

**I V C**  
**Second Year**

**ADVANCED**  
**ACCOUNTS**  
**(A & T)**

State Institute Of Vocational Education  
Directorate Of Intermediate Education  
Govt.Of Andhra Pradesh, Hyderabad.

**Intermediate**  
**Vocational Course**  
**Second Year**

**ADVANCED ACCOUNTS**  
For the course of  
**Accounting & Taxation**

**State Institute of Vocational Education**  
**Directorate of Intermediate Education**  
**Govt.Of Andhra Pradesh, Hyderabad.**

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## **AUTHORS**

**G.Habeeb Basha M.Com., M.Phil.,  
Jr.Lecturer,  
Govt.Junior College for Girls,  
Hussani Alam, Hyderabad.**

**B.Adikesavulu Naidu,  
Lecturer in Commerce,  
Vivekananda Govt.Degree College,  
Vidyanagar, Hyderabad.**

## **EDITOR**

**H.PREM RAJA M.Com.,M.Phil.  
Principal,  
Badruka Commerce College,  
Kachiguda, Hyderabad.**

**PAPER – II**  
**ADVANCED ACCOUNTS**  
**SYLLABUS**  
**THEORY**

- I. Company Accounts – I**                      **40+40**                      **5 - 35**  
Issue of Shares – At Par, Premium Discount – Forfeiture – Re-issue of shares – (Debentures – Types of debentures (only theory))
- II. Company Accounts – II**                      **40+40**                      **36- 57**  
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- III. Hire purchase system**                      **30+30**                      **58- 75**  
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- IV. Installment System**                      **20+20**                      **76- 84**  
Meaning – features – Accounting treatment in the books of Purchases and Vendor(Excluding default & repossession of Assets)
- V. Department Accounts**                      **30+30**                      **85- 92**  
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# I - COMPANY ACCOUNTS - I

## Contents :

1. Aims and Objectives
2. Introduction
3. Characteristics Of Company
4. Formation of a company
5. Raising the capital
6. Summing up
7. Glossary
8. Model Questions.

### 1. Aims and Objectives:

- a) Explain the meaning of the company
- b) Know the characteristics of company
- c) Describe the procedure of companies' formation.

### 2. Introduction:

Modern methods of production and distribution have necessitated Organisation of business units on large scale. These big concerns motherly involve the investments of large sums of capital. It leads to the evolution of new form of business Organisation known as a Joint stock Company or Company.

A Company is a voluntary and autonomous association of certain person with capital divided into number of transferable shares formed to carry out a particular purpose in common. It is an artificial person created Law to achieve the object for which it is formed.

**Definition:** - A Joint stock company has been judicially defined as “associations of main persons who contribute money or money’s worth to a common stock and empty it in some trade or business and who share the Profit or Loss arising there from”. It is in distinct Legal entity with a perpetual existence and common seal.

**Section – 3** of the companies Act 1956 defines a company as “A company formed and registered under this Act or an existing company”. An existing company is referred to as a company formed and Registered under any of the formed company’s Act.

**L.H.HANEY:** - A joint stock company is a Voluntary association of individuals for profits having a capital divided into transferable shares, the ownership of which is the condition of membership.

### **Characteristics of a Company: -**

It can be briefly listed as follows.

1. **Separate Legal existence:** - A Joint stock company is an artificial person created by Law and can sue and be sued in its own name.
2. **Perpetuity of existence:-** As a Joint stock company is distinct legal entity. It is not affected by the death or bankruptcy of its shareholders.
3. **Limited Liability:-** The Liability of the share holders of is joint stock company is limited by shares or guarantee.
4. **Transfer of shares:** - The shares held by a shareholder of a joint stock company can be transferred to any person without the approval of the shareholders.
5. **Number of Members:-** In the case of Public Limited companies, the minimum number of shareholders is fixed at seven, while there is no maximum fixed.
6. **Management:** - Every shareholder of a Joint stock company cannot be permitted to participate in the management of the company in view of the large number of shareholders. So it is entrusted to a Board of Directors elected by the shareholders.

### **Formation of Joint stock Company:-**

Joint Stock Company governed by the companies Act 1956, and must be formed according to the procedure laid down in that Act.

Formation of Joint stock Company can be divided into two stages.

1. Registration
2. Commencement of business

For Registration a Company is required to prepare and file the following with the Registrar of Companies.

1. Memorandum of Association.
2. Articles of Association.
3. List of those who have agreed to Act as Directors and also their written consent to act as such.
4. A Statutory declaration by an advocate or Chartered Accountant, or a director, or Manager or Secretary that legal requirements regarding registration have been complied with.

**Certificate for commencement of Business: -**

After the above statutory declaration has been filed by the Secretary or a Director and the prescribed fees paid, the Registrar issues the certificate to commence its business.

**Prospectus: -**

It means any notice, circular, advertisement, or other document inviting offers from the public for the subscription or purchase of any shares in or debentures of a body corporate. Any document by which the offer of sale to the public is made shall be deemed to be a prospectus issued by the company and shall be subject to compliance with all the requirements of a prospectus, an exception is made only in the case of a newspaper advertisement of a prospectus in which case it will not be necessary in the advertisement to specify the contents of the memorandum or signatories there to or the number of shares subscribed by them.

Every prospectus shall be dated and that date shall be taken as the date of publication of the prospectus.

The following are some of the important matters from the point of view of accounts to be included in a prospectus.

- a) The main objects of the company.
- b) The number and classes of shares if any
- c) The number of redeemable preference shares intended to be issued with the date of redemption or the period of notice required for redemption and the method of redemption.
- d) The number of shares if any fixed by the articles as the qualification of a director.
- e) When shares are offered for public subscription the minimum amount (minimum subscription) which must be raised by the issue of those shares to provide for preliminary expenses and working capital before the company may proceed to allotment and the amount or estimated amount of preliminary expenses.
- f) The amount payable on application and allotment of each share.
- g) When any issue of share or debenture is underwritten, the rate of underwriting commission.

A Prospectus is said to be issued "generally" when it is issued to persons irrespective of their being existing members or debenture holders of the company.

### **Statutory Books: -**

Statutory books are those, which a limited company is under statutory obligation to maintain at its registered office. The main statutory books are

1. Register of investments held and their names.
2. Register of change.
3. Register of Members.
4. Register of debenture holders.
5. Annual Returns.
6. Minutes books.
7. Register of contracts.
8. Register of Directors.
9. Register of shareholdings of the Directors.
10. Register of loans to companies under the same management.
11. Register of investments in the shares of other companies.

### **Books of Account: -**

Every company is required to keep at its registered office book of Account. These books are to be maintained in such a way so as to disclose.

- a) The sum of money received and expended by the company and the matter in respect of which the receipt and expenditure taken place.
- b) All sales and purchase of goods of the company.
- c) All assets and liabilities of the company.

### **Share Capital: -**

No trading concern can run without capital. The main divisions of share capital are

- 1) Nominal or Registered or Authorised capital:- The amount of capital with which the company intends to be registered is called registered capital. It is the maximum amount, which the company is authorised to raise by way of public subscription. There is no legal limit on the extent of the amount of Authorised capital.
- 2) Issued Capital: - That part of Authorised capital, which is offered to the public for subscription, is called issued capital.
- 3) Subscribed Capital: - That part of the issued capital for which applications are received from the public is called the subscribed capital.

- 4) Called up capital: - The amount on the shares, which is actually demanded to be paid, is known as called up capital.
- 5) Paid up capital: - The part of the called up capital, which is offered and is actually paid by the members is known as paid up capital. The sum which is still to be paid is known as call in arrears.
- 6) Reserve capital: - A company may determine by a special resolution that any portion of its share capital which has not been already called up shall not be capable of being called up except in the event of winding up of the company. Such type of share capital known as reserve capital.

**ILLUSTRATION 1:** - A company has Rs.50, 00,000 as its Authorised capital divided into 5,00,000 equity shares of Rs.10/- each. The company issued 4,00,000 equity shares. The public subscribed 3,00,000 equity shares. The public subscribed 3,00,000 equity shares Rs.8/- per share has been called on equity shares. All the shareholders paid the amount with the exception of 20,000 equity shares of Rs.5/- per share. Calculate the amount of various types of share capital.

**SOLUTION:** -

	<b>Rs/-</b>
Authorised Capital:-	
500000 Equity shares of Rs.10 each	<u>50,00,000</u>
Issued Capital:-	
400000 Equity shares of Rs.10 each	<u>40,00,000</u>
Subscribed Capital:-	
300000 Equity shares of Rs.10 each	<u>30,00,000</u>
Called up Capital:-	
300000 Equity shares of Rs.10 each & Rs.8 called up	<u>24,00,000</u>
Paid up Capital:-	
Called up Equity capital	2400000
<b><u>LESS-</u></b>	
Call in arrears on 20000 equity <u>shares@5/-</u> each	<u>100000</u> 23,00,000

### **Summing up:-**

A company is a voluntary and autonomous association of certain persons with capital divided into numerous transferable shares formed to carry out a particular purpose in common. It is an artificial person created by law to achieve the object for which it is formed.

### **Characteristics of a Company: -**

1. Separate legal existence.
2. Perpetuity of existence.
3. Limited liability.
4. Transfer of shares.
5. No. of Members.
6. Management of the company.

The first step involved in getting the certificate of commencement of business and raising the share capital required by company.

After satisfying himself about fulfillment of the required formalities, the Registrar of companies issues a “ Certificate of commencement of Business” on receipt of which a public company can commence its business. A company has to maintain number of books and Registers as stipulated in the companies Act.

### **Glossary :**

**Joint Stock Company:** An association of legal persons formed for any lawful purpose and registered under any Companies Act or any Ordinance or Code.

**Prospectus:** A document issued by the company inviting the public to subscribe to its shares or debentures.

**Stationary Books:** Those Books to be maintaining at its Registrar office.

**Authorised Capital:** The maximum amount of capital, which the company Authorised to raise.

**Called up Capital:** The total allotment of capital, which the shareholders are called up on to pay.

**Issued Capital:** The part of the authorized, which is offered to the public for subscription

.

**Share Capital:** The total amount of capital of a company.

**Model Short Questions:**

1. Define company?
2. What is prospectus?
3. Write any three statutory books maintain by the company?
4. What is nominal capital?
5. What is paid up capital?

**Model essay type Questions?**

1. Define Company? Write characteristics of Company?
2. Write about the formation of joint stock companies?
3. Write about the statutory books of the company?
4. What are the different types of capital explain briefly?

**ISSUE OF SHARES**

**Contents**

1. Aims and objectives
2. Introduction
3. Meaning of shares
4. Types of shares
5. Accounting treatment
6. Issue of shares at par
7. Call in arrears
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9. Issue of share at premium
10. Issue of shares at discount
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15. Model Examination Questions.

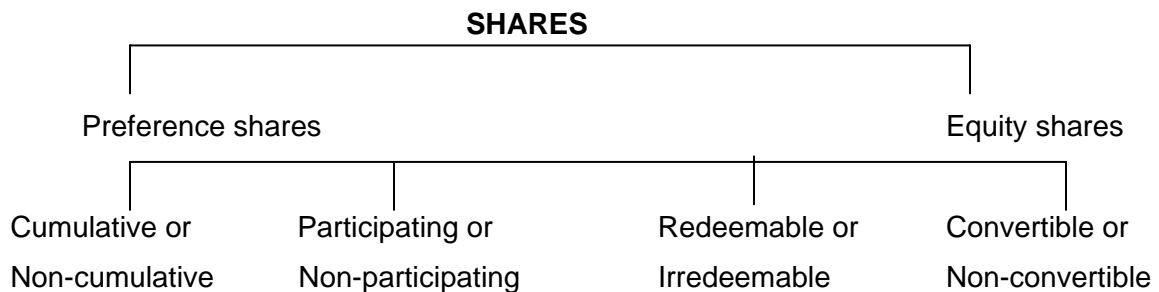
**Aims and objectives:**

- a. Explain different types of shares and their issue.
- b. Present information issue of shares in different conditions.

