the Cash Account, i. e., it is debited with the receipts and credited with the payments.

Ordinarily, the Bank Account in a trader's books will show a debit balance and would represent the trader's cash lying with the Banker on Current Account. Should a trader, however, draw out more money than he has lodged in the bank, the balance will then be a *Credit Balance*, and will mean an *Overdraft*.

The method of recording Bank transactions in a Cash Book with Cash and Discount Columns is illustrated by the following example:—

Example 10.

1929

- (1) Jan. 1 C. Peter commences business with Rs. 20,000/- in cash.
- (2) „ 3 He pays Rs. 19,000/- into Bank Current Account.

- (3) Jan. 10 He pays Rao & Co., by cheque Rs. 330/- and is allowed discount Rs. 20/-.
- (4) " 15 He receives cheque from W. White for Rs. 450/-, and allows him discount Rs. 35/-.
- (5) " 20 He receives for Cash Sales Cash Rs. 75/- and cheque Rs. 100/-.
- (6) " 25 He pays into Bank Rs. 1,200.
- (7) " 27 He pays by cheque for Cash Purchases Rs. 275/-.
- (8) " 30 He pays sundry expenses in Cash Rs. 50/-.
- (9) " " He pays John & Co. Rs. 375/- in Cash and is allowed discount Rs. 35/-.
- (10) " 31 He pays Office Rent by cheque Rs. 200/-.
- (11) " " He pays staff Salaries by cheque Rs. 300/-.
- (12) " " He draws by cheque for personal use Rs. 250/-.
- (13) " " He draws a cheque for office use Rs. 400/-.

NOTE :—For want of space, the Cash Book is shown on the next page.

The Bank Account when posted will appear in the Ledger as under :—

Dr.				BANK ACCOUNT.				Cr.	
Date.	Particulars.	L. F.	Amt.	Date.	Particulars.	L. F.	Amt.		
1929			Rs.	1929				Rs.	
Jan. 3	To Cash ...		19,000	Jan. 10	By Cash ...		330		
" 25	" " ...		1,200	" 27	" " ...		275		
				" 31	" " ...		200		
				" "	" " ...		300		
				" "	" " ...		250		
				" "	" " ...		400		
				" "	" Balance carried forward ...		18,445		
			Rs. 20,200				Rs. 20,200		
Feb. 1	To Balance brought forward ...		18,445						

Dr.

CASH BOOK WITHOUT BANK COLUMNS.

Cr.

Date.	PARTICULARS.	L. F.	Discount.	Cash.	Date.	PARTICULARS.	L. F.	Discount.	Cash.
			Rs.					Rs.	
1929					1929				
Jan. 1	To Capital Account— (Amount brought in by C. Peter)			20,000	Jan. 3	By Bank Account— (Amt. paid in Bank)			19,000
" 10	" Bank Account— (Amount received from the Bank)			330	10	" Rao & Co.— (Amount paid to Rao & Co.)	20		330
" 15	" W. White— (Cheque received on Account)	35	450		" 25	" Bank Account— (Cash paid in the Bank)			1,200
" 20	" Goods Account— (Received for Cash Sales)		175		" 27	" Goods Account— (Cheque paid for Cash Purchases)			275
" 27	" Bank Account— (Cash received from the Bank)		275		" 30	" Sundry Expenses Account— (Sundry Expenses paid for the month of—in cash)			50
" 31	" Bank Account— (Amount received from the Bank)		200		" "	" John & Co. (Paid them on account)	35		375
" "	" Bank Account— (Cash received from Bank for salaries)		300		" 31	" Rent Account— (Office Rent for the month of—paid)			200
" "	" Bank Account— (Cheque drawn)		250		" "	" Salaries Account— (Salaries paid to Staff)			300
" "	" Bank Account— (Cheque drawn for Office use)		400		" "	" Drawings Account— (Drawn for personal use)			250
					" "	" Balance carried forward	...		400
		Rs. ...	35	22,380			Rs. ...	55	22,380
Feb. 1	To Balance brought forward Rs. ...			400					

EXPLANATION OF THE ABOVE ENTRIES.

(1) From the above example it would be seen that Rs. 20,000/- as originally brought in by C. Peter are entered on the Receipt side in the Cash Column. As C. Peter has brought in this amount, his Capital Account will be credited in the Ledger with the same.

(2) As Rs. 19,000/- are paid into the Bank, the amount is shown in the Cash column on the Payments side, and as the Bank has received the money, the Bank Account will be debited in the Ledger.

(3) In this case, as the payment is made by cheque and the Bankers will pay the Cash for same, Rao & Co.'s Account will have to be debited and Bank Account credited. This is brought about by showing the amount on the Receipts side of the Cash Book as being received from the Bank and then again entering it on the Payments side as paid to Rao & Co. From the Receipts side, the Bank Account will be credited, and from the Payments side Rao & Co.'s Account will be debited.

(4) The cheque received is entered in the Cash column as it has gone in the Cash Box.

(5) Here, both cash and cheque received are entered in the Cash Column.

(6) As Cash is paid out and the Bank receives it, the Journal entry would be to debit the Bank Account and credit Cash Account. This is brought about by making an entry of the amount on the Payments side from where the Bank Account will be debited. The credit to Cash Account is automatically given by the amount being entered on the credit in the Cash Column.

(7) Here again, as the payment is made by cheque, the amount will have to be shown on the Receipts side as having been received from the Bank and also entered on the Payments side as a payment made by the trader. The Bank Account will be credited from the Receipts side and the Goods Account will be debited from the Payments side. The Cash Balance is not affected as the amount appears on both the sides of the Cash Book. This is quite in keeping with the fact, as the payment is made by cheque and the Cash Box Balance is not affected thereby.

(8) Sundry Expenses Account will be debited from the Payments side of the Cash Book.

(9) John & Co.'s Account will be debited with Cash and Discount.

(10) As the payment is made by cheque, it will be necessary to pass an entry on both the sides of the Cash Book, on the Receipts side to show that the amount has been received from the Bank and on the Payments side to indicate that Office Rent has been paid. It is of the same nature as Transaction No. 7.

(11) Same as above.

(12) Same as above. The withdrawals by the proprietor of the business for his personal use are, instead of being debited to his Capital Account in the first instance, debited to a separate Account called "Drawings Account" and the debit total of this latter Account is transferred to the debit of the Capital Account at the end of the financial period. The advantage is that all the details as to the withdrawals may be seen at a glance by a reference to the Drawings Account, whereas the total amount withdrawn during any period may be seen by a glance at the Capital Account. As these withdrawals go to reduce the Capital as originally contributed, it is natural that they should be set off against the Capital amount which appears on the credit side.

(13) In this case, the amount will be entered on the Receipts side of the Cash Book with the words "To Bank Account", and from here, the Bank Account will be credited. Thus, as Cash is received, Cash Account is debited in the Cash Column, and as the Bank has paid the same, the Bank Account is credited.

CASH BOOK WITH CASH AND BANK COLUMNS.

The student must have seen from the above, that when there is a Bank Account and the Bank transactions are entered through a Cash Book with Cash and Discount Columns, every time that the payment is made by a cheque, four distinct steps have to be taken to record the fact. Two entries have to be made in the Cash Book, viz., one on the Receipts side to record the fact of the amount being received from the Bank and the other on the Payments side to record the fact that the payment

has been made on some account. Then, again, both these entries will have to be posted, viz., one to the credit of the Bank Account and the other to the debit of the Account in respect of which the payment is made.

It is easy to understand that in a business where there is a Bank Account, all important payments will necessarily be made by means of cheques, and if in respect of every such payment four steps have to be taken to record the same, as above explained, the Account-keeping would be rendered highly cumbersome. It is to avoid this labour that in modern Book-keeping the Cash Book is so devised as to have not only Cash and Discount Columns but also a Bank Column on either side. The use of such a Cash Book at once obviates the necessity of opening a Bank Account in the Ledger and posting thereto all the transactions with the Bank, inasmuch as the Bank Columns, in this case, would serve the purpose of a Bank Account in the Ledger.

The same transactions as were given in the previous Example are now here reproduced and are entered through Cash Book with Discount, Cash and Bank Columns on the next page. A comparative study of this with the previous Example will help the student to clearly understand how an enormous amount of unnecessary labour is saved by the use of this form of Cash Book.

The chief advantage of a Cash Book possessing Bank Columns is that every time a cheque is drawn, the entry is made direct into the Bank Column on the credit side of the Cash Book, and it will only then be necessary to post the amount to the debit of the account in respect of which the payment is made. There is no further entry needed on the Receipts side of the Cash Book in this case, and consequently no further posting. Another equally important advantage is that there is no need to open a Bank Account in the Ledger, as the Bank Columns in themselves represent the debit and credit sides of the Bank Account. Whenever it is desired to ascertain what Bank Balance there is on any particular date, all that is necessary to do is to take the totals of the Bank Columns on the debit and credit sides of the Cash Book. The amount by which the debit total is heavier than the credit represents the Balance with the Bankers.

Example 11.

Dr.

CASH BOOK WITH CASH & BANK COLUMNS.

Cr.

72 FIRST STEPS IN DOUBLE-ENTRY BOOK-KEEPING.

Date.	PARTICULARS.	L. F.	Dis- count.	Dr.			Date.	PARTICULARS.	L. F.	Dis- count.	Cr.		
				Cash.	Bank.						Cash.	Bank.	
				Rs.	Rs.	Rs.					Rs.	Rs.	Rs.
1929							1929						
Jan. 1	To Capital Account— (Amount brought in by C. Peter)				20,000		Jan. 3	By Bank— (Amt. paid in Bank)	C		19,000		
" 3	" Cash— (Amount received by the Bank)					19,000	" 10	" Rao & Co.— (Paid them by cheque on a/c)		20			330
" 15	" W. White— (Cheque received on a/c)	C			450		" 25	" Bank (Amount paid in Bank)	C		1,200		
" 20	" Goods Account— (Cash received for Cash Sales)		35		175		" 27	" Goods Account— (Paid for Cash Purchases by cheque)					275
" 25	" Cash— (Amount received by the Bank)						" 30	" Sundry Expenses A/c.— (Sundry Expenses paid for the month of—)				50	
" 31	" Bank— (Cheque drawn for office use)	C				1,200	" "	" John & Co.— (Paid them on account)		35	375		
					400		" "	" Office Rent Account— (Office Rent paid for the month of—)					200
							" 31	" Salaries Account— (Salaries paid to Staff)					300
							" "	" Drawings Account— (Cheque drawn by C. Peter for personal use)					250
							" "	" Cash— (Drawn for Office use)	C				400
							" "	" Balance carried forward ...			400	18,445	
				Rs. ...					Rs. ...	55	21,025	20,200	
Feb. 1	To Balance brought forward				400	18,445							

THE POINTS TO BE NOTED ARE—

Whenever an amount is paid into the Bank, the same must be *credited* to Cash Account in the *Cash Column* to record the fact of cash having gone out. The corresponding debit to Bank Account for the payment into the Bank would be given by entering the amount in the *Bank Column* on the *debit* side of the Cash Book, as this column represents the debit side of the Bank Account. As no posting is necessary in respect of this transaction, the letter C is entered in the Folio Column against this entry on each side of the Cash Book to indicate that the contra effect of this transaction is recorded on the opposite side.

When Cash is withdrawn from the Bank by a cheque for *Office use*, two entries would be needed to record this fact. The credit to Bank Account is given by entering the amount in the *Credit Bank Column*, and the debit to Cash Account is effected by an entry in the *Debit Cash Column*. No posting in the Ledger is needed for this transaction and the letter C is, therefore, marked in the Folio Column against this entry on either side of the Cash Book.

CASH BOOK WITH BANK COLUMNS ONLY.

A common practice in modern business is to pay all cash received into the Bank, and to make all payments by cheques. In a business of any magnitude, this method has been found to be safer and more expedient.

Where this is the case, it is not necessary to have Cash Columns at all in the Cash Book. The Cash Book then need only have Bank and Discount columns on either side.

When cash is received, the date and particulars are entered in their appropriate columns, and the amount is entered in the Bank column on the receipts side. As each amount received is paid into the Bank, the Bank Account naturally gets the debit by the amount being placed in the debit Bank column. The only other thing necessary to complete the double-entry is to post the amounts to the credit of the accounts from which the moneys are received.

When payments are made, the date and particulars are entered in their appropriate columns, and the amounts are

entered in the Bank column on the payments side. Since all payments are made by cheques, the Bank Account needs to be credited with these amounts, and this is brought about by entering them in the Bank column on the credit. The double-entry of the payments side of the Cash Book would then be completed by posting each amount to the debit of the account concerned.

As to the Discount columns, these would be entered up and posted in just the same manner as explained in the previous Chapter.

The Cash Book, in this case, becomes a pure Bank Cash Book containing only the payments into the Bank and the withdrawals therefrom by means of cheques. No Bank Account would then be opened in the Ledger as the Bank columns will take the place of the Bank Account.

Where such a system is in use, a Cash Book as shown in the following example will be found to meet all the requirements.

Many traders, however, would not bank all their cash receipts, and would not make all their payments by cheques. Such a circumstance would call for a more elaborate ruling of the Cash Book with Discount, Cash and Bank columns on either side. The Cash Book would then combine in itself a Cash Account and a Bank Account, and the working of this form of Book has already been explained in Example No. 11 on page 72.

Example 12.

Compile a Cash Book with Discount and Bank Columns only from the following transactions, assuming that all receipts are banked and all payments are made by cheques :—

				Rs.
1929				
Jan.	10	Opened Bank Account with	...	10,000
"	12	Made Cash purchases of goods	...	1,700
"	15	Sold goods for Cash	...	1,200
"	20	Received cheque from Smithson & Co.	...	450
		and allowed them discount	...	22
"	21	Robinson paid us Cash	...	725
		we allowed him discount	...	25
"	25	Paid Harris & Co.	...	790
		They allowed us discount	...	45
"	27	Purchased Office Furniture for Cash	...	900
"	28	Received for Cash sales	...	300
"	29	Paid for Cash purchases	...	400
"	30	Drew cheque for Petty Cash	...	200
"	31	Drew for personal use	...	375
"	"	Paid Office Rent	...	225
"	"	Paid Staff Salaries	...	575

Dr.

CASH BOOK WITHOUT CASH COLUMNS.

Cr.

Date.	Particulars.	L. F.	Dis- count.	Bank.	Date.	Particulars.	L. F.	Dis- count.	Bank.
1929			Rs.	Rs.	1929			Rs.	Rs.
Jan. 10	To Capital Account—			10,000	Jan. 12	By Goods Account—			1,700
" 15	" Goods Account— (Cash Sales)			1,200	" 25	" Harris & Co.— (Paid to them on account)	45		790
" 20	" Smithson & Co.— (Received from them on account)		22	450	" 27	" Office Furniture Account— (Purchase of Office Fur- niture for Cash)			900
" 21	" Robinson— (Amount received on a/c)		25	725	" 29	" Goods Account— (Cash purchases)			400
" 28	" Goods Account— (Received for Cash Sales)			300	" 30	" Petty Cash Account— (Cheque drawn for Petty Cash)			200
					" 31	" Drawings Account— (Drawn for personal use)			375
					" "	" Office Rent Account— (Office Rent for the month of —paid)			225
					" "	" Salaries Account— (Salaries to Staff paid)			575
					" "	" Balance carried forward			7,510
							Rs.	45	12,675
Feb. 1	To Balance brought forward.			7,510					

BANKING TRANSACTIONS.

PETTY CASH BOOK.

Where all cash receipts are paid into the Bank and all payments are made by cheques, it becomes necessary to keep another Subsidiary Cash Book known as the *Petty Cash Book*. This book is used for recording petty cash payments made from out of cheques drawn periodically for this purpose. In every business, there are necessarily certain small expenses which are too insignificant to be paid by cheques. Such expenses include items of carriage, cartage, cooly hire, postages, etc. These can only be conveniently paid in cash, and it is here that the Petty Cash Book comes in useful.

The periodical cheques drawn for Petty Expenses are debited to Petty Cash Account from the Cash Book. From time to time, as the Petty Cashier presents his summary of expenses, the several Nominal Accounts indicating the heads of expenditure are debited and the Petty Cash Account is credited.

The Petty Cash Book is written just like the Cash Book, the amounts received by the Petty Cashier being entered on the debit side and the payments on the credit side. The excess of the debit side over the credit on any date would represent the unspent balance of Petty Cash with the Petty Cashier.

SUMMARY.

- (1) The simplest form of Cash Book is with Cash columns only on either side; when discount is received and allowed, there would also be a Discount Column on either side.
- (2) Where a trader, having a current account with a Bank, banks surplus cash therein and makes some payments in cash and some by cheques, the Cash Book is provided with Discount, Cash and Bank columns on either side.
- (3) Where there are Bank Columns in the Cash Book, there is no need for a Bank Account in the Ledger.
- (4) Where every receipt is banked and all payments are made by cheques, the Cash Book need only have Bank and Discount Columns. Petty payments would then be made out of Petty Cash kept in the office.

(5) The Petty Cash Book is maintained to record payments of petty expenses.

(6) When cash or cheque is received in office, the entry is to debit Cash Account and credit the Payer; when sent to bank, debit Bank Account and Credit Cash Account.

(7) When a payment is made by cheque, debit the Payee or Nominal Account concerned and credit Bank.

(8) When a cheque is drawn for office use, debit Cash and credit Bank.

(9) When a cheque is drawn for Petty Cash debit Petty Cash Account and credit Bank.

(10) On receipt of Petty Cashier's summary of expenses, debit each Nominal Account with its appropriate amount and credit Petty Cash Account.

QUESTIONS ON CHAPTER VI.

1. Define the term "Cheque."
2. Why does a trader keep a Bank Account?
3. How should I treat a cheque received by me?
4. To what class of Accounts does a Bank Account belong?
5. State the advantages to be derived from the system of paying all cash received into bank, and making all payments by cheques.
6. Give the rulings of a Cash Book where all Cash receipts are paid into bank, and all payments are made by cheques, and enter therein twelve specimen entries.
7. State the effect of crossing a cheque.
8. Give specimens of the usual crossings of cheques.
9. State the advantages of having Bank Columns in the Cash Book.
10. Under what circumstance would the Cash Book be ruled with Discount, Cash and Bank Columns on either side?
11. When would it be necessary to have a Bank Account in the Ledger?
12. Explain how payments made by cheques are entered in a Cash Book without Bank Columns.
13. How would payments by cheques be entered through a Cash Book with Bank Columns?...

14. How would payments into Bank be entered in a Cash Book without Bank Columns?

15. How would you enter payments into Bank in a Cash Book with Cash and Bank Columns?

16. How are withdrawals from Bank for office use entered in a Cash Book without Bank Columns?

17. How should such withdrawals be entered in a Cash Book with Cash and Bank Columns?

18. Describe the three distinct forms of Cash Book.

19. How are petty payments made and recorded in a business where all Cash receipts are banked?

20. Explain how Petty Cash Account is debited and credited in the Ledger.

EXERCISE 1.

Enter the following transactions of Ganesh Krishna in a Cash Book with columns for Cash and Discount only, and close the Cash Book.

1929		Rs.
March 1	Ganesh Krishna has cash in hand	1,650
" "	He pays into Bank	1,000
" "	He receives a Cheque of Rs. 65 on account from M. Shaw	
" "	He receives Cash for goods sold	345
" 6	He purchases goods and pays in cash	600
" "	Vasant Gopal sends him a cheque on account which he pays into the Bank	350
	He is allowed a discount of Rs. 15	
" 10	He draws a cheque for petty cash	50
" "	He pays for stationery in cash	25
" "	S. Bomanji sends him a cheque for commission	450
" "	His manager sells the empties for cash	22-8
" 15	Sold goods for cash	35
" 16	Pays into Banking account	600
" 18	Draws a cheque for personal use	100
" 19	Purchased of Devji & Co. table for office use and paid cash	80
" 21	Received cheque from Jones & Co.	450
	and allowed them discount	40
" 25	Paid Henry & Co. by cheque	290
	and was allowed discount	25
" 26	Paid Manager his monthly salary by cheque	150
" "	Paid salaries in cash	200
" 27	Paid wages by cheque	75

BANKING TRANSACTIONS.

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	Rs.
1929	
Mar. 27 Purchased Postage Stamps for cash	20
" 28 Issued a cheque in payment of office rent	275
" 29 Purchased Government Securities and paid for same by cheque	200
" 31 P. Green sends cheque on account	375
and allowed him discount	25
" " Remitted cheque to Vakil & Co.	225
and was allowed discount	20

EXERCISE II.

Show how the above transactions would be recorded in a Cash Book with Discount, Cash and Bank columns.

EXERCISE III.

Enter the following transactions in a Cash Book, with Cash, Bank and Discount columns :—

	Rs.
1929	
March 1 J. Clark commenced business with cash	19,000
" " Paid into Bank	18,500
" 2 Received from D. Desai	200
and allowed him discount	20
" " Paid H. Hari on account a cheque for	450
and was allowed discount	35
" " Bought goods for cash	300
" 3 Received a cheque of Rs. 450 for cash sales	
" " Purchased Office Furniture and paid for same by cheque	750
" " Settled R. Ramji's account for Rs. 550 by cheque and was allowed discount	50
" 6 Paid into Bank	800
" " W. White paid him by cheque Rs. 450 which he paid into bank	
" 8 Made cash purchases and paid for same by cheque ...	380
" " Drew for personal use	250
" 10 S. Raje purchased goods for cash	150
" 13 Received from S. Shah a cheque for	450
and allowed him as discount	40
" " Settled R. Rao's account by cheque	300
" 14 Paid S. Green on account cash	125
" 17 Received a cheque for Rs. 175 and cash Rs. 50 for Cash Sales	
" 20 Paid for advertisement in Cash	75
" " Received Interest on Investments and paid same into Bank	375
" 22 Paid into Bank	500

80 FIRST STEPS IN DOUBLE-ENTRY BOOK-KEEPING.

		Rs.
1929		
Mar. 22	Received from J. Kanji Cash	75
	and allowed him as discount	10
" 24	Drew for office use	150
" "	Paid for Postage Stamps in cash	50
" 27	Paid for Stationery by cheque	125
" 29	Drew Cash for Salaries	750
" 30	Paid Office Rent by cheque	300
" "	Remitted Cash to B. Black on account	85
" "	Paid P. Pajia by cheque in full settlement	280
	and was allowed discount	25
" 31	Received from D. Devji Cash	100
" "	Paid for sundry expenses in Cash	75

EXERCISE IV.

* Enter the following transactions in a Cash Book with Bank and Discount columns only. It is assumed that all receipts are banked and that all payments are made by cheques :—

		Rs,
1929		
Feb. 1	Opened Bank Account with	15,000
" "	Made cash purchases	600
" 3	Sold goods for cash	450
" "	Received cash from Desai & Co... ..	375
	and allowed them discount	25
" 4	Received cheque of S. Grey on account	150
" "	Paid to S. Raje on account	285
	and was allowed discount	15
" 7	Purchased Furniture for Cash	750
" "	Drew cheque for Petty Cash	150
" 8	Received Interest on Investments	325
" "	Paid E. Earl in full settlement	550
	and was allowed discount	45
" 10	Paid for advertisement	150
" 13	Received from W. Wells to settle his account	250
	allowed him as discount	25
" 15	Purchased goods for cash	350
" "	Received for Cash Sales	425
" 17	Sold goods to K. Wadia for Cash	255
" "	Paid for Stationery	85
" 18	Drew for personal use	275
" "	Remitted to D. Das	425
	He allowed discount	35
" 21	K. Kanji paid Rs. 280 and was allowed as discount	20
" 24	Sold goods for Cash	385
" "	Received cash from B. Black in full settlement	325
	and was allowed discount	25

BANKING TRANSACTIONS.

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1929	Rs.
Feb. 25 Paid for Salaries	675
" " Paid for Electric light ...	250
" 27 Received from J. Jones on account ...	175
" " Received of K. Mukerji to settle his account for and was allowed as discount ...	325 25
" 28 Paid Office Rent ...	375
" " Received for Cash Sales ...	280
" " Bought of C. Keshav goods for Cash ...	175
" " Settled B. Bapuji's account for ...	300

EXERCISE V.

Record the following transactions in a Cash Book best suited for the purpose. Also balance the Cash Book and bring down the balance.

1929	Rs.
May 1 Cash balance ...	100
" " Bank balance ...	450
" " Cash received from Sale of Shares ...	6,000
" 2 Paid into Bank ...	5,000
" 3 Paid John Jules by cheque ...	1,200
Discount allowed by him ...	50
" " Paid Wages by Cash ...	250
" 8 Received from A. Hale, cheque ...	980
Allowed him discount ...	20
" 9 Paid A. Hale's cheque into Bank ...	980
" 16 Paid for Stationery in Cash ...	150
" 18 Bought goods for Cash ...	600
" 19 Paid F. Wales by cheque ...	370
Discount allowed by him ...	25
" " Drew from Bank ...	300
" 20 Cash Withdrawn for Personal Expenses ...	200
" 24 Received for Cash Sales ...	170
" " Received from W. Robins ...	1,800
Allowed him discount ...	75
" 25 Paid into Bank ...	1,700
" 31 Gave cheque for Cash Purchase ...	200

CHAPTER VII.

BILL TRANSACTIONS.

A seller does not always get cash in immediate payment for goods sold, but instead, he is generally satisfied to take from the purchaser what is called a Bill of Exchange. A Bill of Exchange is a written acknowledgment of debt, given by one person to another, the sum due and the time of payment as well as the date and place of payment being set down.

A Bill of Exchange is legally defined as "an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer."

Bills of Exchange are freely employed in modern commercial transactions because of the following advantages accruing therefrom:—

(1) As a Bill of Exchange fixes the date of payment, the creditor knows when to expect his money, and the debtor also knows when he will have to pay.

(2) The debtor thus enjoys his full period of credit, as he can never be called upon to pay the amount of the Bill before the due date.

(3) The creditor need not necessarily lock up his money till the due date of the Bill, as the latter can be turned into cash by being discounted.

(4) As it is a written and signed acknowledgment of debt, it affords conclusive proof of indebtedness, and there can be no defence to an action at Law on a debt due on a Bill of Exchange.

(5) A Bill of Exchange is a negotiable instrument and can be transferred from hand to hand in settlement of debts.

(6) A Bill of Exchange affords an easy means of transmitting money from one place to another.

It is for the facility thus afforded in the matter of payment that the buyer may be induced to purchase goods and accept a Bill drawn on him by the seller, if he is not prepared to make a cash payment at the time of purchase.

Let us assume that P. Naidu has purchased Goods from R. Pandit to the value of Rs. 450, and has agreed to accept a bill to be drawn on him by R. Pandit for the above amount.

The following document known as *Draft* is sent by Pandit to Naidu—

Stamp. 9 As.	3, Lingachetty Street, Madras, 12th January 1929.
Three months after date, pay to me or my order, the sum of Rupees Four Hundred and Fifty for value received.	
R. PANDIT.	
<u>Rs. 450/-</u>	
To P. NAIDU Esq., 15, William Street, Madras.	

From the above form, it would be seen that a Bill of Exchange is a request for payment signed by the creditor, and addressed to the debtor.

The points to be noted are that—

- (1) The one who draws the Bill is called the *Drawer*.
- (2) The person on whom it is drawn is called the *Drawee*.

- (3) The person in whose favour the Bill is drawn is called the *Payee*.
- (4) The time after which the payment is to be made is called the *term* of the Bill—in this case, three months.
- (5) The Bill itself is called the *Draft*.
- (6) The amount is stated in words in the body of the draft, and in figures in left-hand corner.
- (7) It bears a stamp according to the amount of the draft.

ACCEPTANCE OF A BILL.

The mere fact that a bill is drawn by one person upon another does not make the drawee liable for its value. The drawee must accept liability before he can be made liable. On receipt of the draft, therefore, the drawee *accepts* the bill. This is effected by the drawee writing the word "accepted" across the face of the bill together with his signature, or by merely putting his signature across the face of the bill.

After the drawee has accepted the bill, he is known as the *Acceptor*. The acceptor returns the bill to the drawer, after acceptance. After the Bill is accepted and returned to the drawer, it is known as an *Acceptance*.

On receipt of a bill duly accepted by the drawee, the drawer has in his possession a document representing money or money's worth. He can retain this bill in his possession, or exchange it with another person for either cash or goods. Before transferring the bill, the drawer has to write his name upon the back of it. This is called an *endorsement*, the drawer is now called an *endorser*, the person to whom it is endorsed, an *endorsee*, and the bill is said to have been *endorsed*.

NEGOTIATION OF A BILL.

Bills of Exchange are known as *Negotiable Instruments*, i. e., documents representing money or money's worth, the title to which can be transferred from one person to another by endorsement and delivery only. After a bill is endorsed and

delivered to a third person, it would become payable to him, instead of to the original holder, and he may again endorse it over to a fourth person, and so on. But if the words "or order" are omitted, then the bill becomes payable to the person named, and to him alone.

ENDORSEMENT ON A BILL.

Any holder may transfer a bill unless the bill bears a restrictive endorsement, i. e., an endorsement containing words prohibiting its transfer. If a bill is payable to bearer, it is transferable by mere delivery; if payable to order, it is transferable by endorsement and delivery. Thus, an order bill will require the holder's signature on the back of it before transfer.

An endorsement may be blank, special or restrictive.

An *Endorsement in Blank* consists of the endorser's signature and specifies no endorsee. The bill so endorsed becomes payable to bearer.

A *Special Endorsement* specifies the person to whom or to whose order the bill is to be payable, as "Pay A. B. or Order." A bill thus endorsed will require A. B.'s signature before further negotiation.

A *Restrictive Endorsement* prohibits the further negotiation of the bill, as "Pay A. B. only."

LIABILITY ON A BILL OF EXCHANGE.

The acceptor is always the person who is primarily liable for the payment of a bill; and when the drawer transfers the bill to another by endorsement, he in his turn becomes liable with the acceptor to the holder of the bill, and so does every subsequent endorser, the security thus increasing with each endorsement.

DAYS OF GRACE.

A Bill may be drawn payable on demand, or at sight, or at some fixed future time, i. e., two months after date. If a bill is not payable on demand or at sight, *three days of grace*

are allowed in which to meet the bill, from the date fixed upon the bill. Thus, a bill dated 15th March, for three months becomes payable on the 18th June. This latter date is called the *due date*.

PRESENTATION FOR PAYMENT.

A Bill must be duly presented for payment, otherwise the drawer and the endorsers will be discharged from their liability to pay the amount to the holder.

When a Bill is paid at maturity, it is said to be *met, taken up or honoured*.

DISHONOUR OF BILLS.

If a Bill is not paid on the date of maturity, it is said to be *dishonoured*. When a Bill is thus dishonoured, immediate notice must be given to all the other parties, including the endorsers, whose names appear on the Bill. If this is not done, the holder of the Bill cannot sue for the amount.

Whenever a Bill is dishonoured, all expenses connected therewith must be debited to the person from whom the Bill was received.

Although the acceptor of a Bill is primarily liable on it, the holder has a right of action against the other parties to the Bill. He may sue the drawer and every endorser of the bill. If he likes, he may sue the immediate endorser, and if the latter pays the amount, that endorser can sue any previous endorser or the drawer. Usually, the drawer takes up the bill on dishonour and then exercises his rights against the acceptor.

STAMP DUTY IN INDIA.

Every Bill of Exchange requires to be stamped. The following is the scale of stamp duty on Bills of Exchange, in India.

Where payable on demand.

Nil

Where payable otherwise than on demand, but not more than one year after date or sight:—

						Rs. as.	
	If the amount of the bill does not exceed				Rs.	200	0 3
if it exceeds	Rs.	200	but	"	"	400	0 6
"	"	400	"	"	"	600	0 9
"	"	600	"	"	"	800	0 12
"	"	800	"	"	"	1,000	0 15
"	"	1,000	"	"	"	1,200	1 2
"	"	1,200	"	"	"	1,600	1 8
"	"	1,600	"	"	"	2,500	2 4
"	"	2,500	"	"	"	5,000	4 8
"	"	5,000	"	"	"	7,500	6 12
"	"	7,500	"	"	"	10,000	9 0
"	"	10,000	"	"	"	15,000	13 8
"	"	15,000	"	"	"	20,000	18 0
"	"	20,000	"	"	"	25,000	22 8
"	"	25,000	"	"	"	30,000	27 0
and for every additional Rs. 10,000 or part thereof in excess of Rs. 30,000.						...	9 0

Where payable at more than one year after date or sight, the duty will be the same as on a Bond for the same amount.

The rates of stamp duty on Promissory Notes are as under:—

(a) Where payable on demand.

- (i) When the amount or value does not exceed Rs. 250 1 anna
- (ii) When the amount or value exceeds Rs. 250 but does not exceed Rs. 1,000 ... 2 as.
- (iii) In any other case 4 "

(b) Where payable otherwise than on demand, the duty is the same as on a Bill of Exchange.

STAMP DUTY IN ENGLAND.

The (ad valorem) stamp duty, in the United Kingdom, on inland Bills of Exchange is as follows:—

- (a) Bills of Exchange payable on demand, or at sight, or on presentation, or within 3 days after date or sight. 2d.
- (b) Any other Bill of Exchange, or Promissory Note, if drawn or payable or actually paid, or endorsed, or otherwise negotiated in the United Kingdom,

						sh.	d.
when the amount does not exceed	£	10	...	...		0	2
exceeds £	10	but does not exceed	£	25	...	0	3
"	£	25	"	"	£	0	6
"	£	50	"	"	£	0	9
"	£	75	"	"	£	1	0
and for every	£	100,	or fractional part thereof		...	1	0

- (c) A Promissory Note, even if payable on demand, requires an ad valorem stamp.

BILLS RECEIVABLE & BILLS PAYABLE.

For the purpose of recording Bill Transactions, Bills are divided into *Bills Receivable* and *Bills Payable*.

Bills Receivable are Accepted Drafts in the possession of the trader for which he is to receive cash on the due dates.

Bills Payable are Drafts accepted by the trader and for which he is liable to pay cash on the due dates.

It must be noted that the same Bill is a Bill Receivable to one party and a Bill Payable to the other party. The person who is to receive money on it calls it his Bill Receivable, whereas the person who is liable to pay money for it knows it as his Bill Payable.

DISCOUNTING BILLS.

If a trader holds a Bill Receivable which has a long term to run and if he wishes to obtain cash for it before it matures, he sells the bill to a banker or some other person. The purchaser deducts a certain amount of discount (which is interest for the time the bill has yet to run) from the face value of the bill and pays the amount of the bill less the discount

to the holder of the bill. This is called *Discounting a Bill*.

As the purchaser now has to wait for his money till the bill becomes due, the discount, which is the difference between the face value of the bill that he will recover and the present value that he has paid for it, is his gain. To the trader who has sold the Bill, this Discount is his loss.

ENTRIES FOR BILL TRANSACTIONS.

As Bills of Exchange represent money or money's worth, they belong to the class of Real Accounts. Therefore, Bills Receivable Account is debited when a Bill is received duly accepted by the drawee, and it is credited when parted with.

Here again, in order to avoid unnecessary labour in posting, Bill Transactions are not passed through the Journal, but are entered in special Subsidiary Journals provided for the purpose. Thus, there are the Bills Receivable and Bills Payable Books to record these transactions. The object of these books is to form a convenient medium for a detailed record of each Bill received or given.

The usual form of Bills Receivable Book is as under :—

BILLS RECEIVABLE BOOK.

No. of Bill	Date received.	Date of Bill.	From whom received.	Drawer.	Acceptor.	Where payable.	Term.	Due date	Ledger Folio.	Amount.			Cash Book Folio.	Remarks.
										Rs.	as.	p.		

On each Bill Receivable being received duly accepted, full details thereof are entered in the appropriate columns of the Bills Receivable Book as shown above.

POSTINGS FROM BILLS RECEIVABLE BOOK.

The postings from this Book would be to the credit of each individual person from whom the bill is received. The monthly total of this Book is debited to Bills Receivable Account in the Ledger.

BILLS RECEIVABLE ACCOUNT.

The periodical total of the Bills Receivable Book would be debited to Bills Receivable Account as above said.

On cash being received on account of a Bill Receivable on due date, the amount will be posted to the credit of the Bills Receivable Account from the Cash Book.

When a Bill Receivable is discounted, the actual cash received and the discount allowed would be credited to Bills Receivable Account from the receipts side of the Cash Book.

When a Bill Receivable is endorsed over to a creditor in satisfaction of a debt owing to him, the Journal entry necessary to record such a transaction would be to debit the Creditor's Account and credit Bills Receivable Account.

The Bills Receivable Account is the Account of an asset and would always show a debit balance. The debit balance on the Bills Receivable Account on any date would represent Bills Receivable unmaturing and on hand.

COLLECTION OF BILLS BY BANKERS.

When a trader receives several Bills Receivable from time to time, he generally sends these to his bankers for collection.

On a Bill Receivable being sent to the bank for collection, the entry would be to debit an account called "Bank Account for Collection of Bills" and credit the Bills Receivable Account.

On receipt of intimation from the banker, that a Bill Receivable has been collected by him, the entry would be to debit the Bank Account (Bank Current Account) and credit the "Bank Account for Collection of Bills."

If the banker intimates that the bill that had been lodged for collection is dishonoured for payment, the entry would be to debit the acceptor or the endorser and credit the "Bank Account for Collection of Bills."

The Bank Account for Collection of Bills would generally show a debit balance and such a balance would signify the total amount worth of bills lying with the bankers for collection. When the banker has collected all the bills sent to him for collection, the "Bank Account for Collection of Bills" will not show any balance.

ENTRIES ON DISHONOUR OF BILLS.

When a Bill Receivable is dishonoured, (i.e., not paid on the date of maturity), the entry made on receipt of the Acceptance should be reversed. Thus, the Account of the person who gave the Bill would be debited and the Bills Receivable Account would be credited. This entry would be passed through the Journal.

When a Bill Receivable which had been discounted is dishonoured, the trader will have to pay the Banker with whom he discounted, immediately on receipt of Notice of Dishonour. The entry then would be to debit the person from whom the bill was received (who may either be the acceptor or an endorser) and credit Bank. The posting will come from the Cash Book.

When a Bill Receivable which had been endorsed over to a creditor is dishonoured, the Journal entry necessary to record this would be to debit the account of the person from whom the Bill was received and credit the Creditor's Account.

PROMISSORY NOTES.

Sometimes the debtor gives to the creditor a promise in writing to pay to the creditor a certain sum of money either on demand or at a fixed future date. Such a promise is signed by the debtor and handed over to the creditor, and is called a Promissory Note.

A Promissory Note is legally defined as "an unconditional promise in writing made by one person to another signed by the maker engaging to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person, or to bearer."

The main points of difference between a Bill of Exchange and a Promissory Note are:—

1. A Bill of Exchange is an order drawn by a creditor on his debtor; but a Promissory Note is a promise made out by a debtor in favour of his creditor.

2. There are three parties to a Bill of Exchange, viz., the drawer, the acceptor and the payee, whereas there are only two parties to a Promissory Note, viz., the maker who draws the note and signs it, and the payee i. e. the creditor to whom the amount is payable.

3. A Bill of Exchange requires acceptance, but a Promissory Note does not.

The usual form of a Promissory Note is as follows:—

PROMISSORY NOTE.

Stamp. 15 As.	115, Esplanade Road, Bombay, 26th February 1929.
Three months after date, I promise to pay J. Jones the sum of Rupees one thousand, for value received.	
Rs. 1,000/-	R. Robinson.

A Promissory Note is treated by the receiver just like a Bill Receivable, and by the giver like a Bill Payable. The entries regarding Promissory Notes follow on the same lines as those of Bills Receivable and Bills Payable. A Promissory

Note does not need any acceptance, as it is written and signed by the debtor and handed over to the creditor.

RENEWAL OF BILLS.

It happens sometimes that the acceptor of a Bill finds himself unable to meet his acceptance on the due date. Under such a circumstance, rather than allow such a Bill to mature and dishonour it on presentation, he would approach the drawer of the Bill before the due date and ask him to cancel the original bill and draw on him another one for an extended period. The acceptor in this case would, of course, be prepared to pay interest for the extension of time. This is called Renewal of a Bill.

The entries on Renewal of Bills can best be understood from the following illustration :—

Example 13.

Jones having accepted a bill for Rs. 500/- is unable to meet the same. Before the due date, he requests Green to receive Rs. 320/- in cash (Rs. 20/- being for interest) and to draw on him a new bill for Rs. 200/- for a further period of 3 months, and cancel the old bill which is shortly to become due. Green agrees to this proposal. The entries in the books of Green to record the above facts would be as under :—

	Rs.	a.	p.	Rs.	a.	p.
Jones ... .. ...Dr. To Bills Receivable Account ... (For cancellation of the old bill)	500	0	0	500	0	0
Cash ... .. ...Dr. To Jones „ Interest Account (Being the amount received from Jones including Interest).	320	0	0	300	0	0
				20	0	0
Bills Receivable Account ...Dr. To Jones (Being the amount of new bill ac- cepted by him).	200	0	0	200	0	0

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The same transaction would be recorded in the books of Jones as follows :—

	Rs.	a.	p.	Rs.	a.	p.
Bills Payable Account Dr.	500	0	0			
To Green				500	0	0
(Being the cancellation of the old bill).						
Green Dr.	300	0	0			
Interest Account	20	0	0			
To Cash				320	0	0
(Being the cash paid in part payment of the old bill including Rs. 20/- for interest).						
Green Dr.	200	0	0			
To Bills Payable Account				200	0	0
(Being the amount of the fresh acceptance).						

Example 14.

Before the due date of the acceptance for Rs. 1,000/-. Das & Co. approach Laxminarayan & Co., the drawers, to renew the bill by accepting Rs. 500/- in cash and drawing on them another bill for Rs. 525/- for a further period of 4 months, Rs. 25/- being for interest. Laxminarayan & Co. accept this proposal and the transaction is carried into effect. This would appear in the books of both the parties as under:—

In the Books of Laxminarayan & Co.

	Rs.	a.	p.	Rs.	a.	p.
Das and Co. Dr.	1,000	0	0			
To Bills Receivable Account				1,000	0	0
(Being the cancellation of the old bill).						
Cash Dr.	500	0	0			
To Das and Co.				500	0	0
(Being the amount received in part satisfaction of the old bill).						
Bills Receivable Account Dr.	525	0	0			
To Interest Account				25	0	0
To Das and Co.				500	0	0
(Being the amount of the new acceptance).						

POSTINGS OF BILLS PAYABLE BOOK.

The postings from this book would be to debit each person to whom the bill is granted and to credit the periodical total of this book to Bills Payable Account in the Ledger.

The student should note that when a dealer accepts a bill drawn on him, his liability to the creditor on personal account in respect of the amount for which such bill is drawn is discharged, and, therefore, from the standpoint of Book-keeping, the personal account of the creditor should be closed and the liability arising from the accepting of Bill Payable will now appear on the Bills Payable Account.

BILLS PAYABLE ACCOUNT.

The Bills Payable Account, representing as it does the liability of the trader in respect of the bills accepted by him, will always show a credit balance, if any. The credit balance of this account on any one particular date must agree with that total amount worth of Bills Payable unmatured as ascertained from the Bills Payable Book.

DISHONOUR OF BILLS PAYABLE.

When a Bill Payable is dishonoured, the following entry would be made through the Journal:—

Debit Bills Payable Account, and credit the person on whose account it was accepted.

This means a cancellation of the entry that had been originally passed when the Bill Payable was accepted.

RENEWAL OF BILLS PAYABLE.

When a Bill Payable is renewed, the following entries would be necessary:—

1. Debit Bills Payable Account, and credit the person on whose account the Bill was accepted.

This entry would be passed through the Journal to write back the cancelled Bill.

2. The record of the new acceptance would be passed through the Bills Payable Book in the same manner as other acceptances.

RETIRING BILL PAYABLE UNDER DISCOUNT.

When a Bill Payable is paid before the due date, it is said to have been "retired under discount," as the party making the payment would naturally receive some discount.

The entry would be passed on the credit side of the Cash Book under the heading Bills Payable Account, the amounts being shown in the Bank and Discount columns. The posting would then be to the debit of Bills Payable Account.

Example 15.

Enter the following transactions in the Bills Receivable and Bills Payable Books and post the same in the Ledger :-

- 1929
- (1) Jan. 7 Received from S. Mitra bill duly accepted for Rs. 1,325, dated January 4, payable 3 months after date.
 - (2) .. 9 Accepted S. Warden's draft for Rs. 970 at 2 months.
 - (3) .. 13 P. Pradhan drew on me at 3 months' date and I accepted his draft for Rs. 390.
 - (4) .. 14 Drew on R. Limji at one month for Rs. 250 and he accepted next day.
 - (5) .. 18 Gave my acceptance at 2 months for Rs. 420 to S. Parker.
 - (6) .. 21 Received from G. Ghosh his acceptance for Rs. 310 at 2 months.
 - (7) .. 22 Received from C. Chichgar, A. Vakil's acceptance for Rs. 200 at 3 months from 17th January.
 - (8) .. 23 R. Kanga accepted my draft at one month for Rs. 300.
 - (9) .. 27 Received from C. Shah bill for Rs. 350, dated January 20, accepted by P. Parson and drawn by M. Mayer, payable two months after date.
 - (10) .. 31 Gave my acceptance for Rs. 215, at one month to R. Robert.

BILLS RECEIVABLE BOOK.

No. of Bill.	Date received	Date of Bill.	From whom received.	Drawer.	Acceptor.	Where payable.	Term.	Due Date.	Leger Folio.	Amount.			Cash Book Folio.	Remarks.
										Rs.	a.	p.		
	1929	1929						1929						
1	Jan. 7	Jan. 4	S. Mitra ...	Self ...	S. Mitra ...	Bombay	3 months	April 7		1,325	0	0		
2	" 15	" 14	R. Limji ...	" ...	R. Limji ..	Lahore	1 month	Feb. 17		250	0	0		
3	" 21	" 21	G. Ghosh ...	" ...	G. Ghosh ...	Calcutta	2 months	Mar. 24		310	0	0		
4	" 22	" 17	C. Chichgar	C. Chichgar	A. Vakil ...	"	3 "	April 20		200	0	0		
5	" 23	" 23	R. Kanga ...	Self ...	R. Kanga ...	Bombay	1 month	Feb. 26		300	0	0		
6	" 27	" 20	C. Shah ...	M. Mayer ...	P. Parson ...	Madras	2 months	Mar. 23		350	0	0		
										Rs. 2,735	0	0		

BILLS PAYABLE BOOK.

No. of Bill.	Date of Bill.	To whom given.	Drawer.	Payee.	Where Payable.	Term of the Bill.	Due Date.	Leger Folio.	Amount.			Date paid.	Cash Book Folio.	Remarks.
									Rs.	a.	p.			
	1929						1929							
1	Jan. 9	S. Warden	S. Warden		Madras	2 months	Mar. 12		970	0	0			
2	" 13	P. Pradhan	P. Pradhan		Bombay	3 "	April 16		390	0	0			
3	" 18	S. Parker	S. Parker		Calcutta	2 "	Mar. 21		420	0	0			
4	" 31	R. Robert	R. Robert		"	1 month	Mar. 3		215	0	0			
									Rs. 1,995	0	0			

BILL TRANSACTIONS.

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Dr.		S. MITTRA.				Cr.			
		Rs.	a.	p.	1929		Rs.	a.	p.
					Jan 7.	By Bills Receivable	1,325	0	0

Dr.		S. WARDEN.				Cr.			
		Rs.	a.	p.			Rs.	a.	p.
1929									
Jan. 9	To Bills Payable...	970	0	0					

Dr.		P. PRADHAN.				Cr.			
		Rs.	a.	p.			Rs.	a.	p.
1929									
Jan. 13	To Bills Payable...	390	0	0					

Dr.		R. LIMJI.				Cr.			
		Rs.	a.	p.	1929		Rs.	a.	p.
					Jan. 15	By Bills Receivable	250	0	0

Dr.		S. PARKER.				Cr.			
		Rs.	a.	p.			Rs.	a.	p.
1929									
Jan. 18	To Bills Payable	420	0	0					

Dr.		G. GHOSH.				Cr.			
		Rs.	a.	p.	1929		Rs.	a.	p.
					Jan. 21	By Bills Receivable	310	0	0

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Dr.		C. CHICHGAR.				Cr.			
		Rs.	a.	p.	1929		Rs.	a.	p.
					Jan. 22	By Bills Receivable.	200	0	0

Dr.		R. KANGA.				Cr.			
		Rs.	a.	p.	1929		Rs.	a.	p.
					Jan. 23	By Bills Receivable	300	0	0

Dr.		C. SHAH.				Cr.			
		Rs.	a.	p.	1929.		Rs.	a.	p.
					Jan. 27	By Bills Receivable	350	0	0

Dr.		R. ROBERT.				Cr.			
		Rs.	a.	p.			Rs.	a.	p.
1929.									
Jan. 31	To Bills Payable...	215	0	0					

Dr.		BILLS RECEIVABLE ACCOUNT.				Cr.			
		Rs.	a.	p.			Rs.	a.	p.
1929									
Jan. 31	To Sundries	2,735	0	0					

Dr.		BILLS PAYABLE ACCOUNT.				Cr.			
		Rs.	a.	p.	1929		Rs.	a.	p.
					Jan. 31	By Sundries	1,995	0	0

The above transactions, if journalised, would appear as under :—
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1929			Rs.	a.	p.	Rs.	a.	p.	
(1)	Jan. 7	Bills Receivable Account Dr. To S. Mitra (Bill received from S. Mitra duly accepted)	1,325	0	0	1,325	0	0	
(2)	" 9	S. Warden Dr. To Bills Payable Account (S. Warden's draft accepted)	970	0	0	970	0	0	
(3)	" 13	P. Pradhan Dr. To Bills Payable Account (P. Pradhan's draft accepted)	390	0	0	390	0	0	
(4)	" 14	Bills Receivable Account Dr. To R. Limji (Bill Received from R. Limji duly accepted)	250	0	0	250	0	0	
(5)	" 18	S. Parker Dr. To Bills Payable Account (Bill drawn by S. Parker accepted)	420	0	0	420	0	0	
(6)	" 21	Bills Receivable Account Dr. To G. Ghosh (Bill received from G. Ghosh)	310	0	0	310	0	0	
(7)	" 22	Bills Receivable Account Dr. To C. Chichgar (A. Vakil's acceptance re- ceived from C. Chichgar)	200	0	0	200	0	0	
(8)	" 23	Bills Receivable Account Dr. To R. Kanga (Bill received from R. Kanga duly accepted)	300	0	0	300	0	0	
(9)	" 27	Bills Receivable Account Dr. To C. Shah (Bill drawn by M. Mayer and accepted by P. Par- son, received from C. Shah)	350	0	0	350	0	0	
(10)	" 31	R. Robert Dr. To Bills Payable Account (My acceptance given to R. Robert)	215	0	0	215	0	0	
			Rs.	4,730	0	0	4,730	0	0

Example. 16.

Enter the following transactions in their proper Subsidiary Books —
1929

- Jan. 2. Received from P. Mistry his Acceptance at 2 months for Rs. 900.
- „ 10 J. Kanga drew on me for Rs. 750 and I accepted his draft at 1 month.
- „ 15 R. Rustom accepted my draft at 2 months for Rs. 500.
- „ 27 Discounted P. Mistry's Acceptance receiving Rs. 880.
- „ 28 Smith & Co. accepted my draft for Rs. 300 at 2 months.
- Feb. 1 Accepted B. Bhimji's draft for Rs. 800 at 1 month.
- „ 3 Gave W. Wilson R. Rustom's Acceptance in settlement of his account.
- „ 13 Bill Payable, due this date in favour of J. Kanga, duly paid.
- „ 15 Received Cash for Demand Draft Rs. 1,650 from Swift & Co.
- „ 20 Received from C. Shah his Acceptance at one month for Rs. 450.
- Mar. 1. Renewed my acceptance in favour of B. Bhimji for Rs. 800. Paid him cash Rs. 430 including Rs. 30 for interest and accepted his new draft for Rs. 400 at 2 months.
- „ 5 P. Mistry's acceptance returned dishonoured by Bank.
- „ 10 Discounted C. Shah's Acceptance receiving in Cash Rs. 435; discount charged Rs. 15.
- „ 18 W. Wilson returned to us R. Rustom's acceptance dishonoured; Noting charges paid by him Rs. 20.
- „ 19 Paid W. Wilson to settle his account for Rs. 520 including Rs. 20 for Noting charges.
- „ 23 C. Chavan drew on me at 2 months for Rs. 550 and I accepted his draft.
- „ 25 Drew on H. Hari at 2 months for Rs. 950 which he accepted.
- „ 31 Smith & Co. dishonoured their acceptance.
- Apr. 21 Renewed H. Hari's acceptance for Rs. 950. He paid Rs. 300 in Cash and drew on him another bill for Rs. 690, including Rs. 40 for interest, at 2 months.

BILLS RECEIVABLE BOOK.