**Introduction:** A joint stock company procures its capital by sale of shares. It issues prospectus inviting the public to subscribe to the shares offered for subscription. The applications for shares are made on forms printed and supplied by company. Usually a date is prescribed up to which applications for shares will be received. Some times no definite date is given but it is stated that the subscription list will be closed as soon as application have been received for the stated number of shares.

**Meaning of shares:** The capital of the company can be divided into different units with definite value called shares. Holders of these shares are called shareholders or members of the company.

They are two types of shares, which a company may issue i.e. 1. Preference shares, 2. Equity shares. Further preference shares may be of four types. The following chart explains different types of shares that are provided in the companies Act.



1. **Preference Shares:** - Shares which carry preferential rights with regard to the payment of dividend and repayment of capital are called Preference shares. The rate of dividend payable is fixed. It is stated in Memorandum, the Articles and also the Prospectus. When a company is wound up capital must be refunded first to preference shareholders.

They are different kinds of Preference shares as explained below.

a) **Cumulative Preference Shares:-**

In the case of cumulative preference shares the right over the dividend can be carried forward. They can claim a reward of dividend out of future profits.

b) **Non – cumulative Preference Shares:-**

Dividends are paid out of divisible profits. They will not get any dividend if the company makes a loss or makes insufficient profits and the right over dividend cannot be carried forward.

**c) Participating Preference Shares:-**

In this case shareholders are entitled to a fixed dividend. If the company makes huge profits, they are given a right to share surplus profits along with other class of shareholders.

**d) Non – Participating Preference Shares:-**

The non-participating preference shares do not enjoy any right to share the surplus left after paying equity dividend.

**e) Re deemable Preference Shares:-**

The Indian Companies Act 1956 has some times permitted to issue Redeemable Preference shares. In this case the share capital will be paid back to the shareholders after a certain agreed period. Redeemable Preference shareholders get fixed dividends.

**f) Irredeemable Preference Shares:-**

The Preference Shares, which do not contain provision for conversion into equity shares, are called non convertible preference shares.

**2) EQUITY SHARES: -**

It is also called ordinary shares. They are paid dividends after Preference shareholders are paid. The dividend payable on equity shares is not fixed. It may vary from year to year. Dividend on equity shares depends on the profits made by the company. When a company is wound up equity shareholders are paid back their capital after preference shareholders are paid back. Equity shareholders having voting rights whereas preference shareholders do not have any voting rights.

**ISSUE OF SHARES: -**

Out of the face value of the shares 5% is payable with application some money will be paid on allotment and rest money will be paid as and when calls are made by the company. Generally the prospectus gives the dates of different calls along with the amount of calls by shareholders. In case it is not given in prospectus the directors have the discretion to call it in one cash or more than one call. For this a resolution of the Board of Directors must be passed and a notice is sent to the shareholders with a request to pay the amount of call.

**JOURNAL ENTRIES FOR ISSUE OF SHARES:-**

1) When a share application amount received:-

Bank a/c	Dr
To Share application a/c	

(Being the application amount on \_\_\_\_\_ shares @ Rs.\_\_\_\_ received)

2) When share application amount transferred to share capital.

Share application a/c                      Dr  
To Share capital a/c.

(Being share application amount transferred to share capital)

3) When allotment amount due

Share allotment a/c                      Dr  
To Share capital a/c.

(Being allotment amount due on \_\_\_\_\_ shares @ Rs\_\_\_\_ per share)

4) When the allotment amount received.

Bank a/c                                      Dr  
To Share allotment a/c

(Being the receipt of allotment money)

5) When call money due on call

Shares call a/c                              Dr  
To Share capital a/c

(Being call money due on \_\_\_\_\_ shares @ Rs\_\_\_\_ per share)

6) When call amount received.

Bank a/c                                      Dr  
To Share call a/c

(Being the call amount received)

**Note:-** Similarly, entries are made for the second, third and final calls. Each time the entries are made first for the amount due then for the amount received.

**Illustration:-**

On 1<sup>st</sup> July 2004 Maruthi Co.Ltd, issues of 50,000 shares @ 100/- each payable as follows. On application Rs.20/- on allotment Rs.25/- on 1<sup>st</sup> call Rs.25/- on second call Rs.30/-

Assuming that all the shares were issued and all the amount received. Show the necessary entries, Ledger Accounts and opening Balance Sheet of the Company.

**Solution:-**

No. of shares issued		=	50,000
Application money received	=50000x20	=	10,00,000
Allotment money received	=50000x25	=	12,50,000
First call money received	=50000x25	=	12,50,000
Second & Final call money received	=50000x30	=	15,00,000.

**JOURNAL ENTRIES**

DATE	PARTICULARS	L.F	DEBIT (AMOUNT Rs)	CREDIT (AMOUNT Rs)
1 <sup>ST</sup> July	Bank a/c Dr To Share application a/c (Being the share application money on 50000 equity <u>shares @ 20/-</u> each received)		10,00,000	10,00,000
	Share application a/c Dr To Share capital a/c (Being share application money transferred to share capital a/c)		10,00,000	10,00,000
	Share allotment a/c Dr To Share capital a/c (Being share allotment due on 50000 shares @25/- each)		12,50,000	12,50,000
	Bank a/c Dr To Share allotment a/c (Being allotment amount received)		12,50,000	12,50,000
	Share First call a/c Dr To Share capital a/c (Being share 1 <sup>st</sup> call amount due on 50000 shares @ 25/- each)		12,50,000	12,50,000
	Bank a/c Dr To Share first call a/c (Being share 1 <sup>st</sup> call amount received)		12,50,000	12,50,000

	Share second / Final call a/c Dr To Share capital a/c (Being share final call amount due on 50000 shares @ 30/- each)		1,50,000		1,50,000
	Bank a/c Dr To Share second / final call a/c (Being share final call amount received)		1,50,000		1,50,000

<b>Balance sheet of Maruthi Co.Ltd., as on 01-7-2004</b>			
<b>Liabilities</b>	<b>Amount (Rs)</b>	<b>Assets</b>	<b>Amount (Rs)</b>
Issued, Subscribed and paid up capital 50,000 equity shares of 100/- each fully called up and paid up	50,00,000	Cash at Bank	50,00,000
	50,00,000		50,00,000

<b>Dr</b>		<b>Bank Account</b>		<b>Cr</b>	
<b>Date</b>	<b>Particulars</b>	<b>Amount (Rs)</b>	<b>Date</b>	<b>Particulars</b>	<b>Amount (Rs)</b>
1-7- 2004	To Share Application	10,00,000	1-7- 2004	By Balance c/d	50,00,000
	To Share Allotment	12,50,000			
	To Share First Call	12,50,000			
	To Share Final Call	15,00,000			
		50,00,000			50,00,000
	To Balance b/d	50,00,000			

Dr			Share Capital Account			Cr		
Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)			
1-7-2004	To Balance c/d	50,00,000	1-7-2004	By Share Application	10,00,000			
				By Share Allotment	12,50,000			
				By Share First Call	12,50,000			
				By Share Final Call	15,00,000			
		50,00,000			50,00,000			
				By Balance b/d	50,00,000			

Dr			Share Application Account			Cr		
Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)			
1-7-2004	To Share Capital a/c	10,00,000	1-7-2004	By Bank a/c	10,00,000			
		10,00,000			10,00,000			

Dr			Share Allotment Account			Cr		
Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)			
1-7-2004	To Share Capital	12,50,000	1-7-2004	By Bank a/c	12,50,000			
		12,50,000			12,50,000			

Dr			Share 1 <sup>st</sup> Call Account			Cr		
Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)			
1-7-2004	To Share Capital	12,50,000	1-7-2004	By Bank a/c	12,50,000			
		12,50,000			12,50,000			



<b>Excess application money received</b>		=1,50,000
Amount refunded on rejection of Application	=3000x30	= 90,000
<b>Surplus application amount adjusted</b>		<hr/>
<b>On allotment</b>		<b>= 60,000</b>
		<hr/>
Amount due on allotment	=10000x30	=3,00,000
Excess application amount to be adjusted		= <u>60,000</u>
Amount to be received on allotment		<u>=2,40,000</u>

**JOURNAL ENTRIES in the books of REDDY LABS Ltd,Co..**

DATE	PARTICULARS	L.F	DEBIT (AMOUNT Rs)	CREDIT (AMOUNT Rs)
1 <sup>st</sup> July	Bank a/c Dr To Share application a/c (Being the share application money on 15000 shares @ 30/- received)		4,50,000	4,50,000
	Share application a/c Dr To Share capital a/c (Being share application money transferred to share capital a/c)		3,00,000	3,00,000
	Share Application a/c Dr To Bank a/c (Being refund of application money on rejected applications)		90,000	90,000
	Share allotment a/c Dr To Share capital a/c (Being share allotment due on 10000 shares @30/- each) <b>OR</b>		3,00,000	3,00,000
	Share Application a/c Dr To Share Allotment a/c (Being Excess application money adjusted on allotment)		60,000	60,000
Bank a/c Dr To Share allotment a/c (Being allotment amount received)		2,40,000	2,40,000	



**Working Notes**

Application amount	: 15,000x40	=6,00,000
Allotment amount	: 14,900x50	=7,45,000
Call in arrears	: 100x50	= 5,000
Share 1 <sup>st</sup> call amount	: 14,900x55	=8,19,500
Call in advance	: 200x55	= 11,000

**JOURNAL ENTRIES**

DATE	PARTICULARS	L.F	DEBIT (AMOUNT Rs)	CREDIT (AMOUNT Rs)
1 <sup>ST</sup> July	Bank a/c Dr To Equity Share application a/c (Being the share application money on 15000 <u>shares @ 40/-</u> each received)		6,00,000	6,00,000
	Equity Share application a/c Dr To Equity Share capital a/c (Being share application money transferred to share capital a/c)		6,00,000	6,00,000
	Equity Share allotment a/c Dr To Equity Share capital a/c (Being share allotment amount due on 15000 shares @50/- each)		7,50,000	7,50,000
	Bank a/c Dr To Equity Share allotment a/c (Being allotment amount received)		7,45,000	7,45,000
	Equity Share First call a/c Dr To Equity Share capital a/c (Being share 1 <sup>st</sup> call amount due on 15000 shares @ 55/- each)		8,25,000	8,25,000
	Bank a/c Dr To Equity Share first call a/c To Call in Advance a/c		8,30,000	8,19,500 11,000

	(Being the amount received on share 1 <sup>st</sup> call and advance on second call)			
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**Issue of share at Premium:-**

When a share is issued at a price which is above its par value then it is said that it has been issued at premium.

Ex:- If a share of Rs.100/- issued Rs.125/- then the difference of Rs.25/- is the premium of the share.

Under Sec.78 of the companies Act the amount to the credit of the account may be used wholly or in part for:

- a) Paying up un issued shares of company to be issued to members of the company as fully paid Bonus shares.
- b) Writing off the preliminary expenses of the company.
- c) Writing off the expenses of or the commission paid or discount allowed on, any of shares or of any debentures of the company, or
- d) Providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company.

Share premium is often changed by the company at the time of allotment of shares.

**The journal entry for recording the premium is as under:-**

Share allotment a/c (including premium)      Dr  
 To Share capital a/c  
 To Share premium a/c  
 (Being the allotment amount due with premium)

**ILLUSTRATION: -**

Vijaya Super Market Ltd., Co, issues 50,000 equity shares @ 120 including premium Rs.20/-. They called the amount as follows:

On application Rs.20/-  
 On allotment                      Rs.50/-(including premium)  
 On 1<sup>st</sup> Call                              Rs.25/-  
 On 2<sup>nd</sup> Call                              Rs.25/-

Prepare the journal entries in the company's books.

**Working notes:-**

Application amount	: 50,000x20	= 10,000,00
Allotment amount	: 50,000x30	= 15,000,00
Premium amount	: 50,000x20	= 10,000,00
1 <sup>st</sup> call	: 50,000x25	= 12,500,00
2 <sup>nd</sup> call	: 50,000x25	= 12,500,00

**Journal entries in the Books of Vijaya Super Market.Ltd.Co.,**

DATE	PARTICULARS	L.F	DEBIT (AMOUNT Rs)	CREDIT (AMOUNT Rs)
1 <sup>ST</sup> July	Bank a/c Dr To Equity Share application a/c (Being the share application money on 50000 <u>shares @ 20/-</u> each received)		10,00,000	10,00,000
	Equity Share application a/c Dr To Equity Share capital a/c (Being share application money transferred to share capital a/c)		10,00,000	10,00,000
	Equity Share allotment a/c Dr To Equity Share capital a/c To Share Premium a/c (Being share allotment amount due on 50000 shares @50/- each including premium Rs. 20/-)		25,00,000	15,00,000 10,00,000
	Bank a/c Dr To Equity Share allotment a/c (Being allotment amount received with Premium)		2,50,000	2,50,000
	Equity Share First call a/c Dr To Equity Share capital a/c (Being share 1 <sup>st</sup> call amount due on 50000 shares @ 25/- each)		12,50,000	12,50,000
	Bank a/c Dr To Equity Share first call a/c (Being Equity share 1 <sup>st</sup> call amount received)		12,50,000	12,50,000

	Equity share 2 <sup>nd</sup> call a/c                      Dr		12,50,000	
	To Equity share capital a/c			12,50,000
	(Being Equity 2 <sup>nd</sup> call amount due on 50,000 shares @ 2r/- each)			
	Bank a/c    Dr		12,50,000	
	To Equity 2 <sup>nd</sup> call a/c			12,50,000
	(Being Equity 2 <sup>nd</sup> call amount received)			

**Issue of shares at Discount:-**

When a share is issued at a price which is less than its par value then it is said that it has been issued at discount.

Ex:- If a share of Rs.100/- is issued for Rs.90/- then it is issued at 10% discount.

A Company can issue shares at a discount only when the following conditions are satisfied.

- a) The shares must belong to a class already issued.
- b) The issue is Authorised by an ordinary resolution in the general meeting and sanctioned by the company Law Board.
- c) The issue is made at a discount, which is specified in the resolution, but in no case the rate of discount should exceed 10% or such higher percentage as the control Govt.may permit.
- d) At least one year has elapsed since the company became entitled to commence the business and
- e) Issues are made with in two months after receiving the sanction of the company Law Board.

The following journal entry is passed on the issue of the shares at a discount at the time of allotment.

Share Allotment    a/c Dr  
Discount on the issue of share a/c                      Dr  
To share capital Account  
(Being the share allotment due with discount)

**Illustration: -**

Delta Co.Ltd., issued 20,000 shares of Rs 100/- each at a discount of 10%. The amount called as follows:-

On Application	Rs.20
On Allotment	Rs.30 with discount
On 1 <sup>st</sup> call	Rs.30
On 2 <sup>nd</sup> call	Rs.20

The company called up to allotment. Prepare Journal entries in company's books.

**Journal entries in the books of Delta Co., Ltd.,**

DATE	PARTICULARS	L.F	DEBIT (AMOUNT Rs)	CREDIT (AMOUNT Rs)
1 <sup>st</sup> July	Bank a/c Dr To Equity Share application a/c (Being the share application money on 20000 shares @ 20/- each )		40,000	40,000
	Share application a/c Dr To Share capital a/c (Being share application money transferred to share capital a/c)		40,000	40,000
	Share allotment a/c Dr Discount on issue of shares a/c Dr To Share capital a/c (Being share allotment amount due on 20000 shares @30/- each with Rs.10/- due)		40,000 20,000	60,000
	Bank a/c Dr To Share allotment a/c (Being the share allotment amount received after discount)		40,000	40,000

**Forfeiture of shares – Re – issue of shares forfeited:-**

When a Share holder fails to pay calls the Company, if empowered by its articles, may forfeit the shares. If a share holder has not paid any call on the day fixed for payment there of and fails to pay it even after his attention is drawn to its by the Secretary by registered notice, the board of directors pass a resolution to the effect that such shares to be forfeited. Share once forfeited become the property of the company and may be sold on such terms as directors think fit upon forfeiture the original share holder ceased to be a member and his name must be removed from the register of members.

The following are the Proforma entries to be made when the shares are forfeited.

**1. When shares are issued at par.**

Share capital a/c(Called up amount) Dr  
To Forfeiture share a/c (amount received)  
To Share call / call in arrears (Due amount)

**2. When shares are issued at premium.**

Share Capital a/c (Called up amount) Dr  
Share Premium a/c Dr  
To Share forfeiture a/c (amount received)  
To Share call / call in arrears a/c (amount due)

**3. When shares are issued at discount.**

Share capital a/c (called up capital) Dr  
To share forfeiture a/c (amount received)  
To Share call a/c / call in arrears a/c(with amount due)  
To Discount on issue of shares a/c

**Forfeiture of shares which were issued at par: -**

**Illustration: 1**

Mr.Rasheed was allocated 'X' Co. shares of 100 @ 10/- each. He paid Rs.2/-application money and Rs.3/- on first call amount, his share were forfeited. Show the journal entry needed for recording the forfeiture of shares.

Share Capital a/c	Dr	700	
	To Share forfeiture a/c		200
	To Share allotment a/c		200
	To Share 1 <sup>st</sup> call a/c		300

(Being forfeiture of 100 shares allotted to Rasheed who did not pay the allotment and 1<sup>st</sup> call amount)

**Illustration :2:- Forfeiture of shares – Issued at Discount.**

Sri Rahul bought 200 shares @ 10/- each with 10% discounts from y & Co., and paid Rs.3/- on application. He fails to pay Rs.2/- as allotment and the company directors forfeited his shares. Pass forfeiture entry in the Companies books.

**Journal entry in Y Co., Books.**

Share Capital a/c(200x6)	Dr	1200	
	To Share Forfeiture a/c (200x3)		600

To Share allotment a/c (200x2)	400
To Share Discount a/c (200x1)	200

(Being 200 shares forfeiture which is issued to Rahul)

**Forfeiture of shares – issues at Premium.**

**Illustration:-**

XY Co.Ltd., issued 50,00 shares of Rs.10/- each at a premium of Rs.2/- per share payable as follows.

On Application Rs.2/- On Allotment Rs.5/-(including Premium)

On 1<sup>st</sup> call Rs.3/- and On 2<sup>nd</sup> and Final call Rs.2/-.

The company made the 1<sup>st</sup> call. Basheer who was allotted 200 shares failed to pay the allotment and 1<sup>st</sup> call money. Jagdish who was allotted 300 Shares failed to pay the 1<sup>st</sup> call. The shares of Basheer and Jagdish were forfeited. Show the necessary Journal entries for forfeiting the said shares.

**Journal entry for Forfeiture.**

Date	Particulars	Debit Amount (Rs)	Credit Amount(Rs)
	Share Capital a/c Dr	1600	
	Share Premium a/c Dr	400	
	To Share Forfeiture a/c		400
	To Share allotment a/c		1000
	To Share 1 <sup>st</sup> call a/c		600
	(Being forfeiture of 200 shares allotted to Basheer as he failed to pay the 1 <sup>st</sup> call amount)		
	Share Capital a/c Dr	2400	
	To Share forfeited a/c		1500
	To Share 1 <sup>st</sup> call a/c		900
	(Being forfeiture of 300 shares allotted to Jagdish as he failed to pay the 1 <sup>st</sup> call money)		

**Re – issue of Forfeited shares: -**

Forfeited shares may be re-issued by the company directors for any amount but if such shares are issued at discount then the amount of discount should not exceed the actual amount received on forfeiture shares. The purchasers of forfeited reissued shares is liable for payment of all future calls duly made by the company.

**Journal entry for re – issue of forfeited shares:-**

1. Bank a/c Dr

Shares forfeited a/c Dr

To Share Capital a/c

(Being Re-issue of forfeited shares)

2. Share forfeited a/c Dr

To Capital Reserve a/c

(Being transfer of surplus in forfeiture to capital Reserve a/c)

**Illustration :**

JK Co.Ltd., issued 1000 shares @ 10/- each to Suneel, who paid Rs.6/- on application and allotment amount and fails to pay Rs .4/- on 1<sup>st</sup> & Final call. The shares were forfeited and the Directors re – issued shares to Srinivas @ 5/- each. Show the necessary Journal entry in the Company Books.

**Journal entry in JK. Co.Ltd.,**

Date	Particulars	Debit Amount (Rs)	Credit Amount(Rs)
	Share Capital a/c Dr To Share Forfeiture a/c To Share allotment a/c To Share 1 <sup>st</sup> & Final call a/c (Being forfeiture of 1000 shares forfeited)	10,000	6,000 4,000
	Bank a/c Dr Share forfeited a/c Dr To Share Capital a/c (Being Reissue of 800 shares @ 5/- each as fully paid up)	4,000 4,000	8,000
	Share forfeiture a/c Dr To Capital Reserve a/c (Being the balance in Share forfeiture a/c Transferred to capital Reserve a/c)	800	800

**Working Notes:-**

- Value of 800 shares @ 6/- each = 4800
- Less Re-Issued shares amount = 4000
- Amount Transferred to capital Reserve = 800

### **Summing Up:-**

Joint stock Company issue different classes of shares to secure capital from different people of different temperaments. Preference shares carry Preference both with regard to Payment of dividend and also repayment of capital. The dividend payable on them is fixed. These shares are suitable to continuous persons.

Equity shares do not enjoy any special rights. Dividend on them varies depending on Profits. There is a scope for capital appreciation or loss. These shares are suitable to those who are prepared to take reasonable risks.

The transactions rewriting to the issue of shares are recorded in the books of Accounts by passing journal entries and by writing cash transactions in cashbook. When shares are issued for cash it is also possible at times, that few share holders may fail to pay the installments on time in which case the due amount is transferred to “call in Arrear” account at the end of the year. There might be few shareholders who may pay the entire normal value even before the Installments are called for. In such case “ Call in advance account” is prepared and shown in the Balance Sheet at the end of the financial year.

Depending upon the financial status and business image of the company, shares are also issued to the public at premium or at discount. For issuing at discount the company must comply with certain legal stipulations.

If any shareholder fails to pay call money, the Directors after giving due notice can cancel the shares of defaulting shareholders. It is called forfeiture of shares. Generally it can be re issued with discount.