No. of Bill.	Date received	Date of Bill.	From whom received.	Drawer.	Acceptor.	Where Payable	Term.	Due Date.	Ledger Folio.	Amount.	Cash Book Folio.	Remarks.	
	1929	1929						1929		Rs. a. p.			
1	Jan. 2	Jan. 2	P. Mistry ...	Self	... P. Mistry ...	Bombay	2 months.	Mar. 5		900	0	0	Dishnour ed
2	" 15	" 15	R. Rustom ..	"	... R. Rustom...	"	2 "	" 18		500	0	0	"
3	" 28	" 28	Smith & Cc.	"	... Simth & Co.	Lahore.	2 "	" 31		300	0	0	"
4	Feb. 20	Feb. 20	C. Shah ...	"	... C. Shah ...	Calcutta	1 month.	" 23		450	0	0	Discounted.
5	Mar. 25	Mar. 25	H. Hari ...	"	... H. Hari ...	"	2 month.	May 28		950	0	0	"
6	April 21	April 21	H. Hari ...	"	... H. Hari ...	"	2 months.	June 24		690	0	0	Renewed.
										Rs. 3,790	0	0	

BILLS PAYABLE BOOK.

No. of Bill.	Date of Bill.	To whom given.	Drawer.	Payee.	Where Payable.	Term of the Bill.	Due Date.	Ledger Folio.	Amount.	Date paid.	Cash Book Folio.	Remarks.
	1929						1929		Rs. a. p.	1929		
1	Jan. 10	J. Kanga ...	J. Kanga ...	J. Kanga	Karachi.	1 month...	Feb. 13		750	0	0	Paid.
2	Feb. 1	B. Bhimji ...	B. Bhimji ...		Bombay	1 " ...	Mar. 4		800	0	0	Renewed.
3	Mar. 1	B. Bhimji ...	B. Bhimji ...		"	2 months.	May 4		400	0	0	
4	Mar. 23	C. Chavan ...	C. Chavan...		"	2 months.	May 26		550	0	0	
									Rs. 2,500	0	0	

BILL TRANSACTIONS.

Dr. CASH BOOK. Cr.

Date.	Particulars.	Led. Fol.	Discount.	Cash.	Date.	Particulars.	Led. Fol.	Discount.	Cash.
1929				Rs. Re.	1929				Rs. Re.
Jan. 27	To Bills Receivable Account		20	880	Feb. 13	By Bills Payable Account			750
Feb. 15	" Swift & Co.			1,650	Mar. 1	" B. Bhimji			400
Mar. 10	" Bills Receivable Account		15	435	" "	" Interest Account			30
April 21	" H. Hari ...			300	" 5	" P. Mistry...			900
					" 19	" W. Wilson			520
					April 30	" Balance carried forward.			665
	Rs.		35	3,265		Rs.			3,265
May 1	" Balance brought forward...			665					

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		Rs.	a.	p.	Rs.	a.	p.
Feb. 3	W. Wilson Dr. To Bills Receivable Account (R. Rustom's acceptance endorsed over to W. Wilson in settlement of his account)	500	0	0	500	0	0
Mar. 1	Bills Payable Account Dr. To B. Bhimji (Being the entry for the cancellation of our Bill Payable to B. Bhimji)	800	0	0	800	0	0
" 18	R. Rustom Dr. To W. Wilson (R. Rustom's acceptance returned dishonoured by W. Wilson and Noting charges thereon.)	520	0	0	520	0	0
" 31	Smith & Co. Dr. To Bills Receivable Account (Being the entry for dishonour of Smith & Co.'s acceptance.)	300	0	0	300	0	0

JOURNAL.—(contd.)

1929			Rs.	a.	p.	Rs.	a.	p.
Apr. 21	H. Hari To Bills Receivable Account (Being entry for the cancellation of old bill).	Dr.	950	0	0	950	0	0
	H. Hari To Interest Account (Being the entry for interest charged to H. Hari)	Dr.	40	0	0	40	0	0

The above transactions, if journalised, will appear as under :—

JOURNAL.

1929			Rs.	a.	p.	Rs.	a.	p.
Jan. 2	Bills Receivable Account To P. Mistry (Being the entry for Bill received from P. Mistry.)	Dr.	900	0	0	900	0	0
	J. Kanga To Bills Payable Account (Being my acceptance given to J. Kanga.)	Dr.	750	0	0	750	0	0
" 15	Bills Receivable Account To R. Rustom (R. Rustom's acceptance received.)	Dr.	500	0	0	500	0	0
" 27	Cash Discount	Dr.	880	0	0	900	0	0
	To Bills Receivable Account (P. Mistry's Bill discounted)	"	20	0	0			
" 28	Bills Receivable Account To Smith & Co. (Being the entry for the receipt of Smith & Co.'s acceptance.)	Dr.	300	0	0	300	0	0
Feb. 1	B. Bhimji To Bills Payable Account (Being the entry for the acceptance of B. Bhimji's draft.)	Dr.	800	0	0	800	0	0
" 3	W. Wilson To Bills Receivable Account (R. Rustom's acceptance endorsed over to W. Wilson)	Dr.	500	0	0	500	0	0

JOURNAL.—(Contd.)

1929 Feb. 13	Bills Payable Account Dr. To Cash (Bill Payable due this date paid.)	750	0	0	750	0	0
" 15	Cash Dr. To Swift & Co. (Cash received for Demand Draft from Swift & Co.)	1,650	0	0	1,650	0	0
" 20	Bills Receivable Account Dr. To C. Shah (C. Shah's acceptance received.)	450	0	0	450	0	0
Mar. 1	Bills Payable Account Dr. To B. Bhimji (Being the entry for cancellation of our Bill Payable to B. Bhimji.)	800	0	0	800	0	0
" "	B. Bhimji Dr. Interest Account " To Cash (Being the cash paid in part payment of the old bill including Rs. 30 for In- terest.)	400 30	0	0	430	0	0
" "	B. Bhimji Dr. To Bills Payable Account (Being the amount of the fresh acceptance.)	400	0	0	400	0	0
Mar. 5	P. Mistry Dr. To Cash (P. Mistry's acceptance re- turned dishonoured by Bank.)	900	0	0	900	0	0
" 10	Cash Dr. Discount " " To Bills Receivable Account " (C. Shah's acceptance dis- counted.)	435 15	0	0	450	0	0
" 18	R. Rustom Dr. To W. Wilson (R. Rustom's acceptance re- turned dishonoured by W. Wilson and Noting charges paid by him.)	520	0	0	520	0	0
" 19	W. Wilson Dr. To Cash (Cash paid to W. Wilson in settlement of his account.)	520	0	0	520	0	0

JOURNAL.— (Contd.)

		Rs.	a.	p.	Rs.	a.	p.			
1929										
Mar. 23	C. Chavan To Bills Payable Account (C. Chavan's draft accepted.)	Dr.	550	0	0	550	0	0		
" 25	Bills Receivable Account To H. Hari (Being the entry for H. Hari's acceptance-)	Dr.	950	0	0	950	0	0		
" 31	Smith & Co. To Bills Receivable Account (Entry for the dishonour of Smith & Co.'s acceptance-)	Dr.	300	0	0	300	0	0		
Apr. 21	H. Hari To Bills Receivable Account (Being the cancellation of the old bill.)	Dr.	950	0	0	950	0	0		
" "	Cash To H. Hari (Being the amount received in part-satisfaction of the old bill.)	Dr.	300	0	0	300	0	0		
" "	Bills Receivable Account To Interest Account .. H. Hari (Being the amount of the new acceptanec.)	Dr.	690	0	0	640	0	0	50	0

SUMMARY.

1. On receipt of a Bill Receivable duly accepted, it is entered in Bills Receivable Book.

2. The postings of Bills Receivable Book are to credit each person with the amount of the Bill received from him and to debit Bills Receivable Account with the periodical total.

3. When a Bill Receivable is met, enter the transaction on debit side of Cash Book, and from there credit Bills Receivable Account.

4. To discount a Bill Receivable is to sell it for its present worth.

5. On a Bill Receivable being discounted, pass the entry through Cash Book debiting Cash and Discount and crediting the Bills Receivable Account with the full amount of the Bill.

6. When a Bill Receivable is dishonoured, the previous entry relating thereto must be reversed in order to bring about the position prior to the receipt of the Bill.

7. When a Bill Receivable is endorsed over to a creditor, debit the Creditor's Account and credit Bills Receivable Account.

8. On such a Bill being dishonoured, debit the person from whom the Bill was received and credit the Creditor's Account.

9. When a Bill Receivable which had been discounted is dishonoured, debit the person from whom the Bill was received and credit Bank.

10. All expenses on dishonour should be charged up to the person from whom the Bill was received.

11. On a Bill Receivable being sent to a bank for collection, debit "Bank Account for Collection of Bills" and credit Bills Receivable Account.

12. On the Bill being collected by the Bank, debit the Bank (Current) Account and credit "Bank Account for Collection of Bills."

13. On any one of such Bills being dishonoured, debit the person from whom the Bill was received and credit "Bank Account for Collection of Bills."

14. The debit balance of the Bills Receivable Account on any date will always agree with the total amount of Bills Receivable remaining on hand unmatured.

15. On accepting a Bill Payable, enter it in Bills Payable Book.

16. The posting of the Bills Payable Book is to debit each person with the amount of the Bill given and to credit Bills Payable Account with the periodical total.

17. On meeting the Bill on due date, enter it through Cash Book credit side and debit Bills Payable Account.

18. When a Bill Payable is dishonoured, debit the Bills Payable Account and credit the drawer.

19. Debit General Expenses Account with the noting charges incurred and credit the drawer.

20. The credit balance on the Bills Payable Account on any one date will always agree with the total of the Bills Payable outstanding unmatured and not paid.

QUESTIONS ON CHAPTER VII.

1. What is a Bill of Exchange?
2. Who are the parties to a Bill of Exchange?
3. What do you understand by the term Negotiable Instrument?
4. What is the effect of endorsing a Bill of Exchange?
5. What are Days of Grace?
6. Give the rulings for (a) Bills Receivable Book, and (b) Bills Payable Book and enter therein three specimen entries.
7. What Bills are discounted and explain the discounting of a Bill.
8. Explain "honouring", "retiring", and "noting".
9. When is a Bill called a Draft and when an Acceptance?
10. What items appear on the debit and credit sides of the Bills Receivable Account in the Ledger?
11. What entries are posted on the debit and credit sides of the Bills Payable Account?
12. What are the postings of the Bills Receivable Book?
13. How do you post the Bills Payable Book?
14. Explain the advantage derived from entering up the Bill transactions through the Subsidiary Bill Journals and not through the Journal Proper.
15. Through which Subsidiary Book would you pass transactions pertaining to Dishonour of Bills?
16. What are the necessary requisites for a Bill of Exchange?
17. What entry do you pass when a Bill is discounted?
18. What entry is passed when an Acceptance is dishonoured?

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19. How would you record the endorsement and delivery of a Bill Receivable to a creditor ?
20. What entry is passed when a discounted Bill Receivable is dishonoured ?
21. How would you record the dishonour of a Bill Receivable that has been endorsed over by you to your creditor ?
22. What do you understand by retiring a Bill under Discount ?
23. What entries are passed on renewal of a Bill Receivable ?
24. How do you distinguish between a Promissory Note and an Acceptance ?
25. How would you record Bills sent to Bankers for collection ?
26. What entry would you pass on dishonour of a Bill sent to Bankers for collection ?
27. What balance, if any, would Bank Account for Collection of Bills show, and what would it signify ?
28. How is Renewal of a Bill Payable recorded ?
29. How is Retirement of a Bill Payable under Discount brought into record ?
30. Explain the reason why Bills sent to Bankers for collection are not debited to the Bank Current Account straight away.

EXERCISE I.

Enter the following transactions in their proper Subsidiary Books and post the same to the necessary Ledger Accounts :—

1929	Rs.
Jan. 1 Commenced business with cash	10,000
„ „ Paid into Bank	7,000
„ 2 Bought goods for cash	900
„ 3 Sold to H. Henry goods on credit	700
„ 5 Purchased Furniture for cash	550
„ 10 Bought of B. Bode goods worth	850
„ „ Accepted B. Bode's draft at one month for	850
„ 15 H. Henry endorsed over to me his Bill Receivable dated 5th January at 2 months accepted by W. Wilson for	500

BILL TRANSACTIONS.

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1929.				
Jan. 20	Purchased from Kharas & Co. goods	1,500
" 23	Received cheque from H. Henry on account	150
" 24	G. Madon purchased goods on credit ...	...	...	1,775
" 25	Received from G. Madon cheque for ...	...	...	725
	and his acceptance at 2 months for ...	...	...	1,000
	allowed him discount ...	...	...	50
" 29	Endorsed over G. Madon's acceptance to Kharas & Co ...	...	...
" 30	Paid Salaries by cheque ...	...	...	500
" "	Drew for personal use ...	...	...	1,300
" "	Kharas & Co. drew on me at 2 months in settlement of his account ...	...	...	500
" 31	Paid Office Rent by cheque ...	...	...	300
Feb. 1	Discounted H. Henry's bill receiving cash ...	...	...	475
" 5	V. Vijay purchased goods on credit ...	...	...	1,150
" 6	Received from V. Vijay cheque ...	...	...	500
" 7	Paid into Bank ...	...	...	2,800
" 10	Drew on V. Vijay at 2 months and he accepted the same allowed him as discount ...	...	...	600
		...	...	50
" 13	Bill Payable in favour of B. Bode honoured by Bank ...	...	...
" 21	H. Henry purchased goods worth ...	...	...	950
" 23	Received from H. Henry cheque ...	...	...	200
" 28	Bought goods and paid for same by cheque ...	...	...	600
Mar. 5	Paid salaries by cheque—February ...	...	...	500
" "	Office Rent by cheque ...	...	...	300
" 8	Bill Receivable, received from H. Henry, returned dishonoured by Bank ...	...	...
" 10	Received from H. Henry cheque ...	...	...	750
" 19	Paid cash for Stationery ...	...	...	520
" 28	Kharas & Co. returned G. Madon's acceptance dishonoured, Noting charges paid by them ...	...	...	50
" 30	Paid Kharas & Co. by cheque ...	...	...	1,050
" 31	G. Madan paid Rs. 85 in cash including interest Rs. 35 and accepted a new draft at 2 months for ...	...	...	1,000

EXERCISE II.

Journalise the following transactions :-

1929

- Jan. 3 Accepted J. Brown's draft at 1 month for Rs. 900.
 " 7 Received from B. Butcher his acceptance at 1 month for Rs. 1,200.

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- Jan. 12 Drew on Fancy & Co. at 3 months for Rs. 1,400 and they accepted my draft.
- „ 20 Gave my acceptance at 1 month for Rs. 1,250 to Mercury & Co.
- „ 25 Endorsed over to C. Sharp, B. Butcher's acceptance.
- „ 30 Gave Swift & Co. a Promissory Note for Rs. 1,300 at 3 months.
- Feb. 1 Discounted Fancy & Co.'s acceptance receiving cash Rs. 1,360.
- „ 5 Rattanshaw & Sons accepted my draft at 2 months for Rs. 1750.
- „ 6 Bill Payable, due this date, drawn by J. Brown, duly met.
- „ 8 Received from C. Roberts, Waverly & Co.'s Promissory Note for Rs. 1,100 at 3 months, dated January 8.
- „ 10 C. Sharp returned B. Butcher's acceptance dishonoured; Noting charges paid by him Rs. 35.
- „ 23 Bill Payable in favour of Mercury & Co. dishonoured.
- Mar. 1 P. Shroff gave me a Promissory Note for Rs. 1,700 at 1 month.
- „ 3 A. B. C. & Co. drew on me at 1 month for Rs. 1,300 and I accepted their draft.
- „ 10 Renewed Rattanshaw & Sons acceptance for Rs. 1,750. They paid cash Rs. 645 including Rs. 95 for interest and accepted a new draft for Rs. 1,200 at 2 months.
- „ 25 Renewed my acceptance in favour of A. B. C. & Co. for Rs. 1,300. Paid them cash Rs. 50 being interest for the extended period and accepted their new draft for Rs. 1,300 at 2 months.
- „ 30 Received from Star & Co., their acceptance at 2 months for Rs. 1,400.
- Apr. 4 Received cash for P. Shroff's Promissory Note, due this date.
- „ 11 Received cheque Rs. 1,100 for Promissory Note, due this date, from Waverley & Co.
- „ 15 Fancy & Co.'s acceptance returned dishonoured by Bank; Noting charges paid by them Rs. 55.

EXERCISE III.

On 1st June 1931, Ramdas & Co., Allahabad, drew a bill of exchange upon Jiwanji Bros., of Nagpur, for Rs. 3,250/- at 4 months' date. This was duly accepted payable at the C. P. Bank Ltd., Nagpur; after acceptance, the bill was endorsed to Adamji Lookmanji of Nagpur. Draw the bill of exchange showing the acceptance, the endorsement, and the stamp duty.

EXERCISE IV.

Pass Journal Entries in the books of Ramdas & Co., Jiwanji Bros., and Adamji Lookmanji to record the above transaction, assuming that the Bill was honoured on the due date.

EXERCISE V.

Assuming that the above bill was dishonoured on due date and the endorsee arranges with the endorser to accept a new bill of exchange at four months plus interest at 5% p. a. for the period and Rs. 25/- for expenses, make the Journal entries in the books of the endorser and the endorsee.

EXERCISE VI.

On 15th July 1930, H. Jamshedji bought a pearl necklace for Rs. 12,500/- from Motiram, and accepted two bills of exchange in settlement, one for Rs. 5,000/- due 4 months, and the other for Rs. 7,500/- due 6 months after date. The first bill was met on the due date, but before the second bill fell due it was withdrawn by mutual arrangement and a new three months' bill was accepted by Jamshedji, Rs. 100/- being added for the extension of credit. Set out the entries in the books of both the parties, recording the above transactions.

EXERCISE VII.

On 1st January 1930, X sold to Y goods of the value of Rs. 1,300 and drew upon him at three months for that amount. On 1st February 1930, X purchased from Z goods valued Rs. 2,600, and in payment he handed Z Y's acceptance and a cheque for Rs. 1,267, Z allowing Rs. 33 by way of discount. On maturity, Y's Bill was dishonoured, and X had to take it up. Show the necessary entries to record the above transactions in the books of X, Y and Z.

EXERCISE VIII.

What is a Promissory Note? Draw the following Promissory Note and show the stamp duty :—

Promissory Note for Rs. 1,150 given by Mulchand Mehta of Ahmedabad on 1st September 1930, to Govindrao Anandrao of Bombay, payable 4 months after date.

EXERCISE IX.

A draws a Bill on B for Rs. 1,000. On return of the acceptance by B, A discounts it with his Bankers for Rs. 960. On due date the Bill is dishonoured. Pass entries in the books of A and B.

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EXERCISE X.

C receives D's acceptance for Rs. 1,200. He endorses over the same to E. E discounts it with his Bankers for Rs. 1,140. The Bill is dishonoured on due date. Pass entries in the books of C, D and E.

EXERCISE XI.

D receives E's acceptance, for Rs. 1,500. Before the due date E approaches D with Rs. 500 cash and offers to accept another Bill for Rs. 1,100 including interest for extension of time in cancellation of the original bill. D agrees to these terms and draws another bill for Rs. 1,100 in place of the old one. Pass the necessary entries in the books of D and E.

EXERCISE XII.

A draws a Bill for Rs. 700 on B. B accepts it and A endorses over the same to C. C discounts it with his Bankers for Rs. 665. Before the due date, B approaches the holders in due course and arranges for a new Bill of Rs. 750 to be drawn on him in cancellation of the old one. The second Bill is then duly honoured by him on the due date. Pass the necessary entries in the books of all the parties concerned.

CHAPTER VIII.

THE JOURNAL PROPER.

As has been said in the previous pages, originally, there was only one book of prime record, viz., the Journal, through which all business transactions were passed without exception, and it was from there that subsequent entries were made in the Ledger Accounts. It was then soon found that if transactions of any one class such as, Credit Purchases, Credit Sales, Cash Transactions, Bill Transactions or Returns were passed through separate subsidiary Journals, a considerable saving of clerical labour would be effected. This gave rise to the use of the Purchases Journal, the Sales Journal, the Cash Book, the Bills Journals and the Returns Journals which have already been described in the previous Chapters. The general use of Journal is thus very much restricted in modern Book-keeping, and through this book are now passed only such transactions as cannot be conveniently recorded in any of the other books of Prime Entry.

Generally speaking, the use of the Journal proper is now confined to the record of the following transactions:—

- (1) Opening Entries;
- (2) Transfers from one account to another;
- (3) Rectification of Errors;
- (4) Adjusting Entries;
- (5) Closing Entries; i.e., transfers from the Nominal Accounts to the Profit and Loss Account;
- (6) Entries relating to Dishonour of Bills; and
- (7) Such other transactions for which there is no special book of Prime Entry, such as, Consignment Transactions, etc.

The double aspect of every transaction is given effect to in the Journal by the two money columns provided, the left-hand column being used for debit entries, and the right-hand for the credit. In order to make each entry self-explanatory, it is essential that a concise explanation giving the reasons for the entry should be appended to every entry. This is known as the *narration*, and the student should note that the narration in a Journal entry is as important as the figures comprising it.

OPENING ENTRIES.

If a trader commences business with cash, furniture and stock, all these accounts must be shown in his Ledger. But as they cannot appear direct into the Ledger without passing through any subsidiary book, the Journal comes in useful for this purpose.

Thus, if J. Smith commences business with Cash Rs. 2,000/-, Furniture Rs. 500/- and Stock Rs. 5,000/-, the Journal entry to record this fact would be :—

	Rs.	a.	p.	Rs.	a.	p.
Cash Dr. ...	2,000	0	0			
Furniture " ...	500	0	0			
Stock of Goods " ...	5,000	0	0			
To J. Smith's Capital Account...				7,500	0	0
Being the assets brought in by him to commence business.	Rs. 7,500	0	0	7,500	0	0

Opening Entries are also passed to record the balances of Assets and Liabilities brought forward from previous period into current year's books. In passing such entry, the rule to be followed is—

Debit all Assets ;

Credit all Liabilities ; and

Credit the excess of Assets over Liabilities to Capital Account.

Example 17.

P. Chinoy carried on business as a Draper, and on 31st December 1928, the following balances stood in his books. Pass the opening entry in his Journal on 1st January 1929:—

			Rs.
Stock on hand	...	...	7,500
Fixtures & Fittings	...	...	800
Cash at Bank	...	...	1,200
Cash in Office	...	...	100
 <i>Debtors—</i>			
P. White	...	...	325
W. Brown	...	...	400
C. Black	...	...	600
 <i>Creditors—</i>			
Sultan & Co.	...	...	1,400
Haroon & Co.	...	...	900
Loan from Smith & Co.,	...	...	2,600

JOURNAL ENTRY.

1929					Rs.	a.	p.	Rs.	a.	p.
Jan. 1	Cash	...	...	Dr.	100	0	0			
	Bank	...	...	"	1,200	0	0			
	Stock-in-trade	...	...	"	7,500	0	0			
	Fixtures and Fittings	...	...	"	800	0	0			
	P. White	...	...	"	325	0	0			
	W. Brown	...	...	"	400	0	0			
	C. Black	...	...	"	600	0	0			
	To Sultan & Co.	...	...	"				1,400	0	0
	„ Haroon & Co.	...	...	"				900	0	0
	„ Loan Account	...	...	"				2,000	0	0
	„ Capital Account	...	...	"				6,625	0	0
	(Being the opening Assets and Liabilities brought over from the previous year.)									
				Rs.	10,925	0	0	10,925	0	0

RECTIFICATION OF ERRORS.

Journal is also used for the purpose of recording entries necessary to rectify errors. The following example will serve to indicate how to pass rectifying Journal entries:—

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Example 18.

(1) Goods sold to B. Basu for Rs. 115/10 have been wrongly passed through the Sales Book as Rs. 110/15.

(2) Goods sold to R. Ramrao for Rs. 275/- have been wrongly entered in the Sales Book as Rs. 725/-.

(3) A purchase of goods from C. Croft of Rs. 200/- has been wrongly debited to Furniture Account.

(4) An amount of Rs. 500/- received for commission has been wrongly entered in the Cash Book as received for interest.

(5) A purchase of goods from D. David amounting to Rs. 150/- has been wrongly entered through the Sales Book.

(6) A credit sale of Rs. 120/- to R. Peter has been wrongly passed through the Purchases Book.

(7) Rs. 300/- Salary paid to the cashier B. Naidu stands wrongly debited to his Personal Account.

(8) Rs. 100/- received from Shaw & Co., have been wrongly entered as from Shah & Co.

The Journal entries necessary to rectify the above errors will be as follows :—

	Rs.	a.	p.	Rs.	a.	p.
(1) B. Basu Dr. To Goods Account Being the rectification of a Credit Sale of Rs. 115—10—0 wrongly entered in the Sales Book as Rs. 110—15—0.	4	11	0	4	11	0
(2) Goods Account Dr. To R. Ramrao Being the entry to rectify an excess debit of Rs. 450/- passed from the Sales Book.	450	0	0	450	0	0
(3) Goods Account... .. Dr. To Office Furniture Account Being the wrong debit given to Furniture Account set right.	200	0	0	200	0	0
(4) Interest Account... .. Dr. To Commission Account Being the rectification of the amount received for commission wrongly credited to Interest Account.	500	0	0	500	0	0
(5) Goods Account Dr. To D. David Being the entry to rectify the purchase of goods of Rs. 150/- from D. David wrongly entered through the Sales Book.	300	0	0	300	0	0

		L.F.	Rs.	a.	p.	Rs.	a.	p.
(6)	R. Peter To Goods Account Being the entry to rectify a sale of Rs.120/-made to R.Peter wrongly entered through the Purchases Book.	Dr.	240	0	0	240	0	0
(7)	Salaries Account To B. Naidu Being the rectification of the Salary amount wrongly debited to the Personal Account of the Cashier instead of the Salaries Account.	Dr.	300	0	0	300	0	0
(8)	Shah & Co. To Shaw & Co. Being the rectification of a wrong credit given.	Dr.	100	0	0	100	0	0

EXPLANATION OF THE ABOVE ENTRIES.

(1) In this case, as B. Basu's Account has originally got an *under-debit* and the Goods Account an *under-credit*, the same is now adjusted by giving a further debit to B. Basu's Account and a further credit to Goods Account of Rs. 4-11 through the Journal.

(2) Here, as R. Ramrao's Account has been overdebited with Rs. 450/- and Goods Account overcredited by Rs. 450/-, the error is set right by debiting the Goods Account with Rs. 450/- and crediting R. Ramrao's Account with Rs. 450/-.

(3) As Furniture Account has been wrongly debited with an amount which should have been charged to Goods Account, the Furniture Account is credited with the same amount so as to nullify the effect of the wrong debit, and the Goods Account is debited with the amount which should have been debited thereto.

(4) As Interest Account has got a wrong credit for Rs. 500/-, the same is nullified by debiting the Interest Account with a similar amount. The Commission Account gets the corresponding credit, as the amount was received on account of commission.

(5) In this case, the original entry should have been to debit Goods Account and credit D. David's Account with Rs. 150/-. But as the entry has gone through the Sales Book

instead of the Purchases Book, D. David has got a debit of Rs. 150/- and the Goods Account a credit of Rs. 150/-. If, therefore, an entry of double the amount is passed through the Journal, the effect of such entry would be to wipe off the wrong debit of Rs. 150/- to D. David and wrong credit to Goods Account of Rs. 150/-, and instead leave a debit of Rs. 150/- to Goods Account and a credit of Rs. 150/- to D. David's Account.

(6) As a result of the Credit Sale, R. Peter's Account should have got the debit and Goods Account the credit for Rs. 120/-. As, however, this transaction has wrongly passed through the Purchases Book, the reverse has happened, viz., Goods Account has got the debit and R. Peter the credit for Rs. 120/-. In order, therefore, to set this error right, a Journal entry is needed debiting R. Peter and crediting the Goods Account with double the amount.

(7) When an amount is paid for salary, it would be wrong to debit the Personal Account of the employee, as the payment of such salary does not render the employee a debtor to the employer. The rectifying entry is, therefore, to debit Salaries Account and credit the Employee's Account. The effect of the credit given to the latter Account is to wipe off the wrong debit already given.

(8) When one Personal Account is wrongly credited for another, the error is set right by debiting the Account that has already been given the wrong credit and by crediting the right party.

ADJUSTING & CLOSING ENTRIES.

The Journal is also used for making necessary adjustments in final accounts and for transferring the balances of Nominal Accounts representing expenses and gains to Profit and Loss Account. Transferring the balances to Profit and Loss Account at the end of each financial period is called closing the books, and the Journal entries necessary to bring this about, are called Closing Entries. These entries are explained in the Chapter on Profit and Loss Account.

THEORETICAL USE OF JOURNAL.

As the ruling of the Journal is so designed as to show the debit and credit effect of *every* transaction, students in examinations are often asked to journalise all the transactions in a given business. This, however, is only a test of theory, and the student should not hesitate to pass all transactions through the Journal where so demanded in examination exercise. When, however, he is asked to enter a given series of transactions through their proper Subsidiary Books, only such entries as cannot be conveniently passed through any of the other books of prime entry should then be journalised.

SUMMARY.

(1) Theoretically, any business transaction can be recorded in the Journal.

(2) In practice, the use of Journal is restricted to recording such transactions as cannot be passed through any other Subsidiary Book.

(3) In modern Book-keeping, the Journal Proper is used for passing Opening Entries, Closing Entries, Adjusting Entries, Transfers, Rectification Entries and Transactions appertaining to Consignments and Joint Ventures.

(4) Every Journal entry must have a "narration", i. e., an explanation immediately after the entry.

QUESTIONS.

(1) What is the function of the Journal Proper in modern Book-keeping?

(2) How far is the Cash Book a Journal?

(3) What do you understand by Purchases Journal and Sales Journal? Why are these called Journals?

(4) Explain "Opening Entries" and "Closing Entries".

(5) What is a "Narration", and why is it necessary?

(6) How are the posting made from the Journal?

EXERCISE I.

A. Laud on 31st December 1928 found his balances as follows :—

<i>Debtors</i>				Rs.	a.	p.
G. May	...	...	...	2,509	2	6
R. Gay	..	...	...	1,155	5	3
W. Joy & Co.	...	...	...	1,126	7	5
<i>Creditors</i>						
L. Merry	...	...	...	2,364	9	4
H. Hope	...	...	...	3,826	13	3
Goods	...	...	...	3,885	3	4
Bills Receivable	...	...	...	6,350	0	0
Bills Payable	...	...	...	6,160	0	0
Cash in hand	...	...	...	985	4	9
Cash in Bank	...	...	...	4,490	9	2
Furniture and Fittings	...	...	...	3,400	0	0

In the month of January his transactions were :—

1929.				Rs.	a.	p.
Jan.	1	Bought of L. Merry goods	...	1,495	6	8
"	3	Bill Payable No. 1 due this day paid at Bank	...	1,550	0	0
"	4	Sold to B. Comfort goods	...	2,111	3	2
"	5	Received from B. Comfort Cheque	...	2,111-3-2		
		Less Discount	...	105-3-2		
				—————	2,006	0 0
"	6	Received of G. May his acceptance at one month	...	2,300	0	0
"	"	Sold goods for cash	...	1,187	3	4
"	8	Accepted L. Merry's Draft at 2 months for	...	3,860	0	0
"	10	Paid into Bank	...	3,500	0	0
"	"	Purchased goods from H. Hope	...	2,895	4	5
"	"	Sold goods to R. Gay	...	4,326	2	3
"	11	Drew cheque for personal use	...	1,155	6	4
"	12	Returned to H. Hope goods	...	316	3	2
"	"	Received cheque for Bill Receivable No. 1	...	1,350	0	0
"	13	Endorsed over to H. Hope, in part satisfaction, Bill Receivable No. 2 due February 3, for	...	3,775	0	0
"	"	R. Gay returned goods worth	...	193	2	3
"	"	Sold to J. Cooper goods	...	1,485	2	5
"	"	Drew on W. Joy & Co. at 2 months and they accepted my draft for	...	1,100	0	0
"	17	Bought goods for Cash	...	1,233	4	6
"	19	W. Joy & Co. purchased goods on credit	...	3,042	6	4

	Rs.	a.	p.
Jan. 21 Renewed G. May's acceptance for Rs. 2,300. Received Cash Rs- 875 (Rs. 75 being for Interest) and drew on him a new bill at 1 month for ...	1,500	0	0
" " Received from R. Gay Promissory Note at 1 month for	3,500	0	0
Allowed him discount	88	5	3
" " Paid for Printing and Stationery in cash ...	178	4	3
" " Sold to G. May Goods	1,302	14	9
" 24 Paid Salaries by Cheque	1,563	12	0
" " Paid Office Rent by Cheque	750	0	0
" 25 Received from G. May Cheque	1,430-0-0		
Allowed him discount	82-1-3		
	1,512	1	3
" 28 Bill Receivable No. 3 accepted by J. Hugh due this date dishonoured	1,225	0	0
" 29 Gave H. Hope a Promissory Note at 1 month for ...	1,550	0	0
" " He allowed me discount	80	14	6
" 31 Paid for Electric Light by cheque	50	0	0
" " Received for Cash Sales Cheque	2,496	2	1
" " Paid into Bank	5,000	0	0

You are required to journalise the above transactions.

EXERCISE II.

The Balance Sheet of Abdul Rehman disclosed the following position on 31st Decen.ber 1930:—

Creditors:—	Rs.		Rs.
B. Benjamin	2,500	Cash at Bank	8,990
S. Sopher	1,200	Petty Cash	110
Bills Payable:—		Bills Receivable:—	
D. Dobbs	700	G. Gannon	1,000
N. Nathan	500	M. Dubash	1,600
Capital	78,300	Debtors:—	
		A. B. Irani	1,150
		N. Mahomad	650
		Stock:—	
		Crockery	9,140
		Cutlery	12,560
		Land and Buildings	48,000
	Rs. 83,200		Rs. 83,200

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NOTE 2.—All moneys received were banked on the same day and all payments were made by cheques.

His transactions during January 1931 were as follows :—

Jan.			Rs.	Rs.
3	Received cheque for cash sales—			
	Cutlery	-- --	500	
	Crockery	-- --	320	820
			<hr/>	
4	Bought from B. Benjamin—			
	Cutlery	-- --	550	
	Crockery	-- --	150	700
			<hr/>	
5	Sold to K. Khodabux—			
	Crockery	-- --		140
6	M. Dubash's bill discounted for Rs. 1,540 with Bank.			
7	Sold to A. B. Irani—			
	Cutlery	-- --	900	
	Crockery	-- --	500	1,400
			<hr/>	
	Received cheque from him in full settlement of his previous account up to the end of 1930	-- --		1,120
8	Paid to B. Benjamin on account by cheque	--		2,000
9	Paid from Petty Cash for—			
	Postage	-- --	5-0	
	Stationery	-- --	32-8	
	Telegrams	-- --	25-4	62-12
			<hr/>	
10	Returned to S. Sopher—			
	Crockery	-- --	40	
	Cutlery	-- --	160	200
			<hr/>	
11	Bought from D. Dobbs—			
	Cutlery	-- --		5,500
	Bought from Jarvis & Co.—			
	Crockery	-- --		300
12	A. B. Irani returned goods—			
	Cutlery	-- --		160
13	G. Gannon's bill due to day dishonoured. Noting charges paid Rs. 8.			

			Rs.	Rs.
Jan. 14	Sold to K. Munshi—			
	Cutlery	... ..	400	
	Crockery	... ..	375	775
			<hr/>	
.. 15	Retired D. Dobb's Bill due 18th March by cheque by getting discount Rs. 25/-			
.. 17	Bank returned Iram's cheque as dishonoured. Drew on K. Munshi at 4 months including Rs. 10/- for interest....	... ..		1,120
				785
.. 18	Sold to J. Fernandez—			
	Cutlery	... ..	150	
	Crockery	... ..	210	360
			<hr/>	
.. ..	Sold for cash—			
	Cutlery	... ..	100	
	Crockery	... ..	70	170
			<hr/>	
.. 19	Accepted D. Dobb's draft at 2 months, including Rs. 60, as interest.			5,560
.. 20	Drew for personal use			250
.. 22	Paid bill of the Indian Electric Co. for Lights, Fans and Fittings.			240
.. 23	Borrowed from Safe Security Ltd., Rs. 6,000 at 7% p. a. on the security of Land and Buildings.			
.. 25	M. Mahomed paid on account			150
.. 26	G. Gannon gave a new bill at 3 months including interest Rs. 17.			1,025
.. 27	Paid from Petty Cash for -			
	Telegrams		Rs. 4-8	
	Postage		" 2-14	
	Sundries		" 8-12	
			<hr/>	16-2
.. 28	M. Dubash's bill previously discounted with Bank, now returned dishonoured.			
.. 29	N. Nathan's bill due to-day paid at Bank...			500
.. 30	Abdul Rehman took for personal use Crockery Rs. 45/-, Cutlery Rs. 25/-			
.. ..	Drew from Petty cash for personal use ...			20

Jan. 31 Sold for cash -

Cullery ...	...	...	Rs. 45	
Crockery	...	...	" 75	120
			75	

You are required to journalise the above transactions.

EXERCISE III.

Journalise the following transactions :-

- Apr. 1 J. Fussy brought in as Capital Cash £ 930.
- .. 2 He arranged for an overdraft with the Midland Bank to the extent of £ 4,000 and bought goods for cheque £ 2,400.
- .. 3 Sold to F. Featherstone, goods £ 670.
- .. 4 Sold for cash, goods £ 1,090.
- .. 5 Paid sundry expenses in cash £ 30.
- .. 6 Paid into Bank, cash £ 1,500.
- .. 7 Received and banked cheque from F. Featherstone, £ 650, and allowed him discount £ 20.
- .. 8 Paid in cash, wages £ 25 and Furniture & Fittings £ 50.
- .. 9 Bought from M. Johnson, goods £ 1,060.
- .. 10 Sold to K. Kirkberg, goods £ 1,870.
- .. 11 Returned goods to M. Johnson £ 51.
- .. 16 Sent cheque to M. Johnson £ 1,000 and got discount £ 9.
- .. 17 Sold goods for cash £ 490.
- .. 19 Paid into Bank £ 400.
- .. 20 Drew cash from office for personal use £ 50.
- .. 24 Bank charged £ 19-10 interest on overdraft.
- .. 26 Paid cheque for stationery £ 50.
- .. 27 Bought from M. Macaroni, goods £ 1,040.
- .. 29 Received from K. Kirkberg on account £ 600.
- .. 30 Banked £ 650 from office cash.

EXERCISE IV.

On June 1st 1930, B. Kirtikar's books showed the following :-

		Rs. a. p.
Assets : Cash in hand ..	... ..	890 14 9
.. at Bank ...	... ..	1,509 6 4

				Rs.	a.	p.
Assets.	Stock	...	...	11,560	0	0
	H. Ganesh owed	...	...	190	0	0
	S. Lord	„	...	1,506	4	6
	P. Rodrick	„	...	371	0	0
	Bill Receivable	...	...	460	0	0
	- Furniture	...	...	450	0	0
Liabilities :	To Waman Desai	...	...	360	15	9
	„ T. Jusab	„	...	710	10	0
	Bill Payable	...	...	930	0	0
	Loan from K. Dixit	...	...	3,000	0	0

The following are his transactions for the month :—

June	2	Sold goods for cash and banked	...	2,500	0	0
„	4	„ „ to S. Lord	...	500	0	0
„	6	Received from P. Rodrick	...	371	0	0
„	8	Bought goods from Waman Desai	...	150	0	0
„	11	Paid Waman Desai his old account by cheque.				
„	14	Sold to H. Ganesh, goods	...	430	0	0
„	16	Sold goods to B. Barod for cash	...	157	6	6
„	19	Received from S. Lord a bill at one month for Rs. 2,000 in full settlement of account.				
„	20	Received cash for B/R	...	460	0	0
„	21	Paid into Bank	...	500	0	0
„	22	Retired through Bank the bill for Rs. 930 due on July 13th, receiving Rs. 20/- by way of discount.				
„	23	Gave a bill to T. Jusab for Rs. 700/- in full settlement of account.				
„	24	Gave a cheque in part payment of loan to K. Dixit	...	1,200	0	0
„	26	Sold goods to E. Hardayal	...	1,600	0	0
„	27	Bought goods and paid for same by cash	...	330	5	6
„	28	Bought goods from T. Jusab	...	150	0	0
„	29	Paid Trade Expenses by cash	...	120	6	0
„	30	Drew from cash for personal use	...	150	0	0
„	„	Drew cheque for office rent	...	100	0	0

EXERCISE V.

On April 1st 1931, the position of S. Dallas was as follows :—

Cash in office Rs. 435 and at Bank Rs. 5,300; Bill Receivable (J. Padshah, due April 29th 1931) Rs. 2,000; owing by E. Bamji & Co. Rs. 3,050 and by F. Arnold Rs. 1,560; goods in stock valued at—Tea Rs. 17,000 and Coffee Rs. 14,700; Business Premises Rs. 20,000. He owed Bennett & Co. Ltd. Rs. 4,000; Marshall Bros. Rs. 3,750; Bill Payable in favour of B. Chatterji Rs. 1,250; P/N given to George Ponsonby due on 21st April Rs. 825.

(NOTE : All receipts are banked intact and all payments are made by cheques, unless otherwise stated).

1931.

- April 2 Sold to E. Bamji & Co. 600 lbs. Tea Rs. 475/- and 450 lbs. Coffee Rs. 260/-.
- „ 3 Discounted J. Padshah's bill at Bank, for Rs. 1,990.
- „ 5 Bought of Marshall Bros. 5,400 lbs. tea at annas 12 per lb. and gave them our acceptance at 3 months for the amount of their bill. Paid carriage on the above Rs. 70.
- „ 9 Received from E. Bamji & Co. their cheque for Rs. 1,000/- and their acceptance at one month for Rs. 2,000/- in full settlement of their account upto April 1st 1931.
- „ 14 Sold to Kazi & Co. 440 lbs. tea Rs. 390 and 220 lbs. coffee Rs. 125.
- „ 18 Honoured our acceptance to B. Chatterji by forwarding a cheque for Rs. 1,250/-.
- „ 19 Bought of Bennett & Co. Ltd., 6000 lbs. coffee at 8 annas per lb.
- „ 20 Bought of Marshall Bros. 4,000 lbs. tea at 12 annas per lb.
- „ 21 My banker paid to George Ponsonby against my P/N to him.
- „ 25 Paid Marshall Bros. Rs. 3,730, in full settlement of account upto April 1st by cheque.
- „ 29 Bill Receivable of J. Padshah dishonoured, noting charges, etc. paid by Bank Rs. 15.
- „ 30 Drew cheques for salaries Rs. 425/-, rent, rates and taxes Rs. 365/-, and sundry trade expenses Rs. 70/-.
- „ „ Charge S. Dallas with the value of tea Rs. 20/- and Coffee Rs. 10/- taken by him for personal use.

EXERCISE VI.

Ramkrishna Bhandari had the following Assets and Liabilities on February 1st 1931 :—

Cash Rs. 630 ; Bank Rs. 23,100 ; B/R. Rs. 6,750 ; Stock Rs. 26,400 ;
B/P Rs. 3,000 ; owing to Marathe & Co. Rs. 3,600.

1931.

- Feb. 1 Advanced to Petty Cash out of office cash Rs. 300.
 " 2 Discounted B/R with Bank for Rs. 6,700.
 " 3 Sold to Bapat Bros. goods Rs. 1,400.
 " 4 Bought goods from Lala Jaichand Rs. 1,440.
 " 5 Carriage on above paid out of Petty Cash Rs. 35.
 " 6 Sold to Ganamal, goods Rs. 3,120 for cash.
 " 7 Sold to A. Chitre goods Rs. 6,000.
 " 8 Paid Marathe & Co. by cheque in full settlement less 2½%.
 " 9 Returned goods to Lala Jaichand, Rs. 60.
 " 10 Bought from Chatterji & Co. goods Rs. 6,300.
 " 11 Received back goods from Bapat Bros. Rs. 70.
 " 14 Gave advance to travelling salesman Rs. 100.
 " 15 Sold goods for cash Rs. 800.
 " 16 Paid out of Petty Cash for stationery Rs. 66 and for postage
 and telegrams Rs. 15.
 " 17 Received back some goods from Ganamal Rs. 90.
 " 18 Paid for office furniture Rs. 700 by cheque.
 " 20 Bought goods for cash Rs. 300.
 " 21 Returned goods to Chatterji & Co. Rs. 150.
 " 22 Sold goods to K.P. Reddy 350.
 " 23 Bought goods of S. Ramchand Rs. 750.
 " 24 Accepted Chatterji & Co's draft for Rs. 6,000.
 " 25 Paid salaries and wages by cheque Rs. 300.
 " 26 A. Chitre returned goods Rs. 200.
 " 27 K. P. Reddy sent us a P/N for Rs. 350.
 " 28 Sold goods for cash Rs. 250.
 Received from the travelling salesman his account of travelling
 expenses for Rs. 127/-. Sent him a cheque for Rs. 107/-
 including Rs. 60/- for his salary and Rs. 20/- for commission
 due to him.

CHAPTER IX.

THE TRIAL BALANCE.

The chief advantage of the system of Double-Entry Book-keeping is that it enables the trader to prove the arithmetical accuracy of the entries as recorded in the Books of Accounts.

The student will remember that the fundamental principle of Double-Entry is that 'for every debit there must be a corresponding credit.' Now, in course of making Book-keeping entries in the various records, if it is seen that for every debit entry that is given to an account or for every series of debits given to several accounts there is a credit or a series of credits of an equal amount given to some other accounts and *vice versa*, then it follows that the sum of the debit entries should equal the sum of the credit entries.

If the total of the debit amounts does not tally with the total of the credit amounts, then evidently some errors must have been made in the records, and it will be necessary to find out where the errors have occurred.

It will be useful at this stage to recapitulate briefly the names and uses of the several books of prime record and to see how in posting the entries from these books into the Ledger the fundamental principle of Double-Entry has been applied.

1. THE INVOICE BOOK or THE PURCHASES BOOK, in which are recorded *credit purchases* of goods acquired for resale. The entries in this book are made from the Invoices rendered by the suppliers. From here, each item of purchase is posted to the *credit* of the *supplier* concerned, and the monthly total of this book representing the credit purchases for the month is posted to the *debit* of the *Goods Account*.

2. THE RETURNS OUTWARDS BOOK, in which are recorded particulars of the *goods returned* to the suppliers *by the dealer*. This book is written up from the Debit Notes sent to the suppliers along with the returns, and which are acknowledged by their corresponding Credit Notes sent by the suppliers. The amount of each such return outward is posted to the *debit* of the *supplier* concerned, and the monthly total of this book is posted to the *credit* of *Goods Account*.

3. THE DAY BOOK or THE SALES BOOK, in which the *credit sales* made to customers are recorded. This book is entered up from the Outward Invoices sent to the customers. The postings are to the *debit* of each *customer* concerned with the amount of the goods sold to him and to the *credit* of *Goods Account* in shape of the monthly total of the book.

4. THE RETURNS INWARDS BOOK, in which are entered particulars of the *goods returned* by customers *to the dealer*. The entries in this book are made from the Credit Notes sent to the customers. The amount of each return inward is posted to the *credit* of the *customer* concerned, and the monthly total of this book is posted to the *debit* of *Goods Account*.

5. THE CASH BOOK with columns for Discount, Cash and Bank on either side. The entries on the *debit* side represent cash receipts and are posted individually to the *credit* of their respective personal or other accounts. The amounts as entered in the Cash or Bank columns in themselves represent *debts* to Cash Account or Bank Account. The monthly total of the debit Discount column is debited to Discount Account. Thus, from the debit side of the Cash Book, whereas the various personal or other accounts get individual credit, the corresponding debits go to Discount, Cash and Bank Accounts.

The *credit* side of the Cash Book records all payments. Each amount paid is debited to the personal or other account concerned, and the Cash Account or Bank Account is automati-

cally credited by means of the amounts being entered in these columns on the credit side. The monthly total of the credit Discount column is credited to Discount Account. Thus, from the credit side of the Cash Book, whereas the several accounts concerned get individual debit, the corresponding credits are given to Discount, Cash and Bank Accounts.

6. THE BILLS RECEIVABLE BOOK, to record particulars of all Bills Receivable received from debtors. The *personal account* of each party from whom the Bill is received is individually *credited*, and the monthly total of the book is *debited to Bills Receivable Account*.

7. THE BILLS PAYABLE BOOK, to record particulars of all Bills Payable granted by us. The *personal account* of each party to whom such Bill Payable is granted is *debited* and the monthly total of this book is *credited to Bills Payable Account*.

8. THE PETTY CASH BOOK, to record payments of Petty Expenses. The *Petty Cash Account* is *debited* each time a cheque for Petty Cash is given to the Petty Cashier, and the *Bank Account* is *credited* from the Cash Book. At periodical intervals, a Journal entry is passed with the summary of petty cash payments, *debiting* the appropriate *Nominal Accounts* of expenses for which monies were paid and *crediting* the *Petty Cash Account*.

9. THE JOURNAL PROPER, to accommodate such other transactions as cannot come under any one of the above classifications. In this book, the double aspect of every transaction is given effect to by at once debiting one account and crediting some other account.

From the above, the student must have observed how, while transferring into the Ledger the entries from the foregoing books of original entry, the underlying principles of Double-Entry are most faithfully applied by giving effect to the two-fold aspect of every transaction or each series of transactions.

WHAT A TRIAL BALANCE IS.

Since accounts are thus debited and credited with like amounts to give effect to the double aspect of every transaction, it follows that the total of the debit entries must equal *in amount* the total of the credit entries. It also follows as a corollary that the total debit balances must equal the total credit balances. This, however, would be irrespective of the number of accounts opened or the number of postings made.

When, therefore, all the transactions for a particular period have been duly entered in the books and properly posted, you will need *to try* whether you have correctly transferred all the entries from the Original Records into the Ledger. With this object in view, you will prepare a *Trial Balance*, i.e., a list of Balances debit or credit standing in the books of a trader at any given date.

The agreement of the Trial Balance provides a very useful check upon the Ledger postings. As a matter of fact, it proves two things, viz.,

- (1) That both the aspects of each transaction are recorded; and
- (2) That the books are arithmetically accurate.

Should the Trial Balance disagree, it reveals the presence of errors which must be found and rectified.

HOW TO PREPARE A TRIAL BALANCE.

A Trial Balance is usually prepared on loose sheets ruled in a form similar to that of the Journal, i. e., with debit and credit money columns side by side. Each account is given a line, and the name of the account is written in the particulars column. The date column is used for entering the folio or page of the Ledger on which the account appears. The first money column is used for entering the total of the debit side of each Ledger Account, and the second column for the total of the credit side of the account. If the books are correct, the Debit Total will equal the Credit Total, thus:—

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TRIAL BALANCE WITH DEBIT & CREDIT TOTALS.

	Dr.		Cr.	
	Rs.	a. p.	Rs.	a. p.
Capital Account			45,000	0 0
Drawings Account	17,700	0 0	5,200	4 0
Cash	1,712	12 3	1,492	2 0
Bank	26,000	0 0	17,785	6 0
Stock at commencement	18,858	14 6		
Purchases Account	23,457	3 3		
Sales Account			40,263	10 2
Returns Inwards Account	1,676	10 0		
Returns Outwards Account			986	12 3
Bills Receivable Account	3,900	0 0	2,700	0 0
Bills Payable Account	3,000	0 0	3,600	0 0
D. Marker	1,603	4 3	2,955	8 3
J. K. & Sons	8,278	2 0	1,850	0 0
R. Ravji	9,252	12 3	3,002	12 3
Press & Co.	1,653	4 2	2,553	3 5
P. Sonnie & Co.	1,980	4 0	1,375	6 3
Office Fixtures Account	2,700	0 0		
Discount and Allowances Account	893	10 6	753	14 2
Postage Stamps Account	150	12 3		
Advertisement Account	375	8 0		
Printing and Stationery Account	850	13 4		
Salaries Account	2,500	0 0		
Office Rent Account	2,975	0 0		
	<hr/>		<hr/>	
	Rs. 1,29,518	14 9	1,29,518	14 9

Instead of entering the debit and credit totals of each Ledger Account, a method that is generally followed in practice is to extract the *balance* of each Ledger Account and then to enter all Debit Balances in the debit (left-hand) column and all Credit Balances in the credit column, thus—

TRIAL BALANCE WITH DEBIT OR CREDIT BALANCES.

	Dr.		Cr.	
	Rs.	a. p.	Rs.	a. p.
Capital Account			45,000	0 0
Drawings Account	12,499	12 0		
Cash Balance		220 10 3		
Bank Balance	8,214	10 0		
Stock at commencement	18,858	14 6		
Purchases Account	23,457	3 3		
Sales Account			40,263	10 2
Returns Inwards Account	1,676	10 0		
Returns Outwards Account			986	12, 3
Bills Receivable Account	1,200	0 0		
Bills Payable Account			600	0 0
D. Marker			1,352	4 0
J. K. & Sons	6,428	2 0		
R. Ravji	6,250	0 0		
Press & Co.			899	15 3
P. Sonnie & Co.	604	13 9		
Office Fixtures Account	2,700	0 0		
Discount and Allowances Account	139	12 4		
Postage Stamp Account	150	12 3		
Advertisement Account	375	8 0		
Printing and Stationery Account	850	13 4		
Salaries Account	2,500	0 0		
Office Rent Account	2,975	0 0		
	Rs. 89,102	9 8	89,102	9 8

An important point to be borne in mind in the preparation of the Trial Balance is to include the Cash Balance and the Bank Balance as indicated by the Cash and Bank columns of the Cash Book. The reason is that these columns represent Cash and Bank Accounts and it is only for convenience that cash transactions are recorded in a separate book instead of being entered in shape of Ledger Accounts.

ERRORS NOT DISCLOSED BY TRIAL BALANCE.

It has been stated before, that, if the two totals of the Trial Balance are in agreement, it may safely be assumed that the books have been written up correctly. This statement, however, is partially true. It must be remembered that the Trial Balance serves to prove only the *arithmetical accuracy* of the books. There are several classes of errors which may exist and may remain undisclosed in spite of the agreement of the Trial Balance.

The following errors will remain undetected and will not affect the agreement of the Trial Balance:—

1. Errors of Omission.
2. Wrong Entries in any Original Record.
3. Errors of Principle.
4. Compensating Errors.
5. Posting to Wrong Heads of Accounts.

ERRORS OF OMISSION:—An Error of Omission is one where a transaction has been absolutely omitted to be recorded, i. e., a Credit Purchase omitted to be recorded in the Purchases Book or an item of Return Inwards omitted to be recorded in the Returns Inwards Book.

WRONG ENTRY IN ORIGINAL RECORD:—This occurs where a transaction has been wrongly entered in a Subsidiary Book. Thus, a Credit Sale of Rs. 175/- to Dickson & Co., may have been entered in the Day Book as of Rs. 275/-.

ERRORS OF PRINCIPLE:—An Error of Principle is one where a transaction is recorded in total disregard of the fundamental principles of Double Entry. Thus, a purchase of Plant & Machinery may have been wrongly passed through the Purchases Book or Repairs to Building may have been wrongly debited to Building Account.

COMPENSATING ERRORS: —A Compensating Error in Account-keeping is an error on one side of an account which is balanced by an error or a series of errors in the aggregate of the same value, in opposite direction. Thus, if the Purchases Book is undercast by Rs. 100/—, and the Sales Book is also undercast to the extent of the same amount, this will not affect the agreement of the Trial Balance.

POSTING TO WRONG HEADS OF ACCOUNTS:—

Such errors will arise where an amount is wrongly posted to one account instead of to another. Thus, a sale of Rs. 200/— to Robert & Son may have been wrongly debited to Robertson & Co. from the Day Book. Such an error will not prevent the Trial Balance from agreeing inasmuch as the amount of Rs. 200/- is there on the debit just the same, and the Trial Balance only proves that the books are arithmetically correct.

ERRORS DISCLOSED BY TRIAL BALANCE.

The agreement of the Trial Balance will be affected by the presence of any of the following errors:—

1. Omission to post an entry from any Subsidiary Record.
2. Posting a wrong amount to a Ledger Account.
3. Posting an amount on the wrong side of a Ledger Account.
4. Errors in casting Subsidiary Records or Ledger Accounts.
5. Errors in balancing any Ledger Accounts.
6. Omission of a balance of any Account in the Trial Balance.

SUMMARY.

1. In Double-Entry, as the two-fold effect of every transaction is recorded by debiting one account and crediting another account, it follows that the sum of the debit totals of the Ledger Accounts must equal the sum of their credit totals, on any date.

2. The arithmetical accuracy of the books is proved by taking out a Trial Balance.

3. A Trial Balance can be prepared either by taking the debit and credit totals of each account or by taking the debit or credit balance of each account.

4. The Cash and Bank Balances must be included in the Trial Balance.

5. The agreement of a Trial Balance is not a conclusive proof as to the accuracy of the books. There are several types of errors which a Trial Balance fails to disclose.

QUESTIONS.

1. What is a Trial Balance ?
2. Explain how you would set about preparing a Trial Balance.
3. Prepare a Trial Balance made up of Ledger Balances with imaginary figures.
4. What would you understand if a Trial Balance agrees ?
5. Why should Cash and Bank Balances be included in a Trial Balance ?
6. What items are usually to be found in a Trial Balance ?
7. What types of errors does a Trial Balance fail to disclose ?
8. Mention the different classes of errors the presence of which would prevent a Trial Balance from agreeing.

EXERCISE I.

Prepare a Trial Balance from the following items :—

	Rs.
R's Capital Account	41,000
R's Drawings Account	2,000
Opening Stock	17,000
Machinery	20,000
Office Furniture	1,500
Sundry Debtors	38,000
Sundry Creditors	45,000
Cash at Bank	18,200
Cash in hand	750
Purchases	30,000

THE TRIAL BALANCE.

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	Rs.
Discount allowed to Customers	1,200 d
Sales	55,000 c
Carriage Inwards	1,300 d
Insurance	800 d
Printing and Stationery	675 d
Rent and Taxes	1,100 d
Office Salaries	8,300 d
Returns Inwards	1,000 d
" Outwards	925 c
Bills Receivable	1,700 d
Bills Payable	1,600 c

EXERCISE II.

From the following balances extracted from the Ledger, you are required to prepare a Trial Balance:—

	Rs.
A. Brown's Drawings Account	6,000 d
" " Capital Account	24,000 c
Sundry Creditors	43,000 c
Bills Payable	4,000 c
Sundry Debtors	51,000 d
Bills Receivable	5,000 d
Loan advanced to Rao & Co.	10,000 c
Fixtures and Fittings... ..	4,500 d
Stock at commencement	47,000 d
Cash in office	900 d
Cash at the Imperial Bank	12,500 d
Overdraft with the Central Bank	6,000 c
Purchases	50,000 d
Duty & Clearing Charges	3,500 d
Sales	1,28,000 c
Staff Salaries	9,500 d
Returns from Customers	1,000 c
Returns to Creditors	1,100 d
Commission & Travelling Expenses	4,700 d
Trade Expenses... ..	2,500 d
Rent Account	2,000 d
Discount received	4,000 c

CHAPTER X.

THE TRADING ACCOUNT.

The arithmetical accuracy of the books having been tested by means of Trial Balance, the next step is to collect the information, which lies scattered about in these books of accounts, in a manner as would show the resulting profit or loss and also how the business stands financially.

The Trial Balance being a list of *all the balances* standing in the books of a trader at a given date, it naturally includes balances of Personal Accounts, Real Accounts and Nominal Accounts.

The number of Personal Accounts which will have to be opened in a trader's Ledger must necessarily depend upon the number of customers and creditors with whom he deals.

The number of Real and Nominal Accounts to be opened will depend upon the nature of the business and the quantity of information the trader desires to secure from his books of accounts. The larger the number of Real and Nominal Accounts opened, the more detailed and analytical information would he derive from his books. Thus, a dealer may, for instance, record his permanent assets under one account styled "Plant and Fixtures Account" and all his transactions in goods in a "Goods Account". Another may record his permanent assets under separate heads, such as, Plant and Machinery Account, Furniture and Fixtures Account, Loose Tools Account, etc., and may have instead of the one Goods Account separate accounts, such as Purchases Account, Sales Account, Returns Inwards Account, Returns Outwards Account, and Stock Account. Again, one trader may charge all his

business expenses to one account styled "Office Expenses Account" or "Trade Expenses Account", whereas another one may find it desirable to show the trade expenses under several heads, viz., Rent Account, Salaries Account, Advertising Account, Printing and Stationery Account, Travelling Expenses Account, etc., etc.

It is thus apparent that the more detailed the analysis of the business expenditure is maintained, the greater will be the amount of information obtained from the books. It further follows that the more detailed information a business man can have about his business transactions, the greater will be his control over that business, and the better he will be in a position to locate leakages or waste, and to effect economy where needed.

Having proved the accuracy of the business records, the next step for the trader would be to ascertain (1) whether the business has been profitable or otherwise and (2) what the financial position of the business is. In order to determine what profit or loss he has made, he will have to prepare a Profit and Loss Account, and to ascertain the true financial position of the business, he will have to prepare a statement called a Balance Sheet.

CAPITAL & REVENUE EXPENDITURE.

Before we proceed to a consideration of how the above statements are prepared, it is necessary at this stage for the student to acquaint himself with the exact distinction between Capital Expenditure and Revenue Expenditure.

All expenditure incurred in the acquisition of property of a permanent nature which is held for the purpose of carrying on the business, such as Land, Buildings, Plant, Trade Utensils and Implements, Furniture and Fixtures, etc., is known as Capital Expenditure. Such expenditure maintains a permanent value to the business except for the wear and tear the assets undergo on account of their use, and it is with the help of these assets that the business is carried on.

Where an amount is expended on an existing asset either by way of an extension or structural alteration or improvement whereby the revenue-earning capacity of that asset is increased, such an amount should be treated as Capital Expenditure. The book value of the asset would thus be increased by debiting the amount expended to the existing asset account.

All expenditure incurred in buying the goods for resale or converting raw materials into manufactured articles, or incidental to the conduct and financing of the business, or such as is incurred towards the up-keep and maintenance of the permanent property of the business is classed as Revenue Expenditure. Thus, Revenue Expenditure includes cost of purchase of goods in which the business deals, and amounts paid for rent, wages, taxes, insurance, interest on loans, repairs to Plant, Buildings, etc. Such expenses are for things which are used up or consumed in the business and must be set off against the earnings of the period. They are classed as Revenue Expenditure as they are all transferred to Revenue Account i. e. Profit and Loss Account at the end of each financial period for the purpose of arriving at the profit or loss resulting from the business.

THE TRADING ACCOUNT.

The Profit & Loss Account is divided into two sections:—

- (1) The Trading Account; and
- (2) The Profit and Loss Account.

The *Trading Account* is an account which shows the result of the buying and selling of goods. It, therefore, contains in a summarized form all the transactions occurring during a trading period which have direct relation to the goods dealt in by the business.

In preparing this account the general establishment charges are ignored, and only the transactions in goods are included.

On the *debit side* of the Trading Account will be found the following items:—

- (1) Goods in Stock at the commencement of the trading period; *Rs 100*
- (2) Purchases of Goods during the period, less the value of such of the purchases as have been returned; and
- (3) Direct Charges on the Purchase of Goods, such as, Freight, Duty, Clearing Charges, Carriage Inwards, etc.

On the *credit side* will be found :—

- (1) Sales, less the value of goods returned by customers; and
- (2) Stock of Goods on hand at the close of the period.

The balance of the Trading Account represents the *gross Profit* on trading for the period, i. e., the excess of the selling price of the goods sold over their purchase price.

SUBDIVISION OF GOODS ACCOUNT.

The student would do well to note here that in order to enable a Trading Account to be prepared as above, it would be necessary to sub-divide the Goods Account. Instead of the one Goods Account that the student has learnt so far, there will be several accounts to represent dealings in goods, as under :—

PURCHASES ACCOUNT:—To this account would be debited the monthly total of the Purchases Book. To the same account would be debited all Cash Purchases from the Cash Book.

RETURNS OUTWARDS ACCOUNT:—This account would be credited with the monthly total of the Returns Outwards Book.

SALES ACCOUNT:—The monthly total of the Sales Book would be credited to this Account. All Cash Sales would also be credited from the Cash Book to this Account.

RETURNS INWARDS ACCOUNT:—This account will get its periodical debit from the Returns Inwards Book.

It goes without saying that if it is desired to record Cash Purchases separately from Credit Purchases and Cash Sales as distinct from Credit Sales for the sake of more detailed information, then the Purchases Account would have to be subdivided into Cash Purchases Account and Credit Purchases Account and instead of the one Sales Account, there will be two accounts, viz., Cash Sales Account and Credit Sales Account.

INCLUSION OF STOCK IN TRADING ACCOUNT.

The stock of goods on hand at the opening and close of each trading period must be taken into account for the purpose of arriving at the profit made on the buying and selling of goods. If these stocks are not brought into account, the mere difference between the purchases and the sales would fail to indicate the profit or loss on goods.

Example 19.

Assuming that a trader had 100 articles of Re. 1 each on hand and he bought further 500 articles at Re. 1 each and sold 300 articles of these at Re. 1/8 each, let us see how the result of these dealings would be shown.

If we ignore the opening and closing stocks, and take merely the difference between the purchases and sales, the result would appear thus—

Cost of purchase of 500 Articles at Re. 1 each	Rs. 500
Amount realised on sale of 300 Articles at Rs. 1/8/- each	" 450
	<hr/>
Difference	Rs. 50

If we simply consider the above, it would seem that the trader has lost Rs. 50/-. This, however, is not the fact, because out of the 600 articles that he had, there are still 300 articles unsold, and the value of these must be included in order to find out the true result of his buying and selling. Hence the necessity of bringing into account the opening and closing stocks thus:—

Cost of 100 Articles he had on hand at Re. 1 each	Rs. 100
Cost of purchase of further 500 Articles at Re. 1 each	" 500
	Total Cost Rs. 600
Amount realised on sale of 300 Articles at Rs. 1/8 each	Rs. 450
Cost Price of 300 Articles he has on hand at Re. 1 each	Rs. 300
	Total worth now Rs. 750

The surplus of Rs. 150/- represents his profit. The same result can be achieved by showing the above facts in form of a Trading Account, thus:—

THE TRADING ACCOUNT.

	No. of Articles.	Value Rs.		No. of Articles.	Value Rs.
To Opening Stock at Cost ...			By Sales	300	450
" Purchases	100	100	" Balance of unsold Stock (at cost	300	300
" Gross Profit ...	500	500			
		150			
	600	Rs. 750		600	Rs. 750
To Balance of unsold stock	300	Rs. 300			

From the above illustration, it is clear that the actual profit on buying and selling of goods cannot be ascertained until account is taken of the stock at the commencement and the stock at the close of the trading period.

A further fact that is apparent from the above example is that the closing stock of any one period automatically becomes the opening stock of the succeeding period.

VALUATION OF STOCK.

As the item of closing stock materially affects the gross profit, it is essential that greatest possible care should be taken in the proper valuation of the same. For this purpose, an inventory of the unsold goods on hand at the close of the trading period should be prepared most carefully and should be valued at cost price.

An important point to bear in mind in this connection is that unsold stock should never be valued at selling price if that price exceeds the cost price. If the unsold goods are valued at selling price, the result would be to anticipate a profit upon them which may or may not be realised. In other words, the profit on goods should only be brought into account when the goods are actually sold and delivered.

If, however, the market price is less than the cost price, then a loss has evidently been incurred, since the goods can only be sold at a loss, and under such a circumstance, the goods should be valued at their market price.

The student will remember, that the figure of closing stock has to be shown on the credit side of the Trading Account in order to ascertain the gross profit, and will then understand how any over-valuation or under-valuation of this item will show results at once misleading and false.

The following principles may, therefore, be laid down as sound in determining the value of the stock of unsold goods on hand, v.z.;

- (1) Profit on goods is deemed to have been earned only when the goods are actually sold;
- (2) No profit should be anticipated and taken credit for until it is earned;

- (3) If there is any chance of a loss likely to arise, the same must immediately be provided for; and following the above rules, it follows that
- (4) The stock of unsold goods should always be valued at cost price or market price, whichever is the lower.

HOW TO BRING CLOSING STOCK INTO ACCOUNT.

Once the value of the closing stock having been ascertained, the same is brought into account by means of a Journal entry debiting Stock account and crediting the Trading Account. The reason why Stock Account should be debited is that unsold goods represent an asset, and all assets are debit balances. As to why the Trading Account should be credited with the value of stock at the close has already been explained earlier in this chapter.

PURCHASES & SALES RETURNS.

As Returns Outwards Account represents outgoings of goods, it always shows a credit balance. Similarly, Returns Inwards Account representing incomings of goods always shows a debit balance. Ordinarily, there would be nothing wrong, therefore, if Returns Outwards were shown on the credit side of the Trading Account and Returns Inwards on the debit. But, as Returns Outwards mean goods returned by the trader from out of his purchases and as Returns Inwards mean goods returned by the customers from out of the goods sold to them, it follows that the effect of the Returns Outwards is to reduce the purchases and that of the Returns Inwards is to reduce the sales. This effect can thus be more clearly expressed by showing the item Returns Outwards as a deduction from the Purchases on the debit side of the Trading Account and Returns Inwards as a deduction from the Sales on the credit side of the Trading Account, so that the Purchases and Sales may appear at their actual net figures.

FREIGHT, DUTY & CARRIAGE INWARDS.

When goods are imported from a foreign country, further expenses such as Freight, Duty, Dock Dues, Clearing

Charges, etc., have to be incurred over and above the Invoice Price of the goods purchased. As these items add to the cost of the goods purchased, they are naturally shown in the Trading Account on the debit side immediately under the item Purchases. Even the expenses incurred by way of carriage or cartage for bringing the goods right upto the trader's warehouse have to be treated as additional cost of the goods and must find their place in the Trading Account.

Example 20.

Prepare a Trading Account from the following particulars :—

	Rs.
Stock of goods at commencement ...	25,000
Purchases	75,000
Sales	1,25,000
Returns Inwards	1,500
" Outwards	1,200
Carriage Inwards	1,000
Duty and Clearing Charges	2,500
Stock at the close	20,000

TRADING ACCOUNT (OF A TRADER).

	Rs.		Rs.
To Stock at commencement	25,000	By Sales	1,25,000
" Purchases	75,000	Less	
Less		Returns	1,500
Returns	1,200	" Stock at close	20,000
	73,800		1,23,500
" Carriage Inwards	1,000		
" Duty and Clearing			
" Charges	2,500		
" Gross Profit carried to			
Profit & Loss Account...	41,200		
	Rs. 1,43,500		Rs. 1,43,500

TRADING ACCOUNT OF A MANUFACTURER.

As the student has already seen, a Trading Account should contain all items of expenditure incurred in relation to the goods themselves, including the cost of getting them into the trader's warehouse (i. e. Carriage Inwards). In case of a trader, this process does not present any difficulty, as all his purchases are of ready-made goods and the buying price of these goods has to be set off against the selling price to

ascertain the gross profit. In case of a manufacturing concern, however, where the purchases are of raw materials but the sales are of finished articles, all the manufacturing costs incurred in making the goods ready for sale will have to be included in the Trading Account. The Trading Account will then contain the following items:—

Stock at commencement:—
 Raw Materials
 Partly-Finished Goods
 Finished Goods
 Purchases:—
 Raw Materials
 Finished goods
 Carriage Inwards
 Manufacturing Wages
 Coal Consumed
 Factory Rent
 " Lighting & Heating
Gross Profit.

Sales *less Returns*
 Stock at close:—
 Raw Materials
 Partly-Finished Goods
 Finished Goods

Fac. Exp. Expenses (any other)
Example 21. *Consumption of stores oil etc.*

Prepare a Trading Account from the following particulars:—

	Rs.	Rs.
Stock at commencement:—		
Finished goods	75,000	
Partly Finished goods	3,000	
Raw Materials	20,000	
		98,000
Purchases of Raw Materials		80,000
Freight and Cartage on above		2,500
Manufacturing Wages		60,000
Factory Rent		4,500
Gas and Water for Factory		3,000
Sales		2,10,000
Stock at close:—		
Finished Goods	80,000	
Partly Finished Goods	5,000	
Raw Materials	18,000	
		1,03,000
Returns Inwards		2,000
" Outwards		2,200

TRADING ACCOUNT (OF A MANUFACTURER).

	Rs.		Rs.	Rs.
To Stock at commencement:—		By Sales	2,10,000	
Raw Materials	20,000	Less Returns	2,000	2,08,000
Partly Finished Goods	3,000	" Stock at close:—		
Finished Goods	75,000	Raw Materials	18,000	
	98,000	Partly Finished Goods	5,000	
" Purchases	80,000	Finished Goods	80,000	1,03,000
Less Returns	2,200			
	77,800			
" Manufacturing Wages...	60,000			
" Freight & Cartage ...	2,500			
" Gas, Water, etc. ...	3,000			
" Factory Rent ...	4,500			
" Gross Profit carried to Profit & Loss Account.	65,200			
	Rs. 3,11,000		Rs.	3,11,000

ADVANTAGES OF TRADING ACCOUNT.

The trader having ascertained the gross profit for a period can strike the percentage of such profit on the cost of the goods sold, and thus find out for himself whether he has actually earned the percentage he had determined upon or not. Thus, if goods which cost Re. 1 were sold for Re. 1.4, and if every article for sale was marked with 25% tacked on to the cost, the result should show a gross profit of 25% on the cost of the goods sold. Assuming that the percentage of gross profit as shown by the Trading Account actually worked out at 20%, the trader would naturally feel that there is obviously something wrong with the records. It may mean that some purchases have been recorded twice in error, or some sales have been omitted to be entered, or the closing stock has been under-valued. In any case, this fact will put him to enquiry and will help him to find out the accuracy or otherwise of his records.

The Trading Account also helps the dealer to compare his Opening and Closing Stocks in order to ascertain whether the purchases have been judicious. It also affords facilities for comparing the figure of sales with similar figure of previous year in order to ascertain whether the business is on the up-grade or *vice versa*.

Another equally important advantage secured by the percentage of Gross Profit is that it serves as a ready guide in the adjusting of the sale prices.

CLOSING ENTRIES FOR TRADING ACCOUNT.

The Journal entries necessary to transfer the Opening Stock, Purchases, Sales and Returns Accounts to the Trading Account are called Closing Entries as they serve to close these accounts.

Example 22.

The Closing Entries appertaining to items in Example 20, on page 148, will be as follows:—

		Rs.	Rs.
Trading Account	Dr.	1,05,000	
To Stock Account			25,000
" Purchases Account			75,000
" Returns Inwards Account			1,500
" Carriage Inwards Account			1,000
" Duty & Clearing Charges Account			2,500
(For transferring the above accounts to Trading Account).			
<hr/>			
Sales Account	Dr.	1,25,000	
Returns Outwards Account	"	1,200	
To Trading Account			1,26,200
(For transferring Sales and Returns Outwards to Trading Account).			
<hr/>			
Stock Account	Dr.	20,000	
To Trading Account			20,000
(For bringing the Closing Stock into account).			

Example 23.

The Closing Entries appertaining to items in Example 21, on page 149, will be as follows:—

		Rs.	Rs.
Trading Account	Dr.	2,50,000	
To Stock Account			98,000
„ Purchases Account			80,000
„ Returns Inwards Account			2,000
„ Freight & Cartage Account			2,500
„ Gas & Water Account			3,000
„ Manufacturing Wages Account			60,000
„ Factory Rent Account			4,500
(For transferring the above accounts to Trading Account.)			
<hr/>			
Sales Account	Dr.	2,10,000	
Returns Outwards Account		2,200	
To Trading Account	„		2,12,200
(For transferring Sales and Returns Outwards to Trading Account.)			
<hr/>			
Stock Account	Dr.	1,03,000	
To Trading Account			1,03,000
(For bringing the Closing Stock into account.)			

THE POINTS TO BE NOTED ARE:—

(1) The Debit Balance of an account can only be transferred to the Debit of another account.

(2) The Credit Balance of an account can only be transferred to the Credit of another account.

(3) While transferring the balance of one account to another, the account with a debit balance must be credited, and the one with a credit balance must be debited so as to close the accounts thus transferred.

(4) The debit balance of Returns Inwards Account is shown on the credit side of the Trading Account as a deduction from Sales, and the credit balance of Returns Outwards Account is shown on the debit side of the Trading Account as a deduction from Purchases, for reasons already explained.

SUMMARY.

1. Trading Account is prepared at the end of each financial period with a view to ascertain Gross Profit. i. e. profit on the buying and selling of goods.

2. In a trading concern, the debit side of the Trading Account will show stock at commencement, purchases during the period *less* returns and direct charges on purchases.

3. In case of a manufacturing concern, all other expenses of manufacture, such as manufacturing wages, coal, fuel and power consumed, factory rent, etc., are added to the debit side of the Trading Account.

4. On the credit side are shown Sales *less* Returns and Stock at the close of the trading period.

5. The Balance of Trading Account represents Gross Profit and is transferred to Profit and Loss Account.

6. Unsold Stock should always be valued at Cost Price or Market Price whichever is lower.

7. The great importance of proper valuation of Closing Stock lies in the fact that this item directly affects the gross profit.

QUESTIONS.

1. Describe the two main divisions of Profit & Loss Account.
2. Explain the terms Gross Profit and Net Profit.
3. How would you deal with Purchases and Sales Returns in a Trading Account?
4. What items would you include on the debit side of a manufacturer's Trading Account?
5. Why should Closing Stock be valued at cost price or market price, whichever is lower?
6. Discuss the advantages secured by the preparation of a Trading Account.

EXERCISE I.

Pick out items from the following figures, and construct a Trading Account (only):—

1931						£
January 1	Stock	...	...	...	...	850
June 30	Purchases	...	...	...	...	3,100
"	Wages (Productive)	...	...	...	...	2,000
"	Sales	...	...	...	...	10,000
"	Freight on goods bought	...	...	...	...	850
"	Marine Insurance on purchases	...	...	...	...	100
"	Duty on goods imported	...	...	...	...	370
"	Salaries to clerks	...	...	...	...	85
"	Wages to Office & Shop Assistants	...	...	...	...	125
"	Rent of Office & Shop	...	...	...	...	125
"	Sundry Expenses	...	...	...	...	90
"	Stock	...	...	...	...	2,650
"	Motive Power	...	...	...	...	40
"	Office Lighting & Heating	...	...	...	...	15
"	Carriage Inwards	...	...	...	...	75

EXERCISE II.

Write up Trading Account (only) from the following particulars:—

1931						Rs.
July 1	Stock	...	...	...	...	5,400
Dec. 31	Raw Materials purchased	...	...	...	...	43,200
"	Carriage on same	...	...	...	...	4,000
"	Discounts received	...	...	...	...	420
"	Sales	...	...	...	...	73,000
"	Wages (Manufacturing)	...	...	...	...	14,400
"	Salaries	...	...	...	...	1,720
"	Rent & Rates	...	...	...	...	1,050
"	Sundry Expenses	...	...	...	...	390
"	Fire Insurance of Office	...	...	...	...	150
"	Stock	...	...	...	...	6,700
"	Wages (Unproductive)	...	...	...	...	475

EXERCISE III.

Prepare Trading Account (only) from the following figures:—

1931						Rs.	As.	Ps.
January 1	Stock at date	...	...	...	...	1,546	14	1
Dec. 31	Cash & Credit Purchases	2,689	13	4
"	Cash & Credit Sales	4,945	9	4

THE TRADING ACCOUNT.

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1931					Rs.	As.	Ps.
Dec.	31	Stock at date	1,613	13	7
"	"	Trade expenses	513	4	8
"	"	Postage and Telegrams	87	6	0
"	"	Commission (received)	...	...	244	6	8
"	"	Discount (allowed)	...	...	113	5	6
"	"	Rent paid ...	...	...	1,250	0	0
"	"	Returns Inwards	...	...	140	6	9
"	"	Returns Outwards	...	...	126	8	0
"	"	Carriage Outwards	...	...	216	7	0

CHAPTER XI.

THE PROFIT & LOSS ACCOUNT.

After the preparation of the Trading Account and the ascertainment of the Gross Profit, the next step is to prepare the Profit & Loss Account. The function of the Profit and Loss Account is to show to the trader the net profit or loss resulting from his transactions during a certain period.

HOW TO PREPARE A PROFIT & LOSS ACCOUNT.

The Profit & Loss Account is credited with the amount of the Gross Profit as shown by the Trading Account. It is also credited with other items of gain, such as rents received, interest earned, discount earned, etc. It is then debited with all the expenses incidental to the carrying on of the business, such as office rent, salaries, trade expenses, printing, advertising, etc., and any other item of expense as has not been charged to the Trading Account.

If the credit total of this Account is heavier, the result represents *net profit* to the extent of the difference, and, if the debit side is heavier, it means *net loss*.

TRANSFER OF NET PROFIT OR LOSS.

The Profit & Loss Account is closed by transfer of the resultant net profit or loss to the Capital Account of the trader. If the result shows net profit, then the entry would be to debit the Profit & Loss Account and credit the proprietor's Capital Account. If there is net loss, the entry would be to debit the Capital Account and credit the Profit & Loss Account. The result of such an entry would be to close the Profit & Loss

Account on the one hand, and to indicate the fact of the proprietor's capital having increased as a result of profit, or having diminished as a result of loss.

ADJUSTMENT OF NOMINAL ACCOUNTS.

It must be noted that the balances standing on Nominal Accounts as appearing in the Trial Balance are not transferred to the Profit & Loss Account without due scrutiny to ascertain that they all properly relate to the period of trading.

It frequently happens that certain expenses relating to a trading period do not appear in the books of that period, simply because they have not been paid or the demand notes in respect of them have not been received. On the other hand, it happens that expenses under certain heads, such as Fire Insurance Premium, Telephone Subscription, etc., are paid for a year in advance, and it may be that the period for which services are to be received in return for these payments extends far beyond the close of the financial period. It will be necessary, therefore, to carefully examine all items of expenditure to ascertain that all expenses paid or unpaid but relating to the period of trading are brought into account. Further, if any item of expenditure is paid for *in advance*, the same must be properly apportioned between the period that has already expired and the period that has yet to expire, so that proper adjustment may be made in this behalf. All items of gains will also have to be similarly scrutinised to see that all gains relating to the period whether received or not are brought into account.

The following adjustments are thus usually made on nominal account balances before they are transferred to Profit & Loss Account. These adjustments are important in view of the fact that in order to arrive at an accurate figure of the actual net profit made or net loss sustained during any particular period it is necessary to see that only items of expenses or gains relating to that same period are brought into the Profit & Loss Account.

OUTSTANDING EXPENSES.

In most businesses, it is usual to pay items of expenses such as, rent, salaries, wages, etc., of each month in the subsequent month. If then the trading period of such a business ends on the 31st December, it would follow that the office rent, staff salaries and wages, etc., for the month of December, not having been paid in that month, will not appear in the books for the period ended 31st December; and yet, as expenses under these heads have been incurred and as they belong to the trading period ending with 31st December, it is necessary that they be charged to the Profit & Loss Account of the period. Hence the importance of bringing all such outstanding liabilities for expenses into account.

Such an adjustment is made by means of a Journal entry debiting the various nominal accounts concerned with the amounts due and crediting an account called "Outstanding Liabilities for Expenses". The latter account will appear as a liability in the Balance Sheet as explained in the next Chapter.

Example 24.

P. Cursetji & Co. on balancing their books on 31st December 1928 found that the following expenses incurred during the trading period had not been brought into account.

Rent for November and December Rs. 100 per month; a bill for Legal Charges incurred in October Rs. 450; salaries to staff for December Rs. 600 and Bill for Electric Lighting Rs. 50. Pass the necessary Journal entry to bring these items into account.

JOURNAL ENTRY.

1928		Rs.	Rs.
Dec. 31	Rent Account	Dr. 200	
	Legal Charges	" 450	
	Electric Lighting	" 50	
	Salaries	" 600	
	To Outstanding Liabilities for Expenses		1,300
	Being the Outstanding Expenses for the period brought into account.		

The effect of the above Journal entry is to bring the Expenses Accounts concerned to their proper level representing the total expenditure under each head for the trading period under review, and at the same time to disclose the fact that on the close of the financial period there was a Liability for Expenses incurred and unpaid amounting to Rs. 1,300.

PREPAID EXPENSES.

Where expenses have been paid in advance, the nominal accounts concerned should be adjusted, so that the proportionate amount applicable to the period of trading only may be charged off to the Profit & Loss Account as expenses for the period, and the amount paid in advance may be carried forward to the next period by being shown in the Balance Sheet as an asset under the heading "Expenses Prepaid" or "Expenses Paid in Advance." This is done by means of a Journal entry debiting Expenses Prepaid Account and crediting the nominal account concerned with the amount to be carried forward.

Example 25.

The books of a business were closed on 30th June 1928.

(a) On 1st March 1928, a sum of Rs. 120 had been paid as annual premium on a fire insurance policy, expiring on 28th February 1929.

(b) On 1st October 1927, a telephone was installed and the annual subscription of Rs. 300 was paid on that date.

Show what adjustments would be necessary on 30th June 1928, and how the Ledger Accounts would appear after the adjustments.

(a) In the first case, eight months' Insurance Premium amounting to Rs. 80 has been paid in advance, and consequently this amount will have to be treated as a payment in advance. This adjustment would be made by debiting Insurance Prepaid Account and crediting Insurance Account with Rs. 80. The credit of Rs. 80 will serve to reduce the debit balance of Insurance Account to Rs. 40, i.e., the amount applicable to the period ending with 30th June 1928. This amount will be transferred to Profit & Loss Account. The debit of Insurance Prepaid Account is an Asset inasmuch as it represents a prepayment in respect of which some benefit has yet to be received, and will, therefore, be shown as an Asset in the Balance Sheet under the heading of Expenses Prepaid.

The Insurance Account, after this adjusting entry has been made, will show as follows :—

INSURANCE ACCOUNT.

1928			Rs.	1928			Rs.
Mar. 1	To Bank ...		120	June 30	By Insurance Prepaid Account		80
				"	" Profit & Loss Account- Transfer		40
		Rs.	<u>120</u>			Rs.	<u>120</u>

INSURANCE PREPAID ACCOUNT.

1928			Rs.	1928			Rs.
June 30	To Insurance Account...		80	June 30	By Balance carried forward.		80
July 1	To Balance brought forward.	Rs.	<u>80</u>				

(b). In this case, as the books are closed on the 30th June 1928, nine months have elapsed since the installation of the telephone on 1st October 1927. As, however, Rs. 300 represents one year's subscription paid, it follows that three months' telephone charges have been paid in advance. This pre-payment will, therefore, have to be adjusted by a Journal entry debiting Telephone Prepaid Account with Rs. 75 and crediting Telephone Charges Account. The Telephone Charges Account will then be closed by transfer to Profit & Loss Account, and the Telephone Prepaid Account will be closed by balance and shown as an Asset in the Balance Sheet.

The Ledger Accounts will appear thus :—

TELEPHONE CHARGES ACCOUNT.

1927			Rs.	1928			Rs.
Oct. 1	To Bank ...		300	June 30	By Telephone Prepaid Account		75
				"	" Profit & Loss Account Transfer		225
		Rs.	<u>300</u>			Rs.	<u>300</u>

TELEPHONE PREPAID ACCOUNT.

1928		Rs.	1928		Rs.
June 30	To Telephone Charges Account.	75	June 30	By Balance carried forward.	75
July 1	To Balance brought forward.	75			

BAD DEBTS.

It is the common experience of every dealer that some of the debtors fail to pay their debts in full. Such debts which are thus found to be irrecoverable are called Bad Debts, and will have to be written off as such. The Journal entry necessary to write off Bad Debts would be to debit Bad Debts Account and credit the Personal Accounts of the customers who have failed to pay. The Debit Balance of Bad Debts Account represents a loss and will be transferred to Profit and Loss Account by means of a Journal entry debiting Profit and Loss Account and crediting Bad Debts Account. The Bad Debts Account would appear in the Ledger as under: -

BAD DEBTS ACCOUNT.

1928		Rs.	1928		Rs.
Dec. 31	To C. Gupta	120	Dec. 31	By Profit & Loss Account-transfer.	820
	.. S. Sen...	400			
	.. R. White	300			
		Rs. 820			Rs. 820

RESERVE FOR DOUBTFUL DEBTS.

After all known Bad Debts have been written off to Profit and Loss Account it is usual to find that there are still accounts of several customers as to the ultimate recovery of which the

dealer begins to feel doubtful. Such Debts are called Doubtful Debts, and in order to arrive at an accurate figure of the net profit made in any particular trading period, it is necessary to provide for Doubtful Debts. This is done by estimating the further loss likely to be sustained on recovery of Book Debts and passing a Journal entry with the amount debiting Profit and Loss Account, and crediting Reserve for Doubtful Debts Account. The Reserve for Doubtful Debts Account Credit Balance is shown in the Balance Sheet as a deduction from the Asset 'Sundry Debtors' so that the net estimated realisable amount of Sundry Debtors may be shown in the outer column.

It should be clearly understood that the Personal Account of a customer is never written off as a Bad Debt until the amount is found to be absolutely irrecoverable. In case, therefore, where a debt is doubtful of recovery, the Personal Account of the customer concerned would be left untouched and whereas Profit & Loss Account would be debited with such a likely loss, the corresponding credit would be given to a separate Account styled Reserve for Doubtful Debts Account.

RESERVE FOR DISCOUNTS.

The usual experience of a trader is that a large number of customers is always anxious to take the benefit of the cash discount allowed in return for payment within the stipulated time limit. This being the case, it follows that this loss on recovery of debts arising by way of cash discount to be allowed to those customers who settle their accounts within the prescribed time will have to be estimated and brought into account. The whole underlying object in so doing is to see that the item of Sundry Debtors is not shown in the Balance Sheet at anything beyond its likely realisable amount. That is why all bad debts have to be written off from the sundry debtors, a reasonable provision has to be made in respect of doubtful debts and a fair estimate has also to be made in respect of the loss likely to be suffered by way of discount to be allowed to the customers.

At the end of each financial period, therefore, it becomes necessary to estimate this loss of discount that will have to be

allowed to customers and make a provision in this respect. This provision is made by way of a certain percentage being calculated on the total amount of Sundry Debtors at the close of the financial period, and by debiting the Discount Account and crediting Reserve for Discount Account with the amount thus arrived at. The credit balance on the Reserve for Discount Account will then have to be shown by way of deduction from the item 'Sundry Debtors' on the assets side of the Balance Sheet.

Similarly, if a trader constantly receives the benefit of the discount by making payments to his suppliers within the prescribed time limit, he would be equally justified in bringing into account the discount that he stands to earn this way. This credit for discount is also estimated by way of a certain percentage calculated on the total amount of Sundry Creditors as at the close of the financial period and then passing a Journal entry debiting Reserve for Discount Account and crediting Discount Account with the amount ascertained. The debit balance on Reserve for Discount Account will be shown by way of deduction from the item of Sundry Creditors on the liabilities side of the Balance Sheet.

INCOME RECEIVED IN ADVANCE.

If a trader finds at the end of the financial period that he has received money on some account, in respect of which the full service has not been rendered by him, it becomes necessary for him to treat as income only such portion thereof in respect of which the service has been rendered, and to treat the balance as a liability. This is brought about by ascertaining the proportion of the amount received in respect of which the service still remains to be rendered and passing a Journal entry therewith debiting the Nominal Account concerned and crediting an account styled "Income Received in Advance." This credit balance on the latter account will be shown as a liability on the Balance Sheet. At the commencement of the succeeding period, the above entry would be reversed.

DEPRECIATION.

The term Depreciation as applied to the assets of a business means permanent decline in value of the Assets due to wear and tear or from any other cause.

It is a matter of common knowledge that all Assets have either a definite or an estimated period of utility to the business in which they are employed, but as the years roll by, their sphere of usefulness diminishes with the result that they have to be discarded when eventually the proprietors find them useless. This diminution in value of the Assets, however, takes place from year to year, and inasmuch as it results from the use of these assets for the purpose of earning income, it is but fair that such loss must be estimated from year to year and brought into the accounts of each year. This loss is known as Depreciation.

If the loss sustained by way of depreciation in the value of the assets is not charged off to Profit and Loss Account each year, the annual final accounts will fail to show the true facts. The depreciation arising from the use of the assets is properly chargeable in the period to which it relates, irrespective of whether a profit or loss has been made.

The method of providing for depreciation is to estimate how long the assets in question will be of use to the business, and then to charge off a proportionate amount to the Profit and Loss Account each year, so that while the assets become useless, their book value may also be brought down to their residual or scrap value.

The Journal entry to write off depreciation on any asset is to debit Depreciation Account and credit that Asset Account with the amount of each year's depreciation. The effect of such an entry would be to reduce the book value of the asset from year to year and also to enable such a loss to be charged to Profit and Loss Account of each year.

Example 26.

K. Kalianji acquired Plant & Machinery worth Rs. 65,000/- on 1st January 1928. On 31st December of the same year, the effective life of this asset is estimated at 10 years, after which it will probably realise

about Rs. 5,000/- as break-up value. Show how you would arrive at the amount of depreciation to be written off at the end of the first year. Show also the Ledger Accounts concerned.

As Rs. 65,000/- is the original cost and the break-up value at the end of ten years is estimated at Rs. 5,000/-; it follows that the business will lose Rs. 60,000/- in course of the 10 years as a result of the use of this asset. One-tenth of this loss should, therefore, be charged to the Profit and Loss Account of each of the ten years.

At the end of the first year the Ledger Accounts will appear thus:—

DEPRECIATION ACCOUNT.

1928		Rs.	1928		Rs.
Dec. 31	To Plant and Machinery Account ...	6,000	Dec. 31	By Profit & Loss Account ...	6,000

PLANT AND MACHINERY ACCOUNT.

1928		Rs.	1928		Rs.
Jan. 1	To Bank ...	65,000	Dec. 31	By Depreciation Account ...	6,000
				By Balance carried forward	59,000
		<u>65,000</u>			<u>65,000</u>
1929					
Jan. 1	To Balance brought forward	59,000			

INTEREST ON CAPITAL

A businessman naturally expects his business to yield a much better return on the capital employed than would be earned if that same amount were invested in gilt-edged securities. This is because of the extra risks and efforts involved in carrying on the business for the purpose of earning profits. In order to find out, therefore, whether his business has really

yielded any profit in excess of the current rate of interest, he charges that interest to his Profit and Loss Account and credits the same to his Capital Account. In other words, the Capital brought in by him is looked upon as if it were a loan granted to the business. The interest on Capital paid by the business to the proprietor is thus a loss or an expense to the business and a gain to the owner.

If any such Interest on Capital is to be adjusted at the end of the trading period, a Journal entry has to be passed debiting Interest Account and crediting the Capital Account with the amount of interest chargeable to the business.

INTEREST ON DRAWINGS.

A trader generally draws out of his business certain sums of money at his convenience in order to pay expenses *not* connected with the business. Such withdrawals naturally reduce the capital he has invested in the business, and are, therefore, debited to his Capital Account. In some cases, such "drawings" are debited to a separate account called "Drawings Account," and this account is then closed by transfer to the Capital Account at the end of each trading period.

Where a business is charged interest on the Capital employed therein, it is but fair that it should also be credited with interest on the money withdrawn by the owner for his personal use.

Interest on all such amounts drawn by the proprietor is, therefore, calculated from the date of withdrawal to the date of the close of the financial period, and the amount thus ascertained is debited to the Capital Account and credited to Interest Account through Journal. The owner is thus charged with interest on the sums drawn by him and the business gets credit for the same.

PROFIT AND LOSS ACCOUNT.

Having made all necessary adjustments in respect of the outstanding liabilities for expenses, expenses prepaid, as also for bad and doubtful debts, depreciation and interest on

capital as above explained, we can now compile a Profit and Loss Account.

The steps to be taken in this connection would be as under :—

(1) To transfer the Gross Profit, as shown by the Trading Account to the credit of the Profit and Loss Account;

(2) To transfer all debit balances of the Nominal Accounts from the Trial Balance (after adjustment) to the debit side of the Profit and Loss Account;

(3) To transfer all credit balances of the Nominal Accounts from the Trial Balance (after adjustment) to the credit of the Profit and Loss Account ; and

(4) To close the Profit and Loss Account by transferring the Net Profit or Net Loss to the Capital Account of the proprietor.

The Profit and Loss Account will then appear as follows:—

PROFIT AND LOSS ACCOUNT

for the year ended 31st December 1928.

To Salaries	By Gross Profit brought
.. Rent and Taxes	from Trading Account
.. Insurance	.. Discount received
.. Printing and Stationery	.. Interest earned
.. Repairs and Renewals	
.. Discounts allowed	
.. Travelling Expenses	
.. Postage and Telegrams	
.. Sundry Expenses	
.. Net Profit transferred	
to Capital Account	

The following two Examples would clearly indicate how to prepare Trading and Profit and Loss Accounts.

Example 27.

Prepare Trading and Profit and Loss Account from the following Trial Balance as at 31st December 1928. Pass also the necessary Adjusting and Closing Entries.

	Rs.	Rs.
D. Dandekar's Capital Account		25,000 ✓
" " Drawings Account... ..	2,800	
Lease of Warehouse (10 years to run from 1st January 1928)	5,000 ✓	
✓ Stock, 1st January 1928	25,000 ✓	
Bills Receivable	4,000	
✓ Sales		1,40,000 ✓
Trivedi & Co., Loan Account	3,000	
✓ Purchases	75,000 ✓	
Creditors		40,000
✓ Salaries and Wages	6,000 ✓	
✓ Insurance	400 ✓	
Debtors	65,000	
✓ Carriage Inwards	1,700 ✓	
✓ " Outwards	2,900 ✓	
✓ Commission	1,500 ✓	
✓ Interest	1,800 ✓	
✓ Stationery & Printing	500 ✓	
Bills Payable		6,300
✓ Returns Inwards	2,500 ✓	
✓ " Outwards		1,000 ✓
✓ Trade Expenses	600 ✓	
Office Fixtures	2,000 ✓	
Cash in Office	500	
Cash at Bank	10,000	
✓ Rent and Taxes	2,000 ✓	
	Rs. 2,12,300	Rs. 2,12,300

The Stock at 31st December 1928 was Rs. 30,000. Rs. 400 for Rent and Rs. 600 for Salaries were outstanding. Rs. 100 were prepaid in respect of Insurance. The Lease is to be written off by 10% and Office Fixtures by 5%.

TRADING AND PROFIT AND LOSS ACCOUNT.

for the year ended 31st December 1928.

	Rs.		Rs.
To Stock—1st January 1928	25,000	By Sales	1,40,000
" Purchases	75,000	Less	
Less Returns	1,000	Returns	2,600
	74,000	" Stock—31st Dec.	30,000
" Carriage Inwards	1,700	1928	
" Gross Profit carried down	66,700		
	Rs. 1,67,400		Rs. 1,67,400

TRADING AND PROFIT AND LOSS ACCOUNT.—(continued.)

	Rs.		Rs.
To Salaries and Wages	6,670	By Gross Profit brought Down	66,700
" Rent and Taxes	2,400		
" Insurance	300		
" Carriage Outwards	2,900		
" Trade Expenses	600		
" Stationery & Printing	500		
" Commission	1,500		
" Interest	1,800		
" Depreciation :—			
" Lease 10%	500		
" Office Fixtures 5%	100		
	600		
" Net Profit transferred to Capital Account	49,500		
	<u>Rs. 66,700</u>		<u>Rs. 66,700</u>

ADJUSTING ENTRIES.

	Dr.	Rs.	Rs.
Rent Account	Dr.	400	
Salaries Account	"	600	
To Outstanding Creditors Account (Being the outstanding liabilities brought into account).	"		1,000
<hr/>			
Prepaid Expenses Account	Dr.	100	
To Insurance Account (Being the entry for prepaid Insurance carried forward).	"		100
<hr/>			
Depreciation Account	Dr.	600	
To Lease of Warehouse	"		500
" Office Fixtures	"		100
(Being 10% Depreciation on Lease and 5% on Office Fixtures written off).			
		30,000	30,000

CLOSING ENTRIES.

	Dr.	Rs.	Rs.
Trading Account	Dr.	1,01,300	
To Stock Account	"		25,000
" Purchases Account	"		75,000
" Returns Inwards Account	"		2,600
" Carriage Inwards Account	"		1,700
(For transferring the above accounts to Trading Account).			
<hr/>			
Sales Account	Dr.	1,40,000	
Returns Outwards Account	"	1,000	
To Trading Account (For the transfer of Sales and Returns Outwards to Trading Account.)			1,41,000

CLOSING ENTRIES.—(continued).

	Dr.	Rs.	Rs.
Stock Account	Dr.	30,000	
To Trading Account (For bringing the Closing Stock into Account).			30,000
<hr/>			
Profit and Loss Account	Dr.	17,200	
To Salaries and Wages Account			6,600
„ Rent and Taxes Account			2,400
„ Insurance Account			300
„ Carriage Outwards Account			2,900
„ Trade Expenses Account			600
„ Stationery and Printing Account			500
„ Commission Account			1,500
„ Interest Account			1,800
„ Depreciation Account			600
(For transferring the above items to Profit and Loss Account).			
<hr/>			
Profit and Loss Account	Dr.	49,500	
To Capital Account (For the transfer of Net Profit to D. Dandekar's Capital Account).			49,500

Example 28.

Prepare Trading and Profit and Loss Account from the following figures:—

TRIAL BALANCE, 30th June 1929.

	Rs.	Rs.
C. Patel's Capital Account	...	2,10,000
„ „ Drawings Account	...	
Purchases	80,000	
Investments in Government Securities	20,000	
Interest on above	...	1,000
Wages	34,000	
Sundry Debtors	70,000	
Legal Expenses	4,000	
Cash in hand	1,200	
Cash at Bank	11,000	
Freehold Property	60,000	
Machinery and Plant	1,20,000	
Bills Payable	...	6,500
Bills Receivable	7,000	
Salaries	13,000	
Office Expenses	3,000	
Discount Account	4,500	
Sales	...	2,20,000

THE PROFIT AND LOSS ACCOUNT.

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TRIAL BALANCE, 30th June 1929.—(continued).

	Rs.	Rs.
Stock on 1st July 1928 ...	45,000	
Rent (Office) ...	2,400	
Bad Debts ...	1,700	
Insurance ...	1,500	
Gas and Fuel... ..	2,700	
Freight and Carriage ...	3,500	
Loose Tools ...	4,500	
Patent Rights—5 years unexpired ...	6,000	
Factory Lighting ...	5,000	
Sundry Creditors ...		50,000
Returns Inwards ...	3,200	
" Outwards ...		4,000
Creditors for Loans ...		30,000
Office Furniture and Fittings ...	5,000	
	<u>Rs. 5,21,500</u>	<u>Rs. 5,21,500</u>

Stock on 30th June 1929 was Rs. 50,000. There were outstanding liabilities in respect of Wages Rs. 2,400, Salaries Rs. 600, and Office Rent Rs. 400. Insurance was paid in advance to the extent of Rs. 450. Depreciate Freehold Property by 2%, Plant and Machinery by 10%, Office Furniture by 5%, Patent Rights by 20% and Loose Tools by 25%. Write off further Rs. 300 as Bad Debts and Provide 5% on Debtors as Reserve for Doubtful Debts.

You are also required to pass the Adjusting and Closing Entries.

TRADING AND PROFIT AND LOSS ACCOUNT

for the year ended 30th June 1929.

	Rs.		Rs.
To Stock - 1st. July 1928 ...	45,000	By Sales	2,20,000
Purchases 80,000		Less Returns 3,200	
Less Returns 4,000			2,16,800
	76,000	" Stock—30th June 1929	50,000
Freight and Carriage ...	3,500		
Gas and Fuel ...	2,700		
Factory Lighting ...	5,000		
Wages ...	66,400		
Gross Profit carried down	98,200		
	<u>Rs. 2,66,800</u>		<u>Rs. 2,66,800</u>

172 FIRST STEPS IN DOUBLE-ENTRY BOOK-KEEPING.

TRADING AND PROFIT AND LOSS ACCOUNT.—(continued).

	Rs.		Rs.
To Salaries	13,600	By Gross Profit brought down	93,200
" Rent	2,800	" Interest	1,000
" Insurance	1,050		
" Office Expenses	3,000		
" Legal Expenses	4,000		
" Discount	4,500		
" Bad Debts	2,000		
" Reserve for Doubtful Debts	3,500		
" Depreciation :—			
Freehold Property			
2% 1,200			
Plant and Machinery 10%	12,000		
Office Furniture 5%	250		
Patent Rights 20%	1,200		
Loose Tools 25%	1,125		
	15,775		
Net Profit transferred to C. Patel's Capital Account	48,975		
	Rs. 99,210		Rs. 99,200

ADJUSTING ENTRIES.

	Dr.	Rs.	Rs.
Wages Account	Dr.	2,400	
Salaries Account	"	600	
Office Rent Account	"	400	
To Outstanding Creditors Account (Being the outstanding liabilities brought into account).			3,400
Prepaid Expenses Account	Dr.	450	
To Insurance Account (Being the amount prepaid for Insurance carried forward).			450
Depreciation Account	Dr.	15,775	
To Freehold Property			1,200
" Plant and Machinery			12,000
" Office Furniture			250
" Patent Rights			1,200
" Loose Tools			1,125
(Being 7% Depreciation on Freehold Property, 10% on Plant & Machinery, 5% on Office Furniture, 20% on Patent Rights & 25% on Loose Tools written off).			
Bad Debts Account	Dr.	300	
To Sundry Debtors (Being the Bad Debts written off).			300
Profit & Loss Account	Dr.	3,500	
To Reserve for Doubtful Debts Account (Being 5% provision for Doubtful Debts on Sundry Debtors).			3,500

CLOSING ENTRIES.