### **Glossary:-**

<b>Share</b>	:Capital of Company divided into small denomination known as share
<b>Preference share</b>	: Preferential right in respect of payment of dividend and repayment of capital.
<b>Equity Share</b>	: Those share which are not Preference shares are Equity shares.
<b>Call in advance</b>	: Excess amount received from shareholders in respect of calls are not made.
<b>Call money</b>	: The share amount call by the company is called call money.
<b>Share Premium</b>	: When a share issued at a value greater than its face value.
<b>Share Discount</b>	: When the shares issued below the nominal price.

**Forfeiture of Shares** : Cancellation of shares if Shareholders fails to pay the call amount on the calls made.

**Model questions**

I. **Short type Questions**

1. What is meant by share?
2. What is Equity share?
3. What is Preference share?
4. What is call in arrears?
5. What is a deferred share?
6. What is Issue of shares at par?
7. What is Issue of shares at discount?
8. What is Issue of shares at premium?
9. What is allotment of shares?
10. What is Cumulative Preference Shares?
11. What is forfeiture of Shares?
12. What is Redeemable Preference Shares?

II. **Essay Type Question**

1. Briefly Explain different types of company capital?
2. Define the Company and write its "Prospectus"?
3. What is Preference share? Write its types?
4. Briefly explain different types of issue of shares?
5. Write the short notes for the following: 1) Share Premium 2) Share Discount  
3) Forfeiture of shares.

6. Ramesh Sugars of Bodhan registered with Rs.10,00,000 shares of 100/- each. They issued 8,00,000 share @ 100/- each. The amount called and paid up as follows:

On application	Rs.20
On allotment	Rs.30
On 1 <sup>st</sup> call	Rs.30
On Final call	Rs.20.

Prepare Journal entries in the Company books.

7. Girijan Co.Ltd of Vizak has an authorised capital of 20,00,000 divided into 2,00,000 Equity share of Rs.10/- each. The Company issued all the shares, which were subscribed in full.  
 On Application Rs.3/- On 1<sup>st</sup> Call Rs.2/-  
 On Allotment Rs.3/- On Final Call Rs.2/-  
 All the Calls were made and all moneys due were received. Prepare Ledger A/c's in Company Books.
8. I.D.P.L.Company Co.Ltd., issued 50,000 shares @ 20/- each (Rs.10/- on application, Rs.10/- as allotment) but they received 55,000 applications with application amount. The Company rejected 3000 applications and adjusted 2000 applicants' amounts to allotment. Pass necessary journal entries in Company Books.
9. Airtel Co.Ltd., issued 1,00,000 Equity shares @ 100/- each with Rs.20/- premium. They called the amount as follows.  
 On application Rs.30/- On Allotment Rs.50/- (Including premium)  
 On 1<sup>st</sup> Call Rs.20/- On 2<sup>nd</sup> & Final Call Rs.20/-  
 Prepare necessary entries in Company.
10. Priya Cement Ltd., issued 50,000 shares @ Rs50/-each with 10% discount, and the calls made as follows  
 On Application Rs.10/- On allotment Rs.15/-(includes discount)  
 On 1<sup>st</sup> call Rs.15/- On 2<sup>nd</sup> & Final call Rs.10/-  
 All the call amount received prepare Journal entries in Company Books.
11. Reliance Co.Ltd., offered for Subscription 50,000, 10% Preference shares of Rs.100/- each at a Premium of 10% on 1<sup>st</sup> April 2006. The amount payable as follows.  
 On Application Rs.20/- On Allotment Rs.40/-(Including Premium)  
 On 1<sup>st</sup> Call Rs.25/- On 2<sup>nd</sup> Call Rs.25/-  
 All the shares were subscribed and amount received except the second call on 200 shares. Prepare necessary Ledger a/c's.
12. A Limited Co., issued 50,000 Equity shares of Rs.100/- each, payable Rs.25/- on application, Rs.25/- on allotment Rs.25/- each on 1<sup>st</sup> & 2<sup>nd</sup> call. All the amount subscribed except the following.  
 Mr.Sudheer holder of 100 shares fails to pay allotment amount.  
 Mrs.Vani holder of 200 shares fails to pay 1<sup>st</sup> call and 2<sup>nd</sup> call amount.  
 Write Journal entries for the above in the company Books.
13. Sudheer was allotted 100 shares of 100 each of a Limited Company. He paid Rs.20/- as Application money but failed to pay Rs.30/- on Allotment amount. Consequently the company forfeits his shares. Show the journal entry for the same.

- 14.** Vimal Textiles Co.Ltd., Issued their shares @ Rs.10/- per share with Premium 10 %. The calls were as follows. On Application Rs.3/-, On Allotment Rs.4/- Including Premium, on 1<sup>st</sup> call Rs.2/- and on Final call Rs.2/-.
- Sri.Venkat holder of 100 shares fails to pay allotment and 1<sup>st</sup> call amount, and Sri.Sudhakar, holder of 50 shares fails to pay on 1<sup>st</sup> call amount.
- Directors forfeited the above shares. Pass necessary journal entries in company's Books.
- 15.** Mr.Raju was allotted 2000 shares @10/- each of a Limited Company. He paid Rs.5/- on application and failed to pay Rs.3/- on allotment Rs.2/- on calls. Company forfeited his shares and re allotted to Sri.Sudhakar @ Rs.4/-each. Pass necessary journal entries in the company's books.

## DEBENTURES (Theory only)

### Contents:-

1. Objectives.
2. Introduction.
3. Meaning.
4. Difference between Debenture holder & Shareholder.
5. Types of Debentures.
6. Summing up
7. Glossary.
8. Model Questions.

### 1. Objectives:-

To Create awareness on Debentures, the meaning and different types of Debentures issued by a Company.

### 2. Introduction:-

Company requires large capital for expansion and development of business and modernization of equipment and machinery. The amount received by sale of shares may to be sufficient to carry out development or modernization schemes. So companies borrow money from the public for long periods by sale of debentures.

### 3. Meaning of Debenture:-

A Debenture is a document by a company under its seal, acknowledging a loan made to the company and providing for the payment of interest there on at specified rate at regular intervals. Some debentures will not be repaid during the life time of the company.

### 4. Difference between Debenture holder and Share holder:-

Debenture holder	Share holder
1. He subscribes the loan floated by the company and creditor of the company	1. He contributes to the share capital of the company and is a Joint Proprietor of the Company.
2. He is entitled interest on the face value of his debentures.	2. He is paid dividend out of the profits of the company.
3. He does not have voting rights.	3. He has voting rights.
4. He gets back his amount after in specified period.	4. He will not get repayment of capital during lifetime of company.
5. In case of wind up he gets back his amount on priority basis.	5. He will get back his amount after payment to all the creditors.

## 5. Types of Debentures / Classes of Debentures:-

The following are the several classes of debentures.

1. **Simple or Naked Debentures:-** Debentures which are issued without any security of the assets of the company are called simple or naked Debentures.
2. **Mortgage Debentures:-** It carries a specific security of some or all the assets of a company. In the event of a default either in respect of payment or interest or principal the holder of mortgage debentures can proceed against the assets of the company which are given as security.
3. **Redeemable Debentures:-** The Company undertakes the repayment of these Debentures in the manner agreed upon.
4. **Irredeemable or Perpetual Debentures:-** These Debentures are not repaid during the lifetime of a company. They get redeemed only on the winding up of the company. These kinds of Debentures are very rare.
5. **Bearer Debentures:-** In this case the names of the holders are not registered in the books of the company. The interest and the Principal amount will be paid to the bearer. It can be transferred by mere delivery.
6. **Registered Debentures:-** These cannot be transferred by mere delivery. Every transfer must be registered in the company's books so as to enable it to send the interest to the owner of the debentures for the time being.
7. **Convertible Debentures:-** It carries an option for converting into shares at a date. It may be fully convertible or partly convertible.

## 6. Summing Up:-

A debenture is a document issued by the company under its common seal acknowledging a debt. It contains the terms and conditions of Debenture issue.

Debentures are best suited for investment by conservative people. Investment in debenture is safe. A company can secure funds without surrendering control over management.

Redeemable, secured, and registered debentures are the most important types of debentures.

### **7. Glossary :**

**Debenture** : A document issued by the company under its common seal acknowledging a debt.

### **Model Questions**

#### **Short type Questions**

1. What is debenture?
2. What is Registered debenture?
3. What is secured debenture?
4. What is Redeemable debenture?
5. What are bearer debentures?

#### **Essay Type Questions**

1. What do you understand by debentures? Describe briefly the different types of debentures?
2. Write the difference between debenture holder and Shareholder?

## II - COMPANY ACCOUNTS – II

### **Contents :**

1. Aims & Objectives
2. Introduction
3. Preparation of Profit & Loss A/C
4. Certain items appearing in profit & loss A/C
5. Preparation of Balance Sheet
6. Certain items of Balance Sheet
7. Summing up
8. Model Examination Questions.

#### 1. **Aims and Objectives :**

Know how to prepare Profit & Loss A/C and Balance sheet of company. Get some acquaintance with the Expenses, Losses. Profits and assets and liabilities of the company to do the problems of final A/C's.

#### 2. **Introduction :**

As per the companies act it is a statutory obligation to prepare final accounts of companies along with Profit and Loss A/C within a stipulated time.

#### 3. **Preparation of Profit & Loss Account:-**

The Principle for preparation of Profit & Loss a/c is same as it is a firm or company, modified by the special provisions laid down in the companies act. It consists of Trading Account to show Gross Profit, Profit & Loss a/c to determine net profit, and Profit & Loss appropriation a/c to give a view about the manner in which Profits are disposed.

No form for Profit & Loss a/c has been prescribed in the Companies act as it has been prescribed for Balance Sheet, but requirements as to Profit and Loss a/c are given in Part II of Schedule VI.

#### 4. **Certain items Appearing in Profit & Loss A/c:-**

The following are some of the important items appearing in Profit & Loss A/c and their treatment if it is given in Trial Balance and Adjustment.

- A) **Dividends & Interest received:-** It relates to income of the company and appears credit side of Profit & Loss a/c.

- B) **Provision for Taxation:-** It should be credited to Profit & Loss a/c. If it is given in adjustment, it is debited to Profit & Loss A/c and second time on the Liabilities side of Balance sheet.
- C) **Income tax Paid:-** It is treated as advance tax is paid so it appears on Asset side of “Loan & Advances” head.
- D) **Preliminary Expenses:-** It appears Asset side of Balance Sheet. If adjustment is there, the (adjustment appears) written off amount debited Profit & Loss A/c, and the same deducted from the item in Balance Sheet.
- E) **Discount & Expenses on issue of shares / Debentures:-** It is appears on the Assets side of Balance Sheet. If adjustment is there on these items, the written off amount appears on debit side of Profit & Loss A/c and the same deducted from the respective items, in Asset side of Balance sheet.
- F) **Interest on Debentures:-** If it is given in Trail balance it is debited to Profit & Loss A/c. If it is given in adjustment it appears both side of Profit & Loss A/c Debit and Liabilities side of Balance sheet.