	Dr.	Rs.	Rs.
Trading Account	Dr.	1,75,800	
To Stock Account			45,000
" Purchases Account			80,000
" Returns Inwards Account			3,200
" Freight and Carriage Account			3,500
" Gas and Fuel Account			2,700
" Factory Lighting Account			5,000
" Wages Account			36,400
(For transferring the above items to Trading Account).			
Sales Account	Dr.	2,20,000	
Returns Outwards Account	"	4,000	
To Trading Account			2,24,000
(For transfer of Sales and Returns Outwards to Trading Account).			
Stock Account	Dr.	50,000	
To Trading Account			50,000
(For bringing the Closing Stock into account).			
Profit and Loss Account	Dr.	46,725	
To Salaries Account			13,600
" Rent Account			2,800
" Insurance Account			1,050
" Office Expenses Account			3,000
" Legal Expenses Account			4,000
" Discount Account			4,500
" Bad Debts Account			2,000
" Depreciation Account			15,775
(For transferring the above accounts to Profit and Loss Account).			
Interest Account	Dr.	1,000	
To Profit and Loss Account			1,000
(Being the entry for transferring Interest to Profit and Loss Account).			
Profit and Loss Account	Dr.	48,960	
To C. Patel's Capital Account			48,960
(Being the entry for the transfer of Net Profit to C. Patel's Capital Account).			

SUMMARY.

1. The Profit and Loss Account is opened in order to ascertain the Net Profit or Loss.

2. After the Trading Account is prepared, all other balances on Nominal Accounts remaining in the Trial Balance are transferred to the Profit and Loss Account.

3. The first item on the Profit and Loss Account is a credit by way of transfer of Gross Profit from the Trading Account.

4. All debit balances on Nominal Accounts representing Losses or Expenses are shown on the debit side, and all credit balances representing gains are shown on the credit side.

5. Before transferring these balances on the Profit and Loss Account, all necessary adjustments in regard to Bad Debts, Reserve for Doubtful Debts, Depreciation, Outstanding Expenses, Prepaid Expenses and Interest on Capital should be made.

6. These adjustments are made by means of journal entries which are called Adjusting Entries.

7. The transfers of Nominal Account Balances on Profit and Loss Account are made through the Journal and the entries are called Closing Entries.

8. Closing Entries are so called because they serve to close all the Nominal Accounts in the Ledger.

9. The Profit and Loss Account is finally closed by transferring the Net Profit or Loss to the Capital Account of the proprietor.

10. The Credit Balance of Profit and Loss Account represents Net Profit and as Profit adds to the Capital, it is carried to the credit of the Capital Account.

11. The Debit Balance represents Net Loss, and as Loss reduces the Capital, the same is carried to the debit of the Capital Account.

QUESTIONS.

1. Where does Gross Profit appear in the Profit and Loss Account ?
2. What is the object of preparing a Profit and Loss Account ?
3. How do you close the Profit and Loss Account ?
4. What balances are transferred to Profit and Loss Account from Trial Balance ?

5. What do you understand by Adjusting Entries ?
6. Why should Outstanding Expenses be provided for ?
7. Discuss the necessity of providing for Depreciation on Assets from year to year.
8. Why should Prepaid Expenses be adjusted ?
9. Why should Doubtful Debts be provided for ?
10. Define Closing Entries.
11. Why should you credit Net Profit to the Capital Account ?
12. Why does a trader charge his business with Interest on Capital ?
13. Explain what you understand by Bad Debts and Doubtful Debts.
14. What entry would you pass to write off Bad Debts ?

EXERCISE I.

Construct a Trading and Profit and Loss Account from the following Trial Balance and adjustments:—

Trial Balance as at 30th June 1930.

	Dr.	Cr.
Salaries	540	
Rates and Insurance	250	
Cash in hand	48	
Purchases	8,417	
Rent (received)		315
Discount	210	
Bills Payable		390
Sundry Debtors	3,800	
Stock, January 1st, 1930	2,950	
Bank Overdraft		970
Carriage Inwards	220	
Loan to A. Donald	320	
Sundry Creditors		740
Trade Expenses	490	
Returns Inwards	470	
Machinery	1,200	
Wages	4,500	
Sales		14,720
Returns Outwards		390
H. Markham's Capital		5,890
	£. 23,415	£. 23,415

176 FIRST STEPS IN DOUBLE-ENTRY BOOK-KEEPING.

Provide for (1) Wages due and not paid £ 68; salaries due and unpaid £ 75; (2) Interest on Loan to A. Donald £ 25; (3) 5% for discount on debtors. Depreciate machinery at 7½% p. a. and calculate Interest on Capital at 5% p. a. Stock on June 30th was valued at £ 3,620

EXERCISE II.

From the following Trial Balance and adjustments of Ram Narayan, prepare Trading and Profit and Loss Account for the year ended 30th September 1930 :—

	Rs.	Rs.
Sundry Debtors	30,000	
Stock, 1st October 1929 ...	23,000	
Cash in hand	35	
„ at Bank	2,045	
Plant and Machinery	18,000	
Sundry Creditors		9,650
Trade Expenses	1,475	
Sales		1,35,000
Salaries	1,825	
Carriage Outwards	400	
Rent	900	
Bills Payable		8,000
Purchases	1,18,670	
Discounts	1,300	
Business Premises	35,000	
Capital 1st October, 1929...		80,000
	Rs. 2,32,650	Rs. 2,32,650

The Stock on 30th September 1930 was Rs. 12,350. Rent was unpaid to the extent of Rs. 75/- and Rs. 150/- were outstanding for Trade Expenses. Rs. 400/- are to be written off as Bad Debts, out of the above debtors, and 5% is to be provided for Doubtful Debts.

EXERCISE III.

From the following Trial Balance of F. Moseley, prepare Trading and Profit and Loss Account for the year ending 28th February 1931, after making the adjustments given below :—

	Dr.	Cr.
Purchases	10,050	9 0
Salaries	832	4 0
Stock, 1st March 1930 ...	2,129	5 0
Discount allowed	135	0 0
Cash at Bank	159	9 0
F. Moseley's Drawings ...	113	0 0
Sundry Debtors	163	0 0
Bad Debts	107	0 0
Leasehold Premises	4,162	0 0
Rent, Taxes, etc.,	720	3 0
Rent (received).		57 0 0

THE PROFIT AND LOSS ACCOUNT.

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EXERCISE III.—(continued.)

	Dr.	Cr.
Advertisement	519 8 0	
Furniture and Fittings	400 0 0	
Postage and Telegrams	157 0 0	
Printing and Stationery	100 0 0	
F. Moseley's Capital		4,000 0 0
Sales		13,611 9 0
Sundry Creditors		1,157 8 0
Bills Payable		1,043 7 0
Returns Inwards	121 6 0	
	£. 19,869 4 0	£ 19,869 4 0

Taxes were paid in advance amounting to £ 40; Interest at 5% p. a. was to be calculated on Capital; £ 13 were to be provided for doubtful debts. Depreciate Lease by £ 162 and Furniture at 5%. Stock at end amounted to £ 1,500.

EXERCISE IV.

The following are the final balances as on December 31st 1929, and you are requested to prepare a Trading and Profit and Loss Account therefrom, after taking the following adjustments into consideration:—

Purchases	Rs. 16,450
Manufacturing wages	2,150
Sales	24,800
Bamji's Capital	7,000
" Drawings	800
Stock, 1st Jan. 1929	3,000
Salaries	820
Rates and Taxes	325
Premium on Lease (6 years unexpired as on 1st Jan. 1929)	2,400
Sundry Creditors	15,345
Loan on Mortgage	5,000
Freehold Land and Buildings	8,000
Plant and Machinery	4,000
Reserve for Doubtful Debts (1st Jan. 1929)	600
Sundry Debtors	13,100
Cash at Bank	1,200
Trade Charges	400
Bad Debts	100

178 FIRST STEPS IN DOUBLE-ENTRY BOOK-KEEPING.

Calculate Interest on Loan for one full year at 6% p. a. Depreciate Plant and Machinery at 7½%. Write the necessary amount off the Lease Account. Rates and Taxes are prepaid to the extent of Rs. 25/-, whereas wages and salaries are unpaid to the extent of Rs. 125/- and Rs. 75/- respectively. Increase Reserve for Doubtful Debts to 5% on Sundry Debtors. Stock on December 31st, 1929 has been valued at Rs. 3,425. Interest at 6% is to be calculated on Capital.

EXERCISE V.

Pass Journal Entries giving effect to the adjustments as required in Exercises I & II above.

EXERCISE VI.

Give Journal Entries relating to the adjustments to be made in Exercises III & IV above.

CHAPTER XII.

THE BALANCE SHEET.

OBJECT OF BALANCE SHEET.

The information conveyed by the Trading and Profit and Loss Account is no doubt very valuable to the owner of a business, as it enables him to determine the Gross and Net Profits resulting from his dealings during a certain period. This, however, is not the only point on which a business man wants to be enlightened. As his Assets and Liabilities change from day to day, as a result of business transactions, he also wants to find out what his true financial position is at the end of each trading period. In the first place, he would like to know whether the net profit as is disclosed by the Profit and Loss Account is correctly arrived at, for if so, his Capital at the end of the period must necessarily increase by that amount. He is equally anxious to see for himself as to how such Capital is locked up, *i. e.*, what the component Assets and Liabilities are of which this Capital is made up. In order, therefore, to obtain this information at the end of the trading period, he has to set out his several Assets and Liabilities as at that date in shape of a statement and this statement is called the Balance Sheet.

DEFINITION OF BALANCE SHEET.

A Balance Sheet may, therefore, be defined as a Statement prepared with a view to measure the exact financial position of a business on a certain fixed date. It is prepared from the Trial Balance, after all the balances on Nominal Accounts are transferred to the Trading and Profit and Loss Account and the corresponding Accounts in the Ledger are closed. The balances now left in the Trial Balance and remaining open in the Ledger represent either Personal Accounts or Real Accounts. In other

words, they represent either Assets or Liabilities existing at the date of the financial close.

All such Assets and Liabilities are set out in the Balance Sheet in a classified form. On the right-hand side are shown the various Assets or possessions of the business, and on the left-hand side, the various Liabilities, i.e., the amounts owing by the business. The excess of Assets over Liabilities then represents the then Capital of the owner. This figure of Capital must tally with the closing balance of the Capital Account in the Ledger after the net profit or loss has been transferred thereto

BALANCE SHEET INCLUDES PROFIT.

As the balance of Profit and Loss Account is transferred to the Capital Account, and as the closing balance on the Capital Account is shown in the Balance Sheet, it is clear that the Balance Sheet shows the position inclusive of the profit or loss made during the trading period.

BALANCE SHEET MUST REFLECT TRUE POSITION.

It is important to note that if the Balance Sheet is to reflect the true financial condition of a business, it must be drawn up most carefully. For this purpose, every Asset should be brought in at its true worth and every Liability properly inserted. Even the balance of Profit and Loss Account included therein should be correctly arrived at. It must be further understood that inasmuch as the figure of net profit or net loss as shown by the Profit and Loss Account ultimately finds its place in the Balance Sheet, both these Statements of Final Accounts are closely interdependent on each other. It follows, therefore, that if any item of expense or income is omitted or is over or understated, it will not only affect the accuracy of the Net Profit or Loss but will equally affect the correctness of the Balance Sheet. Similarly, if any Asset or Liability is omitted to be shown in the Balance Sheet or is over or under-valued, not only would this affect the correctness of the Balance Sheet but it would equally falsify the net resultant Profit or Loss as disclosed by the Profit and Loss Account.

VALUATION OF ASSETS.

From the above, it is clear that all assets must be properly valued for the purpose of being included in a Balance Sheet.

Assets are mainly divided into two classes, viz., (1) Fixed Assets and (2) Floating Assets.

FIXED ASSETS are Assets which are held by way of equipment and not for the purpose of re-sale. They are of a permanent nature, and it is by their help that the business is carried on. Examples are: Land, Buildings, Plant, Machinery, Tools, Furniture, Fittings, etc.

FLOATING ASSETS are such as are acquired by the business for the purpose of re-sale, such as Stock-in-Trade, or such assets as are constantly circulating and arise out of usual business dealings. They are held temporarily for subsequent conversion into money. These are Book Debts, Bills Receivable, Cash at Bank, etc.

Since the Fixed Assets are held by a business for a purpose quite different from that of the Floating Assets, it follows that the mode of valuation in each case would differ.

Fixed Assets which are used for the purpose of earning revenue and not for re-sale must be valued on the basis of their usefulness to the business as a going concern. Thus, so long as the business continues, the value of the fixed Assets must be determined from their capacity to earn revenue, and the main question that will have to be asked at the end of each financial period in arriving at the percentage of depreciation to be written off will be "For how many more years would these assets be of use to the business?" Having estimated the period of the probable life of these assets, what remains to do is to take the original cost of each such asset, deduct therefrom the residual or break-up value the asset is likely to realise when discarded, and divide the balance by the number of years for which the asset has been estimated to last. The figure thus arrived at would represent the amount of depreciation to be written off each year.

Floating assets, being held for the purpose of immediate conversion into cash, must be valued at the figures which they are likely to realise when so converted. This is, provided no such asset is valued in excess of its original cost. Thus, the closing stock is never valued at anything more than its original cost, whereas if the market price is less than the cost, it is valued at market price. Again, Book Debts, for this very reason, are valued at their realisable price, and that is why all accrued and likely losses thereon by way of Bad and Doubtful Debts are always provided for.

FORM OF BALANCE SHEET.

As the Balance Sheet purports to show the financial position of the business, it follows that it should be drawn out in some intelligible form or order.

The Assets and Liabilities should be grouped together and properly classified under appropriate headings, so as to convey the information in a summarised form. The Debtors and Creditors need not be shown in shape of individual balances but must be set out in total. Further, the balances owing by Customers must be shown separately under the heading of "Trade Debtors" or Book Debts" and must not be mixed up with Debtors for Loans or Prepaid Expenses. Similarly, Trade Creditors must be distinguished from Creditors for Loans, or from Liabilities for Expenses. In fact, the whole of the Assets and Liabilities must be disclosed in a manner as would present a clear view of the true state of affairs to any one reading the Balance Sheet.

No definite rules can be laid down as to the correct order in which the Assets and Liabilities shall appear in the Balance Sheet. It is usual, however, to start with the Fixed Assets, and follow on with the Floating Assets in the order in which they are more difficult of realisation. Similarly, the fixed liabilities are stated first and are followed by Floating Liabilities. There are concerns, however, which prefer to reverse this order, and in Partnership Accounts, usually the assets are shown in the natural order of their realisability and the liabilities in the order in which they are payable.

Again, Banks usually prefer to state their assets in order of their realisability. Thus the most liquid assets are set out first and are followed by Assets which are more difficult of realisation.

DATING THE FINAL ACCOUNTS.

The student should carefully study the method of dating the Final Accounts, which is an important point. The Trading and Profit and Loss Account, being a summary of the transactions relating to trading during a given period, should always be headed this way—

TRADING AND PROFIT AND LOSS ACCOUNT
for the year ended _____.

On the other hand, the Balance Sheet, being a list of balances outstanding on the books of a trader on a particular date, should be headed this wise—

BALANCE SHEET,
as at _____.

The name of the trader should also always appear at the head of the Final Accounts.

SUNDRY DEBTORS AND SUNDRY CREDITORS.

It is important to note that the items Sundry Debtors and Sundry Creditors which are usually found in the Trial Balance are not represented by any Ledger Accounts under the same heads. As the student has seen already, each individual debtor or creditor has his account in the Ledger. At the end of each financial period, all the outstanding balances of debtors and creditors are taken out from the Ledger and separate lists are made of these. The total of the list of balances of customers' accounts is called Sundry Debtors and is embodied in the Trial Balance under this head. Similarly, the total of the list showing the outstanding balances of creditors' accounts is styled Sundry Creditors and is included in the Trial Balance under this head.

A/ CLOSING STOCK NOT IN TRIAL BALANCE.

The item of stock which is found in Trial Balance always represents Stock at commencement of the trading period. Stock at end, as a rule, does not appear in the Trial Balance, as it is brought in the final accounts at the time of preparing the Trading Account.

Let us prepare Balance Sheets from the Trial Balances of Examples Nos. 27 and 28. The items marked thus (*) in these Trial Balances have already been transferred to the Trading and Profit and Loss Accounts as worked on pages 167-168 and 172, and what remains for the student now is to study how the remaining balances are arranged and presented in form of a Balance Sheet.

Example 29

Prepare a Balance Sheet from the following information:—

TRIAL BALANCE as at 31 December 1928.

	Rs.	Rs.
D. Dandekar's Capital Account		25,000
" " Drawings Account	2,800	
Lease of Warehouse (10 years to run from 1st January 1928)	5,000	
* Stock, 1st January 1928	25,000*	
Bills Receivable	4,000#	
* Sales		1,40,000
Trivedi & Co., Loan Account	3,000*	
* Purchases	75,000	
Creditors		40,000#
* Salaries and Wages	6,000	
* Insurance	400	
Debtors	65,000*	
* Carriage Inwards	1,700	
* " Outwards	2,900	
* Commission	1,500	
* Interest	1,800	
* Stationery & Printing	500	
Bills Payable		6,300*
* Returns Inwards	2,600	
* " Outwards		1,000
* Trade Expenses	600	
Office Fixtures	2,000*	
Cash in Office	500#	
Cash at Bank	10,000#	
* Rent and Taxes	2,000	
	Rs. 2,12,300	Rs. 2,12,300

The Stock at 31st December 1928 was Rs. 30,000. Rs. 400 for Rent and Rs. 600 for Salaries were outstanding. Rs. 100 were prepaid in respect of Insurance. The Lease is to be written off by 10% and Office Fixtures by 5%.

Note:—The items which are marked thus (*) have already appeared in the Trading and Profit and Loss Account prepared on pages 167-168 and the student is requested to study this Balance Sheet along with that Account.

BALANCE SHEET, as at 31st December 1928.

LIABILITIES.	Rs.	Rs.	ASSETS.	Rs.	Rs.
SUNDRY CREDITORS:—			CASH IN HAND	500	
For Bills Payable	6,300		CASH AT BANK	10,000	
On Open Accounts	40,000				10,500
Outstanding for Rent and Salaries	1,000		LOAN—TRIVEDI & CO.		3,000
		47,300	SUNDRY DEBITORS:—		
CAPITAL ACCOUNT:—			For Bills Receivable	4,000	
Balance on 1st January 1928	25,000		On Open Accounts	65,000	69,000
Add Profits during the year	49,500		EXPENSES PREPAID		100
	74,500				30,000
Less Drawings during the year	2,800	71,700	STOCK		
			OFFICE FIXTURES	2,000	
			Less Depreciation at 5%	100	1,900
			LEASE OF WAREHOUSE	5,000	
			Less Depreciation at 10%	500	4,500
	Rs.	1,19,000		Rs.	1,19,000

THE BALANCE SHEET.

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If the same Assets are arranged in the reverse order, viz., the order of their permanence, the Balance sheet would then appear as under:—

BALANCE SHEET, as at 31st December 1928.

LIABILITIES.	Rs.	Rs.	ASSETS.	Rs.	Rs.
SUNDRY CREDITORS:—			LEASE OF WAREHOUSE	5,000	
For Bills Payable	6,300		Less Depreciation at 10%	500	
On Open Accounts	40,000				4,500
Outstanding for Rent and Salaries	1,000		OFFICE FIXTURES	2,000	
		47,300	Less Depreciation at 5%	100	
CAPITAL ACCOUNT:—					1,900
Balance on 1st January 1928	25,000		STOCK		30,000
Add Profits during the year	49,500		SUNDRY DEBTORS:—		
			For Bills Receivable	4,000	
	74,500		On Open Accounts	65,000	
Less Drawings during the year	2,800				69,000
		71,700	EXPENSES PREPAID		100
			LOAN—TRIVEDI & CO.		3,000
			CASH AT BANK	10,000	
			CASH IN HAND	500	
					10,500
	Rs. <u>1,19,000</u>			Rs. <u>1,19,000</u>	

Example 30.

Prepare a Balance Sheet from the following information:—
TRIAL BALANCE, 30th June 1929.

	Rs.	Rs.
C. Patel's Capital Account		21,000
.. .. Drawings Account	13,000	
* Purchases	80,000	
Investments in Government Securities	20,000	
* Interest on above		1,000
* Wages	34,000	
Sundry Debtors	70,300	
* Legal Expenses	4,000	
Cash in hand	1,200	
Cash at Bank	11,000	
Freehold Property	60,000	
Machinery and Plant	1,20,000	
Bills Payable		6,500
Bills Receivable	7,000	
* Salaries	13,000	
* Office Expenses	3,000	
* Discount Account	4,500	
* Sales		2,20,000
* Stock on 1st July 1928	45,000	
* Rent (Office)	2,400	
* Bad Debts	1,700	
* Insurance	1,500	
* Gas and Fuel	2,700	
* Freight and Carriage	3,500	
Loose Tools	4,500	
Patent Rights—5 years unexpired	6,000	
* Factory Lighting	5,000	
Sundry Creditors		50,000
* Returns Inwards	3,200	
* .. Outwards		4,000
Creditors for Loan		30,000
Office Furniture and Fittings	5,000	
	Rs. 5,21,500	Rs. 5,21,500

Stock on 30th June 1929 was Rs. 50,000. There were outstanding liabilities in respect of Wages Rs. 2,400 Salaries Rs. 600 and Office Rent Rs. 400. Insurance was paid in advance to the extent of Rs. 450. Depreciate Freehold Property by 2%, Plant and Machinery by 10%, Office Furniture by 5%, Patent Rights by 20% and Loose Tools by 25%. Write off further Rs. 300 as Bad Debts and provide 5% on Debtors as Reserve for Doubtful Debts.

Note:—The items which are marked thus (*) have already appeared in the Trading & Profit & Loss Account prepared on page 172 & the student is requested to study this Balance Sheet along with that Account.

BALANCE SHEET as at 30th June 1929.

LIABILITIES.	Rs.	Rs.	ASSETS.	Rs.	Rs.
SUNDRY CREDITORS :—			CASH IN HAND	1,200	
For Bills Payable	6,500		CASH AT BANK.	11,000	
On Open Accounts	50,000				12,200
For Loan	30,000		INVESTMENTS in Government		
Outstanding for Wages, Salaries & Rent	3,400		Securities		20,000
		89,900	SUNDRY DEBTORS :—	Rs.	
			For Bills Receivable	7,000	
CAPITAL ACCOUNT :—			On Open Accounts	70,000	
Balance on 1st July 1928	2,10,000		Less Reserve for		
Add Profits during the year	48,975		Doubtful Debts	3,500	73,500
			EXPENSES PREPAID		450
	2,58,975		STOCK		50,000
		2,45,975	FURNITURE & FITTINGS	5,000	
Less drawings During the year.	13,000		Less Depreciation at 5%	250	4,750
			LOOSE TOOLS	4,500	
			Less Depreciation at 25%	1,125	3,375
			PATENT RIGHTS	6,000	
			Less Depreciation at 20%	1,200	4,800
			PLANT AND MACHINERY	1,20,000	
			Less Depreciation at 10%	12,000	1,08,000
			FREEHOLD PROPERTY	60,000	
			Less Depreciation at 2%	1,200	58,800
	Rs.	3,35,875		Rs.	3,35,875

SUMMARY.

1. All the Ledger Balances appearing in a Trial Balance must find their place in the Final Accounts, either in the Trading and Profit & Loss Account or in the Balance Sheet.

2. All balances relating to goods will go in the Trading Account.

3. All balances relating to expenses or gains will go in the Profit & Loss Account.

4. All the remaining balances will go in the Balance Sheet.

5. The Balance Sheet serves to show the Assets, Liabilities and the Capital of a concern on any one date.

6. The Capital of a concern on any date must equal the difference between the total assets and the total liabilities on that date.

7. Assets are always debit balances and Liabilities credit balances.

8. The object of a Balance Sheet is to present the correct financial position of a concern on any given date.

9. The Assets are shown on the right-hand side of the Balance Sheet, and the Liabilities and Capital on the left-hand side.

10. The Reserve for Doubtful Debts must be shown as a deduction from the item Sundry Debtors on the assets side of the Balance Sheet.

11. The Depreciation, if written off from any asset, must be shown as a deduction from the Asset in the Balance Sheet.

12. Fixed Assets are those with the help of which the business is carried on.

13. Floating Assets are those which are held for re-sale or are held temporarily for immediate conversion into cash.

14. Fixed Assets are always valued on the basis of their utility to the business.

15. Floating Assets are always valued on the basis of their realisability.

16. While setting out the Assets and Liabilities in a Balance Sheet, they must be grouped together in some intelligent and readable form.

17. If the Assets are arranged in order of their realisability, the Liabilities should then be set out in the order in which they are payable.

18. If the Assets are arranged in order of their permanency, then Fixed Liabilities should be set out against Fixed Assets.

QUESTIONS.

1. Distinguish between Fixed Assets and Floating Assets. Give examples of each.

2. What is the relationship of Capital to the remaining Liabilities and Assets of the business?

3. What purpose does a Balance Sheet serve?

4. Explain why the Final Accounts would be incomplete without a Balance Sheet.

5. How should Fixed Assets be valued in a Balance Sheet?

6. On what basis should Floating Assets be valued?

EXERCISE 1.

From the following figures, prepare Trading and Profit and Loss Account and Balance Sheet:—

				Rs.
A. Brown's Drawings Account	...	...	...	6,000
A. Brown's Capital Account	...	...	...	24,000
Sundry Creditors...	...	...	...	43,000
Bills Payable	...	...	...	4,000
Sundry Debtors	...	...	...	51,000
Bills Receivable	...	...	...	5,000
Loan advanced to Rao & Co.	...	...	...	10,000
Fixtures & Fittings	...	...	...	4,500

	Rs.
Stock at commencement	47,000
Cash in Office	900
Cash at the Imperial Bank	12 500
Overdraft with the Central Bank	6,000
Purchases	50,000
Duty and Clearing Charges	3,500
Sales	1,28,000
Staff Salaries	9,500
Returns from Customers	1,000
Returns to Creditors	1,100
Commission and Travelling Expenses	4,700
Trade Expenses	2,500
Rent Account	2,000
Discount received	4,000

The Closing Stock amounted to Rs. 52,000, and Rs. 300 were outstanding for Clearing Charges.

EXERCISE II.

From the following figures, prepare Trading and Profit and Loss Account and Balance Sheet :—

	Rs.
R's Capital Account	41,000
R's Drawings Account	2,000
✓ Opening Stock	17,000
✓ Machinery	20,000
✓ Office Furniture	1,500
Sundry Debtors	38,000
Sundry Creditors	45,000
Cash at Bank	18,200
Cash in hand	750
✓ Purchases	30,000
✓ Discount allowed to Customers	1,200
✓ Sales	55,000
✓ Carriage Inwards	1,300
✓ Insurance	800
✓ Printing and Stationery	675
✓ Rent and Taxes	1,100
✓ Office Salaries	8,300
✓ Returns Inwards	1,000
✓ Returns Outwards	925
Bills Receivable	1,700
Bills Payable	1,600

✓ The Closing Stock was Rs. 30,000.

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EXERCISE III.

The following figures are given to you as a Trial Balance of J. Peerbhoy at 30th June 1929 :—

	Dr.	Cr.
	Rs.	Rs.
Sales		84,000
Purchases	21,000	
Machinery	10,000	
Tools and Plant	5,000	
Buildings	50,000	
Loan on Mortgage		25,000
Bankers		10,000
Printing and Stationery	500	
Wages	15,500	
Repairs	200	
Salaries	2,500	
Stock at 1st January 1929	45,000	
Discounts		250
Rates and Taxes	500	
Coal and Gas	260	
Carriage Inwards	1,500	
General Expenses	1,250	
Patents	800	
Wood Blocks for Printing, etc.	200	
J. Peerbhoy's Capital		34,960
	Rs. 1,54,210	Rs. 1,54,210

You are required to write off depreciation from the following :—

Machinery	5 per cent.	per annum.
Tools and Plant	10	" "
Patents	20	" "
Blocks	50	" "

and credit J. Peerbhoy's Capital with interest at 5 per cent, per annum.

Make out a Trading and Profit and Loss Account and Balance Sheet. Stock at the above date was valued at Rs. 60,000.

EXERCISE IV.

From the following Trial Balance, prepare Trading and Profit and Loss Account and Balance Sheet as at December 31, 1928 :—

Trial Balance—31st December 1928.

	Dr. Rs.	Cr. Rs.
John Bull's Capital		15,000
Interest	500	
Office Rent	250	
Taxes and Insurance	100	
Machinery and Plant	10,000	
Sundry Debtors	20,000	
Bills Receivable	1,500	
Sundry Creditors		12,000
Bankers		1,000
Business Premises	20,000	
Loan on Mortgage		15,000
Interest on Loan	250	
Wages	15,000	
Stock at 1st January 1928...	2,500	
Salaries	3,500	
Bills Payable		5,000
Loose Tools	500	
Cash in hand	500	
Books and Stationery	250	
Office Expenses	350	
Sales		48,200
Purchases	21,000	
	Rs. 96,200	Rs. 96,200

The stock at close was Rs. 4,000.

EXERCISE V.

The following was the Trial Balance of the books of P. Ramnath on 31st December 1928, from which you are required to prepare Trading and Profit and Loss Account and Balance Sheet :-

Reserve for Doubtful Debts 5% on Debtors.

Allow Interest on Capital at 5%.

Insurance unexpired Rs. 90.

Rent, etc., due and accrued at 31st December 1928 Rs. 300.

Interest on Mortgage at 7½% for the last two months unpaid.

Loose Tools were revalued at 31st December 1928 at Rs. 4,500, and Stock at Rs. 30,000.

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TRIAL BALANCE.

	Dr. Rs.	Cr. Rs.
Freehold Works	35,000	
Mortgage on same		20,000
Plant and Machinery	45,500	
Loose Tools 1st July 1928	5,600	
Bills Payable		3,400
Sundry Debtors	18,200	
Sales... ..		1,21,500
Cash at Bank	11,000	
Stock 1st July 1928	10,500	
Insurance	300	
Bad Debts written off	560	
Sundry Creditors		15,600
Bills Receivable	5,400	
Purchases	50,000	
Cash in hand... ..	640	
Rent, Rates, etc.	1,300	
Interest	250	
Wages	10,700	
Trade Expenses	150	
Salaries	1,560	
Repairs to Plant, etc	875	
Carriage	350	
Discounts received		175
Discounts allowed	290	
P. Ramnath's Drawings	2,500	
" " Capital		40,000
	Rs. 2,00,675	Rs. 2,00,675

EXERCISE VI.

On 30th June 1929, the Trial Balance of the books of C. Peacock was as follows :—

TRIAL BALANCE.

	Dr. Rs.	Cr. Rs.
C. Peacock's Capital		35,000
Do. Drawings	11,000	
Stock—1st July 1928	30,000	
Purchases	75,000	

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Returns to Creditors	1,300
Sales	1,25,000
Returns from Customers	2,700	
General Trade Expenses	755	
Wages	...	...	3,500	
Salaries	...	...	5,600	
Travelling Expenses	...	...	850	
Advertising	..	...	500	
Rent, Rates, Taxes and Insurance	...	...	2,800	
Discounts	...	...	300	
Bank Interest and Commission	...	...	215	
Bad Debts written off	...	...	400	
Premises	...	...	6,000	
Machinery and Plant	..	...	10,000	
Fixtures and Fittings	...	...	5,000	
Sundry Debtors	...	...	46,000	
Sundry Creditors	...	...		30,000
Cash in hand	...	...	680	
Balance at Bank (overdraft)	...	...		10,000
			<u>Rs. 2,01,300</u>	<u>Rs. 2,01,300</u>

The Stock on hand on 30th June 1929 was Rs. 45,000.

Draw up a Trading and Profit and Loss Account and Balance Sheet after making the following adjustments;—

- (a) Depreciate Machinery and Plant by 10%, Fixtures and Fittings by 10%.
- (b) Make a reserve for Doubtful Debts at 5% on Debtors.
- (c) Insurances are paid in advance to the extent of Rs. 150.

EXERCISE VII.

From the following Trial Balance of C. Cooper, make out Trading and Profit and Loss Account and Balance Sheet for the year ending 31st December 1928. Depreciate Plant and Machinery, Office Furniture, Patterns and Patents at a uniform rate of 7½% per annum.

Provide Reserve for Bad and Doubtful Debts at 5% on Sundry Debtors.

Stock on hand at the above date was taken at Rs. 30,000.

TRIAL BALANCE.

	Dr.	Cr.
	Rs.	Rs.
C. Cooper's Capital	...	1,50,000
Do. Drawings	15,000	
Freehold Premises	20,000	

THE BALANCE SHEET,

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Plant and Machinery	25,000	
Stock—31st December 1927	45,000	
Office Furniture	8,000	
Patterns	...	...	...	12,000	
Patents	...	...	...	19,000	
Sundry Debtors	...	...	...	75,000	
Sundry Creditors	...	...	...		60,000
Cash in hand	...	...	...	950	
Cash at Bank—Current Account	...	...	...	10,000	
Cash at Bank on Deposit	...	...	...	20,000	
Bills Payable	...	...	...		12,000
Sales	...	...	...		1,65,000
Purchases	...	...	...	90,000	
Manufacturing Wages	...	...	...	7,000	
Repairs and Renewals	...	...	...	2,500	
Coal	...	...	...	1,500	
Gas and Water	...	...	...	1,800	
Rates, Taxes and Insurance	...	...	...	3,700	
Office Salaries...	...	...	...	12,000	
Travelling Expenses	...	...	...	2,500	
General Expenses	...	...	...	1,800	
Discount allowed	...	...	...	2,800	
Do. received	...	...	...		3,950
Interest on Bank Deposit	...	...	...		1,000
Bad Debts	...	...	...	1,400	
Bills Receivable	...	...	...	15,000	
				Rs. 3,91,950	Rs. 3,91,950

EXERCISE VIII.

From the following Trial Balance of S, Spaggetti, Caterer and Confectioner, prepare Profit and Loss Account and Balance Sheet, after taking into account the adjustments noted hereunder:—

Make reserve for discounts on Debtors and Creditors at 2½% and reserve for Doubtful Debts at 5%. Depreciate Business Premises by 2½% and Furniture and Fittings by 5%. Salaries outstanding are Rs. 150, and Rent outstanding is Rs. 75. There is commission received, but not earned, Rs. 90. Calculate interest on Capital at 5%.

TRIAL BALANCE AS ON 31st March 1931.

Rent	...	...	525	
Business Premises	...	...	4,700	
Creditors	...	...		1,200
Bank	...	...	1,110	
Capital, 1st April 1930	...	...		13,400
Commission	...	...		420
Gross Profit	...	...		7,600
Discount	...	...		175
Furniture and Fittings	...	...	600	
Drawings	...	...	1,000	
Salaries	...	...	1,650	
Bills Payable	...	...		1,350
Bad Debts	...	...	240	
Debtors	...	...	8,400	
Bills Receivable	...	...	1,920	
Stock 31st March 1931	...	...	4,000	
			Rs. 24,145	Rs. 24,145
			Rs. 24,145	Rs. 24,145

EXERCISE IX

The following balances were, on 31st December 1930, extracted from the books of F. Ross, who carried on business as a manufacturing Stationer:—

F. Ross, Capital	...	...	£ 10,000
Furniture & Fittings	...	...	342
Land & Buildings	...	...	2,172
Drawings	...	...	420
Cash at Bank	...	...	243
Manufacturing Wages	...	...	3,125
Discounts Allowed	...	...	264
" Received	...	...	199
Bank Charges etc.	...	...	7
Loan from J. Barker	...	...	1,000
Office Salaries	...	...	428
Purchases	...	...	13,272
" Returns	...	...	97
Stock, 1st Jan. 1930	...	...	4,017
Cash in hand	15
Sales	18,767
" Returns	125
Carriage	345
General Expenses	241

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Plant & Machinery	£ 1,443
Reserve for Bad and Dountful Debts				310
Sundry Creditors	1,245
Advertising	...	...	...	271
Rent & Taxes	...	...	...	242
Sundry Debtors	...	...	...	4,383
Bad Debts	...	...	...	92
Insurance	...	...	...	47
Bills Receivable	...	...	...	124

You are required to prepare Trading and Profit and Loss Account for the year ended 31st December 1930, and a Balance Sheet as on that date, after taking into consideration the following:—

- (1) 10% depreciation is to be written off Plant & Machinery.
- (2) A new machine had been installed in November at a cost of £ 250, but was not paid for, nor has any entry been passed in the books.
- (3) 5% depreciation is to be written off Furniture and Fittings.
- (4) Stationery used out of stock for business purposes amounted to £ 47.
- (5) The Reserve for Bad and Doubtful Debts is to be brought up to £ 500.
- (6) The unexpired insurance amounted to £ 12
- (7) £ 15 were due on 31st December 1930 for interest on the loan from J. Barker, and had not been put through the books.
- (8) The stock on 31st December 1930 was valued at £ 4,247.



CHAPTER XIII.

PARTNERSHIP ACCOUNTS.

Occasionally, in order to meet the requirements of a growing business, two or more persons may become joint owners thereof, each bringing in a certain amount of capital and sharing the profits in agreed proportions. Such a relationship is called a Partnership. Partnership Accounts do not introduce any new principles of book-keeping other than what have been explained in the previous pages. There are, however, several new points in regard to record of capitals, drawings, interest on capital, division of profits, etc. arising in partnership accounts which it is proposed to discuss here.

PARTNERSHIP AGREEMENT.

Partnership is, therefore, the result of an agreement between two or more persons to carry on a business jointly for the common benefit of all. It is not legally necessary for a partnership agreement to be in writing. It is highly desirable, however, that there be a written agreement between the partners, making provision for the following matters in particular :—

1. Capital of each partner.
2. Division of profits or losses.
3. Drawings.
4. Interest on Capital.
5. Partners' Salaries.
6. Keeping of Accounts.
7. Re-payment of Capital.

RULES IN ABSENCE OF AGREEMENT.

In the absence of special agreement between the partners, the following rules hold good:—

- (a) Each partner has a right to share equally in the Profits.
- (b) Each partner must contribute equally to losses whether of Capital or otherwise.
- (c) No partner is entitled to any interest on Capital.
- (d) No partner is entitled to any salary or remuneration.
- (e) The partnership books must be kept at the principal place of business, and all partners are entitled to have access to same and take copies.
- (f) Advances in excess of Capital shall bear interest at the rate of 5% per annum.

CAPITAL.

It is for the partners to decide as to what amount each one should introduce as capital. It is not necessary that capital should be contributed equally or even in proportion to profit-sharing arrangements. There are instances where capitals are contributed equally and yet the profits are shared in unequal proportions. There are also cases where the profits are shared equally and the capitals are contributed in unequal proportions. Thus, as to what capital each of them should contribute is merely the result of an agreement between the partners.

A separate Capital Account would have to be opened for each partner, and the amount introduced by him will be credited to this account.

INTEREST ON CAPITAL.

For a proper and equitable adjustment of accounts between the partners, it is advisable to bring the question of interest on capital in partnership accounts.

Where the partners share profits or losses equally but have contributed capitals in unequal amounts and if no interest is calculated on capitals, the partner who has brought the larger amount of capital will naturally get no recompense for the additional capital he has brought in, and this would obviously be unfair to him. Again, where the capitals are equal, but the partners share profits unequally, the partner receiving the smaller share of profit will lose, if no interest on capital is calculated. It can thus be seen how necessary it is to calculate interest at a certain rate per cent on the capital of each partner.

Even where capitals are equal and profits are shared equally, it is advisable to charge the business with interest on capital to enable the partners to see whether the net profits (after charging interest on capital) are a sufficient return on the capital invested in the business, having due regard to the risks involved in carrying on such business.

Having ascertained the interest to be credited to each partner on his capital, the Journal entry to bring this into record would be to debit Interest Account and credit the Capital Account of the partner concerned.

DRAWINGS.

It is usual for the partners to decide as to what maximum amount each one should be allowed to withdraw from the business in anticipation of his share of profits. This is very necessary, for if there is no such arrangement, any partner might be tempted to draw a much larger amount than would be represented by his legitimate share of profit, and this might lead to unpleasantness.

The amounts thus withdrawn by each partner from the business from time to time are debited to a separate account called the Drawings Account.

INTEREST ON DRAWINGS.

Where the capitals bear interest, it is usual for the partners to charge the same percentage of interest on the amounts with-

drawn by each partner from the date of each drawing to the close of the period.

The entry for bringing the interest on drawings into account would be to debit the Capital Account of each partner and credit Interest Account with the respective amount.

It must, however, be clearly understood that if it is desired to charge interest on the drawings of each partner, there must be a distinct clause in the agreement or a clear understanding amongst the partners to that effect.

SALARIES TO PARTNERS.

Frequently it happens that one or more of the partners put in a much larger amount of work than others, and would then naturally expect to be paid some fixed amount as salary in return for this extra work, before the division of profits. It is, therefore, usual for the partners to agree to allow a fixed salary to one or more of their number, before dividing the net profits each year.

If any partner is thus entitled to a salary, the entry necessary to adjust this item would be to debit Partners' Salaries Account and credit his Capital Account.

It is important to note that in the absence of any express agreement amongst the partners, no partner can claim any salary from the firm even if he devotes his entire time and energy towards the partnership business.

BOOKS OF ACCOUNTS.

It is usual for the partnership books to be kept at the principal place of business and all partners are entitled to have access to these books. In order to avoid any dispute in the matter of accounts, it is desirable that the Profit and Loss Account and Balance Sheet, be made out each year and each partner on his being satisfied as to the correctness of such accounts be made to sign them.

DIVISION OF PROFITS OR LOSSES.

As to what share each partner is to take in the profit or loss arising from the business will depend on the partnership agreement. It is open to the partners to share profits in any proportions they deem fit, and such proportions need not necessarily have any bearing on the capital contributions. As has been said before, the capitals may be contributed equally, and yet the partners may share profits in unequal proportions. On the other hand, the capital contributions may be unequal and yet the partners may agree to share profits equally.

Usually, losses if any arising from partnership business have to be borne by the partners in the same proportions in which they share profits. There are instances, however, where the partners agree to share profits in certain stated proportions and to bear losses, if any, in quite different proportions.

For the proper adjustment of the share of profit due to each partner or the share of loss to be borne by him, it is necessary to consult the partnership agreement.

Having ascertained the share of profit due to each partner, the same should be transferred by means of a Journal entry debiting Profit and Loss Account and crediting the Capital Account or Drawings Account of each partner. If there is loss, the Journal entry would be to debit the Capital or Drawings Account of each partner with his respective share of loss and credit the Profit and Loss Account.

LOAN BY A PARTNER.

If a partner advances by way of a loan a sum of money beyond the amount of Capital he has agreed to contribute, a Loan Account of this partner should be opened quite distinct from his Capital Account. In the absence of any agreement to the contrary, such a loan will carry 5% interest irrespective of whether the capitals bear any interest or not.

CAPITAL & DRAWING ACCOUNTS.

There will be a separate Capital Account and a Drawings Account for each partner.

There are two distinct methods of keeping the Capital and Drawings Accounts.

One method is to debit all the amounts withdrawn by each partner to his Drawings Account, and at the end of the financial period to close the Drawings Account by transferring the total drawings to the Capital Account of the partner concerned. The Capital Account would then be credited with sums introduced as Capital, with Interest on Capital (if any), with salary due to the partner (if any) and with share of profits. It would be debited with the total drawings as transferred from the Drawings Account, with Interest on Drawings (if any), and with the share of loss, if any. The Account would then be closed by balance representing the Capital of each partner as at the date of the financial close.

The second method is to debit the Drawings Account with the various amounts withdrawn by each partner. The total drawings thus shown on the debit of this Account are then not transferred to the Capital Account at the close of the financial period, as under the first method, but are left there on the Drawings Account. All the other adjustments in respect of Interest on Capital and Drawings (if any), the salary to any partner and the share or profit or loss are made on the Drawings Account. The balance of Drawings Account is ultimately transferred to the respective Capital Account.

The first method is undoubtedly the more desirable one to be followed inasmuch as the object of the Drawings Account is only to show how the total amount withdrawn by each partner is made up. Besides, if all the other adjustments are made on the Drawings Account and the ultimate balance only of the Drawings Account is transferred to the Capital Account, the latter Account would fail to show how the closing balance on the Capital Account is brought about,

Where the several adjustments in respect of interest and share of profit or loss are made on the Drawings Account, it is desirable to style this Account as a Current Account which would be more appropriate in this case.

The following example serves to indicate how the Capital and Drawings Accounts of each partner would appear when worked under each of the above methods :—

Example 31.

A, B and C were partners with Capitals of Rs. 10,000/-, Rs. 20,000/- and Rs. 30,000/- respectively on 1st January 1929. The profits were shared equally and 5% interest is to be calculated on the Capital and Drawings of each partner. The Drawings were as follows :— A— February 1 Rs. 300/- April 1 Rs. 400/- June 1 Rs. 500/-, October 1 Rs. 200/- and December 1 Rs. 400/-; B— Rs. 200/- on the first of each month and C— Rs. 500/- on March 1, Rs. 600/- on May 1, Rs. 500/- on July 1 and Rs. 500/- on September 1. The Profit and Loss Account showed a net profit of Rs. 9,000/- at the end of the year. B and C were entitled to a monthly salary of Rs. 100/- and Rs. 150/- respectively and the adjustment in respect of this item was made at the end of the year. Show the Capital and Drawings Accounts of each partner under both the methods.

First Method

A's CAPITAL ACCOUNT.

1929		Rs.	a.	p.	1929		Rs.	a.	p.
Dec. 31	To A's Drawings Account transfer	1,800	0	0	Jan. 1	By Balance	10,000	0	0
" "	" Interest	47	8	0	Dec. 31	" Interest	500	0	0
" "	" Balance carried down	11,652	8	0	" 31	" Profit— 1/3rd share	3,000	0	0
	Rs.	13,500	0	0		Rs.	13,500	0	0
					1930	By Balance brought down	11,652	8	0
					Jan. 1.				

A's DRAWINGS ACCOUNT.

1929		Rs.	a. p.	1929		Rs.	a. p.
Feb. 1	To Bank	300	0 0	Dec. 31	By A's Capital Account transfer	1,800	0 0
April 1	" "	400	0 0				
June 1	" "	500	0 0				
Oct. 1	" "	200	0 0				
Dec. 1	" "	400	0 0				
	Rs.	<u>1,800</u>	<u>0 0</u>		Rs.	<u>1,800</u>	<u>0 0</u>

B's CAPITAL ACCOUNT.

1929		Rs.	a. p.	1929		Rs.	a. p.
Dec. 31	To B's Drawings Account transfer	2,400	0 0	Jan. 1	By Balance	20,000	0 0
	" Interest	65	0 0	Dec. 31	" Salaries	1,200	0 0
	" Balance carried down	22,735	0 0	" "	" Interest	1,000	0 0
	Rs	<u>25,200</u>	<u>0 0</u>	" "	" Profit-1/3rd Share	3,000	0 0
					Rs.	<u>25,200</u>	<u>0 0</u>
				1930	By Balance brought down.	22,735	0 0
				Jan. 1			

B's DRAWINGS ACCOUNT.

1929		Rs.	a. p.	1929		Rs.	a. p.
Jan. 1	To Bank	200	0 0	Dec. 31	By B's Capital Account transfer	2,400	0 0
Feb. 1	" "	200	0 0				
Mar. 1	" "	200	0 0				
April 1	" "	200	0 0				
May 1	" "	200	0 0				
June 1	" "	200	0 0				
July 1	" "	200	0 0				
Aug. 1	" "	200	0 0				
Sept. 1	" "	200	0 0				
Oct. 1	" "	200	0 0				
Nov. 1	" "	200	0 0				
Dec. 1	" "	200	0 0				
	Rs	<u>2,400</u>	<u>0 0</u>		Rs.	<u>2,400</u>	<u>0 0</u>

C's CAPITAL ACCOUNT.

1929		Rs.	a.	p.	1929		Rs.	a.	p.
Dec. 31	To C's				Jan. 1	By Balance	30,000	0	0
	Drawings				Dec. 31	" Salaries	1,800	0	0
	Account-	2,100	0	0	" "	" Interest	1,500	0	0
	transfer					" Profit-			
" "	" Interest	61	10	8		1/3rd			
" "	" Balance					Share.	3,000	0	0
	Carried	34,138	5	4					
	down								
	Rs.	36,300	0	0					
					1930				
					Jan. 1	By Balance			
						brought			
						down.	34,138	5	4

C's DRAWINGS ACCOUNT.

1929		Rs.	a.	p.	1929		Rs.	a.	p.
Mar. 1	To Bank	500	0	0	Dec. 31	By C's			
May 1	" "	600	0	0		Capital			
July 1	" "	500	0	0		Account-			
Sept. 1	" "	500	0	0		transfer	2,100	0	0
	Rs.	2,100	0	0		Rs.	2,100	0	0

Second Method

A's CAPITAL ACCOUNT.

1929		Rs.	a.	p.	1929		Rs.	a.	p.
Dec. 31	To Balance				Jan. 1	By Balance	10,000	0	0
	carried				Dec. 31	" A's			
	down	11,652	8	0		Drawings			
	Rs.	11,652	8	0		Account	1,652	8	0
						transfer			
						Rs.	11,652	8	0
					1930				
					Jan. 1.	By Balance			
						brought			
						down	11,652	8	0

A's DRAWINGS ACCOUNT.

1929		Rs.	a.	p.	1929		Rs.	a.	p.
Feb 1	To Bank	300	0	0	Dec. 31	By Interest	500	0	0
April 1	" "	400	0	0					
June 1	" "	500	0	0					
Oct. 1	" "	200	0	0	" "	" Profit-			
Dec. 1	" "	400	0	0		1/3rd.			
" 31	" Interest	47	8	0		Share	3,000	0	0
" "	" A's Capital Account- Transfer	1,652	8	0					
	Rs.	3,500	0	0		Rs.	3,500	0	0

B's DRAWINGS ACCOUNT.

1929		Rs.	a.	p.	1929		Rs.	a.	p.
Jan. 1	To Bank	200	0	0	Dec. 31	By Salaries	1,200	0	0
Feb. 1	" "	200	0	0	" "	" Interest	1,000	0	0
Mar. 1	" "	200	0	0	" "	" Profit-			
April 1	" "	200	0	0		1/3rd			
May 1	" "	200	0	0		Share	3,000	0	0
June 1	" "	200	0	0					
July 1	" "	200	0	0					
Aug. 1	" "	200	0	0					
Sept. 1	" "	200	0	0					
Oct. 1	" "	200	0	0					
Nov. 1	" "	200	0	0					
Dec. 1	" "	200	0	0					
" 31	" Interest	65	0	0					
" "	" B's Capital Account Transfer	2,735	0	0					
	Rs.	5,200	0	0		Rs.	5,200	0	0

B's CAPITAL ACCOUNT.

1929		Rs.	a.	p.	1929		Rs.	a.	p.
Dec. 31	To Balance carried down	22,735	0	0	Jan. 1	By Balance	20,000	0	0
					Dec. 31	" B's Drawings Account-transfer	2,735	0	0
	Rs.	22,735	0	0		Rs.	22,735	0	0
					1930	By Balance brought down	22,735	0	0
					Jan. 1				

C's CAPITAL ACCOUNT.

1929		Rs.	a.	p.	1929		Rs.	a.	p.
Dec. 31	To Balance carried down	34,138	5	4	Jan. 1	By Balance	30,000	0	0
					Dec. 31	" C's Drawings Account-transfer	4,138	5	4
	Rs.	34,138	5	4		Rs.	34,138	5	4
					1930	By Balance brought down	34,138	5	4
					Jan. 1				

C's DRAWINGS ACCOUNT.

1929		Rs.	a.	p.	1929		Rs.	a.	p.
Mar 1	To Bank	500	0	0	Dec. 31	By Salaries	1,800	0	0
May 1	" "	600	0	0	" "	" Interest	1,500	0	0
July 1	" "	500	0	0	" "	" Profit- 1/2 Share	3,000	0	0
Sept. 1	" "	500	0	0					
Dec. 31	" Interest	61	10	8					
" "	" C's Capital Account-transfer	4,138	5	4					
	Rs.	6,300	0	0		Rs.	6,300	0	0

Example 32.

C. Hemraj and D. Choksi were in partnership sharing profits in proportion of 3/5 ths and 2/5 ths. The Partnership Agreement provided inter alia—

- (1) That D. Choksi should receive a salary of Rs. 250/- per month ;
- (2) That each partner should receive 5% interest on his Capital, and should be charged 5% interest on Drawings.

The following is a list of balances abstracted from the books as on 31st December 1928—

	Dr. Rs.	Cr. Rs.
C. Hemraji's Capital		30,000
D. Choksi's Capital		25,000
C. Hemraj's Drawings	2,900	
D. Choksi's Drawings	3,000	
Office Furniture	1,800	
Purchases	30,800	
Do. Returns		1,500
Oil and Fuel	1,700	
Rent, Rates and Insurance	2,500	
Wages	13,200	
Sales		75,000
Do. Returns	1,300	
Cartage	1,100	
General Expenses	870	
Travelling Expenses	1,340	
Advertising	1,875	
Plant	17,500	
Stock 1st Jan. 1928	8,600	
Sundry Debtors	30,600	
Bills Payable		12,000
Commission	1,260	
Accountancy Charges	1,000	
Sundry Creditors		18,200
Bills Receivable	18,000	
Cash in hand	285	
Cash at Bank	15,000	
Office Salaries	6,800	
Discount		2,130
Motive Power	2,400	
	Rs. - 1,63,830	Rs. 1,63,830

The Stock on hand on 31st December 1928 was valued at Rs. 11,400. Write off Rs. 400 from Office Furniture and 10% off Plant as Depreciation. Create a Reserve of 10% on Sundry Debtors. The Interest on Drawings chargeable to Hemraj and Choksi amounted to Rs. 60 and Rs. 75 respectively.

Prepare Profit and Loss Account and Balance Sheet and pass the necessary adjusting entries.

HEMRAJ AND CHOKSI.
TRADING AND PROFIT AND LOSS ACCOUNT.

for the year ended 31st December 1928.

	Rs.		Rs.
To Stock ...	8,600	By Sales 75,000	
.. Purchases 30,800		Less Returns 1,300	73,700
Less Returns 1,500	<u>29,300</u>	.. Stock	<u>11,400</u>
.. Wages ...	13,200		
.. Cartage ...	1,100		
.. Motive Power ...	2,400		
.. Oil & Fuel ...	1,700		
.. Gross Profit carried down	<u>28,800</u>		
	<u>Rs. 85,100</u>		<u>Rs. 85,100</u>
To Salaries ...	6,800	By Gross Profit brought down ...	28,800
.. Rent, Rates and Insurance ...	2,500	.. Discount ...	2,130
.. Partners' Salary ...	3,000		
.. Advertising ...	1,875		
.. Commission ...	1,260		
.. Travelling Expenses ...	1,340		
.. General Expenses ...	870		
.. Accountancy Charges ...	1,000		
.. Reserve for Doubtful Debts ...	3,060		
.. Depreciation :-			
Office Furniture 400			
Plant 10% 1,750	<u>2,150</u>		
.. Interest on Capital ...	2,615		
.. Net Profit transferred to Partners' Capital Accounts :-			
C. Hemraj 3/5ths 2,676			
D. Choksi 2/5ths 1,784	<u>4,460</u>		
	<u>Rs. 30,930</u>		<u>Rs. 30,930</u>

HEMRAJ AND CHOKSI.

BALANCE SHEET, as at 31st December 1928

	Rs.	Rs.		Rs.	Rs.
LIABILITIES.			ASSETS.		
SUNDRY CREDITORS:—			CASH IN HAND	285	
For Bills Payable	12,000		CASH AT BANK	15,000	
On open Accounts	18,200	30,200	SUNDRY DEBTORS:—		15,285
CAPITAL ACCOUNTS:—			For Bills Receivable	18,000	
C. Hemraj's Capital	30,000		On Open Accounts	30,600	
Balance on 1st January 1928.	1,500		Less Reserve for		
Add Interest	2,676		Doubtful Debts	3,060	
" Profits	34,176			27,540	45,540
Less Drawings	2,900		STOCK		11,400
" Interest	60	31,216	OFFICE FURNITURE	1,800	
D. Choksi's Capital:—			Less Depreciation	400	1,400
Balance on 1st January 1928	25,000		PLANT	17,500	
Add Salary	3,000		Less Depreciation at 10%	1,750	15,750
" Interest	1,250				
" Profits	1,784				
	31,034				
Less Drawings	3,000				
" Interest	75	27,959			
	3,075				
	89,375	89,375			
	Rs.	Rs.		Rs.	Rs.

PARTNERSHIP ACCOUNTS.

ADJUSTING ENTRIES.

		Rs.	Rs.
Partners' Salaries Account	Dr.	3,000	
To D. Choksi's Capital Account			3,000
(Salary to D. Choksi for the year credited to his Capital Account)			
Interest Account	Dr.	2,750	
To C. Hemraj's Capital Account			1,500
" D. Choksi's " "			1,250
(Interest at 5% credited to partners Accounts)			
C Hemraj's Capital Account	Dr.	60	
D. Choksi's " "	" "	75	
To Interest Account			135
(Interest on partners' drawings brought into account)			
Depreciation Account	Dr.	2,150	
To Office Furniture			400
" Plant			1,750
(Rs. 400/- on Office Furniture & 10 % on Plant written off)			
Profit and Loss Account	Dr.	3,060	
To Reserve for Doubtful Debts			3,060
(10% reserve created on Sundry Debtors)			

ADMISSION OF A NEW PARTNER.

A trader may decide to admit an outsider into his business with a view to secure more capital or fresh skill, energy or influence for the business; or, it may be that he wishes to reward the faithful services of a valuable employee by admitting him into partnership.

When a new partner is thus admitted in an old established business, it is usual for the old proprietors to ask from the new comer some compensation in return for the share of profits that they will have to forego in the future to make room for him. This reward or compensation by way of a sum of money which the newly admitted partner is to bring in, in return for the share that he is to take in the future profits of the business, is called "Goodwill". Of course, this goodwill or premium

which the newcomer must bring will be over and above the capital he will be called upon to contribute.

It must be made clear that as soon as a new partner is admitted into a firm, he acquires the following legal rights by virtue of his position as a partner:—

- (1) The right to share in the partnership assets, and
- (2) The right to take a share in the future profits.

The amount that the new partner brings in for the right to share in the partnership assets is called his capital and is credited to his Capital Account; whereas the consideration which he pays to the old partners for the right to participate in the division of future profits is called Goodwill.

GOODWILL.

Goodwill may thus be defined as an extra value attaching to an old established business over and above the worth of the assets employed therein because of its past connections, continued prosperity and reputation and the hope that the same profit-earning capacity that the business had enjoyed in the past will be equally maintained in the future, by reason of the old customers continuing to deal with the firm despite the change in proprietorship.

The goodwill payable by the incoming partner to the old proprietors may be satisfied in any of the three ways:—

- (1) By a cash payment to the firm, the amount being withdrawn by the old partners.
- (2) By a cash payment to the firm, the amount being retained in the business as additional capital.
- (3) By bringing into record the Goodwill of the firm at its full value and adjusting the old partners' Capital Accounts.

WHERE GOODWILL IS RECEIVED IN CASH AND IS WITHDRAWN BY THE OLD PARTNERS.

(1) When an amount is brought in by the newly admitted partner by way of Goodwill, the same should be credited to Goodwill Account in the first instance.

(2) The credit balance on Goodwill Account will then be transferred to the Capital Accounts of the old proprietors in their profit-sharing proportions. The entry to bring this about will be to debit the Goodwill Account and credit the Capital Account of each of the old proprietors in his respective profit-sharing proportion.

(3) On each of the old partners withdrawing his goodwill amount, the entry would be to debit his Capital Account and credit Bank Account.

(4) The amount brought in by the newcomer by way of his capital will be credited to a new Capital Account to be opened in his name.

Example 33.

A & B with capitals of Rs. 3,000 and Rs. 4,000 respectively and sharing profits equally, agree to admit D as an equal partner on the condition that he brings in Rs. 5,000 as Capital and Rs. 2,000 as his share of Goodwill. It was further agreed that the amount brought in as Goodwill should not remain in the firm. Pass Journal Entries to record the above and show the Ledger Accounts.

	Dr.	Cr.
	Rs.	Rs.
Bank Account. Dr.	7,000	
To D's Capital Account		5,000
" Goodwill Account.		2,000
Being the amount brought in by D in respect of Capital and Goodwill.		
Goodwill Account Dr.	2,000	
To A's Capital Account		1,000
" B's Capital Account.		1,000
Being the adjustment of cash brought in for Goodwill to the Capital A/cs. of the old partners in their profit-sharing proportions.		
A's Capital Account Dr.	1,000	
B's Capital Account "	1,000	
To Bank.		2,000
Being the withdrawal of amount credited in respect of Goodwill by the old partners.		

Dr.	A's CAPITAL ACCOUNT.		Cr.
	Rs.		Rs.
To Bank	1,000	By Balance b/d.	3,000
.. Balance c/d.	3,000	.. Goodwill	1,000
	<u>Rs. 4,000</u>		<u>Rs. 4,000</u>
		By Balance b/d.	Rs. 3,000

Dr.	B's CAPITAL ACCOUNT.		Cr.
	Rs.		Rs.
To Bank	1,000	By Balance b/d.	4,000
.. Balance c/d.	4,000	.. Goodwill	1,000
	<u>Rs. 5,000</u>		<u>Rs. 5,000</u>
		By Balance b/d.	Rs. 4,000

Dr.	D's CAPITAL ACCOUNT.		Cr.
		By Bank	Rs. 5,000

Dr.	GOODWILL ACCOUNT.		Cr.
	Rs.		Rs.
To A's Capital Account	1,000	By Bank	2,000
.. B's Capital Account	1,000		
	<u>Rs. 2,000</u>		<u>Rs. 2,000</u>

**WHERE THE CASH RECEIVED FOR GOODWILL IS
RETAINED IN THE BUSINESS.**

Where the amount brought in by the incoming partner as his share of the goodwill is retained in the business, the effect would be to increase the capitals of the old partners to the extent to which the goodwill amount has been credited to their individual Capital Accounts.

Example 34.

X and Y with Capitals of Rs. 10,000 and Rs. 7,500 respectively and sharing profits in two-thirds and one-third, agree to admit Z into partnership on condition that he brings in Rs. 8,000 as Capital and Rs. 6,000 as Goodwill in return for a fourth share in the profits. The goodwill amount is to be retained in the business. Pass the necessary entries and open the Ledger Accounts. Show also the future proportions in regard to division of profits among the partners.

	Dr.	Rs.	Cr.	Rs.
Bank Account	Dr.	14,000		
To Z's Capital Account			8,000	
" Goodwill			6,000	
Being cash brought in by Z in respect of his Capital and Goodwill.				
Goodwill	Dr.	6,000		
To X's Capital Account			4,000	
" Y's Capital Account			2,000	
Being the transfer of Goodwill amount to the old partners' accounts in their profit-sharing proportions.				

Dr.	X's CAPITAL ACCOUNT.		Cr.
To Balance c/d.	Rs. 14,000	By Balance b/d.	Rs. 10,000
	Rs. <u>14,000</u>	" Goodwill	4,000
			Rs. <u>14,000</u>
		By Balance b/d.	Rs. 14,000

Dr.	Y's CAPITAL ACCOUNT.		Cr.
To Balance c/d.	Rs. 9,500	By Balance b/d.	Rs. 7,500
	Rs. <u>9,500</u>	" Goodwill	2,000
			Rs. <u>9,500</u>
		By Balance b/d.	Rs. 9,500

Note :—In this case, as the goodwill amount has been retained in the business, it has served to increase the Capitals of the old partners in their profit-sharing proportions.

The future profit-sharing proportions of X, Y and Z would be as under :—

$$\begin{aligned} \text{X will get } & 2/3 \times 3/4 = 1/2 \\ \text{Y will get } & 1/3 \times 3/4 = 1/4 \\ \text{Z will get } & 1/4 \end{aligned}$$

WHERE THE INCOMING PARTNER DOES NOT BRING HIS SHARE OF GOODWILL IN CASH.

(1) Where the incoming partner brings in cash in respect of his capital only and does not pay anything in respect of his share of goodwill, it becomes necessary to raise a Goodwill Account in the books of the firm.

(2) This is done by debiting Goodwill Account with an amount as agreed to between the old partners and the new comer and crediting the old partners' Capital Accounts in their respective profit-sharing proportions. The idea underlying this adjustment is to bring an hitherto unrecorded asset in the books of the firm in order that each of the old proprietor's Capital Account may get its legitimate credit in this respect.

(3) The Goodwill Account will now represent an asset belonging to the firm, and will appear as such in the Balance Sheet.

Example 35.

C & D are in partnership with capitals of Rs. 20,000 and Rs. 15,000 respectively and sharing profits in proportions of three-fourths and one-fourth. They admit A into the business on condition that he pays Rs. 10,000 as his capital in return for one-fifth share in the future profits. The goodwill of the old firm is valued at Rs. 12,000 and as A does not bring his proportionate share thereof, the old partners' capitals have to be adjusted by bringing this asset into record. Pass the necessary Journal Entries, open Ledger Accounts and show in what proportions the profits would be divided among the partners, in the future.

		Rs.	Rs.
Bank	Dr.	10,000	
To A's Capital A/c.			10,000
Being the amount brought in by A as his Capital.			
<hr/>			
Goodwill A/c.	Dr.	12,000	
To C's Capital A/c.			9,000
To D's Capital A/c.			3,000
Being the adjustment of Goodwill A/c. to the Capital Accounts of the old partners in their profit-sharing proportions.			

Dr.		C's CAPITAL ACCOUNT.		Cr.	
To Balance c/d.	Rs. 29,000	By Balance b/d.	Rs. 20,000		
		.. Goodwill A/c.	9,000		
	<u>Rs. 29,000</u>			Rs. <u>29,000</u>	
		By Balance b/d.	Rs. 29,000		

Dr.		D's CAPITAL ACCOUNT.		Cr.	
To Balance c/d.	Rs. 18,000	By Balance b/d.	Rs. 15,000		
		.. Goodwill A/c.	3,000		
	<u>Rs. 18,000</u>			Rs. <u>18,000</u>	
		By Balance b/d.	Rs. 18,000		

Dr.		A's CAPITAL ACCOUNT.		Cr.	
		By Bank	Rs. 10,000		

Dr.		GOODWILL ACCOUNT.		Cr.	
To C's Capital Account.	Rs. 9,000	By Balance c/d.	Rs. 12,000		
.. D's Capital	3,000				
	<u>Rs. 12,000</u>			Rs. <u>12,000</u>	
To Balance b/d.	Rs. 12,000				

The future profit-sharing proportions of C, D and A would be arrived at as under :-

C will get $3/4 \times 4/5 = 3/5$
 D will get $1/4 \times 4/5 = 1/5$
 A will get $1/5$

RE-VALUATION OF ASSETS ON ADMISSION OF A NEW PARTNER.

It may further happen that before admitting a new person into partnership, the parties may agree to a re-valuation of the assets of the business, so that it would be on the basis of this fresh valuation as mutually agreed upon that the newcomer may step in.

Under such a circumstance, a special account styled "Profit and Loss Adjustment Account" will have to be opened and all the necessary adjustments would have to be made thereon.

The ultimate balance on this account representing profit or loss as arising from such re-valuation will then be transferred to the Capital Accounts of the old proprietors in their profit-sharing proportions.

Example 36.

The following was the Balance Sheet of P & Q who were sharing profits two-thirds and one-third on 31st December 1930 :-

BALANCE SHEET OF P & Q on 31st December 1930.

	Rs.			Rs.
Creditors	65,900		Cash at Bank	1,200
Capitals :-			Sundry Debtors	9,700
P.	30,000		Stock	20,000
Q.	20,000		Plant & Machinery	35,000
			Building	50,000
	Rs. 1,15,900			Rs. 1,15,900

They agreed to admit R into partnership on the following terms:-

- (1) R was to be given one-third share in profits, and was to bring Rs. 15,000/- as his capital and Rs. 6,000/- as his share of goodwill;
- (2) That the values of Stock and Plant were to be reduced by 10%;
- (3) That a Reserve of 5% was to be created in respect of Sundry Debtors;
- (4) That the Building Account was to be appreciated by 20%; and
- (5) That the goodwill amount was to be withdrawn by the old partners.

222 FIRST STEPS IN DOUBLE-ENTRY BOOK-KEEPING.

Draft Journal Entries to give effect to the above arrangement, show the Profit and Loss Adjustment Account and prepare the opening Balance Sheet of the new firm.

JOURNAL ENTRIES.

		Rs.	a. p.	Rs.	a. p.
Profit & Loss Adjustment Account.	Dr.	5,985	0 0		
To Stock				2,000	0 0
" Plant and Machinery				3,500	0 0
" Reserve for Doubtful Debts				485	0 0
Being the amounts written off Stock, Plant and Machinery and the provision made for Doubtful Debts as per agreement dated-----					
<hr/>					
Building Account	Dr.	10,000	0 0	10,000	0 0
To Profit & Loss Adjustment A/c.					
Being the appreciation in the value of Building brought into account as per agreement dated-----					
<hr/>					
Profit & Loss Adjustment Account	Dr.	4,015	0 0		
To P's Capital Account				2,676	10 8
" Q's Capital Account				1,338	5 4
Being the transfer of credit balance on the Profit & Loss Adjustment Account to the old partners' accounts in their profit-sharing proportions.					
<hr/>					
Bank	Dr.	21,000	0 0	15,000	0 0
To R's Capital Account.				6,000	0 0
" Goodwill Account.					
Being the amount of cash brought in by R in respect of his share of Capital and Goodwill.					
<hr/>					
Goodwill Account	Dr.	6,000	0 0	4,000	0 0
To P's Capital Account				2,000	0 0
" Q's Capital Account					
Being the allocation of Goodwill amount among the old partners in their profit-sharing proportions.					
<hr/>					
P's Capital Account	Dr.	4,000	0 0		
Q's Capital Account		2,000	0 0	6,000	0 0
To Bank					
Being withdrawals by the old partners of their share of goodwill.					

PROFIT & LOSS ADJUSTMENT ACCOUNT.

	Rs.		Rs.
To Stock	2,000	By Building Account	10,000
" Plant & Machinery	3,500		
" Reserve for Doubtful Debts	485		
" Transfer of Profit to Capital A/cs:—			
P—2/3rds Share	Rs. 2,676 10 8		
Q—1/3rd Share	1,338 5 4		
	<u>4,015</u>		
	Rs. <u>10,000</u>		Rs. <u>10,000</u>

BALANCE OF P, Q & R as on 1st Jan. 1931.

	Rs.		Rs.
Creditors	65,900	Cash at Bank	16,200
Capitals:—		Sundry Debtors	9,700
P.	Rs. 32,676 10 8	Less Reserve for Doubtful Debts	485
Q.	21,338 5 4		<u>9,215</u>
R.	15,000 0 0	Stock	18,000
	<u>69,015</u>	Plant & Machinery	31,500
		Building	60,000
	Rs. <u>1,34,915</u>		Rs. <u>1,34,915</u>

RETIREMENT OF A PARTNER.

When a partner retires from an established firm, the goodwill of the business will have to be valued and the retiring partner's Capital Account will have to be credited with his proportionate share thereof. The total amount then due to the retiring partner as per his Capital Account will have to be paid over to him either in one sum or by instalments, as may be mutually agreed.

Where the amount due to him is payable by instalments, the balance standing on the retiring partner's Capital Account will have to be transferred to his Loan Account, and this Account will carry interest at an agreed rate till the whole amount due is paid out.

The entry for crediting the proportion of goodwill due to the retiring partner will be to debit Goodwill Account and credit the retiring partner's Capital Account with the necessary sum.

The debit balance on Goodwill Account must then be written back to the Capital Accounts of the remaining partners in their profit-sharing proportions.

Example 37.

X, Y and Z were partners in a firm with Capitals of Rs. 15,000, Rs. 9,500 and Rs. 10,000 respectively and sharing profits in proportions of $\frac{1}{3}$, $\frac{1}{4}$ and $\frac{1}{4}$. On 31st December 1928, Y retires and for the purpose of his retirement, the goodwill of the firm has been valued at Rs. 12,000. Pass the necessary entries assuming that Y has been paid the amount ascertained and show the Capital Accounts of all partners.

Goodwill Account	Dr.		Rs.		Rs.
To Y's Capital A/c.			3,000		3,000
Being the fourth share of goodwill credited to the retiring partner.					
Y's Capital Account	Dr.				
To Bank			12,500		12,500
Being the amount paid to Y in satisfaction of his Capital & Goodwill.					
X's Capital Account	Dr.				
Z's Capital Account			2,000		
To Goodwill Account			1,000		3,000
Being the Goodwill Account written back to the Capital Accounts of the continuing partners in their profit-sharing proportions.					

Dr.	X's CAPITAL ACCOUNT.		Cr.
	Rs.		Rs.
To Goodwill Account	2,000	By Balance	15,000
„ Balance c/d.	13,000		
	<u>Rs. 15,000</u>		<u>Rs. 15,000</u>
		By Balance b/d.	Rs. 13,000

PARTNERSHIP ACCOUNTS.

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Dr.		Y's CAPITAL ACCOUNT.		Cr.	
	Rs.				Rs.
To Bank	12,500	By Balance		9,500	
		" Goodwill A/c.		3,000	
	<u>Rs. 12,500</u>			<u>Rs. 12,500</u>	
Dr.		Z's CAPITAL ACCOUNT.		Cr.	
	Rs.				Rs.
To Goodwill A/c.	1,000	By Balance		10,000	
" Balance c/d.	9,000				
	<u>Rs. 10,000</u>			<u>Rs. 10,000</u>	
		By Balance b/d.		9,000	
Dr.		GOODWILL ACCOUNT.		Cr.	
	Rs.				Rs.
To, Y's Capital Account	3,000	By X's Capital A/c.		2,000	
		" Z's Capital A/c.		1,000	
	<u>Rs. 3,000</u>			<u>Rs. 3,000</u>	

Example 38.

Assuming that the payment to Y was agreed as follows, viz : Rs. 2,500 to be paid immediately and a sum of Rs. 5,000 with accrued interest at 5% on 31st December 1929 and 31st December 1930 respectively, Y's Account will appear as under :-

NOTE :-When the outgoing partner is not paid out the whole amount, due to him immediately on retirement, the balance due as shown by his Capital Account should be transferred to a separate Loan Account opened in his name, and all the payments as also the adjustment in respect of interest should be shown on this Account.

Y's Capital A/c. To Y's Loan A/c. Being the transfer of total amount due to him as per Capital A/c. to his Loan A/c.	Dr.		Rs. 12,500	Rs. 12,300
Y's Loan Account To Bank A/c. Being the first payment to him as per agreement.	Dr.		2,300	2,500
Interest Account To Y's Loan A/c. Being one year's interest at 5% on Rs. 10,000/- credited at the end of the first year.	Dr.		500	500

	Dr.	Rs.	Rs.
Y's Loan A/c. To Bank Being the payment of instalment of Rs. 5,000/- with accrued interest on 31st December 1929.	Dr.	5,500	5,500
Interest Account To Y's Loan A/c. Being one year's Interest at 5% on Rs. 5,000 due to him.	Dr.	250	250
Y's Loan Account To Bank Being the final payment of balance of Rs. 5,000/- with accrued Interest on 31st December 1930.	Dr.	5,250	5,250

SHARE OF A DECEASED PARTNER.

On the death of a partner, the representatives of the deceased partner have the right, subject to any agreement, to have the value of the firm's goodwill ascertained and to be paid the deceased partner's share thereof.

After the deceased partner's share of goodwill is ascertained, the entry necessary to bring this into effect is to debit Goodwill Account and credit the deceased partner's Capital Account with such sum.

The total amount then due to the deceased partner as shown by his Capital Account is transferred to a new Account to be opened in the name of the Executors of the deceased.

On payment of the sum due, this latter Account will be debited and Bank Account credited.

The debit balance on Goodwill Account must be written back to the Capital Accounts of the surviving partners in their profit-sharing proportions.

Example 39.

C, D and E are partners sharing profits equally, with Capitals of Rs. 10,000, Rs. 12,000 and Rs. 8,000 respectively. E dies on 1st June 1930 and for the purpose of adjusting his account, the share of profit due to him from the date of the last Balance Sheet to the date of his death has been ascertained to be Rs. 3,000. The goodwill of the firm has been agreed at Rs. 15,000. Assuming that the deceased partner's Executors are paid out the full amount on ascertainment, pass the necessary entries and show the Ledger Accounts concerned.

PARTNERSHIP ACCOUNTS.

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		Rs.	Rs.
P. & L. Account. To E's Capital A/c. Being the share of profits accrued to date of death credited.	Dr.	3,000	3,000
Goodwill Account To E's Capital A/c. Being the adjustment of one-third share of Goodwill due to E.	Dr.	5,000	5,000
E's Capital Account. To Executors of E deceased Being the transfer of the total amount due to E on final ad- justment to the latter account	Dr.	16,000	16,000
Executors of E deceased To Bank Being the payment to the Executors of E by the firm.	Dr.	16,600	16,000

NOTE :—If the Executors agree to receive the deceased partner's share by instalments in order not to cripple the financial resources of the firm, interest at an agreed rate will have to be brought into account, and the adjustment in this respect will be made on the Account of the Executors, in the same manner as already illustrated in Example 38.

DISSOLUTION OF PARTNERSHIP.

On a dissolution of a partnership, the following steps are necessary.

- (1) The partnership assets are sold.
- (2) The proceeds thus realised are first utilised in paying off the debts and liabilities of the firm to persons who are not partners therein.
- (3) Any partner who has advanced money to the firm will then be paid out his loan.
- (4) Each partner will then be paid ratably what is due from the firm to him in respect of his Capital.
- (5) If there is any surplus arising from the realisation of assets and left after the above payments, the same will be divided among the partners in the proportion in which profits are divisible.

REALISATION ACCOUNT.

Accounts will naturally have to be maintained showing what amounts were realised on sale of the assets, what liabilities were liquidated, what profit or loss arose as a result of the realisation and how the partners' accounts were adjusted *inter se*.

A special account styled "Realisation Account" will have to be opened for this purpose, in order that the whole of the above information may be ascertained therefrom.

DISSOLUTION ENTRIES.

The entries in the books will be passed in the following order:—

- (1) Transfer all the Asset Accounts (other than Cash and Bank Accounts) to Realisation Account at book values, by debiting Realisation Account and crediting each Asset Account.

The effect of this entry will be to close all the separate asset accounts in the books, and to show their total book value on the Realisation Account.

- (2) Transfer all the Liabilities (other than Loan from a partner) to the Realisation Account at book value, by debiting each Liability Account and crediting the Realisation Account,

The effect of this entry would be to close all the separate liability accounts in the books and bring them on the credit of Realisation Account.

- (3) Debit Bank Account and credit Realisation Account with the amount realised on the sale of each asset.
- (4) Debit Realisation Account and credit Bank Account with the amounts paid out in respect of Liabilities.
- (5) Debit Realisation Account and credit Bank Account with any expenses incurred in connection with the dissolution.
- (6) The balance on the Realisation Account will now give the profit or loss on realisation.

- (7) Transfer such profit or loss to the partner's Capital Accounts in the proportions in which they share profits or losses.
- (8) If there is a loan by a Partner, the same will be paid out and the entry will be to debit the Partner's Loan Account and credit Bank.
- (9) Each partner will now be paid out what is ultimately owing to him by the firm as shown by his respective Capital Account. The entry will be to debit each partner's Capital Account and to credit the Bank Account.

NOTES :—If any partner buys over any asset at an agreed value, debit such partner's Capital Account and credit Realisation Account with the amount.

If there is any Cash Balance at the date of dissolution, the same should be transferred over to the Bank Account and the amount should be paid into the Bank.

The reason why the balance on Bank Account should not be transferred to the Realisation Account is that this Account will have to be operated upon till the final payments are made to the partners.

Example 40.

The following is the Balance Sheet of P, Q and R, on 31st December, 1930, the partners sharing profits in proportions of one-half, one-third and one sixth respectively :—

BALANCE SHEET OF P, Q and R as at 31st December 1930.

Creditors		Rs.	32,000	Cash at Bank		Rs.	1,000
Loan from P			30,000	Debtors	Rs. 20,000		
Capital Accounts:—	Rs.			Less Reserve for			
P.	30,000			Doubtful Debts.	1,000		
Q.	25,000			Stock			19,000
R.	15,000			Investments			25,000
			70,000	Fixtures			10,000
				Plant			2,000
				Freehold Property			35,000
							40,000
		Rs.	1,32,000			Rs.	1,32,000

The partnership was dissolved, and the assets realised the following amounts :—

Stock and Investments realised 10% less than the book values. Debtors realised Rs. 17,500 and Plant Rs. 25,000. Freehold Property was sold for Rs. 75,000 and the Fixtures were taken over by P at an agreed value of Rs. 1,200. The creditors were paid off at a discount of 5%, and the expenses of realisation amounted to Rs. 700. Pass the Journal Entries to give effect to the above and show the necessary Ledger Accounts.

	Dr.	Rs.	Rs.
Realisation Account	Dr.	1,32,000	
To Debtors			20,000
" Stock			25,000
" Investments			10,000
" Fixtures			2,000
" Plant			35,000
" Freehold Property			40,000
Being the transfer of the various assets to Realisation Account at book values.			

Creditors--	Dr.	32,000	
Reserve for Doubtful Debts.		1,000	
To Realisation Account			33,000
Being the transfer of Liabilities and the Reserve for Doubtful Debts Account to the Realisation Account.			

Bank Account	Dr.	1,49,000	
To Realisation A/c.			1,49,000
Being the amounts realised on sale of the assets as under:—			
		Rs.	
Stock		22,500	
Investments		9,000	
Debtors		17,500	
Plant		25,000	
Freehold		75,000	

P's Capital Account.	Dr.	1,200	
To Realisation A/c.			1,200
Being the agreed value of Fixtures taken over by him.			

Realisation Account	Dr.	30,400	
To Bank			30,400
Being the payment to creditors at a discount of 5% in full satisfaction of their claims.			

Realisation Account	Dr.	700	
To Bank			700
Being the payment of Realisation Expenses.			

P's Loan Account	Dr.	30,000	
To Bank			30,000
Being the loan from one of the partners paid off.			

PARTNERSHIP ACCOUNTS.

Realisation Account	Dr.	Rs. 20,100	Rs.
To P's Capital A/c.			10,050
.. Q's Capital A/c.			6,700
.. R's Capital A/c.			3,350
Being the transfer of profit on Realisation to the partners' Capital A/cs. in their profit-sharing proportions.			
P's Capital A/c.	Dr.	38,850	
Q's Capital A/c.		31,700	
R's Capital A/c.		18,350	
To Bank			88,900
Being the final payment to partners as per their Capital Accounts.			

REALISATION ACCOUNT.

To Debtors	Rs. 20,000	By Creditors	Rs. 32,000
.. Stock	25,000	.. Reserve for Doubtful Debts	1,000
.. Investments	10,000	.. Bank:—	
.. Fixtures	2,000	Stock	22,500
.. Plant	35,000	Investments	9,000
.. Freehold	40,000	Debtors	17,500
.. Bank-Creditors	30,400	Plant	25,000
.. Expenses	700	Free Hold	75,000
.. Profit on Realisation transferred:—			1,49,000
	Rs.		
P's Capital	10,050	.. P's Capital A/c.	
Q's ..	6,700	Fixtures	1,200
R's ..	3,350		
	<u>20,100</u>		
	Rs. 1,83,200		Rs. 1,83,200

BANK ACCOUNT.

To Balance:—	Rs. 1,000	By Realisation A/c:—	Rs.	Rs.
.. Realisation A/c:—	Rs.	Creditors	30,400	
Stock	22,500	Expenses	700	
Investments	9,000			31,100
Debtors	17,500	.. P's Loan A/c.		30,000
Plant	25,000	.. Capital A/cs.	Rs.	
Freehold	75,000	P.	38,850	
	<u>1,49,000</u>	Q.	31,700	
		R.	18,350	
				88,900
	Rs. 1,50,000			Rs. 1,50,000

Dr.		P'S LOAN ACCOUNT.		Cr.	
To Bank	Rs. 30,000	By Balance	Rs. 30,000		

Dr.		P'S CAPITAL ACCOUNT.		Cr.	
To Realisation A/c.—	Rs.	By Balance	Rs. 30,000		
Fixtures	1,200	Realisation A/c.—			
" Bank	38,850	$\frac{1}{4}$ share of profits	10,050		
	Rs. 40,050		Rs. 40,050		

Dr.		Q'S CAPITAL ACCOUNT.		Cr.	
To Bank	Rs. 31,700	By Balance	Rs. 25,000		
		Realisation A/c.—			
		$\frac{1}{3}$ share of profits.	6,700		
	Rs. 31,700		Rs. 31,700		

Dr.		R'S CAPITAL ACCOUNT.		Cr.	
To Bank	Rs. 18,350	By Balance	Rs. 15,000		
		Realisation A/c.—			
		$\frac{1}{4}$ share of Profits.	3,350		
	Rs. 18,350		Rs. 18,350		

SUMMARY.

1. The Accounts of a Partnership Business do not differ from those of a sole trader, so far as the record of ordinary business transactions is concerned.

2. There would, of course, be separate Capital and Drawings Accounts for each partner.

3. Partners must decide by agreement what capital each should bring in, what amount each of them should be allowed to withdraw, whether capital and drawings should bear any interest, how they would share profits or losses, and whether any partner would be entitled to any salary.

4. Where there is no agreement to the contrary, all partners are entitled to share profits or losses equally.

5. No partner can claim any interest on capital unless it is so agreed.

6. In the absence of any agreement, no partner can claim any salary from the firm.

7. The Drawings Account of each partner should be used for recording his drawings only, and the debit balance of this Account should be transferred to his Capital Account at the end of each financial period.

8. The Capital Account of each partner would show, on the credit, the balance of Capital at the commencement of each trading period, and the total drawings as transferred from the Drawings Account at the end of the period. The other adjustments in respect of salary due to a partner (if any), interest on capital and drawings (if any) and the share of profit or loss would also be made on the Capital Account at the end of the financial period.

9. The Capital Account of each partner would thus serve to indicate at a glance what his capital was at the commencement of each period, what other adjustments are made in respect of drawings, share of profit or loss, interest on capital, etc., and how the closing balance on Capital Account is brought about.

10. Where a new partner is admitted into an established firm, the amount of compensation that he is called upon to pay to the old proprietors for the right to share in future profits is called Goodwill.

11. The peculiarities of Goodwill are—(1) that it is always an unrecorded asset, (2) that it exists only in such businesses as have been yielding super-profits in the past and as have equal chances of returning equally handsome profits in the future, (3) that it fluctuates in value according to the profits made by the concern from time to time, and (4) that it is non-visible.

12. The Goodwill amount brought in by the incoming partner is shared by the old proprietors in the same proportions in which profits are divisible.

13. Where the incoming partner does not bring his share of Goodwill in cash, a Goodwill Account has to be opened in the

firm's books at its full value, the corresponding credit being given to each of the old partners in his profit-sharing proportion.

14. In case of a partner retiring or dying, it becomes necessary to value the Goodwill of the firm so that the retiring or the deceased partner's Capital Account may be given its proportionate share of credit in respect of Goodwill.

15. The Goodwill Account, in the above case, will only be debited with such an amount as is necessary to credit the outgoing partner with, and will then be immediately written back to the Capital Accounts of the continuing or surviving partners in their profit-sharing proportions.

16. In case of admission of a new partner or a partner retiring, where there is any re-valuation of the assets agreed upon, the necessary adjustments must be made through a special account styled "Profit & Loss Adjustment Account".

17. The special account to be opened with a view to ascertain the resultant profit or loss on dissolution of a partnership is styled "Realisation Account".

QUESTIONS.

1. What rules govern the payment of interest on capital, and the payment of salaries to partners ?

2. What is a Drawings Account, and how is this Account closed at the end of each financial period ?

3. What information is conveyed by the Capital Account of a partner ?

4. How are profits or losses shared in a partnership firm ?

5. In what proportion should partners contribute capital ?

6. Under what circumstances would you know the Drawings Account of a partner as his Current Account ?

7. What is the position of a partner in regard to interest on sums advanced by him beyond the amount of capital he has agreed to contribute ?

8. What entry would you pass in respect of interest on capital due to and interest on Drawings chargeable to a partner ?

9. How would you adjust salary due to a partner ?
10. What do you understand by Goodwill ?
11. Explain how the Goodwill amount brought in by an incoming partner is adjusted ?
12. How should Goodwill be adjusted when the incoming partner does not bring in his share of goodwill in cash ?
13. Explain the circumstance under which it becomes necessary to open a Profit and Loss Adjustment Account, and how this Account is closed.
14. How is Goodwill adjusted in case of a retiring or a deceased partner ?
15. In case of dissolution of a partnership firm, mention the order in which the proceeds from the sale of assets have to be utilised.
16. Give the Book-keeping entries necessary to be passed in case of dissolution of a firm.
17. What is Realisation Account and what are the usual items that appear on the debit and credit side of this account ?
18. How should the Realisation Account be closed ?

EXERCISE I.

From the following Trial Balance of J. Jeejibhoy and K. Kikabhoy sharing profits and losses in the proportion of $\frac{3}{5}$ ths and $\frac{2}{5}$ ths prepare Trading and Profit and Loss Account and Balance Sheet as at 31st December 1928. Give also Adjusting and Closing Entries.

TRIAL BALANCE.

	Rs.	Rs.
J. Jeejibhoy's Capital	...	35,000
K. Kikabhoy's "	...	31,000
J. Jeejibhoy's Drawings	... 9,000	
K. Kikabhoy's "	... 8,800	
Sundry Debtors	... 45,000	
Plant and Machinery	... 15,000	
Fixtures and Fittings	... 11,000	
Stock 1st January 1928	... 30,000	
Cash in hand	... 350	
Cash at Bank	... 10,000	
Purchases	... 50,000	
Wages	... 16,000	
Salaries	... 12,000	

TRIAL BALANCE.

	Rs.	Rs.
Insurance	350	
Returns from Customers	1,200	
Carriage Inwards	400	
Returns to Creditors		1,000
Commission & Travelling Expenses.	850	
Rent, Rates and Taxes	5,500	
Discount	200	
Trade Expenses	600	
Bad Debts	250	
Sundry Creditors		39,000
Bills Payable		12,000
Bills Receivable	14,000	
Loan Account		10,000
Sales		1,03,500
	Rs. 2,30,500	Rs. 2,30,500

Allow interest on partners' Capitals at 5%. Interest on Drawings:— J. Jeejibhoj—Rs. 275/- and K. Kikabhoj—Rs. 190/-. Depreciate Plant and Machinery by 10%, Fixtures and Fittings by 5% and provide for Bad and Doubtful Debts at 5% on Sundry Debtors. Outstanding liabilities were in respect of Wages Rs. 300/-, Salaries Rs. 175/- and Rent Rs. 200/-. Insurance was prepaid to the extent of Rs. 75/-. Stock was valued at the above date at Rs. 50,000.

EXERCISE II.

Messrs. Shroff and Dalal are partners on the following terms:—(1) To receive 5% interest upon their respective partnership Capitals; (2) Shroff to receive Rs. 150 per month as Salary, (3) Interest to be charged at 5% on their respective Drawings, (4) Depreciation at 10% to be written off Furniture and Fixtures; (5) Provision at 5% for Doubtful Debts to be reserved on Sundry Debtors; (6) The net profit or loss to be shared thus—Shroff 2/3rds and Dalal 1/3rd. On 30th June 1928, the following was the Trial Balance:—

	Rs.	Rs.
Shroff's Capital		50,000
Dalal's "		40,000
Shroff's Drawings	7,800	
Dalal's "	9,000	
Purchases	82,000	
Investments	23,000	
Interest on above		1,000
Sundry Debtors	55,000	

		Rs.	Rs.
Legal Expenses	... ..	1,100	
Stock 1st July 1927	... ..	40,000	
Accountancy charges	... ..	1,000	
Cash	... ..	150	
Bank	... ..	10,000	
Furniture and Fixtures	... ..	5,000	
Sundry Creditors	... ..		35,000
Bills Receivable	... ..	20,000	
Bills Payable	... ..		17,000
Salaries	.. ..	8,000	
Office Expenses	... ..	1,700	
Discount	... ..	1,250	
Rent, Rates, etc.	... ..	2,300	
Sales	... ..		1,25,000
Returns Inwards	... ..	1,300	
" Outwards	... ..		1,000
Carriage Inwards	... ..	1,600	
Commission	... ..	1,800	
		Rs. <u>2,69,000</u>	Rs. <u>2,69,000</u>

Rs. 300 are outstanding for Salaries and Rs. 100 for Legal Expenses. Interest on Shroff Drawings amounted to Rs. 150 and on Dalal's Drawings Rs. 175. Closing Stock at the end of the period was Rs. 65,000.

Prepare Trading and Profit and Loss Account and Balance Sheet, and pass the necessary Adjusting and Closing Entries.

EXERCISE III.

C. Wadia and D Mistry are partners sharing profits and losses equally and have agreed that 5% interest shall be credited to their Capital Accounts. Plant and Machinery is to be depreciated by 10% and Rs. 500 to be written off Freehold Premises. Reserve 5% on Sundry Debtors for Doubtful Debts. The following is the Trial Balance of their books as at 31st December 1928 :-

		Rs.	Rs.
Purchases	... ..	33,000	
Stock 1st January 1928	... ..	45,000	
Sundry Debtors	... ..	20,000	
Sundry Creditor	... ..		18,000
Factory Expenses	... ..	1,500	
Office Expenses	... ..	1,800	
Plant and Machinery	... ..	15,000	
Discount	... ..		520

	Rs.	Rs.
Salaries	1,800	
Freehold Premises	25,000	
Rent, Rates, Taxes & Insurance	1,700	
Repairs	400	
Wages	2,300	
Bad Debts	500	
Sales		90,000
Cash in hand	220	
Cash at Bank	11,000	
C. Wadia's Capital... ..		25,000
D. Mistry's "		30,000
C. Wadia's Drawings	1,700	
D. Mistry's "	1,900	
Returns Inwards	1,800	
" Outwards	•	1,100
	Rs. 1,64,620	Rs. 1,64,620

You are required to make out a Trading and Profit and Loss Account and Balance Sheet after making following further adjustments:—

- (1) Rs. 400 are outstanding for Salaries and Rs. 500 for wages.
- (2) Insurance is paid in advance to the extent of Rs. 90.
- (3) Closing Stock at the above date was Rs. 55,000.

Give the necessary Adjusting and Closing Entries.

EXERCISE IV.

* P. Ghosh and B. Baldev are in partnership sharing profits and losses equally. Before the division of profits, the following adjustments are necessary:—5% depreciation is to be written off Plant and Machinery, 10% off Loose Tools, 15% off Patents, 5% provision is to be made for Bad and Doubtful Debts. Rs. 60/- are paid in advance for Insurance. Rs. 500/- are outstanding for salaries and Rs. 200/- for wages. Stock as on 31st December 1928 was valued at Rs. 60,000/-. You are required to prepare Profit and Loss Account and Balance Sheet as at 31st December 1928 with Adjusting and Closing Entries from the Trial Balance given below:—

TRIAL BALANCE.

	Rs.	Rs.
P. Ghosh's Capital		36,000
B. Baldev's "		30,000
P. Ghosh's Drawings	2,890	
B. Baldev's "	2,000	
Stock 1st January 1928	40,000	
Bills Receivable	5,000	

TRIAL BALANCE—(contd.)

	Rs.	Rs.
Purchases	55,000	
Sales		80,000
Bills Payable		12,000
Returns Inwards	1,000	
" Outwards		900
Plant and Machinery	20,000	
Loose Tools	5,000	
Patents	5,000	
Sundry Debtors	25,000	
" Creditors		28,000
Cash	210	
Bank	15,000	
Salaries	2,200	
Wages	3,800	
Repairs	300	
Rates and Taxes	1,500	
Insurance	600	
Printing and Stationery	400	
General Expenses	1,300	
Coal and Gas	700	
	Rs. 1,86,900	Rs. 1,86,900

EXERCISE V.

The following was the Balance Sheet of Dinshaw, Edulji and Framji who were equal partners on 1st June 1931.

Liabilities.		Rs.	Assets.		Rs.
Bills Payable		3,300	Cash		600
Creditors		6,000	Debtors		10,800
Capital Accounts:—	Rs.		Stock		11,400
Dinshaw	16,800		Furniture		2,400
Edulji	12,600		Building Account		19,500
Framji	6,000				
		35,400			
		Rs. 44,700			Rs. 44,700

They agreed to take Hirji into partnership and give him a fourth share in the profits on the following terms:—

- (1) That Hirji should bring in Rs. 9,000 for Goodwill and Rs. 15,000 as Capital.
- (2) That the half of the Goodwill shall be withdrawn in cash by the old partners.

(3) That Stock and Furniture be depreciated by 10 per cent.

(4) That a Reserve of 5 per cent on Debtors be created for Doubtful Debts.

(5) That the value of the Building having appreciated, the Building Account should be raised by Rs. 7,500.

Pass the entries necessary to give effect to the above arrangement, prepare the Profit and Loss Adjustment Account and the opening Balance Sheet of the Firm as newly constituted.

EXERCISE VI.

X and Y are in partnership and their position is shown by the following Balance Sheet :—

BALANCE SHEET OF X AND Y.

	Rs.		Rs.
Creditors	9,000	Plant	7,000
X's Capital	20,000	Stock	25,000
Y's Capital	10,000	Debtors	6,000
		Cash	1,000
	Rs. 39,000		Rs. 39,000

It was decided to admit Z into partnership on the following terms :—

The firm's Goodwill is valued at Rs. 6,000; Stock is to be written down by 10% and Plant by 12½%. A reserve of 5% is to be made on Sundry Debtors. Z is to bring in Rs. 10,000 as his Capital and his proportionate share of Goodwill in cash.

Pass Journal Entries to give effect to the above arrangement and show the Profit and Loss Adjustment Account and the Balance Sheet of the new firm.

EXERCISE VII.

P & Q are in partnership sharing profits two-thirds and one-third. Their Balance Sheet is as follows :—

Liabilities.			Assets.	
	Rs.		Rs.	
Creditors	13,500	Cash	1,000	
P's Capital	30,000	Stock	20,000	
Q's "	20,000	Plant	30,000	
		Debtors	5,000	
		Investments	7,500	
	Rs. 63,500		Rs. 63,500	

They agree to admit U into partnership on condition that he brings in Rs. 12,000 as Capital for one-fifth share in the business. The Goodwill of the Firm is to be valued at Rs. 10,000, and adjusted on to the Capital Accounts of the old proprietors. Stock is to be depreciated by 10% and Plant to be appreciated by 10%. A 5% reserve is to be created on Sundry Debtors, and the investments are to be brought in the new firm at an agreed value of

PARTNERSHIP ACCOUNTS.

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Rs. 6,000. Pass the necessary Journal Entries to give effect to the above. Show the Profit and Loss Adjustment Account, and the Capital Accounts and prepare the opening Balance Sheet of the new partnership.

EXERCISE VIII.

The Balance Sheet of A B and C on 31st May 1931 stood as follows :—

		Rs.		Rs.
Creditors		23,500	Cash at Bank	3,500
Capitals :—			Debtors	35,000
	Rs.		Stock	15,000
A	15,000			
B	7,500			
C	7,500			
		30,000		
		Rs. 53,500		Rs. 53,500

On that date A retires from the firm and for this purpose Goodwill of the firm has been valued at Rs. 6,000. Stock has been revalued at Rs. 18,000 and a Reserve of Rs. 3,000 for Doubtful Debts has been agreed to be created. Show how the Capital Accounts of the partners would appear after the necessary adjustments have been made. Also prepare the Profit and Loss Adjustment Account.

EXERCISE IX.

Wardrobe and Dresser are equal partners in a retail concern. They decide to retire and sell their business on 31st March, the position of affairs on this date being as follows :—

BALANCE SHEET.

Liabilities.		Rs.		Assets.	Rs.
Sundry Creditors		4,500	Cash at Bank		5,000
Capital Accounts :—	Rs.		Sundry Debtors		9,500
Wardrobe	30,000		Stock		25,000
Dresser	20,000		Fixtures & Fittings		5,000
			Lease		10,000
		50,000			
		Rs. 54,500			Rs. 54,500

The Lease was sold for Rs. 15,000, Fixtures for Rs. 5,500, and Stock for Rs. 23,000. The Book Debts realised only Rs. 9,000. The Creditors were paid Rs. 4,300 in full settlement. The expenses of winding up were Rs. 320. Close the books of the firm, showing the result of the realisation, and detailing the various Ledger Accounts. Show also the payment to each partner of the amount actually due to him.

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EXERCISE X.

O, P and Q are partners sharing profits $\frac{1}{3}$, $\frac{1}{3}$ and $\frac{1}{3}$. Their Balance Sheet is as under :—

Liabilities.			Assets.	
		Rs.		Rs.
Creditors		18,000	Stock	20,000
Capital, O		15,000	Debtors	25,000
" P		10,000	Fixtures	2,000
" Q		5,000	Cash at Bank	1,000
		<u>Rs. 48,000</u>		<u>Rs. 48,000</u>

On a dissolution of the firm the debtors realise 10% less and the Stock realises 10% more than the book value. The Fixtures are taken over by P at an agreed value of Rs. 1,200. The Creditors are fully satisfied by a payment of Rs. 15,000. The expenses of realisation amounted to Rs. 1,000. Pass the Journal Entries to give effect to the above, and show Bank Account, Realisation Account and Capital Accounts of the partners.

CHAPTER XIV.

CONSIGNMENT ACCOUNTS.

Manufacturers and producers of all kinds generally employ agents in their own as also in foreign countries to dispose off their products. The agents thus employed merely hold the goods to be sold by them on behalf and at the risk of their principals, and are remunerated for the services rendered in shape of commission by way of a certain percentage on the gross proceeds realised from the sales.

Goods which are sent out in this way are said to be "on consignment" and, of course, cannot be treated as ordinary sales. Consignment transactions are, therefore, passed through the Journal.

OUTWARD & INWARD CONSIGNMENTS.

To the principals, the goods thus sent out would be known as "OUTWARD CONSIGNMENTS", whereas to the agents, they would be known as "INWARD CONSIGNMENTS". The persons sending out the goods are called CONSIGNORS, and those receiving the goods are called CONSIGNEES.

PRO FORMA INVOICE.

Although the consignee does not buy the goods but only agrees to sell them on behalf of the consignor, it is usual for the consignor to make out an invoice called a "Pro Forma Invoice" and send it along with the consignment. Such an invoice would contain particulars as to the description, quantity and price of the goods, marking, packing, etc. The price quoted would represent a certain percentage above cost and the minimum under which the consignee is not supposed to sell.

CONSIGNMENT ACCOUNT.

In the books of the consignor, a separate account will have to be opened for each such consignment in order that the exact profit or loss on each consignment can be ascertained. Each such account would be debited with the cost of the goods sent out and all the expenses incurred thereon by the consignor as well as the consignee. It will then be credited with the gross proceeds realised from the sale and the value of closing stock, if any. As a result of these entries, the Consignment Account will show what profit or loss is made thereon.

CONSIGNMENT EXPENSES.

When goods are sent abroad on consignment, the consignor will have to incur some expenses by way of Carriage to the Docks, Freight, Insurance against loss on transit, etc. All such expenses incurred on any consignment must be kept quite distinct from the other business expenses and should be charged to the Consignment Account.

ADVANCE AGAINST CONSIGNMENT.

The consignee is usually asked to remit a certain sum of money as an advance against the consignment, and on such amount being received, the same is credited to the Personal Account of the consignee.

SPECIAL CONSIGNMENT BOOKS.

Where the consignments are numerous, it is usual for the consignor to keep a separate book called the Consignments Day Book in which would be entered the particulars of each consignment, the name of the place to which the goods have been sent, the name of the consignee and the terms and conditions on which the consignee is to act. Each consignment is given a running number for facility of reference and the same number is indicated on the corresponding Ledger Account.

Similarly, where a consignee receives several consignments from time to time, he maintains a detailed record of these in a special book styled "Consignments Received Book," or "Consignments Inward Book."

ACCOUNT SALES.

At periodical intervals, the consignee accounts to the consignor by means of a statement called Account Sales. In the Account Sales rendered by the consignee to the consignor, the former would give details of the goods sold by him, the price realised, the expenses incurred by him, the commission payable to him, and the net amount due to the consignor.

The following illustration will show how an Account Sales is made out :—

Example 41.

Make out an Account Sales from the following particulars:—

C. Gupta & Co. of Bombay consigned to D. Simon & Co. of London, 200 tons of Grain per s. s. Rawalpindi. The latter sold the lot at 60 sh. per 280 lbs. bag. They paid for Freight 30 sh. per ton, £ 250 for Dock dues, £ 125 for Marine Insurance, and £ 145 for Brokerage. Their commission was agreed at 2½% on the gross proceeds. They enclosed a draft for the net proceeds.

ACCOUNT SALES.

Of 200 Tons of Grain ex s. s. "Rawalpindi," sold by order and for Account of C. Gupta & Co. of Bombay by D. Simon & Co., London.

	£.	s.	d.
Gross Proceeds of 200 Tons of grain @ 60 sh. per 280 lbs. bag=1,600 bags ...		4,800	0 0
<i>Less Charges:—</i>			
Freight 30 sh. per ton ...	£ 300		
Dock Dues ...	250		
Marine Insurance ...	125		
Brokerage ...	145		
Commission ...	120		
		940	0 0
Net proceeds as per draft enclosed.	£ 3,860	0	0

E. & O. F.

London,

1st January 1929.

(Signed) D. SIMON & Co.

ENTRIES IN CONSIGNOR'S BOOKS.

(1) On goods being sent out, debit Consignment Account and credit Goods sent on Consignment Account with the actual cost price of the goods.

(2) For the expenses incurred on the consignment by the consignor, debit Consignment Account and credit Bank.

(3) In respect of any amount received by way of advance from the consignee, debit Bank Account and credit the consignee's Personal Account.

(4) If the consignee accepts a bill drawn on him, debit Bills Receivable Account and credit his Personal Account.

(5) On receipt of Account Sales from the consignee, debit the consignee's Personal Account and credit the Consignment Account with the Gross Proceeds of sales.

(6) With the expenses incurred by the consignee, debit the Consignment Account and credit the Personal Account of the Consignee.

(7) With regard to the stock of unsold goods on consignment, if any, debit the Consignment Stock Account and credit the Consignment Account at cost price.

(8) The Consignment Account will now show the profit or loss on Consignment, and will be closed by transfer to the Profit and Loss Account.