**Proforma of Trading & Profits and Loss A/C of a Company** is titled as  
**Profit & Loss A/c of \_\_\_\_\_ Co. Ltd., as on \_\_\_\_\_.**

Dr		Cr	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Opening Stock	Xxxxx	By Sales           xxxxx	
To Purchases       xxxxx		(-) Returns <u>xxx</u>	Xxxxx
(-) Returns <u>xxx</u>	Xxxxx	By Closing Stock	Xxxxx
To Carriage inwards	Xxxxx		
To Productive wages	Xxxxx		
To Freight	Xxxxx		
To Gross Profit	Xxxxx		
(Transferred to Profit & Loss A/c)	Xxxxxx		xxxxxx
To Salaries           xxxxx		By Gross Profit	
(-) Out standing <u>xxx</u>	Xxxxx	(Transferred from Trading	xxxxx

To Insurance	xxxxx		A/c)	
(-) Prepaid	<u>xxx</u>	Xxxxx	By Discount received	xxxxx
To Bank expenses		Xxxxx	By Share Transfer fees	xxxxx
To Director fees		Xxxxx	By Interest on Investments	xxxxx
To General expenses		Xxxxx	By Interest on defence bonds	
To Discount paid		Xxxxx	By Net Loss (if arises)	xxxxx
To Bad debts		Xxxxx	(Transferred to Profit & Loss	xxxxx
To Advertisement		Xxxxx	Appropriation A/c)	
To Commission paid		Xxxxx		
To Interest on Debentures	xxxx			
(+) Out standing	<u>xxx</u>	Xxxxx		
To Preliminary Expenses written off (Adj)		Xxxxx		
To Depreciation (on Assets)		Xxxxx		
To Provision for Income tax		Xxxxx		
To Net Profit (Transferred to Profit & Loss Appropriation A/c)		Xxxxx		
		xxxxxxx		xxxxxxx

### **Profit and Loss Appropriation Account**

A company has to prepare the Profit and Loss Appropriation Account in addition to the profit and loss account. It shows the appropriation of Profit and is popularly known as below the line the splitting of the Profit and Loss A/C into three section (i.e. trading A/C, Profit and loss A/C and profit and loss appropriation A/C) is not forbidden by the companies Act. It is desirable to split the profit and loss A/C into three sections so that gross profit, Net profit and surplus carried to the balance sheet may be ascertained. It is prepared as follows.

### Profit and loss appropriation Account

Dr		Cr	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Transfer to Reserves	Xxxxx	By Last year's Balance b/d	Xxxxx
To Income tax for Previous Year not provided for	Xxxxx	By Net Profit for the year	Xxxxx
To Interim dividend	Xxxxx	By Amount withdrawn from General Reserve/other reserve	Xxxxx
To Surplus (balancing figure carried to Balance Sheet)	Xxxxx	By Provision( Income tax provision not required)	Xxxxx
	xxxxx		xxxxx

#### Illustration: -

The following are the particulars of J.S.Co., Ltd., Tirupathi as 31-12-05.

<u>Particulars</u>	<u>Dr</u>	<u>Cr</u>
Opening Stock	75,000	
Sales		3,50,000
Purchases	2,50,000	
Wages	50,000	
Discount		5,000
Salaries	7,500	
Rent	5,000	
Sundry Expenses	7,000	
Profit & Loss Appropriation A/c1-1-06		15,000
Dividend Paid	9,000	
Plant & Machinery	30,000	

**Adjustments:-** Closing stock valued Rs.80,000, Depreciate Plant & Machinery @ 10/-. You are required to Prepare Profit & Loss A/c for the year ended 31-12-06.

**J.S.Co.,Ltd.,Profit & loss A/c for the year ended 31-12-05.**

<b>Dr</b>		<b>Cr</b>	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Opening stock	75,000	By Sales	3,50,000
To Purchases	2,50,000	By Closing stock	80,000
To Wages	50,000		
To Gross Profit C/d	55,000		
	<u>4,30,000</u>		<u>4,30,000</u>
To Salaries	7,500	By Gross Profit B/d	55,000
To Rent	5,000	By Discount	5,000
To Sundry Expenses	7,000		
To Depreciation on Plant & Machinery	3,000		
To Net Profit C/d	37,500		
	60,000		60,000
To Dividend Paid	9,000	By Balance B/d	15,000
To Balance C/d (Carried forward to Balance sheet)	43,500	By Net Profit Current year	37,500
	<u>52,500</u>		<u>52,500</u>

**Illustration 2:-**

PremRaj Ltd had a nominal Capital of Rs.6, 00,000 dividend in to shares of Rs.10/-each.

The Balances as per Ledger of the Company as at Dec.31, 2005 was as follows: -

<u>Particulars</u>	<u>Rs</u>	<u>Particulars</u>	<u>Rs</u>
Calls in arrear	7,500	Premises	3,00,000
Plant & Machinery	3,60,000	Interim Dividend Paid	7,500
Purchases	1,85,000	Preliminary Expenses	5,000
Freight	13,100	Directors' Fees	5,740
Bad debts	2,110	6% Debentures	3,00,000
P. & L.A/c (Cr)	14,500	Sundry Creditors	50,000

General Reserves	25,000	4% Govt. Securities	60,000
Stock (1 <sup>st</sup> Jan.2005)	75,000	Fixtures	7,200
Sundry Debtors	87,000	Good will	25,000
Cash in Hand	750	Cash at Bank	39,900
Wages	84,800	General Expenses	16,900
Salaries	14,500	Provision for Bad debts	3,500
Debentures Interest		Sales	4,15,000
Share Capital (fully called)	4,60,000	Bills Payable	38,000

Prepare the Final Accounts and the Balance sheet relating to 2005 from the figures given above after taking in to account the following:-

1. Depreciate Plant & Machinery by 10 % and Fixtures by 5%;
2. Write off 1/5 of Preliminary Expenses;
3. Rs.10, 000 of wages were utilized in adding rooms to the Premises; no entry has as yet been made for it
4. Leave Bad Debts Provision at 5% of the Sundry Debtors;
5. Provide a final dividend @5%
6. Transfer Rs.10,000 to General Reserve; and
7. Make a Provision for Income Tax to the extent of Rs.25, 000.
8. The stock on 31<sup>st</sup> December 2005 was Rs.1, 01,000.

**Trading and Profit & loss A/c of the Prem Raj Co., Ltd., for the year ended 31-12-2005.**

Dr			Cr		
Figures relating to 31 <sup>st</sup> Dec 2005	Expenses	Figures for the Current Year Rs.	Figures relating to 31 <sup>st</sup> Dec 2005	Incomes	Figures for the Current Year Rs.
	To Stock	75,000		By Sales	4,15,00
	To Purchases	1,85,000		By Stock	1,01,000
	To Wages 84,800				
	Less Charged to Premises <u>10,000</u>	74,800			
	To Freight	13,100			
	To Gross Profit C/d	1,68,100			
		5,16,000			
	To General Expenses	5,16,000			5,16,000

To salaries	16,900		By Gross Profit	
To Debenture Interest*	14,500		b/d	1,68,100
			By Interest due	
Paid 9,000			on Govt.	
Add out			Securities	
Standing 9,000			(4% on	
	18,000		Rs.60,0000)	2,400
To Directors' Fees	5,740			
To Preliminary				
Expenses	1,000			
To Depreciation- Plant				
& Machinery 36,000				
Fixtures 360				
	36,360			
To Provision for Bed				
Debts-				
Required 4,350				
Add Bad				
Debts 2,110				
	6,460			
Less Existing				
Provision 3,500				
	2,960			
To Provision for				
Income Tax	25,000			
To Net Profit c/d	50,040			
	<u>1,70,500</u>			<u>1,70,500</u>

**Balance Sheet of the Quick Ltd. as at December 31, 2005**

(not in prescribed form)

<b>Liabilities</b>	<b>Amount Rs.</b>	<b>Assets</b>	<b>Amount Rs.</b>
<b>Share Capital:</b>		<b>Fixed Assets:</b>	
Authorised – 60,000		Good will	
Shares of Rs. 10 each		Premises	25,000
Issued	6,00,000	Plant and	3,10,000
Subscribed & paid – up		Machinery	3,60,000
Capital :		Less Depre-	
46,000 Shares		Citations	36,000
of Rs.10 each			
fully called	4,60,000	Fixtures	7,200
Less Calls in		Less Depre-	
Arrear	<u>7,500</u>	Citations	<u>360</u>
	4,52,500		
<b>Reserves and Surplus:</b>		<b>Current Assets:</b>	6,840
General Reserve	35,000	Investments	
P.& L., A/c	24,415	Interest Due	60,000
		Stock	2,400
Secured Loans :		Sundry Debtors	87,000
6% Debentures	3,00,000	Less Provision	
Interest Outstanding	9,000	For Bad Debts	4,350
<b>Current Liabilities:</b>		Cash in Hand	
Bills Payable	38,000	Cash in Bank	82,650
Sundry Creditors	50,000	Preliminary Expenses	750
Provision for Income Tax	25,000		39,900
Proposed Dividend	22,625		4,000
	<u>9,56,540</u>		<u>9,56,540</u>

Alternatively, the Trading and Profit and Loss Account and the Profit and Loss Appropriation Account may be merged together and presented as follows: -

**Trading and Profit & loss A/c of the Prem Raj Co., Ltd., for the year  
ended 31-12-2005.**

Dr				Cr	
Figures relating to 31 <sup>st</sup> Dec 2005	Expenses	Figures for the Current Year Rs.	Figures relating to 31 <sup>st</sup> Dec 2005	Incomes	Figures for the Current Year Rs.
	To Stock	75,000		By Sale	4,15,000
	To Purchases	1,85,000		By Stock	1,01,000
	To Wages	74,800		By Interest on	
	To Freight	13,100		Government.	
	To General Expenses	16,900		Securities	2,400
	To Salaries	14,500			
	To Debenture interest	18,000			
	To Director's Fees	5,740			
	To Preliminary Expenses	1,000			
	To Depreciation – Plant & Machinery 36000				
	Fixtures <u>360</u>	36,360			
	To Provision for Bad Debts:				
	Required 4350				
	Add Bad Debts <u>2110</u>				
	6460				
	Less Existing Provision <u>3500</u>	2,960			
	To Provision for Income – Tax	25,000			
	To General Reserve	10,000			
	To Interim Dividend	7,500			
	To Proposed Dividend	22,625			
	To Balance of Profit	9,915			
		5,18,400			5,18,400

### **Balance Sheet:-**

It must be drawn up in such a form and should have such contents as will give affairs. For this purpose it should be drawn up as far as possible in conformity with the form set out in Part –I of schedule VI of the companies Act. Section 210 of the companies Act requires that at every annual general meeting of the shareholders, the Board of Directors of the Company shall lay before the company a Balance Sheet at the end of each trading period.

### **Certain important items in Balance Sheet:-**

The following are some of the important items appearing in Balance Sheet.

1. Call in Arrears: This amount is deducted from the called up share capital.
2. Call in advance: The amount received in advance. Son it is shown separately from the called up capital on the liabilities side.
3. Share premium: It is shown on the liabilities of Balance sheet under the head Reserve and surplus.
4. Forfeited shares: It is to be added to the paid up capital on the liability side of Balance sheet.
5. Fixed deposits: It can accepts from public it is shown under unsecured Loan on the liability side of Balance sheet.
6. Unclaimed dividend: Dividend which are not en cashed by the share holders are called unclaimed dividends. This item is shown under current liabilities.
7. Secured Loan: In case of each secured loan the nature of security given by the company should be indicated.
8. Unsecured Loans: Interest occurred and due on unsecured loans must be shown as an addition to the respective loans.
9. Fixed Assets: Full details of fixed assets their additions, Total depreciations should be clearly shown.
10. Current Assets: Closing stock, debtors, Bills Receivable etc., comes under this head.
11. Miscellaneous Expenditure: Not written off expenditure comes under this head. Ex: Preliminary Expenditure.

The form of the Balance sheet as given in Part I of Schedule VI of the Companies Act is given below.

Schedule VI (Section 211)  
Part – I Form of Balance Sheet

Balance Sheet of \_\_\_\_\_ as on \_\_\_\_\_

Figure s for the Previo us Year Rs.	Liabilities	Figur es for the Curre nt Year Rs.	Figure s for the Previo us Year Rs.	Assets	Figu res for the Curr ent Year Rs.	Figu res for the Prev ious Year Rs.
1	2	3	4	5	6	7
	<p><b>Share Capital:</b>                      Authorised _____                      Shares of _____ each.                      Issued _____ Shares of                      Rs. _____ each.                      Subscribed _____                      shares of Rs. Each                      _____ Shares of                      Rs. _____ per share                      called up.  <b>Less:</b> Calls unpaid                          1) by directors                          2) by others</p> <p><b>Add:</b> Forfeited Shares                      of the above shares                      _____ shares are                      allotted as fully paid up                      pursuant to a contract                      without payments                      being received in cash                      of the above _____                      shares are allotted as                      fully paid up by way of                      bonus shares.</p> <p><b>Reserves and                      Surplus:</b></p> <p>Capital Reserve                      Capital Redemption</p>			<p><b>Fixed Assets:</b>                      Good will                      Land                      Buildings                      Leaseholds                      Railway sidings                      Plant and Machinery                      Furniture &amp; Fittings                      Development of                      Property                      Patents, trade marks                      and designs                      Livestock                      Vehicals, etc.</p> <p><b>Investments:</b></p> <p>Showing nature of                      investments and                      mode of valuation,                      e.g., cost or market                      value:</p> <p>a) Investments in                      Government or                      Trust Securities.</p> <p>b) Investments in                      shares,                      debentures or                      bonds.</p> <p>Immovable                      Properties.</p>		

	<p>Reserve Share Premium Account Other Reserve</p> <p><b>Less:</b> Debit Balance in Profit and Loss Account, if any. Surplus, i.e., balance in Profit and Loss Account after providing for proposed allocations, namely, Dividend, Bonus, etc. Proposed additions to Reserves, Sinking Funds</p> <p><b>Secured Loans</b> Debentures Loans &amp; Advances from Banks Loans &amp; Advances from Subsidiaries Other Loans &amp; Advances</p> <p><b>Unsecured Loans</b> Fixed Deposits Loans &amp; Advances from Subsidiaries</p> <p>Short term loans and advances: a) from Banks b) from others</p> <p><b>Current Liabilities and Provisions</b> <b>a) Current Liabilities</b> Acceptances Sundry Creditors Advance payments and unexpired discounts Unclaimed dividends, other Liabilities (if any) Interest Accrued but not due on loans</p> <p><b>B) Provisions</b> Provision of</p>			<p><b>Current Assets, Loans and Advances</b></p> <p><b>A) Current Assets</b> Interest accrued on Investments Stores &amp; Spare parts Loose Tools Stock – in – Trade Work-in-Progress</p> <p><b>Sundry Debtors</b></p> <p>a) Debts out standing for a period exceeding six months b) Other debts Less: Provision</p> <p>Cash balance in hand Bank Balances: a) With Scheduled Banks B) With others</p> <p><b>B) Loans &amp; Advances</b></p> <p>Advances and Loans to Subsidiaries Advances and Loans to partnership firms in which the company or any of its subsidiaries is a partner</p> <p>Bills of Exchange</p> <p>Advances recoverable in cash or in kind or for value to be received, e.g., Rates, Taxes, Insurance, etc. Balance with Customs, Port Trust etc. (Where payable on demand)</p>		
--	--	--	--	--	--	--

	<p>Taxation Proposed Dividends For contingencies For Provident Fund Scheme For Insurance, Pension and similar staff other provisions</p> <p><b>Contingent Liabilities</b> (A foot note to the balance sheet is added to show separately and these are not included in the total)</p> <p>Claims against the company not acknowledged as debts uncalled liability on shares partly paid Arrears of fixed cumulative dividends Estimated amount of contracts remaining to be executed on capital account and not provided for other moneys for which the company is contingently liable.</p>			<p><b>Miscellaneous Expenditure</b> (To the extent not write off or adjusted) Preliminary Expenses Expenses including commission or brokerage on underwriting or subscription of shares or debentures Interest paid out of capital during construction (also stating the rate of interest)</p> <p>Development expenditure not adjusted Other items (specifying nature)</p> <p><b>Profit and Loss Account</b> (Show here the debit balance of profit and Loss Accountant carried forward, after deduction of the uncommitted reserves, if any.)</p>		
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**Summing up:**

Companies have to prepare final Accounts as per the provisions of the companies Act 1956 Every profit and loss A/C and Balance sheet must disclose a true and fair view of the profit or loss and financial state of the affairs of the company. Balance sheet is to be prepared in prescribe form is part I of schedule VI. The Profit and loss A/C must company with the requirements of part II of the schedule VI.

**Glossary :**

Dividend: Amount paid to the shareholders out of the profits.  
Preliminary Expenses: It is incurred in connection with the formation of the company.

Profit & Loss appropriation A/C: It shows the appropriation out of profits.

**Illustration:**

The following was the Trail balance of Sri. Nagi Reddy Textiles of Kurnool as on 31-12-05.

**Trail Balance**

<b>Particulars</b>	<b>Debit Rs.</b>	<b>Credit Rs.</b>
Call in Arrears	5,000	
Land & Building	5,00,000	
Machinery	4,00,000	
Purchases & Sales	4,00,000	9,00,000
Preliminary Expenses	1,00,000	
Wages	10,000	
Director fees	2,000	
Bad debts	3,000	
Profit & Loss A/c		1,00,000
Sundry Debtors & Creditors	1,00,000	50,000
General Reserve		50,000
1-1-05 Stock	50,000	
Cash in hand	10,000	
Cash at Bank	50,000	
Salaries	20,000	
Share Capital		4,00,000
Bills Payable		1,50,000
	<b>16,50,000</b>	<b>16,50,000</b>

**Adjustments:-**

1. Depreciate Machinery @10 %
2. Write off  $\frac{1}{4}$  Preliminary Expenses.
3. Transfer Rs.5000 to General Reserve
4. Closing stock 1,00,000.

You are required to Prepare final Accounts.

**Profit & loss A/c of the Nagi Reddy Textiles for the year ended 31-12-2005.**

	Dr		Cr		
Figures relating to 31 <sup>st</sup> Dec 2005	Expenses	Figures for the Current Year Rs.	Figures relating to 31 <sup>st</sup> Dec 2005	Incomes	Figures for the Current Year Rs.
	To Stock 1-1-05	50,000		By Sales	9,00,000
	To Purchases	4,00,000		By Closing Stock	1,00,000
	To Wages	10,000			
	To Gross Profit C/d	5,40,000			
		10,00,000			10,00,000
	To Salaries	20,000		By Gross Profit	5,40,000
	To Director fees	2,000		B/d	
	To Bad debts	3,000			
	To Preliminary Expenses 1/4	25,000			
	To Depreciation on machinery 10%	40,000			
	To Net Profit C/d	4,50,000			
		5,40,000			5,40,000

**Profit & loss Appropriation A/c.**

	Dr		Cr		
Figures relating to 31 <sup>st</sup> Dec 2005	Expenses	Figures for the Current Year Rs.	Figures relating to 31 <sup>st</sup> Dec 2005	Incomes	Figures for the Current Year Rs.
	To General Reserve	5,000		By Balance B/d	1,00,000
	To Surplus	5,45,000		By Net Profit for Current Year	4,50,000
		5,50,000			5,50,000

**Sri Nagi Reddy Textiles Balance Sheet as on 31-12-05**

<b>Liabilities</b>	<b>Amount Rs</b>	<b>Assets</b>	<b>Amounts RS</b>
1. Share Capital		1. Fixed Assets	5,00,000
Authorised		Land & Building	
Issued Called up &		Machinery 4,00,000	
Paid up 4,00,000		(-) Depreciation <u>4,000</u>	3,60,000
(-)Call in Arrears <u>5,000</u>	3,95,000	2. Investments	-----
2. Reserves & Surplus		3. Current Assets Loan	
General Reserve 50,000		Advances	
(+)Addition <u>5,000</u>	55,000	Closing Stock	1,00,000
P & L A/c		Sundry Debtors	1,00,000
3. Secured Loans	5,45,000	Cash in hand	10,000
4. Unsecured Loans	-----	Cash at Bank	
5. Current Liabilities &	-----	4. Miscellanies	
Provisions		Expenditure	50,000
Bills Payable	1,50,000	Preliminary	
Sundry Creditors	50,000	Expenses 1,00,000	
6. Contingent Liabilities	-----	(-) Written off <u>25,000</u>	75,000
	11,95,000		11,95,000

### Model Examination Questions

1. The following was the trial balance of madhava rao and corporation ltd on 31-3-2006. You are required to prepare final A/C.

#### Trail Balance

Particulars	Debit Rs.	Credit Rs.
1-4-2005 Stock	75,000	
Plant & Machinery	2,00,000	
Land & Buildings	4,00,000	
Furniture & Fixtures	50,000	
Debtors & Creditors	75,000	
Good will	20,000	
Cash in Hand	10,000	
Cash at Bank	90,000	
Purchases & Sales	4,00,000	8,00,000
Preliminary Expenses	50,000	
Wages	20,000	
Freight & Carriage	10,000	
Salaries	30,000	
Profit & Loss A/c Cr		75,000
Bills Receivable & Payable	50,000	25,000
General Reserve		50,000
Discount on issue of Debenture	10,000	
General Expenses	10,000	
Capital		5,00,000
	15,00,000	15,00,000

Adjustments:- 1) Stock 31-03-06 90,000

10,000

3) Depreciate Plant & Machinery @10%

2) Write of Preliminary Expenses Rs

4) Create 10% Reserve on Debtors.

2. From the following Balances Prepare Profit & Loss and Profit & Loss Appropriation account as on 31-3-06.

<b>Particulars</b>	<b>Rs</b>	<b>Particulars</b>	<b>Rs</b>
Opening Stock	50,000	Sales Returns	10,000
Purchases	1,00,000	Freight	5,000
Wages	10,000	Salaries	20,000
Carriage Out ward	1,000	Insurance	500
Interest as Debentures	5,000	Furniture	50,000
Plant	1,50,000	Sales	3,00,000
Discount (Cr)	3,000	Purchase returns	5,000
Transfer fees	2,000	Profit & Loss A/c	5,000

**Adjustments:-**

1. Closing Stock on 31-3-2006
2. Out Standing Wages Rs.1000, Salaries 2000/-
3. Prepaid Insurance Rs.500
4. Interest Payable on Debentures Rs.1000/-
5. Transfer to General Reserve Rs.3000/-
6. Proposed Dividend Rs.4000/-.

3.The following Particulars relating to Sudhakar & Co.Ltd., as on 31-12-05.

**Trail Balance**

<b>Particulars</b>	<b>Debit Rs.</b>	<b>Credit Rs.</b>
Stock on 1-1-05	1,50,000	
Sales		7,00,000
Purchases	4,90,000	
Wages	1,00,000	
Discounts	14,000	10,000
Salaries	15,000	
Rent	9,900	
General Expenses	34,100	
Profit & Loss A/c		30,000
Dividend Paid	10,000	
Proposed Interim Dividend	8,000	
Share Capital		
10,000 Equity Shares of 20/- each		2,00,000
Debtors	75,000	
Creditors		35,000

Plant & Machinery	58,000	
Cash & Bank	32,400	
General Reserve		31,000
Advertisement	6,500	
Bad Debts	3,100	
	10,06,000	10,06,000

**Adjustments:-**

- 1) Stock as on 31-12-05 Rs.1,75,000.
- 2) Depreciate 10% on Machinery
- 3) Out standing Rent Rs.200/-

You are required to prepare Final account on the above particulars.