(9) The balance of the Consignee's Account will indicate the amount due by him. On his remitting the amount due by him, Bank or Bills Receivable Account will be debited and his Personal Account will be credited.

(10) At the end of the trading period, the balance of Goods sent on Consignment Account will be transferred to the credit of the Trading Account.

(11) The debit on Consignment Stock Account will be shown by the Consignor as an asset in his Balance Sheet, and the account will be closed by balance.

ENTRIES IN CONSIGNEE'S BOOKS.

(1) On receipt of each consignment, the consignee will record the fact in a special book called the Consignments Received Book, giving details of the goods received, the invoice value and the terms and conditions of sale. No entry will, however, be made debiting and crediting any account until actual sales are effected.

(2) From time to time as the consignee effects sales, he would debit the Purchaser's Account or Bank Account and credit the consignor's Personal Account with the amount of the sales.

(3) In respect of the various expenses incurred by him by way of Dock Charges, Warehouse Rent, Carriage, etc., he would debit the consignor's Personal Account and credit Bank.

(4) He would also debit the consignor's Personal Account and credit Commission Account with the amount of commission due to himself.

(5) On his remitting cash or accepting a bill drawn by the consignor as an advance against consignment, he would debit the consignor's Personal Account and credit Bank or Bills Payable Account.

(6) The balance on Consignor's Personal Account will show the amount due by him to the consignor. On his remitting the amount of the balance, the Consignor's Personal Account would be debited and Bank or Bills Payable Account would be credited. The Consignor's Account would thus be closed.

Note:—It should be noted that the consignee, being an agent for the consignor, should not mix up his own stock of goods with the unsold balance of goods on consignment. The consignee cannot show the value of stock of consignment goods unsold, if any, as an asset in his Balance Sheet as such goods do not belong to him but are held by him merely as an agent for the consignor.

Example 42.

(1) The firm of P. Ramdas & Co. of Calcutta consigned to Vora & Co. of Rangoon 50 cases of Piece Goods valued at Rs. 350/- each.

(2) The consignors paid freight and insurance thereon Rs. 1,800/-

(3) They received as advances from Vora & Co. Rs. 8,000/-

(4) Received an Account Sales from Vora & Co. giving particulars as under:—

Gross proceeds Rs. 28,000/-, expenses of Warehousing, Carriage, Dock Dues, etc., incurred by them amounted to Rs. 900/-, and their commission to Rs. 1,000/-.

(5) Received a Bank Demand Draft of the balance due by them on the consignment.

From the above particulars, pass Journal entries and prepare the necessary Ledger Accounts in the books of Consignors and those of the Consignees.

IN THE BOOKS OF P. RAMDAS & Co., (CONSIGNORS).
JOURNAL ENTRIES.

	Rs.	Rs.
Consignment to Rangoon Account ... Dr. To Goods sent on Consignment Account (Being 50 cases of Piece Goods at Rs. 350/- each sent to Messrs. Vora & Co., Rangoon to be sold on our account).	17,500	17,500
Consignment to Rangoon Account ... Dr. To Bank Account (Being payment of Freight and Insurance)	1,800	1,800
Bank Account ... Dr. To Vora & Co. (Consignees) (Being amount received from them as an advance against the consignment).	8,000	8,000
Vora & Co. (Consignees) ... Dr. To Consignment to Rangoon Account (Being the Gross Proceeds of the Consig- ment as per the Account Sales).	28,000	28,000
Consignment to Rangoon Account ... Dr. To Vora & Co. (Consignees) (Being expenses incurred and their com- mission as per Account Sales)	1,900	1,900
Consignment to Rangoon Account ... Dr. To Profit & Loss Account (Being transfer of profit on consignment).	6,800	6,800
Bank Account ... Dr. To Vora & Co (Consignees) (Being Demand Draft received from them for balance due).	18,100	18,100

CONSIGNMENT TO RANGOON ACCOUNT.

		Rs.			Rs.
To Goods sent on Consignment Account	---	17,500	By Vora & Co. (Gross Proceeds)	---	28,000
.. Bank (Freight & Insurance)	---	1,800			
.. Vora & Co. (Expenses & Commission)	---	1,900			
.. Profit & Loss Account	---	6,800			
		<u>Rs. 28,000</u>			<u>Rs. 28,000</u>

GOODS SENT ON CONSIGNMENT ACCOUNT.

		Rs.			Rs.
To Trading Account-Transfer	---	17,500	By Consignment to Rangoon Account	---	17,500

VORA & CO., RANGOON.

		Rs.			Rs.
To Consignment to Rangoon Account	---	28,000	By Bank	---	8,000
			.. Consignment to Rangoon Account.	---	1,900
			.. Bank	---	18,100
		<u>Rs. 28,000</u>			<u>Rs. 28,000</u>

IN THE BOOKS OF VORA & CO. (CONSIGNEES.)
JOURNAL ENTRIES.

		Rs.	Rs.
P. Ramdas & Co. (Consignors)	Dr.	8,000	8,000
To Bank Account			
(Being amount paid to them as an advance.)			
P. Ramdas & Co. (Consignors)	Dr.	900	900
To Bank Account			
(Being expenses paid on consignment.)			
Bank Account	Dr.	28,000	28,000
To P. Ramdas & Co. (Consignors)			
(Being sale proceeds of 50 cases of Piece goods.)			
P. Ramdas & Co. (Consignors)	Dr.	1,000	1,000
To Commission Account			
(Being our commission on consignment.)			
P. Ramdas & Co. (Consignors)	Dr.	18,100	18,100
To Bank Account			
(Being Demand Draft remitted for the balance.)			

P. RAMDAS & CO., (CONSIGNORS.)

To Bank	Rs. 8,000	By Bank	Rs. 28,000
" "	900		
" Commission Account ...	1,000		
" Bank	18,100		
	<u>Rs. 28,000</u>		<u>28,000</u>

SUMMARY

(1) When goods are sent to an agent to be sold by him on account and risk of the principal, the transaction is called a Consignment.

(2) Such a Consignment would be a Consignment Outwards to the principal, and a Consignment Inwards to the agent.

(3) Goods sent out on consignment should not be treated as sales, and hence they should not be passed through the Sales Book. Consignment transactions are, therefore, passed through the Journal.

(4) In the Books of the Consignor, the account of the Consignee is not debited till the receipt of the Account Sales from him.

(5) The Consignor opens a separate account for each consignment in his books.

(6) Each such Consignment Account is debited with the cost of the goods and the expenses incurred by the Consignor.

(7) On receipt of Account Sales from the Consignee, the latter's personal account is debited with the gross proceeds, and the Consignment Account is credited with the same.

(8) The Consignee's expenses and his commission are debited to the Consignment Account and are credited to the Consignee's Personal Account.

(9) If there is any stock of consignment goods unsold, the same is brought into the books of the consignor at cost price by debiting Consignment Stock Account and crediting the Consignment Account.

(10) The Consignment Stock Account is shown by the Consignor as an asset in his Balance Sheet.

(11) The Consignment Account is then closed by transfer to Profit and Loss Account.

(12) If any advance is received from the Consignee, the same is credited to the personal account of the Consignee.

(13) The personal account of the Consignee shows the balance ultimately due from him and is closed on his remitting the amount.

(14) The Consignee does not open a Consignment Account, but opens only an account of the Consignor in his books. This account is then debited with whatever expenses he incurs on account of the Consignor and the Commission due to him. It is also debited with the amount, if any, sent by him as an advance. It is credited with the gross proceeds realised on sale of the consignment goods.

(15) The Consignor's Account will generally represent the amount owing by the consignee and will be closed on the Consignee remitting the amount to the Consignor.

(16) The Consignee should not bring the value of Inward Consignment Stock, if any, in his books, as such goods do not belong to him, but form the property of the Consignor.

QUESTIONS.

- (1) How does a Consignment differ from a Sale?
- (2) What is the object of opening a Consignment Account for each separate shipment?
- (3) Define Account Sales and prepare one with imaginary figures.
- (4) Mention the usual entries made in regard to Outward Consignment in the books of the Consignor.
- (5) How is the balance of goods unsold dealt with by the Consignor?
- (6) How is the Consignment Account closed?
- (7) How is the Credit Balance of Goods sent on Consignment Account closed?
- (8) State the usual entries made by the Consignee in his books in regard to Consignment Inwards.

(9) How should the Consignor deal with any amount received by him from the Consignee as an advance?

(10) How should the Consignee deal with the value of unsold balance of goods received on Consignment?

EXERCISE I.

Dinshaw & Co. of Lahore consigned goods to P. Amin of Karachi on 1st September with a pro forma invoice for Rs. 4,000/-. They paid freight Rs. 300, insurance Rs. 80 and other charges Rs. 20. On 30th October, P. Amin sent an Account Sales from which it appeared that half the goods had realised Rs. 3,500/-; and deducting expenses Rs. 130/- and his commission @ 2% on the gross proceeds, he enclosed a draft on the Bank of Karachi for the balance. Make the entries in the books of both the parties valuing the stock at invoice cost plus expenses, showing the necessary Ledger Accounts.

EXERCISE II.

On 1st April, Crompton & Co., London, shipped to Dubash Bros. Bombay, 40 Motor Cars invoiced pro forma at £250/- each. The expenses incurred at London were:—Freight £1,950, and Insurance £200.

The charges incurred by Dubash Bros. in Bombay were:—Landing Charges Rs. 500, Storage Rs. 960 and Insurance Rs. 780.

On 30th October they sold 30 Cars for Rs. 1,22,360/- for prompt cash and on 15th December, the balance at an average of Rs. 4,050/- each. On 15th May, Crompton & Co., drew a draft on Dubash Bros. for £6,000/- which was duly accepted. Dubash & Co., are to be paid a commission of 3% on all sales plus 1% del credere commission. They remit the balance by Bank Draft.

Show how these transactions would appear in the books of Crompton & Co. and Dubash Bros. The exchange to be taken @ Rs. 14 to the £.

CHAPTER XV.

COMPANY ACCOUNTS.

With the continual growth of trade, it was soon found that to carry on a business on an extensive scale, a much larger amount of capital than could be ordinarily provided by a partnership concern was required and as a result, the traders had to invite the public to contribute towards the Capital of such concerns. This gave rise to the formation of Joint-Stock Companies. The Companies Acts were then brought into force and these made a clear distinction between Private Partnerships and Public Companies.

A Public Company may be defined as an association of individuals formed for the purpose of profit possessing a common capital contributed by the members composing it, such capital being divided into shares of which each member possesses one or more and which are transferable by the owner, the liability of each such member being limited to the face value of the shares he possesses.

PARTNERSHIPS AND COMPANIES.

The principal points of distinction between a Private Partnership and a Public Company may be summed up as under :—

(1) The number of members in a partnership firm is limited to ten persons in case of banking concerns and to twenty persons in case of any other business. Partnerships of more than this number of members are looked upon as illegal associations. There is no limit to the number of members (shareholders) in a Public Company.

(2) In a Partnership Firm, all partners are individually liable for all the debts and liabilities of the firm. In a Public Limited Company, the liability of each shareholder is limited to the amount represented by the nominal value of the shares held by him.

(3) The Capital of a Partnership Firm can be increased or decreased by mutual agreement and is frequently affected either by the withdrawal of cash or other assets or by losses sustained or by undrawn profits. But the capital of a company is fixed by the Memorandum and can only be increased or decreased in accordance with the provisions of the Companies Act.

(4) In a Partnership Firm, every partner has an equal voice in the management, and can legally bind the firm by his dealings with the outside world. In case of a company, the management is vested in the hands of a few of the shareholders who are called Directors and whose actions alone can bind the company.

(5) A partner cannot transfer his share in the firm to any other person without the consent of the other partners. In a limited company, the shares are easily transferrable.

FORMATION OF COMPANY.

Before an association of persons can trade as a limited company, it has to obtain registration by filing certain documents with the Registrar of Joint-Stock Companies. The most important documents are the Memorandum and Articles of Association. On registration of the Memorandum and Articles, together with a declaration that the requirements of the Companies Acts have been complied with, the Registrar will issue a Certificate stating that the Company has been duly registered.

MEMORANDUM OF ASSOCIATION

The Memorandum of Association forms the constitution of the Company, stating its objects and defining its powers. It must be signed by at least seven persons in case of a public company and must contain the following particulars:—

1. The name of the company with the word "Limited".
2. The situation of the Registered Office of the Company.
3. The objects of the Company.
4. A declaration that the liability of the members is limited.
5. The amount of capital, and the number and value of the shares into which it is divided.

ARTICLES OF ASSOCIATION.

The same seven persons who sign the Memorandum have also to sign the Articles of Association which are a set of regulations for the management of the company. The Articles contain regulations as to the issue of share capital, the rights of the different classes of shareholders, the powers and duties of directors, the procedure to be adopted at the meetings of directors and shareholders, voting powers, etc.

PROSPECTUS.

The Certificate of Incorporation having been obtained from the Registrar, the next step is to obtain the necessary money with which to commence business. In case of a public company, the invitation to the public to subscribe to its share capital is made by means of a Prospectus. The Prospectus usually states the number of shares offered by the company to the public, the amount to be payable along with the application for each share, the date when the shares will be allotted, and the method and time of payment of the various calls.

APPLICATION & ALLOTMENT OF SHARES.

Attached to the Prospectus is an APPLICATION FORM which every applicant for shares is required to fill in. Generally, a certain amount per share is asked to be remitted along with the application for shares, and is called APPLICATION DEPOSIT. The directors then proceed to

allot shares to the applicants who are called upon to pay a further instalment towards the price of the shares. This instalment is known as "ALLOTMENT MONEY." The balance due on the shares is called up from time to time by the directors as and when required, and these instalments are known as "CALLS".

It will thus be seen that the amount due in respect of Share Capital is not called in full at the time the shares are allotted but is payable in instalments. Thus, a shareholder pays for his shares in this manner:—

- (1) Part by way of Application Deposit.
- (2) Part on Allotment.
- (3) Balance in one or more Calls.

In order to record details in respect of share capital transactions, various specially ruled books are maintained and these are called Statistical Books.

DIFFERENT CLASSES OF SHARES.

The Capital of a Public Limited Company is divided into several classes of Shares, of which the following are the usual:—

ORDINARY SHARES carry no special rights or privileges, either in regard to capital or profits, but entitle the holders to participate in the profits earned by the company after the payment of a fixed dividend on the Preference Shares.

PREFERENCE SHARES are those which confer upon the holders preferential rights in regard to payment of dividends, or repayment of capital, or both. These shares carry a fixed dividend which is payable out of each year's profits in priority to the ordinary shareholders. Once this fixed dividend is paid, the preferential shareholders have no further claim on the profits for the period, however large they may be.

Sometimes, an additional privilege is attached to these shares in this way that should the profits of any one period be insufficient to pay their fixed dividend, the shareholders will have a prior claim on the profits of succeeding period until all arrears of unpaid dividends due to them have been satisfied in full. Such shares are called **CUMULATIVE PREFERENCE SHARES**.

DEFERRED SHARES are shares which carry the right to share in the profits after the Preference and Ordinary Shareholders are paid their dividends.

APPLICATION AND ALLOTMENT BOOK.

The Application and Allotment Book is written up from the Application Forms received duly filled in by the applicants. These applications are numbered consecutively in order of dates, and the particulars contained therein are entered in appropriate columns in a special book called Application and Allotment Book. The directors then proceed to allot shares to the applicants. A Letter of Allotment is forwarded to each allottee showing the number of shares allotted to him and the amount to be paid by him on allotment. On receipt of allotment monies, the further necessary details are filled in the same book the Form of which is shown on page 258.

CALLS.

After the amount due on allotment is received, the next step for the company is to collect the unpaid balance on the shares by means of further Calls. This is done by the directors passing a resolution calling upon the shareholders to pay the whole or a part of the balance due on the shares allotted. Call Letters are issued for this purpose asking the shareholders to pay the amount within a stated period.

In order to maintain a detailed record of these Calls, a special subsidiary book is kept for each Call. Full details are entered in this book showing the name and address of each shareholder, the number of shares held by him, the amount of

REGISTER OF SHARE TRANSFER.

No. of Transfer.	Date lodged.	From						To								
		Transferor.		Register of Mem- bers Folio.	Number of Shares.	No. of certificate surrendered.	Amount paid up per Share.	Distinctive Numbers.		Transferee.			Register of Mem- bers Folio.	Number of New Certificate.	Date Transfer passed.	
		Name.	Address.					Description.	Name.	Address.	Description.	From				To
						Rs.	as	ps.								

REGISTER OF MORTGAGES AND CHARGES.

No. of Mortgage.	Date Mortgage Created.	Mortgagee's		Amount of Mortgage or charge.	Particulars of Property mortgaged or charged.	Rate of Interest.	Remarks.
		Name.	Address.				
				Rs.	as.	ps.	

call due, the date paid, the amount paid, the Cash Book Folio, etc. This book serves a useful purpose of showing what amount of call is due from each shareholder, when the same is collected and which shareholders are in arrears in respect of their calls. A specimen form of this book is shown on page 258.

STATISTICAL BOOKS.

From the above, it will be seen that a Limited Company has necessarily to keep a set of books called Statistical Books in order to record details as to the holdings of each and every shareholder. These would be over and above the usual Financial Set of Books as are ordinarily maintained by trading and manufacturing concerns.

The usual Statistical Books are :—

- (1) An Application and Allotment Book for entering particulars of application and allotment of shares (as above explained).
- (2) A separate Call Book for recording particulars of each Call (as above explained).
- (3) A Register of Transfers to record transfers of shares from hand to hand.
- (4) A Register of Shareholders to keep a complete account of each shareholder.

STATUTORY BOOKS.

All Limited Companies *must* also keep the following books of record, known as the Statutory Books :—

- (1) Register of Members
- (2) Register of Mortgages
- (3) Register of Directors and Managers
- (4) Minute Book
- (5) Annual List and Summary Book.

REGISTER OF MEMBERS:—The Register of Members must contain information regarding the name, address and occupation of every member, the number of shares held by him, the distinctive numbers of those shares, the amount paid on the shares and the transfers, if any, made by each member. It must also mention the date each person was entered in the Register as a member and the date at which any person ceased to be a member.

This Register practically takes the place of Share Ledger or Register of Shareholders.

REGISTER OF MORTGAGES:—There must be entered in this Register all mortgages and charges on the property of the company, giving a short description of the property charged and the amount borrowed by the company.

REGISTER OF DIRECTORS & MANAGERS:—This Register must contain the name, address and nationality of every director and manager.

MINUTE BOOKS:—Every company must keep a proper record of all proceedings at meetings of shareholders and directors in books kept for that purpose and called Minute Books.

THE ANNUAL LIST & SUMMARY BOOK shall contain an exact copy of the annual list of shareholders forwarded by the company to the Registrar every year after the annual general meeting of shareholders.

ENTRIES IN FINANCIAL BOOKS.

It must be understood that the entries made in the Application and Allotment Book and the Call Books relating to the issue of shares and the cash received thereon are only by way of statistical information. The monies due and received relative to the issue of share capital would also be recorded in the financial books.

From time to time as and when monies are received along with the share application forms, entries will be made on the

receipts side of the Cash Book with the words "To Share Application Account". From here, the postings will be made to the credit of Share Application Account in the Ledger.

The Directors would now proceed to allot the shares, and immediately this is done, the amount standing to the credit of Share Application Account will be transferred to Share Capital Account by means of a Journal entry—

Share Application Account	Dr.
To Share Capital Account	

After the Directors have allotted the shares, a Journal entry will be passed to record the total amount now due from all the allottees in respect of the allotment instalment they are called upon to pay. The Journal entry would be—

Share Allotment Account	Dr.
To Share Capital Account	

On receipt of share allotment money from the allottees, entries would be made on the debit side of the Cash Book with the words "To Share Allotment Account", and these will be posted to the credit of Share Allotment Account in the Ledger.

When all the allottees have paid the allotment money due from them, the Share Allotment Account will not show any balance. It will, however, show a debit balance as long as there are any arrears in respect of allotment money.

On a Call being made by Directors, the total amount due from the shareholders in respect of such call would be brought into record by a Journal entry—

Share First Call Account	Dr.
To Share Capital Account.	

On the monies being received from day to day, entries will be made on the receipts side of the Cash Book with the words "To Share First Call Account" and will be posted to the credit of this account in the Ledger.

When all the shareholders have paid their dues in respect of the First Call, Share First Call Account will be closed. If there are any arrears, this account will show a debit balance. •

Similarly, on the Second or Final Call being made, Share Second Call Account or Share Final Call Account would be debited and Share Capital Account would be credited with the total amount due in respect of such call. The same account will be credited from the Cash Book from time to time as the monies relative to such call are received.

From the above, it will be noticed that separate accounts are opened in the Ledger in respect of Share Application, Allotment and Calls. The Share Application Account is credited in the first instance with the application deposits and the whole amount is then transferred to Share Capital Account. The Share Allotment and Call Accounts are at first debited with the total amount due, the corresponding credit being given to Share Capital Account. On receipt of monies on account of any of these instalments, Cash is debited and the particular instalment account is credited. Each such instalment account having been debited in the first instance with the total amount due on account of such instalment and being credited with the amounts received thereon, it follows that if there are any arrears from the shareholders on account of any particular instalment, such instalment account will show a debit balance to that extent.

It will be useful to note that the Share Capital Account always shows a credit balance representing the extent to which the Share Capital is called up. As to what extent the amount so far called up from the shareholders is not paid will appear from the debit balance, if any, on Share Allotment Account or Share Call Account.

Example 43.

On 1st January 1929, the Bombay Radio Company Limited offered 25,000 Ordinary Shares and 25,000 8% Preference Shares of Rs. 10 each, payable as follows:—

Re. 1 on Application
 Rs. 2 on Allotment
 Rs. 2 on First Call
 Rs. 3 on Second Call

Applications were received for 20,000 Preference Shares and 10,000 Ordinary Shares and the Shares were duly allotted by the Directors on 1st March. The first call was then made on 15th of May and the second call on 10th August. The amounts received were Rs. 35,000 on Allotment of Preference Shares and Rs. 18,000 on Allotment of Ordinary Shares; Rs. 30,000 on Preference Shares First call and Rs. 15,000 on Ordinary Shares First Call; Rs. 42,000 on Preference Share Second Call and Rs. 18,000 on Ordinary Shares Second Call. Show the Journal and Cash Book entries and the Ledger Accounts concerned.

JOURNAL ENTRIES.

1929.		Rs.	Rs.
Mar. 1	Preference Share Application Account Dr. To Preference Share Capital Account (Being the transfer of application money received on 20,000 Preference Shares at Re. 1 per share to Preference Share Capital Account.)	20,000	20,000
	Ordinary Share Application Account Dr. To Ordinary Share Capital Account (Being the transfer of application money received on 10,000 Ordinary shares at Re. 1 per share to Ordinary Share Capital Account.)	10,000	10,000
	Preference Share Allotment Account Dr. To Preference Share Capital Account (Being the total amount due on allotment of 20,000 Preference shares at Rs. 2/- per share as per the Board's Resolution dated 1-3-29.)	40,000	40,000

JOURNAL ENTRIES.—(contd.)

1929		Rs.	Rs.
Mar. 1	Ordinary Share Allotment Account Dr. To Ordinary Share Capital Account (Being the total amount due on allotment of 10,000 Ordinary shares at Rs. 2/- per share as per the Board's Resolution dated 1-3-29.)	20,000	20,000
May 15	Preference Share First Call Account Dr. To Preference Share Capital Account (Being the total amount due on first call of Rs. 2/- per share on 20 000 Preference shares as per the Board's Resolution dated ———).	40,000	40,000
	Ordinary Share First Call Account Dr. To Ordinary Share Capital Account (Being the total amount due on first call of 10,000 Ordinary shares at Rs. 2/- per share as per the Board's Resolution dated ———).	20,000	20,000
Aug. 10	Preference Share Second Call Account Dr. To Preference Share Capital Account (Being the Total amount due on second call of 20,000 Preference shares at Rs. 3/- per share as per the Board's Resolution dated ———).	60,000	60,000
"	Ordinary Share Second Call Account Dr. To Ordinary Share Capital Account (Being the total amount due on second call of 10,000 Ordinary shares at Rs. 3/- per share as per the Board's Resolution dated ———).	30,000	30,000

BOMBAY RADIO COMPANY, LIMITED.
CASH BOOK.

		Rs.	1929		Rs.
1929 Jan. 8	To Preference Share Application Account... (Being the deposits on applications of 20,000 Preference shares received at Re. 1 per share)	20,000	1929 Aug. 31	By Balance carried down ..	1,88,000
" 8	" Ordinary Share Application Account ... (Being the deposits on applications of 10,000 Ordinary shares received at Re. 1 per share)	10,000			
Mar. 8	" Preference Share Allotment Account ... (Being the Allotment money received on 17,500 Preference shares at Rs. 2 per share)	35,000			
" 8	" Ordinary Share Allotment Account ... (Being the allotment money received on 9,000 Ordinary shares at Rs. 2 per share)	18,000			
May 23	" Preference Share First Call Account ... (Being first call money received on 15,000 Preference shares at Rs. 2/- per share) ...	30,000			
" 22	" Ordinary Share First Call Account ... (Being first call money received on 7,500 Ordinary shares at Rs. 2/- per share) ...	15,000			
Aug. 17	" Preference Share Second Call Account ... (Being the second call money received on 14,000 Preference Shares at Rs. 3/- per share)	42,000			
" 17	" Ordinary Share Second Call Account ... (Being the Second Call money received on 6,000 Ordinary Shares at Rs. 3/- per share)	18,000			
		Rs. 1,88,000			Rs. 1,88,000
Sept. 1	To Balance brought down	1,88,000			

COMPANY ACCOUNTS.

PREFERENCE SHARE CAPITAL ACCOUNT.

1929		Rs.	1929		Rs.
Aug. 31	To Balance carried down ...	1,60,000	Mar. 1	By Preference Share Application Account.	20,000
			Mar. 1	„ Preference Share Allotment Account.	40,000
			May 15	„ Preference Share First Call Account.	40,000
			Aug. 10	„ Preference Share Second Call Account.	60,000
		Rs. 1,60,000			Rs. 1,60,000
			1929 Sept. 1	By Balance brought down.	1,60,000

PREFERENCE SHARE APPLICATION ACCOUNT.

1929		Rs.	1929		Rs.
Mar. 1	To Preference Share Capital Account.	20,000	Jan. 8	By Cash ..	20,000
		Rs. 20,000			Rs. 20,000

PREFERENCE SHARE ALLOTMENT ACCOUNT.

1929		Rs.	1929		Rs.
Mar. 1	To Preference Share Capital Account.	40,000	Mar. 8	By Cash ...	35,000
		Rs. 40,000	Aug. 31	„ Balance carried down.	5,000
					Rs. 40,000
Sept. 1	To Balance brought down.	5,000			

PREFERENCE SHARE FIRST CALL ACCOUNT.

1929 May 15	To Preference Share Capital Account		Rs.	1929 May 22 Aug. 31	By Cash " Balance carried down.		Rs.
			40,000				30,000
			40,000				10,000
		Rs.	40,000			Rs.	40,000
Sept. 1	To Balance brought down.		10,000				

PREFERENCE SHARE SECOND CALL ACCOUNT.

1929 Aug. 10	To Preference Share Capital Account		Rs.	1929 Aug. 17 " 31	By Cash " Balance carried down.		Rs.
			60,000				42,000
			60,000				18,000
		Rs.	60,000			Rs.	60,000
Sept. 1	To Balance brought down.		18,000				

ORDINARY SHARE CAPITAL ACCOUNT.

1929 Aug. 31	To Balance carried down.		Rs.	1929 Mar. 1	By Ordinary Share Applica- tion A/c		Rs.
			80,000	Mar. 1	" Ordinary Share Allotment Account		10,000
				May 15	" Ordinary Share First Call Account		20,000
				Aug. 10	" Ordinary Share Second Call Account.		20,000
							30,000
		Rs.	80,000			Rs.	80,000
				Sept. 1	By Balance brought down.		80,000

ORDINARY SHARE APPLICATION ACCOUNT.

1929		Rs.	1929		Rs.
Mar. 1	To Ordinary Share Capital Account.		Jan. 8	By Cash ...	10,000
		10,000			
		Rs. 10,000			Rs. 10,000

ORDINARY SHARE ALLOTMENT ACCOUNT.

1929		Rs.	1929		Rs.
Mar. 1	To Ordinary Share Capital Account.		Mar. 8	By Cash ...	18,000
		20,000	Aug. 31	" Balance carried down.	2,000
		Rs. 20,000			Rs. 20,000
Sept. 1	To Balance brought down.	2,000			

ORDINARY SHARE FIRST CALL ACCOUNT.

1929		Rs.	1929		Rs.
May 15	To Ordinary Share Capital Account.		May 22	By Cash ...	15,000
		20,000	Aug. 31	" Balance carried down.	5,000
		Rs. 20,000			Rs. 20,000
Sept. 1	To Balance brought down.	5,000			

ORDINARY SHARE SECOND CALL ACCOUNT.

1929			Rs.	1929			Rs.
Aug. 10	To	Ordinary Share Capital Account.		Aug. 17	By	Cash ...	18,000
				" 31	"	Balance carried down.	
			30,000				12,000.
			Rs. 30,000				Rs. 30,000
Sept. 1	To	Balance brought down.					
			12,000				

In case of over-subscription, allotment is not made to some of the applicants and, as a result, their application deposits are returned. In such a case the entry would be—

Share Application Account Dr.
 To Bank

SHARE CERTIFICATE.

Within a certain time after the allotment, the Company proceeds to issue *Share Certificates* in exchange for Letters of Allotment and other Receipts already issued. Every share is given a distinctive number and the names of the shareholders with the distinctive numbers of shares they hold are then duly entered in the Register of Members.

PRELIMINARY EXPENSES.

All expenses incidental to and arising out of the formation of the Company are debited to a special account called *Preliminary Expenses Account*. The following items of expenditure are usually included under this head:—

- (1) Stamp Duties and Fees on Registration and on the Nominal Capital.
- (2) Law Costs in connection with the preparation of the Memorandum and Articles of Association and Preliminary Contracts.

- (3) Cost of printing the Memorandum, the Articles and the Prospectus.
- (4) Cost of advertising the Prospectus.
- (5) The cost of first set of Statistical and Statutory Books.

Preliminary Expenses Account is not charged off to the Profit and Loss Account in the very first year, but the expenses thus incurred are distributed over a number of years, usually from three to five, and a proportionate amount is written off each year. The unwritten off balance would, in the mean time, appear on the assets side of the Balance Sheet, and is known as a Fictitious Asset.

DEBENTURES.

A Company can borrow money for the purpose of its business and issue *Debentures* which are documents acknowledging the amount borrowed and containing provisions for the repayment of the principle, the payment of interest etc.

The entries in regard to the issue of Debentures are made on the same lines as the entries in connection with the issue of Shares.

The main point of difference between the Shareholders and the Debentureholders is that whereas the Shareholders are the proprietors of the Company, the Debenture holders are the creditors of the Company. Besides, whereas the Shareholders are only entitled to a dividend on their shares provided the Company has made profits, the Debentureholders are entitled to a fixed rate of interest on their loan, year after year, irrespective of whether the Company has made profit or loss. Further, monies received by a Company by way of Share Capital cannot be refunded except by order of the Court or when the Company goes into liquidation, the Debentureholders are entitled to a refund of their loan when the term for which the Debentures are issued expires.

Example 44.

The A. B. C. Electric Co., Limited., issued at par Rs. 60,00,000 7% Debentures in bonds of Rs. 1,000/- each payable 20% on application, 20% on Allotment, 30% on First Call and the balance one month thereafter. Excepting the Allotment money on 400 bonds and Call monies on 600 bonds which were in arrears, all the money was duly received. Make the Cash Book and Journal entries and show the Ledger Accounts.

CASH BOOK.

	Rs.		Rs.
To <i>Debenture Application Account</i> — Being amount received on application of 6,000 Debenture Bonds @ Rs. 200/- per bond.	12,00,000	By Balance carried down	55,60,000
„ <i>Debenture Allotment Account</i> — Being allotment money received on 5,600 Debenture Bonds @ Rs. 200/- per bond.	11,20,000		
„ <i>Debenture First Call Account</i> — Being First Call money received on 5,400 Debenture Bonds @ Rs. 300/- per bond.	16,20,000		
„ <i>Debenture Final Call Account</i> — Being Final Call money received on 5,400 Debenture Bonds @ Rs. 300 per bond.	16,20,000		
Rs.	55,60,000	Rs.	55,60,000
To Balance brought down.	55,60,000		

JOURNAL ENTRIES.

	Rs.	Rs.
Debenture Application Account Dr.	12,00,000	
To Debentures Account		12,00,000
Being the amount received on application of 6,000 Debentures @ Rs. 200/- per bond, now transferred to Debentures Account.		

		Rs.	Rs.
Debenture Allotment Account	... Dr.	12,00,000	
To Debentures Account	...		12,00,000
Being the amount due on Allotment of 6,000 Debenture Bonds @ Rs 200/- per Bond as per the Board's Resolution dated--.			
Debenture First Call Account	... Dr.	18,00,000	
To Debentures Account	...		18,00,000
Being the amount due on First Call of Rs. 300/- per bond on 6,000 Debenture Bonds as per the Board's Resolution dated--.			
Debenture Final Call Account	... Dr.	18,00,000	
To Debentures Account	...		18,00,000
Being the amount due on Final Call of Rs. 300/- per bond on 6,000 Debenture Bonds as per the Board's Resolution dated--.			

DEBENTURE APPLICATION ACCOUNT.

	Rs.		Rs.
To Debentures A/c...	Rs. 12,00,000	By Cash	Rs. 12,00,000

DEBENTURE ALLOTMENT ACCOUNT.

	Rs.		Rs.
To Debentures A/c...	12,00,000	By Cash	11,20,000
		.. Balance c/d. ...	80,000
	Rs. 12,00,000		Rs. 12,00,000
To Balance b/d. ...	Rs. 80,000		

DEBENTURE FIRST CALL ACCOUNT.

	Rs.		Rs.
To Debentures A/c...	18,00,000	By Cash	16,20,000
		.. Balance c/d. ...	1,80,000
	Rs. 18,00,000		Rs. 18,00,000
To Balance b/d. ...	Rs. 1,80,000		

DEBENTURE FINAL CALL ACCOUNT.

	Rs.		Rs.
To Debentures A/c...	18,00,000	By Cash	16,20,000
		" Balance c/d. ...	1,80,000
	Rs. 18,00,000		Rs. 18,00,000
To Balance b/d. ...	Rs. 1,80,000		

DEBENTURES ACCOUNT.

	Rs.		Rs.
To Balance c/d. ...	60,00,000	By Debenture Application a/c.	12,00,000
		" " Allotment a/c.	12,00,000
		" " First Call a/c.	18,00,000
		" " Final Call a/c.	18,00,000
	Rs. 60,00,000		Rs. 60,00,000
		By Balance b/d. ...	Rs. 60,00,000

DIVIDENDS.

A *Dividend* is the proportion of profits to which a Shareholder is entitled, having due regard to the number of Shares he holds. Dividends are declared at the Annual General Meeting of Shareholders when the Company has earned sufficient profits. Until a dividend is declared, no Shareholder can claim any return on the Capital he has invested in the Company. But once a dividend is declared, the shareholders become creditors of the Company for the amount of the dividend.

PROFIT & LOSS APPROPRIATION ACCOUNT.

In a Limited Company, the usual practice is to transfer the net profit, if any, made at the end of the financial period to a

separate account called the Profit & Loss Appropriation Account. On a dividend being declared from out of these profits, the Profit & Loss Appropriation Account is debited with the total amount of the dividend payable and a Dividend Account is credited. The Dividend Account is debited and the Bank Account is credited as and when it is paid.

Unpaid Dividend, if any, at the time of the preparation of Final Accounts appears on the liabilities side of the Balance Sheet.

Example 45.

The Bombay Film Co. Ltd., having a paid up Capital of Rs. 10,00,000 divided into 60,000 6% Preference Shares of Rs. 10/- each and 40,000 Ordinary Shares of Rs. 10 each, declared 6% dividend on the Preference Shares and 10% on the Ordinary Shares. The balance of profit brought forward from last year was Rs. 11,400, while the current year's profit amounted to Rs. 75,000. The undistributable balance of profit is to be carried forward to next year's account. Assuming that all the dividends have been paid excepting Rs. 5,000 on Pref. shares and Rs. 8,000 on Ord. Shares. Prepare the Profit & Loss Appropriation Account and the Dividend Accounts. Pass also the Journal entry giving effect to the declaration of the Dividend.

JOURNAL ENTRY.

	Rs.	Rs.
Profit & Loss Appropriation Account ... Dr.	76,000	
To Preference Shares Dividend Account		36,000
" Ordinary Shares Dividend Account		40,000
Being the declaration of 6% dividend on Rs. 6,00,000 Preference Share Capital and 10% dividend on Rs. 4,00,000 Ordinary Share Capital as per the Shareholders' Resolution dated_____.		

PROFIT & LOSS APPROPRIATION ACCOUNT.

	Rs.		Rs.
To Preference Shares		By Balance brought forward from last year ...	11,400
Dividend Account ...	36,000	" Profit & Loss Account—transfer	75,000
" Ordinary Shares			
Dividend Account ...	40,000		
" Balance carried down ...	10,400		
Rs.	86,400	Rs.	86,400
		By Balance brought down ...	10,400

PREFERENCE SHARE DIVIDEND ACCOUNT.

To Cash --- --	Rs. 31,000	By Profit & Loss Ap- propriation Account	Rs. 36,000
.. Balance carried down	5,000		
	Rs. 36,000		Rs. 36,000
		By Balance brought down --- --	5,000

ORDINARY SHARE DIVIDEND ACCOUNT.

To Cash --- --	Rs. 32,000	By Profit & Loss Ap- propriation Account	Rs. 40,000
.. Balance carried down	8,000		
	Rs. 40,000		Rs. 40,000
		By Balance brought down --- --	8,000

FORM OF BALANCE SHEET.

In India, the Form of Balance Sheet is prescribed by the Companies Act, and every public company is required to prepare and publish its Balance Sheet in this Form as is illustrated on pages 278 and 279. It will be noticed from this Form that the Fixed Assets have to be shown First and are followed by the Floating Assets.

Every asset must be shown under an appropriate heading as would clearly disclose the nature of the asset. The mode of valuation of each and every asset must also be clearly indicated on the face of the Balance Sheet.

On the liabilities side, the Share Capital has to be shown first distinguishing between Authorized Capital, Issued Capital, Subscribed Capital and Paid-up Capital. The Share Capital is supposed to be left intact, and the Profit or Loss should be shown separately.

If there is any profit, the same is transferred to Profit and Loss Appropriation Account as has already been explained before, and the credit balance of this account will appear on the liabilities side of the Balance Sheet. In case of a loss, the same would

FORM OF COMPANY BALANCE SHEET.

				<i>Capital and Liabilities.</i>					
<i>Capital :-</i>				Rs.	As.	Ps.	Rs.	As.	Ps.
Authorised Capital	shares of Rs.	each	...	...	...	...
Issued Capital	shares of Rs.	each	...	...	...	...
Subscribed Capital	shares of Rs.	each	...	...	...	...
Amount called up at Rs.	per share		...	...	...	...
Less— Calls unpaid			...	...	...	...
Add— Forfeited shares (amount paid up)			...	...	...	...	...	...	...
<i>Reserve Fund or Development Fund</i>			...				...	...	...
<i>Any Sinking Fund</i>			...				...	...	...
<i>Any other Fund created out of Net Profits</i>			...				...	...	...
<i>Any Pension or Insurance Fund</i>			...				...	...	...
<i>Provisions for Bad and Doubtful Debts</i>			...				...	...	...
<i>Loans on Mortgage or Mortgage Debenture Bonds</i>			...				...	...	...
<i>Loans otherwise Secured</i>			...				...	...	...
(stating the nature of security)			...						
<i>Loans Unsecured</i>			...						
<i>Interest.</i>			...						
Accrued on Mortgages, Debentures or other Secured Loans			...				...	...	...
Unclaimed Dividends			...				...	...	...
<i>Liabilities :-</i>									
For Goods supplied.			...	...	...	...
„ Expenses			...	...	...	...
„ Acceptances			...	...	...	...
„ Other Finance			...	...	...	...	...	...	...
<i>Advance Payments and Unexpired Discounts</i>			...				...	...	...
(For the portion for which value has still to be given e.g., in the case of the following classes of Companies—Newspaper, Fire Insurance, Theatre, Club, Banking, Steamship Companies &c.),									
<i>Profit and Loss Account :-</i>									
Balance as per previous Balance Sheet			...	...	...	...
Less—appropriation thereof			...	...	...	...
Balance brought forward			...	...	...	...
Profit since last Balance Sheet			...	...	...	...
						
(N. B.—These details need not be given if the same be contained in a Profit and Loss Account attached to the Balance sheet.)									
							Rs.	...	...
<i>Contingent Liabilities :-</i>									
Claims against the Company not acknowledged as debts			...	...	...	...
Moneys for which the Company is contingently liable			...	...	...	...
Arrears of Cumulative Preference Dividends.			...	...	...	...

AS PRESCRIBED BY THE INDIAN COMPANIES ACT.

Property and Assets.

	Rs.	As.	Ps.	Rs.	As.	Ps.
<i>Fixed Capital Expenditure.</i>			
(Distinguishing as far as possible between expenditure upon Goodwill, land, buildings, leaseholds, railway sidings, plant, machinery, furniture, development of property, patents, trade marks and designs, interest paid out of Capital during construction etc., and stating in every case the original cost and the total Depreciation written off under each head).						
<i>Preliminary Expenses</i>			
<i>Commission or Brokerage</i>			
(Commission or Brokerage paid for underwriting or placing shares or debentures until written off).			
<i>Stores and Spare Gears</i>			
<i>Loose Tools</i>			
<i>Live Stock</i>			
<i>Stock-in-trade</i>			
Stating mode of valuation, e. g., cost or market value.			
<i>Bills of Exchange</i>			
<i>Book Debts</i>			
(Distinguishing in the case of a Bank between those considered good and in respect of which the Bank is fully secured all those considered good for which the Bank holds no security other than the debtor's personal security, and distinguishing in all cases between debts considered good and debts considered doubtful or bad. Debts due by Directors or other officers of the Company or any of them either severally or jointly with any other persons to be separately stated in all cases.)			
<i>Advances</i>			
(Recoverable in cash or in kind, or for value to be received e. g., Rates, Taxes, Insurance &c.)						
<i>Investments</i>			
(Nature of Investment and mode of valuation e. g., cost or market value).						
<i>Interest accrued on Investments</i>			
<i>Cash and other balances</i>			
Amount in hand			
Balances with Agents and Bankers (in detail showing whether on Deposit or current Account &c.).			
<i>Profit and Loss Account</i> (giving in the case of a debit balance, details as far as possible as in the case of a credit balance).			

Rs.

be left on the debit of the Profit & Loss Account, and this debit balance will appear on the assets side of the Balance Sheet under the distinct heading of "Profit & Loss Account—Loss."

The Liabilities are shown under their appropriate heads distinguishing between Liabilities for Debentures or other Loans, Liabilities on Open Accounts, for Bills Payable, for Outstanding Expenses and other Finance.

SHARE CAPITAL.

The Share Capital of a Public Company is always set out in the Balance Sheet in form of Authorized, Issued, Subscribed and Paid-up Capital.

The Capital with which the company is registered is called the **AUTHORIZED CAPITAL**. The amount of Share Capital that is offered to the public for subscription is called the **ISSUED CAPITAL**. The amount of Capital taken up by the public is known as the **SUBSCRIBED CAPITAL**, and the amount actually received is known as the **PAID-UP CAPITAL**.

It will be noticed that although entries are made in the financial books only in respect of Share Capital called up and received from time to time, the Authorised and Issued Capital has to be stated in the Balance Sheet by way of additional information.

Example 46.

The Bombay Derby Syndicate, Ltd., has a Nominal Capital of Rs. 5,00,000 divided into 10,000 6% Preference Shares of Rs. 10 each and 40,000 Ordinary Shares of Rs. 10 each. On July 1st the Company issued 10,000 Preference Shares and 30,000 Ordinary Shares to the public, out of which 8,000 Preference and 20,000 Ordinary Shares were applied for, and Rs. 2 per share in each class were received on application. On August 1st these shares were allotted Rs. 4 per share being payable on Preference Shares and Rs. 2 per share on Ordinary Shares, A Call of Rs. 4 per share on Preference Shares and Rs. 3 per share on Ordinary Shares was made on September 15th. Allotment Money on 250 Pre-

ference Shares and 700 Ordinary Shares was not received. Shareholders holding 400 Preference Shares and 1,200 Ordinary Shares were in arrears in respect of their Call Money. Show how the Share Capital will appear in the Balance Sheet.

THE BOMBAY DERBY SYNDICATE, LTD.

Balance Sheet as at			
	Rs.		Rs.
CAPITAL & LIABILITIES.		PROPERTY & ASSETS.	
<i>Authorised Capital :-</i>		Cash at Bank	2,12,400
10,000 6% Preference Shares of Rs. 10 each	1,00,000		
40,000 Ordinary Shares of Rs 10 each	4,00,000		
Rs.	5,00,000		
<i>Issued Capital :-</i>			
10,000 6% Preference Shares of Rs. 10 each	1,00,000		
30,000 Ordinary Shares of Rs. 10 each	3,00,000		
Rs.	4,00,000		
<i>Subscribed Capital :-</i>			
8,000 6% Preference Shares of Rs. 10 each	80,000		
20,000 Ordinary Shares of Rs. 10 each	2,00,000		
Rs.	2,80,000		
<i>Called & Paid up Capital :-</i>			
8,000 6% Preference Shares of Rs. 10 each fully called up	80,000		
20,000 Ordinary Shares of Rs.10 each Rs. 7 per share called up	1,40,000		
	2,20,000		
Less Calls in arrears	7,600		
	2,12,400		
Rs.	2,12,400	Rs.	2,12,400

Example 47.

The Riverside Trading Company, Ltd., had an Authorised Capital of Rs. 7,50,000, divided into 25,000 6% Preference Shares of Rs. 10 each, fully paid and 25,000 Ordinary Shares of Rs. 20 each upon which Rs. 12/8 per share has been called up. From the following Trial Balance extracted from the books on 31st December 1928, prepare Trading and Profit and Loss Account and Balance Sheet.

✓ 6% Preference Share Capital	...	...	2,50,000 ✓	
✓ Ordinary Share Capital	...	...	3,12,500 ✓	
✓ Calls in arrears	...	...	3,500 ✓	
✓ Reserve Fund	...	...	20,000 ✓	
✓ 500 6% Debentures of Rs. 100 each	...	...	50,000 ✓	
✓ Goodwill	...	...	1,00,000 ✓	
✓ Freehold Land and Boat Houses	...	...	3,05,000 ✓	
✓ Boats, Launches etc	...	...	1,16,000 ✓	
✓ Furniture and Fixtures	...	...	800 ✓	
✓ Preliminary Expenses	...	...	6,000 ✓	
✓ Purchases	...	...	2,10,490 ✓	
✓ Wages	...	...	1,07,470 ✓	
✓ Office Salaries and Wages	...	...	14,090 ✓	
✓ Stock 1st January 1928	...	...	35,600 ✓	
✓ Sales	...	...	4,07,000 ✓	
✓ Insurance	...	...	870 ✓	
✓ Rates, Taxes etc.	...	...	4,820 ✓	
✓ Postage and Telegrams	...	...	430 ✓	
✓ Discounts allowed	...	...	3,850 ✓	
✓ Discounts received	...	...		370 ✓
✓ Unclaimed Dividends	...	...		2,900 ✓
✓ Pref. Shares Dividend	...	...	7,500 ✓	
✓ Ord. " "	...	...	13,400 ✓	
✓ Debenture Interest to 30th June	...	...	1,500 ✓	
✓ Directors' and Auditors' Fees	...	...	2,000 ✓	
✓ Carriage Inwards	...	...	830 ✓	
✓ Carriage Outwards	...	...	1,190 ✓	
✓ Profit and Loss Account 1st January	...	...		2,500 ✓
✓ Bills Receivable	...	...	9,030 ✓	
✓ Bills payable	...	...		1,620 ✓
✓ Repairs and Replacements	...	...	3,110 ✓	
✓ Sundry Creditors	...	...		14,510 ✓
✓ Sundry Debtors	...	...	1,02,600 ✓	
✓ Cash with Seaman's Bank	...	...	4,350 ✓	
✓ Cash in hand	...	...	1,450 ✓	
✓ Bad Debts	...	...	2,720 ✓	
✓ Advertising	...	...	2,800 ✓	
			<u>Rs. 10,61,400</u>	<u>10,61,400</u>

Provide Rs. 5,000 for wages, charge Interest on Debentures for one complete year. Insurance is prepaid Rs. 120. Reserve 5% on Sundry Debtors, and write off 1/3rd of the Preliminary Expenses. Depreciate Freehold Land and Boat Houses 10%; Launches, Boats etc., 20%; and Furniture and Fixtures 5%. Stock on 31st December 1928 was Rs. 91,740

THE RIVERSIDE TRADING Co., LTD.

Trading & Profit & Loss Account for the year ended 31st December 1928.

	Rs.		Rs.
To Stock, 1st January ✓	35,600	By Sales	4,07,000 ✓
„ Purchases ✓	2,10,490	„ Stock, 31st December	91,740 ✓
„ Wages ✓	1,12,470		
„ Carriage Inwards ✓	830		
„ Gross Profit carried down	1,39,350		
Rs	4,98,740	Rs.	4,98,740
To Office Salaries & Wages ✓	14,090	By Gross Profit brought down	1,39,350 ✓
„ Rates, Taxes etc. ✓	4,820	„ Discounts received	370 ✓
„ Repairs, Replacement ✓	3,110		
„ Advertising ✓	2,800		
„ Carriage Outwards ✓	1,190		
„ Insurance ✓	750		
„ Postage Telegram ✓	430		
„ Directors' & Auditors' Fees ✓	2,000		
„ Debenture Interest ✓	3,000		
„ Discounts allowed ✓	3,850		
„ Bad Debts	2,720		
„ Reserve for Doubtful Debts ✓	5,130		
„ Preliminary Exp. 1/3rd ✓	2,000		
„ Depreciation on:—			
Leasehold Land & Boat Houses ✓			
10% 30,500			
Boats, Launches, etc.—20% ✓	23,200		
Furniture & Fixtures 5% ✓	40		
	53,740		
„ Net Profit transferred to Profit & Loss Appropriation Account	40,090		
Rs.	1,39,720	Rs.	1,39,720

PROFIT & LOSS APPROPRIATION ACCOUNT.

To Pref. Shares Dividend	Rs. 7,500	By Balance 1st January	Rs. 2,500
„ Ord. Shares Dividend	13,400	„ Net Profit this year	40,090
„ Balance carried forward	21,690		
	Rs. 42,590		Rs. 42,590

BALANCE SHEET as at 31st December 1928.

CAPITAL & LIABILITIES.		PROPERTY & ASSETS.	
<i>Authorised Capital :-</i>		Godwill	1,00,000
25,000 6% Preference Shares of Rs 10 each	2,50,000	Freehold Land and Boat	
25,000 Ordinary Shares of Rs. 20 each	5,00,000	Houses	3,05,000
	Rs. 7,50,000	Less Depreciation @ 1%	30,500
			2,74,500
<i>Issued Capital :-</i>		Boats, Launches, etc.	1,16,000
25,000 6% Preference Shares of Rs. 10 each	2,50,000	Less Depreciation @ 20%	23,200
25,000 Ordinary Shares of Rs. 20 each	5,00,000		92,800
	Rs. 7,50,000	Furniture & Fixtures	800
		Less Depreciation 5%	40
			760
<i>Subscribed & Paid-up Capital :-</i>		Preliminary Expenses	6,000
25,000 6% Preference Shares of Rs 10 each fully called up	2,50,000	Less written off	2,000
25,000 Ordinary Shares of Rs. 20 each Rs. 12/8 per share called up 3,12 500	✓ 2,50,000		4,000
Less Calls in arrears 3 500	✓ 3,09,000	Stock-in-Trade at Cost	91,740
Reserve Fund	20,000	Prepaid Expenses	120
Reserve for Doubtful Debts	5,130	Sundry Debtors	1,02,600
500 6% Debentures of Rs. 100 each	✓ 50,000	Bills Receivable	9,030
Interest due thereon	✓ 1,500	Cash with Seamen's Bank	4,350
Unclaimed Dividends	✓ 2,900	Cash in hand	1,450
<i>Liabilities :-</i>			
For Goods supplied	14,510		
„ Acceptances	1,620		
„ Expenses	5,000		
	21,130		
Profit & Loss Appropriation Account	21,690		
	Rs. 6,81,350		Rs. 6,81,350

ISSUE OF SHARES AT A PREMIUM.

A Company may issue shares at a higher value than the nominal amount of the shares, in which case it is said to issue the shares at a premium. Where shares are thus issued at a premium, the premium is usually payable with the allotment money. It is important to note, however, that the premium received by the Company does not form part of the Share Capital, and consequently, must be credited to a distinct account styled "Premium on Shares Account".

The premium received on shares is a capital gain and should not, therefore, be transferred to the Profit and Loss Account, but should be utilised in writing down some fictitious assets such as Preliminary Expenses or Brokerage on Shares or may be carried to some Reserve.