4. The following Trail Balance was extracted from the books of R.Raju Co.Ltd.,, Tirupathi as on 31-12-05.

**Trail Balance**

Particulars	Debit Rs.	Credit Rs.
Share Capital, Authorised & Issued 50,000 Equity Shares of 20/- each		10,00,000
Call in Arrears	1,000	
Cash at Bank	2,76,000	
Motor Car	1,48,000	
Sundry Debtors	2,96,000	
Sundry Creditors		2,32,000
Printing & Stationery	6,000	
Purchases	24,00,000	
Sales		31,60,000
Stock 1-1-05	2,40,000	
Bad Debts Reserve		5,000
Bad debts	11,400	
Land & Building	8,00,000	
Repairs	47,600	
General Reserve		2,00,000
Director fees	20,000	
Salaries	2,29,000	
Motor delivery Expenses	99,000	
General Expenses	1,31,400	
Rates & Taxes	15,000	
Profit & Loss A/c		1,24,000
	47,21,000	47,21,000

**Adjustments:-**

1. Stock as on 31-12-05 Rs.3,00,000
2. Provide Rs.2000/- for Outstanding wages.
3. Provide for a dividend 10%

5.From the following balances prepare balance sheet of Malleesh & Co.Ltd., of Anantapur for the year 31-3-2005.

Particulars	Rs	Particulars	Rs
Cash	25,000	General Reserve	10,000
Share Capital	3,50,000	Good Will	75,000
Closing Stock	45,000	Bank	60,000
Bills Payable	5,000	P/l appropriation	30,000
Bills Receivable	40,000	Share Premium	20,000
Creditors	20,000	Furniture	45,000
Debtors	75,000	Buildings	1,20,000

6.The Following in the trial balance of Ramana & Co.Ltd of Tirupathi as on 30-6-2006.

**Trail Balance**

Particulars	Debit Rs.	Credit Rs.
Stock 1-7-2005	75,000	
Sales		3,50,000
Purchases	2,45,000	
Wages	50,000	
Discount		5,000
Furniture & Fittings	17,000	
Salaries	7,500	
Rent	4,950	
Sun dry expenses	7,050	
Profit & Loss A/c		1,50,000
Dividend Paid	9,000	
Share Capital		1,00,000
Debtors & Creditors	37,500	17,500
Plant & machinery	29,000	
Cash at bank	16,200	
General Reserve		15,500
Patents & trade mark	4,800	
	5,03,000	5,30,000

**Adjustments :-**

- 1) Stock on 30-6-2006 Rs. 1,00,000
  - 2) Depreciate Plant & Machinery 10%
  - 3) Out Standing Wages Rs. 5000/-
- You are required to Prepare Final A/c for the same.

### III - HIRE PURCHASE SYSTEM

#### **Contents:-**

1. Introduction
2. Meaning
3. Characteristics
4. Terminology
5. Advantages
6. Disadvantages
7. Preparation of Accounts
8. Calculation of Interest when rate is not given
9. Summing up
10. Exercises
11. Glossary.

**Introduction:-** Hire Purchase System is one method of trading the goods. As said in title itself that getting / Purchase the goods are on hire. The price of the goods is paid in Installments. The payment may be monthly or Yearly. The ownership of the goods vests with the trader though it is in the possession of the consumer. The consumers become owner of the article / goods only when he pays the last installment.

If the installments are not paid the trader has right to take back the goods, which he sold. The amount paid upto that by the consumer will be treated as hire paid for the use of article.

**Meaning:- Stephenson** defines Hire Purchase sale “ as a form of trade in which credit is granted to the buyer on the security of a Lieue on goods sold”. Hire purchase sale is effected on the basis of an agreement between the seller and the buyer according to which the buyer take possession of the goods for his use with immediate effect with the promise that he will pay a certain sum of money at stated intervals. Though the buyer gets the possession of the goods, he does not become the owner. The ownership comes only after payment of the Total / all installments on the goods.

This system is advantageous both to the buyer and seller. It enables the buyer to use goods even before he has made full payment of price and seller is able to sell move goods, receiving the price in installments with the added security to repossess the goods in case of default in the payment of any installment.

**Characteristics:-** All goods are not suitable for hire purchase trading Under this system. The following characteristics are suitable for hire purchase trading.

1. **Durable:-** The goods should be durable, and should serve the customer for a long time.
2. **Re – sale value:-** The goods shall be standard and re-sale value. Then only the seller is able to resale the goods. If the goods returned by the Customer / Buyer on default of Payment.
3. **Costly articles:-** The price of the articles should be sufficiently high. Then it will not be possible for many people to purchase it by paying cash.

4. **Transportable:-** The goods which are sold under these systems should be capable of easy transport. So that the goods can be brought back in case the installments are not paid.
5. **Easily recognisable:-** The article must be capable of being recognized and distinguished from other articles.  
Automobiles, Electronic appliances, Costly furniture, Machines, etc., are suitable for Hire Purchase sale.

**Terminology:-**

- a) **Hire Purchase Price:-** Total amount of Hire purchase price specified in hire purchase agreement.
- b) **Cash Price:-** Original cash price of the goods.
- c) **Cash down Payment:-** It is the Payment made at the time of signing the Hire purchase agreement by the buyer.
- d) **Installment Amount:-** It is the amount payable by the buyer as per agreed intervals.
- e) **Net cash price:-** It is arrived after paying cash down payment at the time of agreement.
- f) **Hire Purchaser:-** The buyer who agreed to purchase the goods on Hire.
- g) **Hire Vendor:-** The person who agreed to sale the goods under this system.

**Advantages:-** Hire Purchase system benefits to consumers, traders and producers.

The following are the advantages of hire purchase system.

1. **Enjoyment of article:-** People of moderate means will be able to secure useful goods easily. They can enjoy the articles and pay the amount in installments over a period. Now a slogan is “ Enjoy now and pay Later”.
2. **Encourages Thrift:-** Under this Hire Purchase System the buyer is forced to save money. The need of prompts payment of installments is bound to be regularize and curb his spending habits.
3. **Encourages Trade:-** Traders can increase their sales by offering goods Under this system. They will be able to get more profits on account of increased sales.
4. **Helps Industrial development:-** The system enables small producer to acquire costly and Latest machines. The producer can increase out put and pay installments out of Income earned.
5. **After sales Service:-** The trader help the consumer to secure after sale service promptly, otherwise it is difficult to get installment amount from the buyer.
6. **Help in Self – Employment:-** The system helps people to set up independent business. Example: a) Xerox Centre.  
b) Type writing (Job work)  
c) Computer D.T.P etc.,  
d) Taxi / Lorry for Hire etc.
7. **Increased Output:-** The system increases demand for goods producers have to increase production generally it leads to reduction in the cost of production.

**Disadvantages:-** The system has certain drawbacks or disadvantages.

- 1. Encourage recklessness:-** Persons may be tempted to acquire more articles than they can afford. They have to mortgage their future income. If their income falls for any reason they will suffer heavily.
- 2. Higher Price:-** Under this system the price of the article is higher than the cash price.
- 3. Risk of losing the article:-** If the last installment is not paid, the consumer will lose the article, and the amount paid up to that will be treated as hire.
- 4. Risk of Bad debts:-** Even though he can get back the article on default, it may not be possible to sell the second article. So the trader may lose on account of bad debts.
- 5. Expensive Organisation:-** The trader has to appoint many persons to collect installments regularly. He has to maintain a detailed account of each customer. So it is more expensive.

**Default and Repossession:-** Under the Hire purchase system when the buyer makes defaults in the payment of any installment the vendor has a right to repossess the goods sold on hire purchase and forfeit what even the amount he has already received treating it as a hire charge.

**Preparation of Accounts :-** There are two parties under this hire purchase system i.e. Buyer and seller. There are three methods of recording the hire purchase system in the books of both buyer and seller.

- I<sup>st</sup> method: Treating the goods as not becoming the property of the hirer.
- II<sup>nd</sup> method: Treating the goods as outright property.
- III<sup>rd</sup> method: Interest suspense Method.

### **III<sup>rd</sup> Method is suggested at Intermediate Level.**

Some of the Finance experts are of the opinion that the Asset purchased on hire purchase system should be treated as property of the business as it is purchased with the intention of acquiring the asset by paying all the installments.

Under this method the following entries are to be passed in the books of the buyer.

**i) When the Asset is purchased.**

Asset A/c	Dr (Cash Price)
Interest suspense A/c	Dr
	To Hire Vendor A/c

**ii) When cash paid at the time of delivery.**

Hire Vendor A/c	Dr
-----------------	----

To Bank A/c

**iii) For interest payable at the end of the year.**

Interest A/c Dr

To Interest suspense A/c

**iv) When the 1<sup>st</sup> installment paid.**

Hire Vendor A/c Dr

To Bank A/c

**v) When depreciation charged on Asset.**

Depreciation A/c Dr

To Asset A/c

**vi) When depreciation and interest transferred to Profit & Loss**

**A/c**

Profit & Loss A/c Dr

To Interest A/c

To Depreciation A/c

**Note:-** Journal entries iii, iv,v and vi will be repeated for subsequent years.

**Vendor Books:-** The following entries are passed in the books of vendor.

**i) When goods are sold on Hire purchase.**

Hire Purchaser A/c Dr

To Sales A/c

To Interest Suspense A/c

**Note:-** a) Under Hire Purchaser A/c Total hire purchase price should be shown.

b) Under sales A/c, The cash Price of the asset will be shown,

c) Under Interest Suspense A/c, the difference between Hire purchase price and cash price will be shown.

**ii) When cash received at the time of delivery.**

Bank A/c Dr

To Hire Purchases A/c.

**iii) When Interest due on Installments at the end of the Year.**

Interest Suspense A/c Dr

To Interest A/c

**iv) When the Installment amount receives.**

Bank A/c Dr

To Hire Purchaser A/c



**Solution:-**

**Journal entries in the Books of Jay ram Industries Ltd(Hire purchaser)**

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)
1-1-2002	Machine A/c Dr Interest suspense A/c Dr To Nagi Reddy & Co., A/c (Being the Machine Purchased on Hire Purchase System)		64,470 5,530	70,000
1-1-2002	Nagi Reddy & Co., A/c Dr To Bank A/c (Being cash down payment made)		10,000	10,000
31-12-2002	Interest A/c Dr To Interest suspense A/c (Being Interest payable to Vendor)		2,723	2,2723
31-12-2002	Nagi Reddy A/c Dr To Bank A/c (Being 1 <sup>st</sup> Installment paid)		20,000	20,000
31-12-2002	Depreciation A/c Dr To Machine A/c (Being Depreciation charged)		6,447	6,447
31-12-2002	Profit & Loss A/c Dr To Interest A/c To Depreciation A/c (Being Interest and Depreciation transferred)		9,170	2,723 6,447
31-12-2003	Interest A/c Dr To Interest suspense A/c (Being Interest payable to Vendor)		1,860	1,860