Example 48.

On 1st April 1930, a Company allots the following shares at a premium of Rs. 5/- payable on allotment.

Rs. 1,00,000 7½% Preference Shares of Rs. 25/- each, payable Rs. 10/- per share on application, Rs. 15/- on allotment (including Rs. 5/- for premium) and Rs. 5/- on first and final Call.

Show the necessary Journal Entries.

	Rs.	Rs.
Bank Dr. To Pref. Share Application A/c. Being the amount received on applications of 4,000 shares at Rs. 10/- per share.	40,000	40,000
Preference Share Application A/c. Dr. To preference Share Capital Account Being the transfer of the above amount to the respective Share Capital Account.	40,000	40,000
Preference Share Allotment A/c. Dr. To Preference Share Capital Account. " Preference Share Premium " Being the amounts due in respect of Allotment and Premium on 4,000 shares at Rs. 10/- and Rs. 5/- per share respectively.	60,000	46,000 20,000
Bank Account. Dr. To Pref. Share Allotment A/c. Being the amount received in respect of total amount called on allotment including premium.	60,000	60,000

Preference Share First and Final Call Account.	Dr.	Rs. 20,000	Rs. 20,000
To Pref. Share Capital A/c.			
Being the total amount due on First and Final Call at Rs. 5/- per share on 4,000 shares.)			
Bank Account	Dr.	20,000	
To Pref. Share First and Final Call Account			20,000
Being the amount received on First and Final Call			

ISSUE OF DEBENTURES AT A DISCOUNT.

Debentures may be issued at a discount, although it will be illegal to issue shares at anything less than their face value. When debentures are issued at a discount, the necessary entry will be to debit the Bank Account with the amount actually received by the Company, debit Discount on Issue of Debentures Account with the amount of discount that the Company allows, and to credit the Debentures Account with the full face value.

The loss thus suffered by the Company receiving less amount from the Debenture-holders than the amount of liability thereon as indicated by the nominal value of the debentures issued, should not be charged off to the Profit and Loss Account of the year in which such loss is sustained, but must be distributed over the period during which the debentures run.

Thus, every year a proportionate amount of this discount will be written off to the Profit and Loss Account, whereas the balance not written off will be shown on the assets side of the Balance Sheet, under its distinct heading "Discount on Issue of Debentures". The object of extending this loss on discount over the life of the debentures is to see that each of the years utilising the monies borrowed by the issue of these debentures is made to bear an equal burden in respect of loss sustained at the time of issue.

Example 49.

A Company issues 1,000 debentures of Rs. 100 each at a discount of 5%, payable Rs. 30 on application and Rs. 65 on allotment. The debentures are

to expire at the end of the tenth year from the date of issue. Show the necessary entries.

		Rs.	Rs.
Bank Account	Dr.	30,000	
To Debentures Application A/c. (Being the amount received along with applications for 1,000 debentures at Rs. 30 per debenture.)			30,000
<hr/>			
Debenture Application A/c.	Li.	30,000	
To Debentures Account (Being the transfer of the amount to Debentures Account.)			30,000
<hr/>			
Bank Account	Dr.	65,000	
Discount on Issue of Debentures		5,000	
To Debentures A/c. (Being the actual amount received as also the discount allowed on allotment.)			70,000

Note :—In this case 1/10th of the discount on Issue of Debentures will be written off to Profit and Loss Account at the end of each year, so that each of the 10 years for which the Debentures are to run will be made to bear an equal proportion of this loss.

ISSUE OF DEBENTURES AT A PREMIUM.

Where Debentures are issued at a premium, the entries in the books of the Company are made in just the same manner as for shares issued at premium.

FORFEITURE OF SHARES.

The Articles of most Companies authorise the directors to forfeit the shares of such share holders, who fail to pay up the Calls made on them.

The defaulters are usually served with a notice to the effect that unless the Calls in arrears are paid by a specified date, their shares will be forfeited, and their names will be struck off the Register of Members. The effect of such a forfeiture is to cancel the Share Capital to the extent of the amount called up on these shares, and, consequently, the entry to give effect to the forfeiture will be as follows :—

Debit Share Capital Account to the extent of the amount called up on the forfeited shares, credit Forfeited Shares Account with the amount received on these shares, and credit the parti-

cular Call Account with the amount in arrears, and in respect of which such forfeiture has taken place.

Example 50.

The Directors of a Limited Company forfeit 100 shares of Rs. 10 each of P. Gupta who has paid one Rupee per share on application, Rs. 3 per share on allotment and has failed to pay the first call of Rs. 3 per share. Pass the necessary Journal Entry to record the forfeiture.

	Dr.	Rs.	Rs.
Share Capital Account	Dr.	700	
To Forfeited Shares A/c.			400
" Share First Call A/c.			300
(Being the forfeiture of 100 shares of P. Gupta who failed to pay the First Call of Rs. 3 per share as per the Resolution of the Board dated _____).			

The credit balance on Forfeited Shares Account will be shown on the liabilities side of the Balance Sheet under its distinct heading.

RE-ISSUE OF FORFEITED SHARES.

Forfeited shares may be re-issued at a discount, provided that the total cash received on these shares (including the amount received from the original holder) is not less than the face value of the shares in question. If upon re-issue of these shares, there is any balance left on Forfeited Shares Account, the same may be utilised in writing down some fictitious assets or may be transferred to some Reserve Account. In any case, it is never advisable or sound to transfer the credit balance on Forfeited Shares Account to Profit and Loss Account, as the balance would represent a capital gain.

Example 51.

The Directors of the Moon Co., Ltd., forfeit the 10 shares of Rs. 50 each belonging to D. Das who had paid Rs. 5 per share on Application, Rs. 10 on Allotment and Rs. 15 on 1st Call, but had failed to pay the final call of Rs. 20. The same shares are then re-issued to S. Surti as fully paid on receipt of Rs. 400. Pass the entries to record the forfeiture and the re-issue.

	Dr.	Rs.	Rs.
Share Capital Account	Dr.	500	
To Forfeited Shares Account			300
" Share Final Call Account			200
(Being the forfeiture of 10 shares belonging to D. Das on his having failed to pay the Final Call of Rs. 20 per share as per the Board's Resolution dated _____).			

Bank Account	Dr.	400	
Forfeited Shares Account	"	100	
To Share Capital Account			500
(Being the cash received on re-issue of the above shares at a discount of Rs. 100.)			

RESERVE FUND.

As a rule, Limited Companies do not distribute the whole of the net profits made each year in shape of dividend, but transfer a certain amount to a Reserve Fund in order to strengthen the financial resources of the Company, as also to help the Company to meet some unforeseen contingency that might arise in the future.

The necessary entry to bring this about would be to debit the P. & L. Appropriation Account and to credit the Reserve Fund Account with such a sum as is desired to be transferred to the latter account.

The credit balance on the Reserve Fund Account always represents distributable profits not distributed but held over by the Company as a Reserve.

A Reserve Fund can also be utilised for the purpose of equalising dividends in any subsequent year when the Company has not made net profit sufficient to enable it to declare and pay the usual dividend.

As the Reserve Fund represents profits not distributed, it must always show a credit balance and will always appear on the liability side of the Balance Sheet.

DIVIDEND EQUALISATION FUND.

Some Companies maintain a special Dividend Equalisation Fund over and above the Reserve Fund, the object of the former Fund being specifically to help the Company to equalise dividend in the future when the net profits made do not admit of the usual dividend being paid.

The entry for setting aside from out of the net profits any amount to Dividend Equalisation Fund will be to debit P. & L. Appropriation Account and credit Dividend Equalisation Fund.

The entry to utilise any amount from the credit of the Dividend Equalisation Fund for the purpose of equalising dividend would be to debit the Dividend Equalisation Fund and credit the P. & L. Appropriation Account.

As the Dividend Equalisation Fund represents profits undistributed and held over, it must always show a credit balance and will always appear on the liability side of the Balance Sheet.

CONTINGENT LIABILITIES.

A contingent liability is one which has not already accrued or arisen but is dependent upon the happening of a certain event. Thus, a contingent liability may or may not involve the payment of money.

Liability for calls on partly-paid shares held is one instance of contingent liability. Another common form of contingent liability is the liability on Bills Receivable discounted. Further instances are liabilities under guarantee, impending litigation, liabilities for penalties under contracts etc.

This form of liability is never brought into the books of accounts, but usually a note is made in the Balance Sheet disclosing the amount of such contingent liabilities existing at the date of the Balance Sheet in question.

SUMMARY.

(1) The chief advantage of a Limited Liability Company is that it limits the liability of every shareholder to the nominal value of shares he possesses.

(2) In a Company, the members are not personally responsible for its debts, whereas in a Partnership, every member is personally liable for the whole of the debts of the Partnership, incurred during the time that he is a partner.

(3) In case of a Company, the Creditors cannot sue the individual shareholder. Their only legal remedy is against the assets of the Company and the Uncalled Capital, if any.

(4) The Account-keeping of a Limited Company does not materially differ from that of a sole trader or of a Partnership Firm, except in the statistical record of Share Capital and Debentures issued and in the form of Final Accounts and the treatment of net profit or loss.

(5) In the preparation of a Company Balance Sheet, the Nominal, Issued, Subscribed and Paid-up Capital must be clearly shown.

(6) In the Financial Books, no entries are made in respect of Nominal and Issued Capital. Only the transactions appertaining to the Subscribed and Paid-up Capital are entered.

(7) When calls are in arrears from the shareholders, the respective Accounts of such Calls would show debit balances.

(8) The Share Capital Account is always credited from time to time with the amount called up.

(9) In the Balance Sheet, the Called-up Capital is shown in the inner column, and the amount in arrears, if any, is deducted therefrom so that in the outer column would appear the amount actually received in respect of Share Capital.

(10) A Company usually borrows money by issue of documents known as Debentures.

(11) Debentureholders are creditors of the Company as opposed to the Shareholders who are the proprietors of the Company.

(12) Whereas Shareholders are entitled only to such dividend as can be declared having due regard to the annual profits made by the Company, the debentureholders are entitled to be paid a fixed percentage of Interest irrespective of the fact whether the Company has made profit or loss.

(13) The order in which the assets and liabilities of a company have to be stated in a Balance Sheet is prescribed by the form under the Indian Companies Act.

(14) The Net Profit of a Limited Company is not transferred to the Share Capital Account, but is credited to Profit

and Loss Appropriation Account. If there is loss, the same must stand on the debit of Profit and Loss Account.

(15) The various additional subsidiary books which are required to keep a detailed record of Share Capital and Debentures are called Statistical Books.

(16) The Books which are compulsorily required to be kept by every Limited Company are called Statutory Books.

(17) When shares are forfeited, Share Capital Account is debited with the amount called up on these shares, Forfeited Shares Account is credited with the amount received thereon, and the particular Call Account is credited with the amount in arrears in respect of such call.

(18) Forfeited Shares can be re-issued at a discount, provided such discount does not exceed the cash received from the defaulting shareholder.

(19) Until the forfeited shares are re-issued, the credit balance on Forfeited Shares Account should not be transferred anywhere, but must be shown in the Balance Sheet underneath the item Share Capital, under its distinct head.

(20) When Debentures are issued at a discount, such discount should be spread equally over the number of years for which the Debentures are to run, and a proportionate amount should be charged off to Profit and Loss Account each year.

(21) The amount received by way of premium on issuing shares or debentures and the credit balance on Forfeited Shares Account left after such shares have been re-issued are capital gains, and should not, therefore, be transferred to Profit and Loss Account, but must be utilised in reducing or wiping off debit balance on Preliminary Expenses Account or Brokerage on Shares Account or Goodwill or in meeting some capital loss.

QUESTIONS.

(1) Distinguish between a Public Limited Company and a Private Partnership.

(2) Distinguish between Nominal Capital, Issued Capital, Subscribed Capital and Paid-up Capital.

(3) Define Ordinary Shares, Preference Shares, Cumulative Preference Shares and Deferred Shares.

(4) Give a list of the Books which every Company is legally required to keep.

(5) Give the rulings of Application and Allotment Book and enter therein six specimen entries.

(6) Give the usual entries relating to the issue of Share Capital.

(7) Give the usual entries in regard to the transfer of net profit and the declaration and payment of dividend.

(8) What are Preliminary Expenses and what items are usually included therein?

(9) How should Share Capital be disclosed in a Balance Sheet?

(10) What entry should be passed on forfeiture of shares?

(11) What entry is passed when Debentures are issued at a discount and are repayable at par?

(12) Explain the difference between Reserve Fund and Dividend Equalisation Fund.

(13) What are Contingent Liabilities? Give four instances of such liabilities.

(14) How should premium received on issue of Shares or Debentures be dealt with?

(15) Give the rulings of Register of Members.

(16) Give the form of Register of Share Transfers.

EXERCISE I.

Record the following transactions in the books of the Rose Perfumery Co. Ltd., and prepare a Balance Sheet. The Company has an authorised Capital of 75,000 Shares of Rs. 10 each, of which 50,000 Shares were offered to the public for subscription.

- May 2 Received application for 65,000 Shares with a payment of Re. 1 per Share.
 „ 18 Allotted 50,000 Shares, Re. 1 per Share being due on allotment.
 „ 19 Returned Rs. 10,000 to those applicants who were not allotted any Shares. Rs. 5,000 of application money were applied towards allotment due.
 June 3 Received Rs. 44,500 towards allotment.
 „ 18 Made a Call of Rs. 2 per share, due July 5th.
 July 5 Received Rs. 99,000 on account of call due this day.
 „ 17 Made a Call of Rs. 3 per Share due August 4th.
 Aug. 4 Received Rs. 1,47,500 on account of call due this day.
 „ 16 Called up Rs. 3 per Share due Sept. 5th.
 „ 23 Received Rs. 1,000 on account of 2nd Call.
 Sept. 5 Received Rs. 1,46,000 on account of final call, due this day.
 „ 19 Received Rs. 1,500 on account of final Call.

EXERCISE II.

A Limited Company with a Nominal Capital of Rs. 12,00,000, divided into 60,000 Ordinary Shares of Rs. 10 each and 60,000 7% Preference Shares of Rs. 10 each, issued 30,000 Ordinary Shares, payable Rs. 2 per Share on application, Rs. 2 per Share on allotment, and Rs. 3 per Share on First Call. The Final Call of Rs. 3 per Share is not yet made. It also issued 30,000 Preference Shares, payable Re. 1 per Share on application, Rs. 2 per Share on allotment, Rs. 3 per Share on First Call and Rs. 4 per Share on Final Call. All the money was duly received with the exception of Rs. 2,000 in respect of First Call on Ordinary Shares and Rs. 3,600 on account of First Call and Rs. 8,400 on account of Final Call on Preference Shares. The Company also issued 9% Debentures of Rs. 4,00,000, payable 20% on application, 20% on allotment and the balance one month later. All the Debentures were taken up and the amount due thereon paid in full. Make the necessary Journal, Cash Book and Ledger Entries and draw up a Balance Sheet.

EXERCISE III.

The Accounts of the Empire Trading Co., Ltd., show a net profit of Rs. 70,600 for the year ended 31st December 1928. The balance of profit brought forward from last year is Rs. 5,930. At the Annual General Meeting the shareholders resolve as follows :—

- (1) To pay a dividend of 6% on the 2,000 Preference Shares of Rs. 100/- each fully paid.

(2) To pay a dividend of Rs. 2/- per Share on the 15,000 Ordinary Shares.

(3) To transfer Rs. 30,000 to the Reserve Fund.

(4) To carry forward the balance.

Make the necessary entries to give effect to the above resolutions and show the Ledger Accounts.

EXERCISE IV.

The Manganese Ore Syndicate, Ltd., has a registered Capital of 22,500 Ordinary Shares of Rs. 10/- each. From the following Trial Balance as at 31st March 1929, prepare Trading and Profit and Loss Account for the year ended 31-3-29 and a Balance Sheet at that date after giving effect to the following adjustments —

Provide Rs. 600 for Rent.

Insurance unexpired is Rs. 300.

Allow 10% on the net profit to the Managing Agents.

Interest on Debentures is accrued for 3 months.

Keep Reserve for Doubtful Debts at 10% on Sundry Debtors.

Depreciate Leasehold Premises, 2½%, Machinery 5%, Motors 10% and Furniture 5%.

Out of the profits, Rs. 30,000 are to be transferred to Reserve Fund, and a dividend of 15% is to be declared on Ordinary Share Capital.

The Stock at 31st March 1929 was valued at Rs. 52,905.

TRIAL BALANCE.

				Rs.	Rs.
Leasehold Premises	...	...	...	75,000	
Debentures at 6%	...	...	...		75,000
Salaries	...	...	...	28,350	
Carriage Inwards	...	...	...	4,650	
Insurance	...	...	...	780	
Motors	...	...	...	16,500	
Reserve for Doubtful Debts	...	...	...		2,100
Sales	...	...	...		6,26,850
Bills Payable	...	...	...		22,905
Travelling Expenses	...	...	...	2,085	
Postage and Telegrams	...	...	...	1,080	
Ordinary Share Capital	...	...	...		1,80,000
Machinery	...	...	...	1,20,000	
Rates and Taxes	...	...	...	1,050	
Rent	...	...	...	1,800	
Discount	...	...	...		4,350
Purchases	...	...	...	2,69,100	

	Rs.	Rs.
Directors' Fees	3,750	
Audit Fees	945	
Electric Lighting	585	
Bad Debts	915	
Furnitures and Fixtures	4,500	
Office Expenses	4,380	
Transfer Fees		150
Income-Tax	5,850	
Goodwill	45,000	
Sundry Creditors... ..		30,030
Profit & Loss Appropriation Account		1,980
Stock 1st April 1928	46,650	
Wages (Productive)	2,28,450	
Interest on Debentures	3,375	
Cash at Bank	48,735	
Sundry Debtors	28,500	
Printing and Stationery	1,335	
	Rs. 9,43,365	Rs. 9,43,365

EXERCISE V.

The Karachi Contractors, Ltd. was registered in 1916 with an authorised capital of Rs. 10,00,000 divided into 10,000 shares of Rs. 100 each. The following Trial Balance was extracted from the books of the Company as at 30th September 1928 :—

Snare Capital Account (10,000 Shares, Rs. 80.

per share called up)		8,00,000
Calls in Arrears	50,000	
Freehold Factory	4,56,000	
Machinery & Plant	3,16,400	
Office Furniture	7,500	
Stock, 1st October 1927	3,89,710	
Bills Receivable	17,850	
Investments	98,750	
Reserve Fund		1,00,000
5% Mortgage Debentures		2,50,000
Debenture Interest	6,250	
Profit & Loss Account 1st October 1927	13,270	
Directors' and Auditors' Fees	14,500	
Sundry Debtors	1,07,400	
" Creditors... ..		1,01,850
Sales		15,23,960

COMPANY ACCOUNTS.

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	Rs.	Rs.
Purchases	10,69,430	
Productive Wages	1,58,760	
Salaries to Staff	32,410	
General Expenses	7,680	
Electric Power and Heating... ..	23,640	
Rates and Taxes	13,230	
Insurance	4,490	
Purchases Returns		9,780
Sales	4,210	
Bills Payable		29,310
Loans to Petty Contractors	5,000	
Interest on Investments		4,210
Reserve for Doubtful Debts... ..		5,000
Motor Lorries	38,460	
Carriage Inwards... ..	13,860	
" Outwards	9,940	
Bank Overdraft		37,870
Cash in hand	3,240	
	<u>Rs. 28,61,980</u>	<u>Rs. 28,61,980</u>

You are required to prepare a Manufacturing and Profit and Loss Account and a Balance Sheet.

The following adjustments are required to be made before preparing the Accounts :—

(1) Expenses owing : Wages, Rs. 1,840 ; Salaries, Rs. 1,210; Prepaid Expenses, Rates and Taxes, Rs. 390; Insurance, Rs. 720.

(2) Interest on Debentures for the half year due 30th September 1928 has not been provided for.

(3) Depreciate Plant and Machinery 10% ; Office Furniture 6% and write off Rs. 8,480 from Motor Lorries.

(4) Write off Bad Debts Rs. 2,500, and keep the Reserve for Doubtful Debts at 5% on Sundry Debtors.

(5) The Stock on 30th September 1928 was Rs. 3,57,620.

CHAPTER XVI.

MISCELLANEOUS ACCOUNTS.

BANK RECONCILIATION.

Since the Bank Pass-Book indicates the amounts paid into the Bank and the amounts withdrawn therefrom, the pass book balance on any one date must be the same as the balance shown by the bank columns of the Cash Book on that same date. It seldom happens, however, in practice that the Bank Pass-book balance agrees with the Cash Book balance on any one particular date. This is due to the following facts :—

1. Cheques may have been drawn in payment of accounts due and credited in the Bank Column of the Cash Book, but the same may not appear in the Pass-book, owing to their not having been presented to the Bank for payment upto the date on which the two balances are compared.

2. Up-country cheques may have been paid into the Bank and debited in the Bank Column of the Cash Book, but the same may not have been credited in the Pass-Book, on account of the fact that they may not have been cleared.

3. Credit for interest on Current Account may have been given in the Pass-book, but no corresponding entry may have been made in the Cash Book.

4. Debits might have been given in the Pass-book in respect of Bank Charges and Commission, but the same may not have been entered in the Cash Book.

A Reconciliation Statement is therefore prepared at periodical intervals with a view to indicate the items which cause such disagreement between the balances as per the Bank columns of the Cash Book and the Bank Pass-Book on any given date. It is prepared after all the items in the Pass-Book are ticked off with the entries in the Cash Book Bank columns. A list is then made

of such items as are found not ticked either in the Cash Book or the Pass-Book. The unticked items in the Cash Book will represent cheques paid in but not credited in the Pass-Book, or cheques issued but not presented for payment. The unticked items in the Pass-Book will relate to the credits given, if any, for interest on Current Account or the debits in respect of Bank Charges and Commission.

Example 52.

The balance of cash at Bank as shown by the Cash Book of Patterson & Co., on 31st December 1930, was Rs. 7,500. On checking the entries in the Cash Book with the Pass-Book, it was ascertained that cheques of Rs. 500 and Rs. 700 respectively paid in on the 30th December, were not credited until the 2nd January following, and that cheques of Rs. 600, Rs. 800 and Rs. 1,200, issued on the 28th December, were not presented until the 3rd of January. There was a credit of Rs. 125 in the Pass-book in respect of interest under date 31st December, which was not entered in the Cash Book. There were also Bank charges debited in the Pass-book amounting in all to Rs. 10 which were not entered in the Cash Book.

Prepare a Reconciliation Statement as at 31st December 1930.

BANK RECONCILIATION STATEMENT.

as at 31st December 1930.

	Rs.	Rs.
Balance as per Cash Book.		7,500
Add Cheques issued on the 28th December		
" but not presented	600	
" " "	800	
" " "	1,200	
" Interest credited by the Bank, but not entered in the Cash Book.	125	2,725
	<hr/>	
		10,225
Less Cheques paid in, but not credited by the Bank.	500	
" Bank charges debited by the Bank, but not entered in the Cash Book.	700	
	10	1,210
	<hr/>	
Bank Balance as per Pass-book.	...	<u>Rs. 9,015</u>

Example 53.

The Pass-book of Messrs. Roy & Co., showed a credit balance of Rs. 12,500 on 31st December 1929; but cheques passed for payment before 31st December 1929, amounting to Rs. 2,970 have not been cashed. Two cheques of Rs. 950 and Rs. 1,175 were deposited into the Bank on 31st

December, but the Bank had given credit for the same in January. There was also a debit in the Pass-book of Rs. 250 in respect of a cheque dishonoured on 31st December. Draw up a Reconciliation Statement as at 31st December 1929 showing adjustments between the Pass-book and the Cash Book.

BANK RECONCILIATION STATEMENT

as at 31st December 1929.

	Rs.	Rs.
Balance as per Pass book,		12,500
Add, Cheques deposited before 31st December, but credited by the Bank in January.	950	
" " " " the amount of " a cheque " dishonoured and not adjusted in the Cash Book.	1,175 250	2,375
		14,875
Less Cheques issued but not presented to the Bank before 31st December.		2,970
Balance as per Cash Book.		Rs. 11,905

ANALYTICAL PETTY CASH BOOK.

The best method of recording Petty Cash payments is to enter them in a Petty Cash Book, which should be kept in a columnar form, i.e. with a separate column for each usual head of expenditure, and a column for the total. The advantage of a columnar Petty Cash Book is that it saves an enormous amount of unnecessary labour resulting from posting each item of petty payment separately in the Ledger.

By the use of this form of Petty Cash Book, the postings need not be made individually, but with the periodical total of each head of expenditure as shown by its corresponding column.

All cheques as are issued by the Cashier to the Petty Cashier, are debited to the Petty Cash Account, in the first instance. At periodical intervals, the analysis of the petty expenses as indicated by the analytical columns of the Petty Cash Book is journalised, each nominal account concerned being debited with its respective total and the Petty Cash Account being credited with the total petty payments during the period. The result is that after such journalising, the balance as shown by the Petty Cash

Account in the Ledger at any periodical interval, must necessarily agree with the unspent balance of Petty Cash as indicated by the Petty Cash Book.

THE IMPREST SYSTEM.

The best system of maintaining Petty Cash is the Imprest System. Under this system, an estimate is made of the amount that is likely to cover petty disbursements for a certain period, say one month. Such amount is then drawn from the Bank and handed over to the Petty Cashier to begin with. At the end of the month, on the Petty Cashier presenting an account of his disbursements, a cheque for the exact amount disbursed is given to him, so that the original amount of the Petty Cash, with which he was started, is thus restored. The advantage of this system lies in the fact that it serves to maintain a check on the Petty Cashier inasmuch as he has to present his Petty Cash Book to the Cashier each time he wants a cheque for his total payments. Such a check will not be available if the Petty Cashier were handed over cheques of round amounts irrespective of his total disbursements, whenever he came to the end of the fund at his disposal.

ACCOMMODATION BILLS.

The one method which provides a ready means to traders of some standing to raise money on the credit of one another is by means of Accommodation Bills.

An Accommodation Bill is a Bill of Exchange for which no consideration has been given by the drawer to the acceptor, but which has been drawn and accepted by the parties concerned for their mutual accommodation with a view to raise money by negotiating it.

In an Accommodation Bill, the drawer and the acceptor are not liable to each other, but an endorsee who is a holder for value can hold the acceptor or drawer liable upon it. In other words, to the outside world, the liability of the parties to an Accommodation Bill is just the same as in the case of an Ordinary Bill of

Exchange, as there is nothing on the face of it to distinguish it from any other Bill of Exchange.

The entries in the Books of the parties to an Accommodation Bill are made on just the same lines as in the case of any other Bill of Exchange. The only point worth noting in Accommodation Bills is that inasmuch as the proceeds realised from the negotiation of such bills are divided between the drawer and the acceptor, it is necessary to see that the loss arising from the discounting of such bills is borne by both the parties in the same proportions in which they divide the proceeds.

Example 54.

For the mutual accommodation of X and Y, X accepts a bill, drawn on him by Y, for three months for Rs. 3,000 on 1st January 1931. Y discounts the Bill immediately for Rs. 2,700 and remits one-third of the proceeds to X. Before the Bill becomes due, Y remits the balance due to X, in order to enable the latter to meet the Bill. X meets the Bill on the due date.

Pass the necessary entries and show the Ledger Accounts concerned in the books of X and Y.

ENTRIES IN THE BOOKS OF X.

		Rs.	Rs.
1-1-31	Y's Account To Bills Payable A/c. (Being the amount of a Bill payable drawn by Y accepted by us this day.)	Dr. 3,000	3,000
	Bank Account To Y's Account (Being the amount received from Y representing one-third of the net proceeds realised on negotiation of the Bill.)	Dr. 900	900
	Discount Account To Y's Account (Being the amount of discount to be borne by us.)	Dr. 100	100
1-4-31	Bank Account To Y's Account (Being the amount of the balance of the bill payable received from Y in settlement of his account.)	Dr. 2,000	2,000
4-1-31	Bills Payable Account To Bank (Being the amount paid in settlement of a bill payable accepted by us on 1-1-31.)	Dr. 3,000	3,000

LEDGER ACCOUNTS.

Y's Account.

1-1-31	To Bill Payable	Rs. 3,000	1-1-31	By Bank	900
				Discount	100
			1-4-31	Bank	2,000
		<u>Rs. 3,000</u>			<u>Rs. 3,000</u>

BILLS PAYABLE ACCOUNT.

4-4-31	To Bank	Rs. 3,000	1-1-31	By Y's Account	3,000
		<u>Rs. 3,000</u>			<u>Rs. 3,000</u>

DISCOUNT ACCOUNT.

1-1-31	To Y's Account	Rs. 100
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ENTRIES IN THE BOOKS OF Y.

		Rs.	Rs.
1-1-31	Bills Receivable Account	Dr. 3,000	
	To X's Account		3,000
	Being the amount of an acceptance received from X this day.		
1-1-31	Bank	Dr. 2,700	
	Discount Account	300	
	To Bills Receivable Account		3,000
	Being the amount realised by discounting the Bill.		
1-1-31	X's Account	Dr. 1,000	
	To Bank		900
	Discount		100
	Being the amount representing two-thirds of the proceeds of the Bill Receivable paid to X, and the proportionate discount charged to him.		
1-4-31	X's Account	Dr. 2,000	
	To Bank		2,000
	Being the balance paid to X in settlement of his account.		

LEDGER ACCOUNTS.

X's Account.

1-1-31	To Bank	900	1-1-31	By Bills Receivable.	3,000
	" Discount	100			
1-4-31	" Bank	2,000			
		<u>Rs. 3,000</u>			<u>Rs. 3,000</u>

BILLS RECEIVABLE ACCOUNT.

1-1-31	To X's Account	3,000	1-1-31	By Bank	2,700
				" Discount	300
		Rs. 3,000			Rs. 3,000

DISCOUNT ACCOUNT.

1-1-31	To Bills Receivable	300	1-1-31	By X's Account	100
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DEPARTMENTAL ACCOUNTS.

When a trader's business is divided into several departments, or when he deals in different classes of commodities, it becomes essential for him to maintain Departmental Accounts in order that he may be able to ascertain the resultant profit or loss made in each department or class of goods.

In order to ascertain departmental results of trading, it will be necessary to record the purchases and sales as also the respective returns of each department or class of goods separately. This is brought about by providing the Purchases Book, the Sales Book and the Returns Outwards and Inwards Books with a separate money column, one for each department or class of goods dealt in, and one for total.

- The illustration of the Purchases Journal of a business with three departments, viz : Hosiery, Hats and Boots is given on the next page.

The Sales Book, the Returns Inwards and Outwards Books will also have to be modelled on the same lines.

It will be seen from the illustration, appearing on the next page, that the transactions are entered in the usual way, but the amounts are shown in their appropriate columns and also extended into the total column. Whereas the postings to the Personal Accounts concerned will be made individually as usual, the periodical total of each column will have to be posted to its respective Departmental Account in the Ledger.

From the Purchases Book, whereas the individual Personal Account concerned will be credited, the monthly total as indicated by each departmental column will be debited to its respective Purchases Accounts in the Ledger, viz: Hosiery Purchases

DEPARTMENTAL PURCHASES BOOK.

Date.	Particulars.	Ledger Folio.	Total.			Hosiery.			Hats.			Boots.					
			Rs.	A.	P.	Rs.	A.	P.	Rs.	A.	P.	Rs.	A.	P.			
1931																	
July	1	Roy & Co., Calcutta Invoice No. 792 ...	145	12,100	...	...	9,500	...	...	2,600	...	...			
"	5	Bombay Hosiery Mfg. Co., Ltd., Bombay, Invoice No. 793 ...	128	8,500	...	...	8,500	...	...						
"	12	Dawoodbhal & Co., Cawnpore, Invoice No. 794 ...	135	7,200	...	...							7,200	...	...
"	20	India Hat Mfg. Co., Delhi, Invoice No. 795 ...	96	8,200	...	...				8,200	...	...			
"	25	Bombay Tanneries Ltd., Bombay, Invoice No. 796 ...	85	10,900	...	...							10,900	...	...
"	28	Swadeshi Hosiery Mart, Bombay, Invoice No. 797 ...	142	7,650	...	...	7,650	...	...						
		Rs. ...	54,550	...	...	11,650	...	...	10,800	...	...	18,100	...	...	

Account, Hats Purchases Account or Boots Purchases Account, as the case may be.

Similarly, from the Sales Book, whereas each Personal Account of the customer concerned will be individually debited with its respective amount, the corresponding credits will be given to the Hosiery Sales Account, Hats Sales Account and Boots Sales Account, with the respective totals as indicated by the appropriate columns.

Returns Inwards and Outwards of each department will be similarly dealt with.

The Closing Stock of each Department will also have to be separately taken and valued.

There should also be opened in the Ledger, a separate account for the direct charges, such as Freight, Duty, Clearing Charges, and Carriage Inwards for each Department, and the amounts attributable to each Department should be debited thereto.

This would now enable the Trading Account to be prepared in a columnar form so as to indicate the Gross Profit made by each Department.

If it is desired to ascertain the Net Profit or Loss arising from each Department separately, the whole of the expenses incidental to the conduct of the business will also have to be allocated on some reasonable and consistent basis, so that each Department may be burdened with its fair share of such expenses.

It need hardly be pointed out that if any expenses have been specifically incurred on account of any particular Department, the same should be charged in their entirety to that Department.

The following will be the usual method of allocation:-

Salaries and Wages of each Department should be charged to that Department.

Salaries of Sub-managers should be spread over the Departments under their charge.

Rent and Taxes should be allocated on the basis of the floor-space occupied by each Department.

Insurance should be apportioned on the basis of the value of Stock, Fixtures etc., of each Department.

Where it is found difficult to determine any definite basis of apportionment, the allocation of such items may be made on the basis of the turnover of each Department.

The following illustration will serve to indicate the lines on which Departmental Accounts are prepared.

Example 55.

TRIAL BALANCE.						Dr.	Cr.
						Rs.	Rs.
Opening Stock :—							
Hosiery	...	...	...	...	...	35,500	
Hats	...	...	...	...	...	42,000	
Boots	...	...	...	...	...	12,000	
Purchases :—							
Hosiery	...	...	...	...	...	1,70,000	
Hats	...	...	...	...	...	1,25,000	
Boots	...	...	...	...	...	85,000	
Returns Outwards—							
Hosiery	...	...	...	...	...		6,000
Hats	...	...	...	...	...		2,000
Boots	...	...	...	...	...		3,600
Carriage Inwards	...	...	...	...	...	3,690	
Freight & Duty	...	...	...	...	...	5,625	
Sales :—							
Hosiery	...	...	...	...	...		2,15,000
Hats	...	...	...	...	...		1,70,000
Boots	...	...	...	...	...		92,000
Returns Inwards :—							
Hosiery	...	...	...	...	...	5,000	
Hats	...	...	...	...	...	2,000	
Boots	...	...	...	...	...	8,000	
Staff Salaries	...	...	...	...	...	22,000	
Manager's Salary							
Hosiery	...	...	...	...	...	3,600	
Hats	...	...	...	...	...	2,400	
Boots	...	...	...	...	...	2,100	
Rent & Taxes	...	...	...	...	...	7,700	
Advertisement	2,750	
Travellers' Commission	3,520	

MISCELLANEOUS ACCOUNTS

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	Dr. Rs.	Cr. Rs.
Discounts	1,210	
Insurance	880	
General Expenses	6,050	
Electric Charges	1,595	
Carriage Outwards	1,320	
Bad Debts :—		
Hosiery	2,000	
Hats	1,000	
Boots	500	
Postage & Telegrams	1,210	
Sundry Debtors	66,000	
Sundry Creditors		50,600
Furniture & Fixtures	5,610	
Cash at Bank	11,640	
Cash in Hand	1,700	
Capital		1,00,000
	Rs. 6,38,600	Rs. 6,38,600

The Stock in trade on 31st December 1930 was as follows:—

Hosiery Rs. 40,820 Hats Rs. 25,615 Boots Rs. 25,410.

Write off 10% Depreciation from Furnitures & Fixtures, and make a Reserve of 5% on Sundry Debtors.

Note :—All Direct Charges on Purchases should be allocated on the basis of the purchases of each department and other expenses on the basis of turnover.

BALANCE SHEET as at 31st December 1930.

Liabilities.		Rs.	Assets.		Rs.
Sundry Creditors	Rs.	50,600	Cash in Hand	Rs.	1,700
Capital	1,00,000		Cash at Bank		11,640
Add Net Profit during the year	22,334		Sundry Debtors	Rs.	66,000
	1,22,334		Less Reserve for Doubtful Debts	3,300	62,700
			Stock-in-trade :—		
			Hosiery	40,820	
			Hats	25,615	
			Boots	25,410	
				91,845	
			Furniture & Fixtures	5,610	
			Less Depreciation	561	
				5,049	
	Rs. 1,72,934			Rs. 1,72,934	

DEPARTMENTAL TRADING AND PROFIT & LOSS ACCOUNT, for the year ending 31st December 1930.

310 FIRST STEPS IN DOUBLE-ENTRY BOOK-KEEPING.

	Hosiery.	Hats.	Boots.	Total.		Hosiery	Hats.	Boots.	Total.
To Opening Stock	Rs. 35,500	Rs. 42,000	Rs. 12,000	Rs. 89,500	By Sales less Returns	Rs. 2,10,000	Rs. 1,68,000	Rs. 84,000	Rs. 4,62,000
" Purchaseless Returns	1,64,000	1,23,000	82,000	3,69,000	" Closing Stock	40,820	25,615	25,410	91,845
" Carriage Inwards	1,640	1,230	820	3,690					
" Freight & Duty	2,500	1,875	1,250	5,625					
" Gross Profit c/d.	47,180	25,510	13,340	86,030					
	Rs. 2,50,820	1,93,615	1,09,410	5,53,845		Rs. 2,50,820	1,93,615	1,09,410	5,53,845
To Staff Salaries	10,000	8,000	4,000	22,000	By Gross Profit b/d.	47,180	25,510	13,340	86,030
" Manager's Salary	3,600	2,400	2,100	8,100					
" Rent and Taxes	3,500	2,800	1,400	7,700					
" Advertisement	1,250	1,000	500	2,750					
" Travellers' Commis- sion	1,600	1,280	640	3,520					
" Discounts	550	440	220	1,210					
" Insurance	400	320	160	880					
" General Expenses	2,750	2,200	1,100	6,050					
" Electric Charges	725	580	290	1,595					
" Carriage Outwards	600	480	240	1,320					
" Postage & Telegram	550	440	220	1,210					
" Bad Debts	2,000	1,000	500	3,500					
" Reserve for Doubtful Debts	1,500	1,200	600	3,300					
" Depreciation on Fur- niture	255	204	102	561					
" Capital Account-Net Profit Transferred	17,900	3,166	1,268	22,334					
	Rs. 47,180	25,510	13,340	86,030		Rs. 47,180	25,510	13,340	86,030

CONVERSION OF A PARTNERSHIP INTO A LIMITED CO.

In order to overcome the disadvantage of carrying on a business in partnership due to the unlimited liability for the whole of the debts of the firm to which every partner is open, it has become a practice for partnership concerns to convert themselves into Limited Companies.

When a partnership business is so converted into a Limited Liability Company, the entries in the books of the partnership will be made on just the same lines as in case of a dissolution of partnership thus :—

1. The accounts of all the assets taken over by the Company will be closed by transfer to Realisation Account at book value.

2. All the liabilities taken over by the company will be transferred at book value to the Realisation Account and their respective accounts will thus be closed.

3. The Purchasing Company's Account will be debited with the full purchase price and the Realisation Account will be credited.

4. The expenses of conversion would in the ordinary way be debited to the Realisation Account, and credited to the Bank.

5. If, however, the Purchasing Company has agreed to bear the whole of such expenses or a part thereof, the Purchasing Company's Account will be debited with such amount, and the Bank Account will be credited.

6. If there are any assets which are not transferred to the Company, but are taken over by any of the partners, the same would be debited to the particular partner's Capital Account at the agreed value, the corresponding credit being given to those asset accounts. The balance, if any, now left on those asset accounts would be transferred to the Realisation Account.

7. On receipt of the purchase consideration from the company, debit Bank Account with the cash received, and the Accounts of Shares or Debentures with the value of such Shares or Debentures received, and credit the Purchasing Company's Account.

8. If there are any liabilities which are not taken over by the company, these should be paid off by the firm and the entry in this behalf will be to debit those Liability Accounts and credit Bank Account.

9. The balance on the Realisation Account will represent Profit or Loss on realisation, which would be transferred to the Capital Accounts of the partners in the same proportions in which Profits or Losses are divisible.

10. The assets by way of Bank balance and the Shares or Debentures of the Purchasing Company will now be distributed amongst the partners in proportions to their respective Capitals, the latter Account being debited and the Account of the Asset distributed being credited.

PURCHASE OF BUSINESS BY A LIMITED COMPANY.

When a private business is converted into a Limited Company, or when a Limited Company purchases a private firm acquiring its assets and taking over its liabilities at an agreed purchase consideration, the following will be the entries in the books of the Company:—

1. Debit Business Purchase Account and credit the Account of the Vendors (i. e. Sellers) at the full purchase price.

This entry would record the fact of the Company having agreed to acquire a certain business at a certain agreed value.

2. Debit each Asset Account and Goodwill Account (if any amount is paid for Goodwill) with the agreed value and credit the Accounts of the Liabilities taken over with their respective values and the Business Purchase Account, with the purchase price.

This entry will serve to bring into record details of the various assets and liabilities taken over with their respective values and will close the Business Purchase Account.

3. On the Vendors being paid off the purchase consideration, debit the Vendors' Account and credit the Share Capital Account (with the value of the shares issued), Debentures Account (with the value of the Debentures issued) and Bank Account (with the amount paid in cash).

4. The value of Goodwill, if any, is arrived at by deducting the value of the net assets acquired from the purchase consideration. The value of net assets is arrived at by deducting the total amount of the liabilities taken over from the gross value of the assets acquired.

Example 56.

The following was the Balance Sheet of X, Y & Z on 31st March 1931, on which date they decided to dispose of their business to a Limited Company.

Liabilities.		Assets.	
	Rs.		Rs.
Sundry Creditors ...	19,000	Cash at Bank ...	1,000
Bank Overdraft ...	20,000	Sundry Debtors ...	18,000
Capital Accounts :-		Stock-in-trade ...	25,000
X	25,000	Plant ...	15,000
Y	20,000	Land & Building ...	40,000
Z	15,000		
	60,000		
	Rs. 99,000		Rs. 99,000

The Company took over the entire business on the basis of the above Balance Sheet at an agreed purchase-consideration of Rs. 75,000/- payable half in cash, one-fourth by the issue of fully-paid Debentures and the balance by the issue of fully-paid Preference Shares.

(1) Pass the necessary journal entries in the Books of the Firm and show the Ledger Accounts, assuming that the Assets and Liabilities have been duly transferred to the Company and the purchase consideration received from them.

(2) Pass the necessary journal entries in the Books of the Company to record the above, and show how the Goodwill amount is arrived at.

JOURNAL ENTRIES IN THE BOOKS OF THE FIRM.

	Dr.	Rs.	Rs.
Realization Account ...	9,900		
To Bank ...			1,000
" Sundry Debtors ...			18,000
" Stock-in-trade ...			25,000
" Plant ...			15,000
" Land & Building ...			40,000
Being the transfer of Assets taken over by the Purchasing Company to Realization Account as per Agreement dated _____.			

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	Rs.	Rs.
Sundry Creditors Account Dr.	19,000	
Bank Overdraft Account "	20,000	
To Realization Account "		39,000
Being the transfer of Liabilities taken over by the Purchasing Company to Realization Account as per Agreement dated _____.		
Purchasing Company's Account Dr.	75,000	
To Realization Account "		75,000
Being the Purchase Consideration of Assets & Liabilities taken over by the Purchasing Company as per Agreement dated _____.		
Realization Account Dr.	15,000	
To X's Capital Account "		5,000
" Y's " "		5,000
" Z's " "		5,000
Being the transfer of Profit on Realization to Partners' Capital Accounts.		
Debentures Account Dr.	18,750	
Preference Shares Account "	18,750	
Bank Account "	37,500	
To Purchasing Company's Account "		75,000
Being the Purchase Consideration received half in cash, one fourth in fully paid Debentures and balance in fully paid Preference Shares.		
X's Capital Account Dr.	7,500	
Y's " "	6,250	
Z's " "	5,000	
To Debentures Account "		18,750
Being the distribution of Debenture amongst the Partners in proportion to their respective Capitals.		
X's Capital Account Dr.	7,500	
Y's " "	6,250	
Z's " "	5,000	
To Preference Shares Account "		18,750
Being the distribution of Preference Shares amongst the Partners in proportion to their respective Capitals		
X's Capital Account Dr.	15,000	
Y's " "	12,500	
Z's " "	10,000	
To Bank Account "		37,500
Being the distribution of Cash amongst the Partners.		

REALIZATION ACCOUNT.

	Rs.		Rs.
To Bank	1,000	By Sundry Creditors	19,000
" Sundry Debtors	18,000	" Bank Overdraft	20,000
" Stock in trade	25,000	" Purchasing Co's A/c.	75,000
" Plant	15,000		
" Land & Building	40,600		
" Capital Accounts— transfer of Net Profit :—			
X	5,000		
Y	5,000		
Z	5,000		
	15,000		
Rs	1,14,000	Rs	1,14,000

PURCHASING COMPANY'S ACCOUNT.

Rs.	Rs.		
To Realization Account	75,000	By Bank	37,500
		" Debentures	18,750
		" Preference Shares	18,750
	<u>Rs. 75,000</u>		<u>Rs. 75,000</u>

DEBENTURES ACCOUNT.

Rs.	Rs.		
To Purchasing Co.	18,750	By Capital Accounts :—	
		X 7,500	
		Y 6,250	
		Z 5,000	
	<u>Rs. 18,750</u>		<u>18,750</u>
			<u>Rs. 18,750</u>

PREFERENCE SHARES ACCOUNT.

Rs.	Rs.		
To Purchasing Co.	18,750	By Capital Accounts :—	
		X 7,500	
		Y 6,250	
		Z 5,000	
	<u>Rs. 18,750</u>		<u>18,750</u>
			<u>Rs. 18,750</u>

BANK ACCOUNT.

Rs.	Rs.		
To Purchasing Co.,	37,500	By Capital Accounts :—	
		X 15,000	
		Y 12,500	
		Z 10,000	
	<u>Rs. 37,500</u>		<u>37,500</u>
			<u>Rs. 37,500</u>

X'S CAPITAL ACCOUNT.

Rs.	Rs.		
To Debentures	7,500	By Balance	25,000
" Preference Shares	7,500	" Realization A/c.	
" Cash	15,000	Transfer of 1/3rd Profit	5,000
	<u>Rs. 30,000</u>		<u>Rs. 30,000</u>

Y'S CAPITAL ACCOUNT.

	Rs.		Rs.
To Debentures	6,250	By Balance	20,000
" Preference Shares	6,250	" Realization A/c.	
" Cash	12,500	Transfer of 1/3rd Profit	5,000
	<u>Rs. 25,000</u>		<u>Rs. 25,000</u>

Z'S CAPITAL ACCOUNT.

	Rs.		Rs.
To Debentures	5,000	By Balance	15,000
" Preference Shares	5,000	" Realization A/c.	
" Cash	10,000	Transfer of 1/3rd Profit	5,000
	<u>Rs. 20,000</u>		<u>Rs. 20,000</u>

JOURNAL ENTRIES IN THE BOOKS OF THE PURCHASING COMPANY.

Business Purchase Account	Dr.	75,000	Rs.
To Vendors' Account			75,000
Being the amount of Purchase Consideration for the entire business taken over from X, Y, Z the vendors, as per Agreement dated _____.			
Bank	Dr.	1,000	
Sundry Debtors	"	18,000	
Stock-in-trade	"	25,000	
Plant	"	15,000	
Land & Building	"	40,000	
Goodwill	"	15,000	
To Sundry Creditors			19,000
" Bank Overdraft			20,000
" Business Purchase Account			75,000
Being the values of the Assets & Liabilities purchased from Vendors as per Agreement dated _____.			
Vendors' Account	Dr.	75,000	
To Debentures Account			18,750
" Preference Share Capital A/c.			18,750
" Bank Account			37,500
Being the purchase consideration paid to the Vendors, half in Cash, one fourth in fully paid Debentures and balance in fully paid Preference Shares.			

VALUATION OF GOODWILL.

The Value of Goodwill is arrived at as follows —

	Rs.
Total Assets	99,000
Less Total Liabilities	39,000

Net Assets taken over	60,000
Purchase Consideration paid	75,000

Excess being the amount of Goodwill	Rs. 15,000

SINGLE ENTRY.

Single Entry is a crude form of Book-keeping under which only Personal Accounts and a Cash Account are maintained, and only one aspect of each transaction as it affects the Personal Accounts is recorded.

The original records such as the Cash Book, the Purchases Book, the Sales Book, and the Returns Books, and even the Bill Books are sometimes maintained, but the postings therefrom are only made to the Personal Accounts concerned.

From the Receipts side of the Cash Book, the cash received from the debtors is posted to the credit of the Personal Accounts concerned, but other items of receipts, such as, Cash Sales, Interest Received, Bills Receivable discounted or met on due dates etc. are not posted. Similarly, entries in respect of cash paid to creditors as appearing on the payments side of the Cash Book are posted to the respective Personal Accounts, but other items such as payments for cash purchases, Bills Payable, Salaries, Wages, Rent, Advertisements, etc. are left out unposted.

The periodical totals of the Purchase Book, the Sales Book, and the Returns Outwards and Inwards Books are left unposted as the Purchases and Sales Accounts and the Returns Outwards and Inwards Accounts are not opened in the Ledger.

Similarly, from the Bills Receivable and the Bills Payable Books, whereas the Personal Accounts concerned would be individually credited or debited as the case may be, the periodical totals of

these books are not posted to the Bills Receivable and the Bills Payable Accounts, as these accounts are not maintained.

The only information that can thus be secured from the Ledger kept under Single Entry would be in relation to Debtors and Creditors, i. e. how much is due to the trader from his customers and how much he owes to his creditors. In the absence of any Impersonal Accounts being kept, the books fail to disclose information for the preparation of a Profit and Loss Account, or particulars of Assets and Liabilities for the preparation of a Balance Sheet. Evidently, therefore, this form of Book-keeping is of very limited value, and is seldom found in use in any concern of importance.

DISADVANTAGES OF SINGLE ENTRY.

The disadvantages of Single Entry may be summed up thus :—

- (1) As the two-fold aspect of every transaction is not recorded, the arithmetical accuracy of the books cannot be tested by means of a Trial Balance.
- (2) As no Nominal Accounts are kept, the trader cannot ascertain at periodical intervals as to what profit or loss he has made or sustained and how such profit or loss has arisen, as a Profit and Loss Account cannot be prepared.
- (3) In the absence of any reliable and continual record of the incomings and outgoings of the various assets, due to no Real Accounts being maintained, the trader cannot ascertain his exact financial position on any particular date by the preparation of a Balance Sheet.

STATEMENT OF AFFAIRS.

The trader who has maintained his books on Single Entry can ascertain his financial position in an approximate manner by means of a "Statement of Affairs," which is a statement prepared by setting forth the Assets and Liabilities on any given date.

The method of preparing a Statement of Affairs is as follows: —

- (1) Balance the Cash Book and verify the correctness of the cash balance.
- (2) Ascertain the total amount due from debtors, from the Personal Accounts opened in the Ledger.
- (3) Ascertain the value of Stock-in-trade by proper stock-taking and valuation.
- (4) Ascertain the value of Bills Receivable unmatured, if any, on hand.
- (5) Ascertain the values of all other Assets, such as, Plant, Machinery, Furniture and Fixtures, etc., from such information as is available.
- (6) Ascertain the amount owing to the creditors from the Ledger Accounts maintained.
- (7) Ascertain if there are any other Liabilities owing or outstanding, and not recorded in the Ledger.
- (8) Arrange all the above items in the form of a Balance Sheet, setting forth the Assets on the right-hand side, and the Liabilities on the left-hand, and calling the excess of Assets over Liabilities Capital.

It must be noted, however, that the information thus secured from the preparation of a Statement of Affairs is by no means as reliable and as complete as that given by a Balance Sheet. The reason is that a Balance Sheet represents a collection of the balances of all the Assets and Liabilities on a given date, as appearing in the Ledger maintained on the Double Entry System, under which the arithmetical accuracy of the record can be absolutely proved. On the other hand, the Statement of Affairs is a statement of the Assets and Liabilities of a business on a given date, but the items included therein are partly ascertained from the Ledger and partly from other sources of information.

ADDITIONAL QUESTIONS & EXERCISES.

1. Journalise the following transactions:—

				Rs.
Jan.	5	C. Sardia brought in as Capital	...	5,000
"	6	Paid into Bank..	...	4,700
"	7	Bought Goods from B. Beech	...	800
"	8	Sold Goods to P. Pine	...	1,000
"	10	Received from P. Pine, Cash...	...	975
"	"	Allowed him discount	...	25
"	11	Purchased Goods for Cash	...	500
"	12	Sold Goods for Cash	...	400
"	13	Paid into Bank	...	800
"	15	Paid B. Beech on account	...	380
"	"	Received from him discount	...	20
"	17	Purchased Goods from D. Day	...	900
"	18	Remitted to D. Day, cheque	...	472
"	"	He allowed discount	...	23
"	19	Returned to D. Day, Goods	...	50
"	25	Paid Salaries by Cheque	...	250
"	27	Sent cheque for Rent	...	150
"	28	Paid Cash for Stationery	...	45

2. Journalise the following transactions:—

March	1	S. Smith commenced business with	...	7,500
"	2	Bought Goods from W. Wills	...	1,200
"	3	Sold Goods to K. Kemp	...	750
"	4	Purchased from S. Sen, Goods	...	450
"	5	C. Gupta bought Goods	...	800
"	7	Paid into Bank Account	...	7,000
"	8	Paid cheque to W. Wills in full settlement of Account	...	1,150
"	10	K. Kemp paid by cheque	...	300
"	"	Allowed him Discount	...	10
"	11	Remitted cheque to S. Sen...	...	235
"	"	He Allowed Discount	...	15
"	12	C. Gupta returned Goods	...	75
"	15	Received cheque from C. Gupta	...	445
"	"	Allowed him Discount	...	25
"	17	Sent Credit note to K. Kemp for Goods soiled	...	30
"	18	S. Smith drew cash for self	...	200
"	20	Paid into Bank...	...	1,000

ADDITIONAL QUESTIONS & EXERCISES.

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			Rs.
March	21	Cash Sales	900
"	23	Cash Purchases	800
"	24	Paid by cheque for goods bought ..	225
"	25	Paid Cash for Sundry Trade Expenses ..	75
"	29	Paid landlord by cheque	150
"	30	Issued cheque for Petty Cash	100
"	31	Paid for Advertisements by Cash ..	40

3. From the above transactions, write out a Cash Book with Discount and Cash Columns only.

4. Enter the same transactions in a Cash Book with Discount, Cash and Bank Columns.

5. Journalise the following transactions :-

			Rs.
April	1	R. Ramrao paid into Bank as Capital ..	4,000
"	2	Purchased Goods from W. Sell	1,500
"	3	Paid Cheque to W. Sell	685
"	"	Was allowed discount	25
"	4	Sold Goods to J. Jones	1,875
"	10	J. Jones paid cheque in full settlement ..	1,800
"	11	Bought from F. Kershaw, Goods	700
"	12	Sold Goods for cash to W. Pink	200
"	13	Sold Goods to D. Dawson	370
"	14	Sent Credit Note to J. Jones for returns ..	50
"	15	Paid into Bank cheque received from J. Jones on the 10th	1,800
"	16	Received Credit Note from F. Kershaw for damaged Goods	100
"	17	Remitted cheque to F. Kershaw in full settlement of his account	575
"	18	Received cheque from D. Dawson in full settlement of his account	280
"	19	Lent H. Hardup by cheque	400
"	20	Paid Wages by Cash	175
"	21	Drew Cash from Bank for Office use	300
"	22	R. Ramrao drew cheque for his personal use ..	250
"	27	Cash Sales	335
"	30	Cash Purchases	200

6. Sort out Cash Transactions from the above exercise, and enter them in a Cash Book with Discount, Cash and Bank Columns.

7. Show how you would enter the same transactions in a Cash Book with Discount and Cash Columns only.

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8. On 1st, July 1929, the books of P. Pavri disclosed the following balances :—

	Rs.
Cash at Bank	4,700
Cash at Office	200
Stock on hand	2 000
G. Garter (Debtor)	300
C. Carter do.	400
B. Baker do.	500
P. Palmer (creditor)	1,000
H. Hartley do.	1,500
S. Stanley do.	2,000

Open the books by a Journal entry, and enter the following further transactions through Journal.

	Rs.
July 2 P. Pavri drew cash for self	100
" 3 G. Garter settled his account by cheque for	275
" 4 Received cheque from C. Carter	360
Allowed him discount	40
" 5 Paid into bank cheques received from G Garter and C. Carter	635
" 6 Paid P. Palmer by cheque	470
" 7 Discount allowed by him	30
" 7 Received cheque from H. Hartley in full settlement of his account	1,425
" 8 Bought Goods from J. Hopson	1,475
" 9 Endorsed over Hartley's cheque to Hopson in full settlement	1,425
" 10 Cash Sale	600
" 11 Purchased Goods from Rao & Co.	1,250
" 12 Sold Goods to Baldeo & Sons	975
" 13 P. Naidu bought Goods for cash	325
" 14 Sold Goods to Evans & Co. for cash	300
" 16 Bought Goods from C. Das for cash	475
" 18 Gave cheque to Rao & Co. in full settlement of their Account	1,210
" 19 Sales to C. Smith	200
" 22 Purchases from R. Robin	400
" 24 Paid in Bank	550
" 26 Cash Purchases	200
" 28 Drew Cheque for office use	900
" 29 Paid salaries by cash	375
" 30 Paid Office Rent by cash	225
" 31 Paid Cash for Travelling Expenses	75
" P. Pavri drew cheque for personal use	275

9. Enter the Cash Transactions from the above exercise in a Cash Book without Bank columns.

10. Enter the same transactions in a Cash Book with Discount, Cash and Bank columns.

11. R. Hardy's books contained the following balances on 1st January 1929 :-

	Rs.
P. Swift (Creditor)	1,000
R. Shanker do	2,000
C. Green do	3,000
A. White (Debtor)	1,200
B. Brown do	2,300
C. Black do	2,100
Stock on hand	4,000
Bills Payable Nos. 1 & 2	1,400
Bills Receivable Nos. 1 & 2	1,600
Cash at Bank	12,700
Petty Cash in hand	200
Office Furniture and Fittings	1,100

NOTE:—All cash received is banked and all payments are made by cheques.

In the month of January, his transactions were:—		Rs.
Jan. 2	Sold Goods to Red & Co.	900
" 3	Bought Goods from Krishna & Co.	1,200
" "	A. White accepted Bill No. 3 for one month for Paid by cheque the balance of	800 400
" 4	Sold to Turpin, Goods	1,000
" 5	Bought from C. Sharp, Goods	1,170
" 7	B. Brown paid by cheque in full settlement	2,200
" 8	Sent Credit Note to C. Black for returns	200
" "	C. Black accepted Bill No. 4 for the balance	1,900
" 9	Paid P. Swift by cheque in full settlement	950
" 10	Received Credit Note from R. Shanker for returns	175
" "	Accepted R. Shanker's draft B. P. No. 3 for the balance	1,825
" 11	Returned Goods to C. Green	400
" "	Paid C. Green on account	1,600
" "	Accepted his Bill No. 4 for	1,000
" 12	Bought from Lloyd & Co., Goods	2,200
" "	Sold Goods to G. Spencer	1,500
" "	" " to R. Brandon for Cash	1,700

		Rs.
Jan.	13 Bought Goods from Copeland & Co	875
"	" Returned Goods to Lloyd & Co.	300
"	" G. Spencer returned Goods	125
"	14 Sent Credit Note to R. Brandon for damaged Goods.	200
"	15 Copeland & Co. sent Credit Note for short weight claimed	75
"	16 Bills Receivable Nos. 1 and 2 realised by bank ..	1,600
"	17 Discounted C. Black's acceptance B. R. No. 4 and received cash	1,700
"	27 Cash Sales	2,700
"	28 Cash Purchases	1,400
Feb.	5 Paid Salaries	300
"	6 A. White's Acceptance dishonoured this day ..	800
"	7 Drew Cheque for Petty Cash	150
"	13 Bank met Bill Payable No. 3	1,825
"	14 Paid C. Green on account of B/P No. 4 due this day... Accepted C. Green's fresh draft B. P. No. 5 for the balance and for interest	400 625
"	16 Sold Goods to R. Sims for cash	700
"	20 Bank met Bills Payable 1 and 2	1,400
"	22 Paid Office Rent	250
"	25 Received cash for Commission earned	600
"	28 The payments from Petty Cash for the period were :—	
	Carriage & Cartage	75
	Postages & Telegrams	50
	Sundry Charges	40
	Printing & Stationery	125
	Advertisements	35
		325

Enter all the above transactions in the proper subsidiary books, post the same and prepare a Trial Balance.

- 12 Journalise all the transactions as given in the preceding question.
- 13 Explain how you save work by using the Purchases and Sales Books instead of entering Purchases and Sales through the Journal.
14. Explain why entries from the debit side of the Cash Book are posted to the credit side of the Ledger Accounts.
15. What is the effect of a "Crossed Cheque"?
- 16 Explain the meaning and effect of the words "Not Negotiable" when written across a cheque.

17. What is a Trial Balance and what are its uses ?
18. What entries are passed through the Journal in practical work?
19. Why is it desirable to calculate interest on capital brought in a business ?

20 Explain the advantages of a Cash Book with Bank Columns over one without Bank Columns

21. Explain the difference between a Cheque, an Acceptance and a Promissory Note.

22. Journalise the following transactions :—

	Rs.
1. Sent to Bank for collection, Bill Receivable..	2,000
2. Bill Receivable duly collected by Bank ..	2,000
3. Bill Payable due this day met at Bank ...	500
4. Handed our acceptance at 3 months to A. Bartlett for Rs. 3,000	
5. Handed over acceptance of Roberts & Co, for Rs. 1,000 to P. Smith in settlement of the amount we owed them ...	750
6. Discounted Kirk & Co.'s Acceptance for receiving Cash, Rs. 720 ...	750
7. J. Jones endorsed over to us the acceptance he had received from C. Chinoy & Co., for.	1,500
8. Handed over the same to our Bank for collection.. ..	
9. The Bank informs us that the above acceptance is dishonoured ...	
10. Endorsed over Walker & Co's Acceptance to Smithson & Co. in settlement of our Bill Payable due to them Rs. 1,200. ...	
11. Walker & Co.'s acceptance dishonoured. ...	
12. Bill Receivable sent to Bank for collection dishonoured this day ...	700
13. James & Co. ask us to cancel their old acceptance for Rs. 1,175 and in return they pay us Rs. 500 in cash and accept another Bill drawn by us for Rs. 700 inclusive of interest ...	
14. We ^o cancel Black's Acceptance for Rs. 800 before due date, as per his request, and draw on him another Bill for Rs. 830 including interest, which he accepts	

15. P. Brown, being unable to meet his acceptance for Rs. 600, pays us Rs. 320 including Rs. 20 for interest and asks us to draw on him another Bill for the balance, which he accepts ..
16. Being unable to meet our acceptance for Rs. 1,000, we request Thompson & Co. to cancel the same. We pay them Rs. 640 in cash and ask them to draw on us a Bill for Rs. 400 which we accept

23. Messrs. Sharp & Co. of Bombay drew a Bill of Exchange upon Messrs. Radhakrishnan & Co. of Lahore, on 1st April 1929 for Rs. 750 at 3 months' date which was duly accepted payable at the Central Bank of India, Ltd., Lahore. The acceptance was then endorsed to Messrs. Modi & Co. Bombay. Draw the Bill of Exchange showing acceptance, endorsement and Stamp Duty.

24. Assuming that the above Bill is dishonoured, pass the necessary entries in the books of the Drawer, Acceptor and the Endorsee.

25. Make out a Promissory Note for Rs. 300 as from C. Sen Gupta in favour of Lala Bholanath dated 1st March 1929, at 3 month's date, showing the Stamp duty.

26. The above Promissory Note is then endorsed over to P. Ramprasad and is dishonoured on due date. Show the entries in the books of the Drawer, the Endorser and the Endorsee.

27. Enter the following transactions (1) in a Cash Book with Cash and Bank Columns, and (2) in a Cash Book without Bank Columns:—

Jan. 1 Balance of Cash Rs. 250.

do. at Bank Rs. 2 750.

5 Purchases for Cash Rs. 200.

6 Paid Jones & Co. by cheques Rs. 300.

10 Gave cheque for Office rent Rs. 400.

12 Drew cheque for Office Cash Rs. 225.

15 Received from T. Smith Cheque Rs. 175 and Cash Rs. 255.

20 Endorsed over T. Smith's Cheque to Henry & Co. Rs. 175.

25 Paid into Bank Rs. 220.

28. Explain carefully how the figure of stock at the close of each financial period is brought into account.

29. Distinguish carefully between Adjusting Entries and Closing Entries.

30. On 1st March 1929, X sold to Y goods of the value of Rs. 1,200 and drew upon him at three months for that amount. On 15th April 1929, X purchased from A goods worth Rs. 2,000; he handed A a cheque for Rs. 760 and Y's acceptance in full settlement of the purchase. A discounts the Bill with his bankers for Rs. 1,170. On maturity, the acceptance is dishonoured by Y and X pays up the amount, Show how the transactions would be recorded in the books of X, Y and A.

31 John and Jacob are in partnership with Capitals of Rs 5,000 and Rs. 6,000 and sharing profits in $\frac{3}{5}$ ths and $\frac{2}{5}$ ths. Both the partners are entitled to Interest on Capital at 5% and Jacob is to receive a salary of Rs. 300 a month for acting as manager.

During the year 1928, John's withdrawals amounted to Rs. 3,000 and Jacob's to Rs. 4,000 and the interest chargeable thereon worked out at Rs. 75 to John and Rs. 125 to Jacob.

The firm's net profits for the year, after making all necessary adjustments, amounted to Rs. 15,000. Show how the Drawings and Capital Accounts of the partners will appear on 1st January 1929.

32. How would you rectify the following mistakes?—

- (1) Rs. 400 paid for wages has been posted as Rs. 450.
- (2) An Invoice of Rs. 375 has been entered as of Rs. 735. The Invoice Book for the month has already been added and the postings made.
- (3) Goods amounting to Rs. 500 had been included in the closing Stock on 30th June 1928, but the corresponding entry in Purchases Book was not made until 5th July 1928.
- (4) Wages Rs. 250 expended on manufacturing of Tools were charged to Wages Account.
- (5) An item of Goods Rs. 175 sold to R. Smith was debited to Smithson's Account.
- (6) An amount of Rs. 200/- written off as Bad Debt last year and now received was credited to the personal account of the customer.

33. Explain why it is wrong in principle to treat Goods sent out on Consignments as Sales.

34. What considerations would guide you in deciding whether a particular item of expenditure can properly be termed as Capital Expenditure or Revenue Expenditure?

35. A Trades forwarded to a customer an Invoice for goods supplied amounting to Rs. 675, and the entry was passed through his books. It is discovered afterwards that the correct total of the Invoice is Rs. 655. How would you suggest the mistake to be rectified?

36. Enter the following transactions in the books of the Consignor and the Consignee :—

1929

- Jan. 5 T. Smith of Ceylon consigned to P. Parry of Calcutta 100 Chests of Tea of 50 lbs. each invoicing the same at Re. 1/9 per lb. (i. e., 25% above cost) to be sold on his account and risk.
- „ „ Smith paid Carriage and Insurance on same, Rs. 300/-.
- „ 15 Parry received from Smith, a Bill for Rs. 3,000/- at one month, as an advance on consignment, which he accepted.
- Mar. 10 Parry sent an Account Sales to Smith stating that he had sold 2/5ths of the quantity at Re 1/12 per lb. and 2/5ths at 1/10 per lb. He had paid the following charges thereon :— Insurance Rs. 50. Cartage and Storage, Rs. 200. He also deducted his Commission @ 2½% on the gross proceeds.
- „ 15 Parry remitted the balance due by him to Smith by cheque.
- „ 31 One-fifth of the quantity remained unsold and was valued by Smith at Re. 1/5 to lb.

37. (a) Mention five distinct classes of errors which will cause a disagreement of the Trial Balance.

(b) Mention three different types of errors which will not affect the agreement of the Trial Balance.

38. Distinguish between “Fixed” and “Floating” Assets. Designate to which class the undermentioned Assets, the property of a Sewing Machine Manufacturer, belong :—

- (a) Machines in Stock ; (b) Investments in Government Loan ;
 (c) Plant & Machinery ; (d) Book Debts ; (e) Factory Building ; (f) Patents ; (g) Bills receivable ; and (h) Cash at Bank.

39. What is an Account Sales ? On the 5th June 1928, the Indo Manufacturing Co. of Karachi, consigned to Bhupendra Sen & Co. of Calcutta, 150 Sewing Machines valued at Rs. 100 each. The cost of the Sewing Machines was Rs. 75 each. Railway charges and other expenses amounted to Rs. 250 at Karachi. The consignees paid the following expenses :—Freight Rs. 225, Insurance Rs 200, Railway Charges Rs. 125. During the three months ended 31st August 1928, Bhupendra Sen & Co. sold 100 Machines at an average price of Rs. 90. They charged a commission of 7½% on all sales and remitted the balance due on the 31st August 1928.

You are required to show the Account Sales rendered by Bhupendra Sen & Co. to the Indo Manufacturing Co. on the 31st August 1928.

40. From the particulars contained in the above question, you are required to show the entries and the necessary Ledger Accounts in the books of the consignor as well as the consignees and to state at what

price the Indo Manufacturing Co. should include the unsold machines in their Final Accounts for the six months ending 31st August 1928.

41. X, Y and Z are in partnership sharing profits in proportion of $\frac{1}{2}$, $\frac{1}{4}$ and $\frac{1}{4}$ respectively. The partnership agreement provides *Inter alia* that—

(1) Interest on drawings shall be charged at the rate of 5% per annum.

(2) Salaries shall be paid to the partners as follows :—

X	..	Rs. 1,500	per annum
Y	..	1,200	do.
Z	..	900	do.

(3) Interest on Capital shall be charged at the rate of 5% per annum.

The Partners' Capital as at 31st December 1928 was as follows :—

X	..	Rs. 20,000
Y	..	15,000
Z	..	10,000

The partners drew on account of profits for the six months ended 30th June 1929, the following amounts at an average date of 31st March 1929—

X	..	Rs. 1,700
Y	..	1,500
Z	..	1,100

On the 30th June 1929, the balance of the Profit and Loss Account before making any adjustment for interest on Capital and Drawings, partners' salaries etc. was Rs. 9,000. Show the Partners' Drawing, and Capital Accounts for the six months ended 30th June 1929.

42. Ross and Blackwell, wholesale stationers, Calcutta were in partnership sharing profits and losses according to their Capitals. From the following Trial Balance extracted from the books on 31st December 1928, prepare Balance Sheet, Trading and Profit and Loss Account.

TRIAL BALANCE.

Ross Capital	..	..	..	Rs.	Rs. 30,000
Blackwell do.	..	..	..		20,000
Leasehold Premises Jan. 1928	..	..	..	22,000	
Plant and Machinery	..	..	..	10,000	
Additions to Plant and Machinery during the year (all to be taken as made on the 1st July 1928)	..	..	..	1,000	
Sundry Credits	..	..	..		18,000
Bad Debts	..	..	..	300	
Bank Overdraft	..	..	..		5,000

	Rs.	Rs.
Cash in hand	100	
Office Furniture Jan. 1928	1,100	
Sales		50,000
Stock 1st January 1928	18,000	
Purchases	25,000	
Wages (productive)	9,000	
Salaries	3,000	
Carriage Inwards	275	
Carriage Outwards	125	
Insurance	100	
Postage and Telegrams	75	
Rates, Taxes etc.	700	
Office Wages	400	
Advertising	75	
Repairs to Plant & Machinery	150	
Discounts received		200
Discounts allowed	300	
Sundry Debtors	15,000	
Advertising Places, etc. at Stations as at 1st January 1928 to be written off over 3 years	900	
Ross Drawings	8,200	
Blackwell do.	7,400	
	<u>Rs. 1,23,200</u>	<u>1,23,200</u>

Reserve Rs. 700 for productive wages. Insurance is prepaid to the extent of Rs. 30 Depreciate Leasehold Premises 1% per annum, Plant and Machinery 5 p.c. per annum and Office Furniture 5 p.c. per annum. Reserve Rs. 200/- for Doubtful Debts. Stock on hand on 31st December 1928 was Rs. 30,000.

43. The Tin Products Co. Ltd., registered with a Capital of 10,000 Shares of £. 10 each issued its prospectus on 1st February, 1929, inviting applications for 7,500 Shares payable £. 1 per share on application, £. 2 on allotment on 1st April, and £. 3 per share on 1st June.

Applications were received for 6,000 shares which were duly allotted. The amounts called up were paid except allotment money on 200 shares and 1st call on 500 Shares.

In addition, there was also an issue of £. 50,000 6% Redeemable Debentures, payable as to 5% upon application, and 95% on 1st May. The whole of the issue was applied for and the cash duly received.

Give Journal entries to record the above transactions.

44. Show how the Share Capital and Debentures of the Tin Products Co. Ltd. would appear in the Company's Balance Sheet.

45. A Limited Company with an Authorised Capital of Rs. 5,00,000 divided into 5,000 Shares of Rs. 100 each offered for subscription 4,000 Shares of Rs. 10/- each, payable Rs. 10/- per share on application and Rs. 25/- per share on allotment. Applications were received for 4,700 shares. The application Deposits on 400 shares were returned to persons who were not allotted any shares. The Deposits on the other 300 shares were transferred to allotment Account, these subscribers having applied for more shares than were allotted to them. The moneys payable on allotment were duly received. A First Call of Rs. 25 per share was made and was received except on 500 shares.

Pass the Journal and Cash Book entries; show the Ledger Accounts and draw up a Balance Sheet.

46. The National Emporium Ltd., by issue of Prospectus on 15th April 1929 invited applications for 10,000 shares of £. 10 each, payable £. 2 per share on application, £. 2 per share on allotment on 1st May, £. 3 per share one month after allotment and the balance two months thereafter. In addition to these, the company issued £. 50,000—7% Mortgage Debentures, payable as to 10% on application, and the balance on 30th May 1929. The whole of the issues were applied for and cash duly received, with the exception of First Call on 100 shares and Final Call on 300 Shares.

Give Journal entries for the above.

47. TRIAL BALANCE—31st June 1928.

	Rs.	Rs.
Issued Capital, 30,000 Shares (fully paid) ..		3,00,000
Freehold Land and Buildings	55,000	
Plant and Machinery	30,000	
Sundry Debtors	60,000	
Sundry Creditors		25,000
Patents	20,000	
Loose Tools	10,000	
Purchases	90,000	
Sales		1,20,000
Productive Wages	24,100	
Salaries to Staff, etc.	20,000	
Stock, 1st July 1927	65,000	
Rates and Taxes	15,500	
Heating and Light	10,300	
General Expenses	7,900	

	Rs.	Rs.
Repairs	1,200	
Bad Debts	500	
Dividend paid, December 1927	20,000	
Cash in hand	500	
Cash at Bank	35,000	
Profit and Loss Account 1st July 1927		35,000
Bills Receivable	40,000	
Bills Payable		25,000
	Rs. 5,05,000	5,05,000

From the above Trial Balance of the Laxmi Stores Ltd., having a Nominal Capital of Rs. 5,00,000 divided into 50,000 Shares of Rs. 10 each, prepare Trading and Profit and Loss Account and Balance Sheet as at 30th June 1928. Write off depreciation at 10 % on Machinery & Plant, 10% on Patents and 15% on Loose Tools. Rs. 700 were outstanding for Wages and Rs. 500 for Rates and Taxes. Stock was valued on the above date at Rs. 70,000/-.

48. The A.B.C. Manufacturing Company Ltd. was registered with a Nominal Capital of Rs. 80,000 divided into 10,000 Ordinary Shares of Rs. 5 each and 6,000 7% Preference Shares of Rs. 5 each.

From the following Trial Balance, prepare Trading and Profit and Loss Account and Balance Sheet as at 31st December 1928.

Before preparing the Accounts, the following adjustments are necessary :—

Charge Depreciation on Buildings at 2½% per annum and on Plant and Machinery at 5% per annum,

Write down Patents by 10%.

Reserve 5% on Debtors for Doubtful Debts.

The value of Stock as on 31st December 1928 was Rs. 40,000/-.

TRIAL BALANCE.

	Rs.	Rs.
Ordinary Share Capital Account		25,000
Preference " " "		25,000
Stock 1st January 1928	30,000	
Cash in hand	210	
Cash at Bank	15,000	
Purchases	40,000	
Sales		95,000

ADDITIONAL QUESTIONS & EXERCISES.

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	Rs.	Rs.
Returns Inwards	1,200	
" Outwards	..	1,100
Manufacturing Expenses	5,500	
" Wages	10,300	
Insurance	350	
Bad Debts	275	
Salaries	12,115	
Rates and Taxes	3,400	
Land and Buildings	10,000	
Sundry Debtors	24,000	
" Creditors	..	20,000
Tavellers' Salaries and Commission	3,200	
General Expenses	1,500	
Discount	300	
Interest and Bank Charges	150	
Machinery and Plant	15,000	
Patents	5,000	
Profit and Loss Account (Balance 1st January 1928)	..	12,300
Preference Dividend Paid.	900	..
	Rs. 1,78,400	Rs. 1,78,400

49. Prepare a Trial Balance of a Partnership Firm with imaginary figures.

50. Why is it not necessary for the consignee to open a Consignment Account in his books ?

51. From the following particulars, prepare a Bank Reconciliation Statement showing the Balance as per Bank Pass Book on 31st December 1930.

The following cheques were paid into the firm's Current Account at Bank in December 1930, but were credited by the Bank in January 1931.

	Rs.
M. Little	... 200.
P. Love	... 310.
A. Gomes	... 180.

The following cheques were issued by the firm in December 1930, but were cashed in January 1931.

	Rs.
F. Polson	... 400.
A. Small	... 500.
E. Patterson	... 342.

BANK PASS BOOK.

(P. Patikh with National Bank of India).

1931.			1930.		
Jan. 1	To Joshi Bros. ...	730 0 0	Dec. 31	By Balance ...	3,599 12 0
" 3	" Commission on Calcutta Draft.	0 6 0	1931.		
" 3	" Self...	400 0 0	Jan. 1	" Rao & Sons ...	120 0 0
" 4	" K. Kanji ...	225 0 0	" 3	" Das & Co. ...	600 0 0
" 5	" Shah & Co. ...	90 0 0	" 4	" Roy & Co. ...	320 0 0
" 6	" Commission on Delhi Cheque.	1 6 0	" 5	" Sen & Co., Ltd.	300 0 0
			" 6	" Cash ...	400 0 0
			" "	" Gupta Bros. ...	2,200 0 0

54. From the following particulars ascertain the Balance that would appear in the Pass Book of A, as at 31st December 1930.

1. The overdraft as per Cash Book (on 31st December 1930 was Rs. 6,340/-.
2. Interest on overdraft for six months ending 31st December 1930 Rs. 160 is debited in the Pass Book.
3. Bank Charges for the above period also debited in the Pass Book amount to Rs. 30.
4. Cheques issued, but not cashed, prior to 31st December 1930 amounted to Rs. 1,168.
5. Cheques paid into Bank, but not cleared before 31st December 1930, were for Rs. 2,170.
6. Interest on Investments collected by the Bankers and credited in the Pass Book amounted to Rs. 1,200.

55. J. Johnson sends out a consignment of the value of Rs 10,000, to B. Bhagwandas drawing on the latter for Rs. 7,500 as an advance against the consignment. J. Johnson pays Rs. 950 for Freight, etc. B. Bhagwandas clears the goods paying Rs. 500 for duty, dock dues, etc. He sells on credit half the lot for Rs. 8,400 to R. Green and half of the remaining is sold for cash at Rs. 4,000. Bhagwandas is to get 2 1/2 per cent commission on gross proceeds.

Bhagwandas sends out Account Sales and a draft to Johnson for the balance as shown therein. Rs. 2,500 worth of goods are on hand with B. Bhagwandas.

Open the necessary Ledger Accounts in the books of J. Johnson and B. Bhagwandas, and show how the Consignment Account will appear in the books of the consignor. Prepare also the Account Sales as sent by Bhagwandas.

56. Daniel Motors Ltd., London, consign to their Selling Agents in Bombay two cars costing £ 600 for sale on the basis of 8 per cent., plus 2 per cent del credere commission, the Agents to bear all landing charges in Bombay. These amounted to Rs. 650. The Consignors paid £ 170 for cartage, freight and insurance.

The Agents sold one car for Rs. 6,500 and remitted Rs. 5,200 on account. The second car was sold for Rs. 7,150, but Rs. 1,300 were not paid, and became a bad debt.

Prepare an Account Sale to accompany the Agent's remittance in settlement of account and open the necessary Ledger Accounts in the books of both the consignors and consignee to record the transactions. The rate of exchange to be calculated at Rs. 13 to the £.

57. On 31st December 1930 G. Gupta's Profit and Loss Account showed credit balance of Rs. 6,400 before making the following adjustments :—

1. Fire Insurance Premium Rs. 600 per annum was paid for the year ending 31st March 1931.
2. Unpaid Salaries amounted to Rs. 400.
3. Rent at Rs. 1,200 per annum is paid only up to 30th September 1931.
4. Wages Rs. 250 paid for erection of new machinery stand debited to Wages Account;
5. Bad and Doubtful Debts Reserve shows a credit balance of Rs. 2,500, but the same was required to be raised to Rs. 4,000.
6. An outstanding liability of Rs. 250 in respect of Legal charges was left out.

Pass necessary Journal entries and prepare the amended Profit and Loss Account.

58. The following items are found in the Trial Balance of D. Das on 30th June 1931:—

Debtors	..	..	..	Rs. 16,000
Bad Debts	..	..	..	" 400
Doubtful Debt Reserve on 1-7-30.	..	..	..	" 700

You are required to provide Reserve for Doubtful Debts at 5%.

Give the necessary Journal Entries, prepare Bad Debts and Doubtful Debts Reserve Accounts, and show how the item Sundry Debtors will appear in the Balance Sheet.

59. On 1st January 1928, the reserve for Doubtful Debts Account shows a credit balance of Rs. 17,500. The Bad Debts during the year 1928 amount to Rs. 13,000. The Debtors at 31st December 1928 are Rs. 3,00,000 and 5 per cent Reserve for Doubtful Debts is required to be maintained. The Bad Debts in 1929 amount to Rs. 18,000. On 31st December 1929, the Debtors are Rs. 3,25,000 and a 5 per cent Reserve for Doubtful Debts is required to be kept. The Bad Debts in 1930 amount to Rs. 4,000. On 31st December 1930, the Debtors are Rs. 1,50,000 and a 5 per cent Reserve for Doubtful Debts is to be maintained. Show the Reserve for Doubtful Debts Account, and also show how this item will appear in the Profit and Loss Account and the Balance Sheet each of these three years.

60. Explain what effect the following mistakes will have on the Accounts:-

- (a) Rs. 250 paid for Office Furniture has been debited to Trade Expenses.
- (b) An Invoice for Rs. 2,300 for goods purchased has not been passed through the books although the goods are included in the closing stock.
- (c) A cash receipt on account of obsolete machinery sold for Rs. 2,500 is posted as cash sales.
- (d) Cash received in respect of a Book Debt Rs. 300 is posted as cash sales.
- (e) Rs. 150 paid on account of the proprietor's club bill stand debited to General Expenses Account.

Pass the necessary rectifying entries.

61. The undermentioned errors were made by the counting-house staff of Messrs. Madan & Co., during the year ended 30th June 1931 :-

1. On 18th February, a contractor's bill for the extension of a godown amounting to Rs. 1,675 was debited through the Journal to "Repairs" Account.
2. On 17th March, a clerk of the firm was paid Rs. 50 for his arrears of salary and discharged. This amount was debited to his personal account.

3. On 6th April, goods worth Rs. 50 were purchased for cash but the amount was entered in the discount column of the Cash Book.
4. On 15th June, goods of the value of Rs. 1,350 were returned by Roy & Co., and were taken into Stock, but the returns were not entered in the books till 8th July 1931.

By means of what entries and in what books would you rectify these errors.

62. For the mutual accommodation of A and B, A draws a Bill on B for Rs. 2,500. B accepts the bill and returns it to A. A discounts the same with his bankers and receives Rs. 2,400. The proceeds are shared between A and B in proportion to two-thirds and one-third respectively. On the due date A remits his proportion to B, who meets the bill.

Pass Journal entries in the books of A and B to record the above transactions.

63. P. for the temporary accommodation of himself and Q, draws a bill on the latter for the sum of Rs. 2,100. On receiving it duly accepted by Q, P discounts the same with his bankers and receives Rs. 2,010. One-third of this amount is remitted to Q. On the due date, P remits the balance to Q to enable the latter to meet the bill. Q dishonours the Bill and the bankers recovered the amount from P. Draft entries in the books of P. and Q. respectively.

64. X drew a Bill of Exchange on Y for Rs. 1,600 at 3 months on 1st January 1930. Y accepts the bill and returns it to X who discounts it with his bankers at 6 per cent on the 4th January. X then remits one half of the proceeds to Y, agreeing to forward his further proportion before the bill falls due. X omits to forward his proportion at the due date and Y dishonours the bill. X then takes up the bill from the bank, and Y gives X a new Bill at six months on the 19th April for the amount due plus Rs. 20 interest. This bill is duly met. Show the entries relating to the above transactions in the books of both X and Y.

65. From the following Trial Balance prepared from the books of F. and G. who are in partnership as merchants sharing profits and losses in the proportions of F two-thirds and G. one-third, prepare Trading and Profit and Loss Account and Balance Sheet as on 30th April 1931.

TRIAL BALANCE AS ON 30th APRIL 1931.

	Rs.	Rs.
F's Capital		20,000
F's Drawings	3,000	
G's Capital		10,000
G's Drawings	2,000	
Furniture & Fittings	2,600	
Bank Overdraft		4,200
Creditors		11,000
Business Premises	20,000	
Stock on 1st May 1930	22,000	
Debtors	18,000	
Rent from Tenants		1,500
Purchases	1,10,000	
Sales		1,50,000
Sales Returns	2,000	
Discounts	1,600	2,000
Taxes	2,000	
General Expenses	4,000	
Salaries	9,000	
Commission	2,200	
Carriage on Purchases	1,800	
Reserve for Doubtful Debts		1,500
	Rs. 2,00,200	2,00,200

Stock on hand at 30th April 1931 was estimated at Rs. 20,060. Provide Rs. 400/- for discount on Debtors and depreciate Business Premises by Rs. 300/- and Furniture and Fittings by Rs. 260.

66. The following is the Trial Balance of M. N. P. & Company as on 30th June 1931 :—

	Rs.	Rs.
Sundry Debtors	60,000	
Sales		25,000
Sundry Creditors		10,000
General Trade Expenses	12,000	
Rent	12,500	
Interest		1,200
Purchases Returns		2,000
Salaries & Wages	17,000.	

	Rs.	Rs.
Purchases	1,45,000	
Discounts	2,200	1,800
Reserve for Bad Debts		2,000
Fixtures and Fittings	15,000	
Carriage and Freight	5,000	
M's Capital Account		1,00,000
N's Capital Account		1,00,000
P's Capital Account		10,000
M's Drawings	10,000	
N's ..	10,000	
P's ..	6,000	
Sales Returns	3,000	
Horses, Harness & Vehicles	20,000	
Freehold Offices	47,000	
Balance at Bank	34,000	
Cash Balance	1,100	
Loan to X	20,000	
Stock 1st July 1930	50,000	
Travelling Expenses	6,000	
Rates, Taxes and Insurance	1,200	
	Rs. 4,77,000	4,77,000

Prepare (1) Trading Account, showing Gross Profit for the year; (2) Profit and Loss Account, showing net profit available for division among partners, and (3) Balance Sheet as on 30th June 1931.

Stock on hand, on 30th June 1931, amounted to Rs. 75,000. According to the Partnership Deed, 5% interest on Partners' Capital is to be calculated and the profits are to be distributed as to M. 2/5ths, N. 2/5ths, P. 1/5th.

Write off 5 per cent from Fixtures and Fittings and 10 per cent from Horses, Harness and Vehicles. Increase the Reserve for Bad Debts by Rs. 3,000/-.

67. M and N are partners sharing profits in proportions of five-eighths and three-eighths. They admit U into partnership promising him a fourth share in the future profits. U brings in Rs. 4,000 as his share of Goodwill, and Rs. 10,000 as his Capital. Pass Journal entries to give effect to the above, and show the future profit-sharing proportions of the partners, and adjustment of Goodwill account assuming that U acquires his share from M and N in equal proportions.

Also state what the future profit-sharing proportions of M, N and U would be, and how the Goodwill would be adjusted if the one-fourth share to be given to U is not acquired by him from M and N in equal proportions.

68. The Balance Sheet of P and Q carrying on business in partnership and sharing profits in proportions of two-thirds and one-third, stood as follows:—

P's Capital	Rs. 51,450	Machinery	Rs. 50,000
Q's	" 36,750	Furniture	" 3,000
Creditors	" 11,800	Debtors	" 18,000
		Stock	" 27,000
		Cash	" 2,000
	<u>Rs. 100,000</u>		<u>Rs. 100,000</u>

They admit R into partnership giving him one-fifth share of profits on the following terms.

1. The Goodwill of the firm is to be valued at two years' profits calculated on the average of the last three years profits which amounted to Rs. 20,000, Rs. 15,000 and Rs. 22,000.

2. R is to bring in cash for the amount of his share of Goodwill.

3. R is to bring in Capital in proportion to his profit sharing arrangements with other partners. The Goodwill amount is to be retained in the business.

Give the Journal entries recording these transactions, draw out the Balance Sheet of the new firm, and also state in what proportions each of three partners would share in the profit or loss of the new firm.

69 The following was the Balance Sheet of C. D and E who were equal partners on 1st June 1931 :—

Bills Payable	Rs. 3,300	Cash	Rs. 600
Creditors	6,000	Debtors	10,800
Capital C.	16,800	Stock	11,400
" D.	12,600	Furniture	2,400
" E.	6,000	Building Account	19,500
	<u>Rs. 44,700</u>		<u>Rs. 44,700</u>

They agreed to take F into partnership and give him a fourth share in the profits on the following terms:—

1. That F should bring in Rs. 9,000 for Goodwill, and Rs. 15,000 as Capital.

2. That the half of the Goodwill shall be withdrawn by the old partners.

3. That Stock and Furniture be depreciated by 10%.

4. That a Reserve of 5% on Debtors be created for Doubtful Debts.

5. That the value of the building having appreciated, the Building Account should be raised to Rs. 27,000.

Give the entries necessary to give effect to the above arrangement, prepare the Profit and Loss Adjustment Account, and the opening Balance Sheet of the Firm as newly constituted.

70. Given below is the Balance Sheet of H. Hemraj.

Creditors	Rs. 29,000	Cash	Rs. 1,500
Capital	30,500	Debtors	14,000
		Stock	15,000
		Furniture	750
		Buildings	26,000
		Investments	2,250
	<u>Rs. 59,500</u>		<u>Rs. 59,500</u>

Hemraj admits Poputlal into partnership as an equal partner on the following terms:—

1. A Reserve of 5% to be created on Debtors.
2. The Stock to be taken at Rs. 14,500; Furniture at Rs 500, and Building at Rs. 17,000.
3. The Investments are not to be brought into new partnership.
4. An amount of Rs. 2,600 is to be paid by Poputlal as a premium and this sum is not to be retained in the business.
5. Poputlal is to bring in further cash to make his Capital Account equal to Hemraj's Capital Account after making therein the above adjustments.

Pass the Journal entries necessary to record the above transactions and prepare the Balance Sheet of the New Firm as at its commencement.

Pass the journal entries necessary to record the above transactions, and prepare the Balance Sheet of the new firm.

71. C and D carrying on business in partnership and sharing profits five-eighths and three-eighths, require a partner, when their Balance Sheet stood as follows:—

Liabilities	Rs.	Assets.	Rs.
C's Capital	... 14,000	Furniture & Fixtures	... 1,500
D's Capital	... 9,000	Debtors	... 9,500
Creditors	... 3,600	Stock	... 15,000
		Cash	.. 600
	<u>Rs. 26 600</u>		<u>Rs. 26,600</u>

They admit E into partnership giving him one-eighth share on the following terms:—

(a) Goodwill is created at one year's average profit of last three years which amounted to Rs. 4,000, Rs. 5,000 and Rs. 6,000 and the Capitals of old partners are increased in proportion of their shares.

E brings in cash as his Capital to the extent of one-seventh of the combined capitals of the old partners after the adjustment in respect of Goodwill.

Show the Journal entries recording these transactions, draw out the Balance Sheet of the New Firm and also state how the partners will share in the profits of the new firm.

72. The Balance Sheet of A, B and C sharing profits in proportions to Capitals stood as follows on 31st December 1928 :-

Liabilities.	Rs.	Assets.	Rs.
Creditors	... 30,500	Cash at Bank	... 3,500
Capitals:—		Debtors	... 35,000
A.	... 20,000	Stock	... 15,000
B.	... 15,000	Machinery	... 25,000
C.	... 15,000	Fixtures	... 2,000
	<u>Rs. 80,500</u>		<u>Rs. 80,500</u>

On that date, C retires from the firm and for this purpose, the Goodwill of the firm has been valued at Rs. 18,000. Stock has been re-valued at Rs. 20,000, Machinery at Rs. 15,000 and Fixtures at Rs. 1,000, and a Reserve of Rs 3,000 for Doubtful Debts has been agreed to be created.

Pass Journal entries to give effect to the above and show how the Capital Accounts of the partners would appear after the necessary adjustments have been made. State what the future profit-sharing proportions will be between A and B.

73. B, C and D are partners sharing profits half, one-third and one-sixth respectively. It is laid down in the partnership agreement that a retiring partner's share of Goodwill is to be taken at two years' purchase of the average profits of the last three years. C retires and the profits of the firm for the last three years amounted to Rs. 10,000, Rs. 8,000 and Rs. 12,000. It is agreed between B and D that they will continue to share in the same proportions as before and that no Goodwill Account is to be raised.

Make the Journal Entries in regard to Goodwill and state how B and D will share profits in the future.

74. G, H and K are partners sharing half, one-third and one-sixth respectively. On the day they determine to dissolve the partnership, their Balance Sheet stood as follows :-

Liabilities.	Rs.	Assets.	Rs.
Creditors	... 20,000	Factory Building	... 14,000
G's Capital	... 10,000	Machinery	... 6,000
H's Capital	... 6,000	Debtors	... 9,000
K's Capital	... 4,000	Stock	... 10,000
		Cash	... 1,000
	<u>Rs. 40,000</u>		<u>Rs. 40,000</u>

The Factory Building, Machinery, Debtors and Stock realise Rs. 30,000.

Pass Journal Entries and prepare Realisation Account, Bank Account and the Capital Accounts of the partners.

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75. X and Y were in partnership and agreed to dissolve. The assets realised Rs. 75,000. The liabilities were as follows:—Sundry Creditors Rs. 45,000, Loan from X Rs. 20,000, X's Capital Rs. 10,000, and Y's Capital Rs. 15,000. They share profits and losses in proportion of X $\frac{1}{2}$, and Y $\frac{1}{2}$.

Show by means of accounts how the cash realised should be distributed.

76. E, F and G were in partnership and decided to dissolve. The position at 31st December was as follows:—

BALANCE SHEET.			
Liabilities.	Rs.	Assets.	Rs.
Creditors	... 11,200	Debtors	... 12,500
Bills Payable	... 2,000	Goodwill	... 1,500
Loan from Bank	... 12,000	Bills Receivable	... 1,250
Capitals:—		Plant	... 21,250
E.	... 6,000	Office Furniture	... 1,200
F.	... 4,000	Cash	... 500
G.	... 3,000		
	Rs. 38,200		Rs. 38,200

They shared profits and losses in the following proportions:—

E. $\frac{2}{5}$ ths, F. $\frac{2}{5}$ ths, G. $\frac{1}{5}$ th.

Goodwill realised Rs. 7,500. Ten per cent of Book Debts prove bad and the Bills Receivable only realise Rs. 1,200; the Plant was sold for Rs. 17,250 and the Office Furniture was taken over by E at book value. The Bills Payable were met and the loan from the Bank and the Creditors were paid off.

Show the Realisation Account, Bank Account and the Capital Accounts of the partners.

77. On 1st January 1930, X, Y and Z commenced business in partnership, sharing profits and losses in the proportions of half, one-third and one-sixth respectively. They paid into their Bank account as their Capital Rs. 40,000, being Rs. 20,000 by X, Rs. 15,000 by Y and Rs. 5,000 by Z. During the year each partner withdrew Rs. 2,000 and on 31st December 1930, they dissolve their partnership, X taking up stock at an agreed valuation of Rs. 7,000, Y taking up Furniture at Rs. 1,000 and Z taking up Debtors at Rs. 5,000. After paying up their creditors, there remained a balance of Rs. 3,000 at the Bank.

Prepare the necessary accounts showing the distribution of the cash at the Bank, and of the further cash, brought in by any partner or partners as the case required.

78. D, E and F were partners with Capitals of Rs. 10,000, Rs. 8,000 and Rs. 4,000 respectively, sharing profits $\frac{4}{9}$ ths, $\frac{3}{9}$ ths, and $\frac{2}{9}$ ths. During the year each partner had withdrawn Rs. 2,000. The Firm's assets were then disposed off and realised Rs. 13,500. The liabilities amounting to Rs. 4,000 and the expenses of dissolution amounting to Rs. 500 were paid off. Show how the balance of cash should be apportioned among the partners and prepare the necessary accounts.

79. On January 1st, 1931, a Company was formed with a Nominal Capital of Rs. 20,00,000 divided into 50,000 Ordinary Shares of Rs. 20/- each and 50,000 6% Preference Shares of Rs. 20/- each. The shares were offered to the public upon following terms :—

Ordinary Shares :—

- Rs. 5/- per share on Application.
- Rs. 5/- per share on Allotment.
- Rs. 5/- per share on 31st March 1931.
- Rs. 5/- per share on 30th April 1931.

Preference Shares :—

- Rs. 5/- per share on Application.
- Rs. 7/8 per share on Allotment.
- Rs. 7/8 per share on 15th March 1931.

38,000 Ordinary Shares and 27,000 Preference Shares were applied for and allotted on 15th January 1931. All cash due on application and allotment was duly received. By 31st May 1931 there had been received on Ordinary Shares the following sums :—

- On 33,000 Ordinary Shares the full amount.
- On 2,500 Ordinary Shares Rs. 15/- per share.
- On 500 Ordinary Shares Rs. 10/- per share.

By the same date the following sums had been received on Preference Shares :—

- On 26,500 shares the full amount.
- On 500 shares Rs. 12/8 per share.

In accordance with the provisions of the Articles of Association, the Directors forfeited the Ordinary Shares upon which only Rs. 10/- had been paid up and the Preference Shares upon which the full amount due was not paid up.

The 500 Ordinary Shares were re-issued on 15th June 1931 upon the payment of the amount in arrears together with a premium of Rs. 2/- per share.

You are required to record these transactions in the books of the Company and to show how the Share Capital should appear in the Balance Sheet as on 30th June 1931.

80. From the following Trial Balance, prepare Trading Account, Profit and Loss Account and Balance Sheet of the B. B Manufacturing Co., Ltd., at 31st December 1930.

Trial Balance as at 31st December 1930.

	Rs.	Rs.
Discounts	1,200	
Carriage ...	2,300	
Patterns...	15,000	
Rates, Taxes, etc.	2,200	
Patents and Trade Marks	6,000	
Stock 1st January 1930	26,600	
Purchases	49,300	
Wages ...	52,200	
Fuel ...	2,520	
Buildings	44,000	
Goodwill...	21,000	
Debtors ...	16,020	
Machinery and Plant	30,000	
Loose Tools	6,000	
Advertising	3,300	
Trade Expenses	4,100	
Bad Debts	1,020	
Cash ...	720	
Debenture Interest— $\frac{1}{2}$ year to 30th June	400	
Director's Fees	2,500	
Bank Charges	1,640	
Ordinary Shares (400 shares fully paid)...		80,000
4 per cent. Debentures		20,000
Indian Bank Overdraft		30,280
Creditors		9,620
Sales ...		1,43,980
Profit and Loss Account, 1st January 1930		4,140
	Rs. 2,88,020	2,88,020

The Nominal Capital of the Company is Rs 1,00,000. Stock at 31st December 1930, Rs. 28,320/-. Write off depreciation, Machinery and Plant 5%; Loose Tools 20%; Patterns 10%; Patents and Trade Marks 10%. Allow 2½ per cent. on Debtors for Discounts and Reserve Rs. 860/- for Bad Debts.

81. The Trial Balance of the Asian Cigarette Manufacturing Co. Ltd., for the year ending 31st December 1930 is given below. Prepare Trading and Profit & Loss Account and Balance Sheet after making the following adjustments :—

Depreciate Plant and Machinery by 10 per cent. Write off Rs. 500/— from Preliminary Expenses. Add Rs. 15,000/— to Sinking Fund. Provide half year's Debenture Interest. Make Bad and Doubtful Debts Reserve at 5 per cent on Sundry Debtors. Stock on 31st December 1930 was Rs. 95,000.

ADDITIONAL QUESTIONS & EXERCISES.

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Dr. Balances.	Rs.	Cr. Balances.	Rs.
Calls in arrears	7,500	Authorised Capital	60,000
Freehold Premises	3,00,000	Shares of Rs. 10/- each	Rs. 600,000
Plant & Machinery	3,30,000	Subscribed and Fully called	up Capital
Interim Dividend Paid	37,500		4,00,000
1st August 1930.	37,500	Debentures 6%	3,00,000
Stock 1st January 1930.	75,000	Balance of Profit & Loss	Appropriation
Furniture & Fixtures	7,200		Account last year
Sundry Debtors	87,000		14,500
Cash in hand	750	Bills payable	38,000
Cash at Bank	39,900	Sundry Creditors	50,000
Purchases	1,85,000	Sales	4,15,000
Preliminary Expenses	5,000	Sinking Fund for Redemp-	tion of Debentures
Sinking Fund Investments	75,000		75,000
Manufacturing Wages	84,865	Bad and Doubtful Debts	Reserve
Repairs & Renewals	4,300		3,500
Coal, Gas & Water	2,450		
Rates and Taxes	1,800		
Salaries	14,500		
Travelling Expenses	2,000		
Discounts	6,375		
Directors' Fees	5,725		
Bad Debts	2,110		
Debenture Interest paid	9,000		
Carriage	1,765		
Freight & Duty	8,900		
Trade Charges	2,360		
	Rs. 12,96,000		Rs. 12,96,000

82. The following is the Trial Balance of the Electrical Novelties Ltd., as on 31st December, 1930 :-

	Dr.	Cr.
6% Preference Shares of Rs. 100 each.	...	Rs. 1,20,000
Ordinary Shares of Rs. 100	" ...	2,80,000
4½% Debentures of Rs. 100	" ...	40,000
Stock on 1st January 1930	Rs. 1,00,000	
Freehold Premises	...	1,20,000
Purchases	...	2,00,000
Wages (Productive)	...	60,000
.. (Non-productive)	...	14,000
Manager's Salary	...	8,000
Rent, Taxes and Insurance	...	14,800
Interest on Debentures	...	1,800
Goodwill	...	48,000
Rent	...	3,400
Transfer Fees	...	120
Sales	...	3,60,000
Reserve for Bad and Doubtful Debts.	...	3,280
Discounts and Commission	...	19,000
Carriage	...	8,000
Bad Debts	...	1,000
General Expenses	...	11,200
Repairs...	...	3,600
Cash at Bank and in hand	...	4,400
Plant & Machinery	...	1,08,000
Sundry Creditors	...	39,000
Sundry Debtors	...	1,24,000
	Rs. 8,45,800	8,45,800

The purchase price was agreed upon at Rs. 1,75,000 to be payable Rs. 50,000 in fully paid Ordinary Shares, Rs. 50,000 in fully paid Preference Shares, Rs. 25,000 in fully paid Debentures and the balance in cash. The Company offered 10,000 Ordinary Shares, 10,000 Preference Shares and 100 Debentures of Rs. 100/- each to the public. All the Shares and Debentures were subscribed and paid for. Give the necessary Cash Book and Journal Entries and show the Balance Sheet, in the books of the company. Give also the entries necessary to close the books of the firm.

86. Sorab, Rustom and Burjor carry on business in partnership sharing profits and losses one-half, three-eighths and one-eighth respectively. On 31st March 1931 when they agreed to sell off their concern to a newly started Joint Stock Company, their position was as follows:—

Liabilities.	Rs.	Assets.	Rs.
Sorab's Capital	... 20,000	Freehold Property	... 18,000
Rustom's ..	... 15,000	Machinery	... 12,000
Burjor's ..	... 13,000	Book Debts	... 15,000
Sundry Creditors	... 12,000	Stock	... 13,000
		Cash	... 2,000
	<u>Rs. 60,000</u>		<u>Rs. 60,000</u>

The Company took over the following assets at the valuations shown below:—

	Rs.
Freehold Property	... 22,000
Machinery	... 10,000
Book Debts	... 14,000
Stock	... 12,000
Goodwill	... 4,000

The purchase price of the Freehold Property and Machinery was paid by the Company in its Ordinary Shares for Rs. 32,000/- and Book Debts, Stock and Goodwill were paid for in cash.

The Sundry Creditors are paid off by the firm at a discount of 2½% and the expenses of realisation amounted to Rs. 500/-.

Pass the necessary Journal Entries to close the books of the firm, prepare Ledger Accounts showing the results of the dissolution and the final distribution among the partners.

Give also the opening entries in the books of the purchasing company.

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