31-12-2003	Nagi Reddy A/c To Bank A/c (Being 1 <sup>st</sup> Installment paid)	Dr		20,000	20,000
31-12-2003	Depreciation A/c To Machine A/c (Being Depreciation charged)	Dr		6,447	6,447
31-12-2003	Profit & Loss A/c To Interest A/c To Depreciation A/c (Being Interest and Depreciation transferred)	Dr		8,307	1,860 6,447
31-12-2004	Interest A/c To Interest suspense A/c (Being Interest payable to Vendor)	Dr		947	947
31-12-2004	Nagi Reddy A/c To Bank A/c (Being 1 <sup>st</sup> Installment paid)	Dr		20,000	20,000
31-12-2004	Depreciation A/c To Machine A/c (Being Depreciation charged)	Dr		6,447	6,447
31-12-2004	Profit & Loss A/c To Interest A/c To Depreciation A/c (Being Interest and Depreciation transferred)	Dr		7,394	947 6,447

**Ledger Accounts in the Books of Jay Ram Industries Ltd.**

**Nagi Reddy & Co., A/c**

**Dr**

**Cr**

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1-1-02	To Bank A/c	10,000	1-1-02	By Machine A/c	64,470
31-12-02	To Bank A/c	20,000	31-12-02	By Interest Suspense A/c	5,530
31-12-02	To Balance C/d	40,000			

		70,000			70,000
1-1-2003	To Bank A/c	20,000	1-1-03	By Balance B/d	
31-12-03	To Balance C/d	20,000			40,000
		40,000			40,000
31-12-04	To Bank A/c	20,000	1-1-04	By Balance B/d	20,000
		20,000			20,000

### Machine A/c

**Dr**

**Cr**

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1-1-02	To Nagi Reddy & Co.,	64,470	31-12-02	By Depreciation A/c	6,447
				By Balance C/d	58,023
		64,470			64,470
1-1-03	To Balance B/d	58,023	31-12-03	By Depreciation	6,447
				By Balance C/d	51,576
		58,023			58,023
1-1-04	To Balance B/d	51,576	31-12-04	By Depreciation	6,447
				By Balance C/d	45,129
		51,576			58,576
1-1-05	To Balance B/d	45,129			

### Machine A/c

**Dr**

**Cr**

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31-12-02	To Interest Suspense A/c	<u>2,723</u>	31-12-02	By Profit & Loss A/c	<u>2,723</u>
31-12-03	To Interest Suspense A/c	<u>1,860</u>	31-12-02	By Profit & Loss A/c	<u>1,860</u>
31-12-04	To Interest Suspense A/c	<u>947</u>	31-12-02	By Profit & Loss A/c	<u>947</u>

**Journal entries in the Books of Nagi Reddy & Co., (Seller Books)**

<b>Date</b>	<b>Particulars</b>	<b>L.F</b>	<b>Debit (Rs)</b>	<b>Credit (Rs)</b>
1-1-2002	Jay Ram Industries A/c      Dr To Sales A/c To Interest Suspense A/c (Being the machine sold on Hire Purchase system)		70,000	64,470 5,530
1-1-02	Bank A/c      Dr To Jay Ram Industries (Being cash down received on delivery of machine)		10,000	10,000
31-12-02	Interest Suspense A/c      Dr To Interest A/c (Being Interest Suspense A/c transferred to interest A/c)		2,723	2,723
31-12-02	Bank A/c      Dr To Jay Ram Industries (Being Installment amount received on asset)		20,000	20,000
31-12-02	Interest A/c      Dr To Profit & Loss A/c (Being interest transferred)		2,723	2,723
31-12-02	Sales A/c      Dr To Trading A/c (Being sales A/c transferred to trading A/c)		64,470	64,470
31-12-03	Interest Suspense A/c      Dr To Interest A/c (Being Interest Suspense A/c transferred to interest A/c)		1,860	1,860
31-12-03	Bank A/c      Dr To Jay Ram Industries (Being Installment amount received on asset)		20,000	20,000
31-12-03	Interest A/c      Dr		1,860	

	To Profit & Loss A/c (Being interest amount transferred)			1,860
31-12-04	Interest Suspense A/c Dr To Interest A/c (Being Interest Suspense A/c transferred to interest A/c)		947	947
31-12-04	Bank A/c Dr To Jay Ram Industries (Being Installment amount received on asset)		20,000	20,000
31-12-04	Interest A/c Dr To Profit & Loss A/c (Being interest transferred)		947	947

**Ledger Accounts in the Books of Nagi Reddy & Co., A/c**

**Jay Ram Industries Ltd.**

**Dr**

**Cr**

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1-1-02	To Sales A/c	64,470	1-1-02	By Cash/ Bank	10,000
	To Interest Suspense A/c	5,530	31-12-02	By Bank	20,000
			31-12-02	By Balance C/d	40,000
		70,000			70,000
1-1-03	To Balance B/d	40,000	31-12-03	By Bank A/c	20,000
				By Balance C/d	20,000
		40,000			40,000
1-1-04	To Balance B/d	20,000	31-12-04	By Bank A/c	20,000

**Interest Suspense A/c**

Dr			Cr		
Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31-12-02	To Interest A/c	2,723	1-1-02	By Jay Ram Industries	5,530
	To Balance C/d	2,807		A/c	
		5,530			5,530
31-12-03	To Interest A/c	1,860	1-1-03	By Balance B/d	2,807
	To Balance C/d	947			
		2,807			2,807
31-12-04	To Interest A/c	947	1-1-04	By Balance B/d	947

**Interest A/c**

Dr			Cr		
Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31-12-02	To Profit & Loss A/c	2,723	31-12-02	By Interest Suspense A/c	2,723
31-12-03	To Profit & Loss A/c	1,860	31-12-03	By Interest Suspense A/c	1,860
31-12-04	To Profit & Loss A/c	947	31-12-04	By Interest Suspense A/c	947

**Calculation Of Interest – when rate is not given:-**

In this method you will find cash price and Hire Purchase Price of the Asset. There is no interest rate. Then total Interest will be calculated by deducting cash price from total Hire Purchase Price. Total interest will be divided in the ratio of amount outstanding for each year.

**Illustration 2:-**

On 1<sup>st</sup> Jan 2000 Malleesh bought mini truck from Sudhakar Transport on Hire Purchase System. The cost price of the truck was Rs.1,33,700 and Hire Purchase Price was Rs.1,50,000. He paid Rs.30,000 at the time of agreement and the balance is 3 Equal Installments @ 40,000/- each at the every year ending. The buyer charges 10% of depreciation on diminishing balance method.

Prepare Journal entries in the both of the seller and buyer books.

**Solution: - Valuation of Interest when Interest rate is not given.**

Hire Purchase Price of Truck	= 1,50,000
Cost Price of Truck	= <u>1,33,700</u>
Total Interest	= <u>16,300</u>

Total Installments are 3. So the interest will be divided in the Ratio of 3:2:1.

**OR**

Hire Purchase Price of Truck	= 1,50,000
Cash down Amount	= <u>30,000</u>
31-12-2000 1 <sup>st</sup> Year due amount	= 1,20,000 - 1
1 <sup>st</sup> Installment	= <u>40,000</u>
31-12-2001 2 <sup>nd</sup> Year Amount	= 80,000 - 2
2 <sup>nd</sup> Installment	= <u>40,000</u>
31-12-2002 Due Amount	= 40,000 - 3
3 <sup>rd</sup> Installment	= <u>40,000</u>
	= <u>0</u>

The Due Amounts are 1,20,000: 80,000: 40,000

$$3 : 2 : 1 = 6$$

$$= 3/6 : 2/6 : 1/6$$

$$1^{\text{st}} \text{ Year Installment} = \text{Total Installment} \times 1^{\text{st}} \text{ year Ratio} = 16,300 \times 3/6 = 8,150$$

$$2^{\text{nd}} \text{ Year Installment} = \text{Total Installment} \times 2^{\text{nd}} \text{ year Ratio} = 16,300 \times 2/6 = 5,433$$

$$3^{\text{rd}} \text{ Year Installment} = \text{Total Installment} \times 3^{\text{rd}} \text{ year Ratio} = 16,300 \times 1/6 = 2,717.$$

**TABLE**

Sl.No	Date	Installment / Cash Down	Interest	Principal	Balance
1	1-1-2000	30,000	-	-	1,03,700 (1,33,700 – 30,000)
2	31-12-2000	40,000	2,150	31,850	71,850 (103700 – 31850)
3	31-12-2001	40,000	2,717	37,283	-
Total		1,50,000	16,300	1,03,700	

**Depreciation Under Diminishing Balance Method @ 10%**

Cost of Truck	= 1,33,700
Depreciation @ 10% on 31-12-2000	= <u>13,370</u> - 1
	= 1,20,330
31-12-2001 Depreciation @ 10%	= <u>12,033</u> - 2
	= 1,08,297
31-12-2002 Depreciation @ 10%	= <u>10,829</u> - 3
	= <u>97,466</u>

**Journal entries in the Books of Mallesh (Buyer)**

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)
1-1-2000	Mini Truck A/c Dr Interest Suspense A/c Dr To Sudhakar Transport A/c (Being purchase of Mini Truck on drive purchase system)		1,33,700 16,300	1,50,000
1-1-2000	Sudhakar Transport A/c Dr To Bank A/c (Being cash down payment)		30,000	30,000
31-12-2000	Interest A/c Dr To Interest Suspense A/c (Being interest Payable)		8,150	8,150
31-12-2000	Sudhakar Transport A/c Dr To Bank A/c (Being 1 <sup>st</sup> Installment paid)		40,000	40,000
31-12-2000	Depreciation A/c Dr To Mini Truck A/c (Being depreciation charged)		13,370	13,370
31-12-2000	Profit & Loss A/c Dr To Interest A/c To Depreciation A/c (Being Interest & Depreciation Transferred)		21,520	8,150 13,370
31-12-2001	Interest A/c Dr To Interest Suspense A/c (Being interest Payable)		5,433	5,433

31-12-2001	Sudhakar Transport A/c Dr To Bank A/c (Being 1 <sup>st</sup> Installment paid)		40,000	40,000
31-12-2001	Depreciation A/c Dr To Mini Truck A/c (Being depreciation charged)		12,033	12,033
31-12-2001	Profit & Loss A/c Dr To Interest A/c To Depreciation A/c (Being Interest & Depreciation Transferred)		17,466	5,433 12,033
31-12-2002	Interest A/c Dr To Interest Suspense A/c (Being interest Payable)		2,717	2,717
31-12-2000	Sudhakar Transport A/c Dr To Bank A/c (Being 1 <sup>st</sup> Installment paid)		40,000	40,000
31-12-2000	Depreciation A/c Dr To Mini Truck A/c (Being depreciation charged)		10,829	10,829
31-12-2000	Profit & Loss A/c Dr To Interest A/c To Depreciation A/c (Being Interest & Depreciation Transferred)		13,546	2,717 10,829

### Journal entries in the Books of Sudhakar Transport

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)
1-1-2000	Mallesh A/c Dr To Sales A/c To Interest Suspense A/c (Being Mini Truck sold on Hire Purchase system)		1,50,000	1,50,000

1-1-2000	Bank A/c To Malleesh A/c (Being cash received on delivery)	Dr	30,000	30,000
31-12-2000	Interest Suspense A/c To Interest A/c (Being Interest Suspense A/c Transferred)	Dr	8,150	8,150
31-12-2000	Bank A/c To Malleesh A/c (Being 1 <sup>st</sup> Installment received)	Dr	40,000	40,000
31-12-2000	Interest A/c To Profit & Loss A/c (Being Interest Transferred)	Dr	8,150	8,150
31-12-2000	Sales A/c To Trading A/c (Being Sales Transferred to Trading A/c)	Dr	1,33,700	1,33,700
31-12-2001	Interest Suspense A/c To Interest A/c (Being Interest Suspense A/c Transferred)	Dr	5,433	5,433
31-12-2001	Bank A/c To Malleesh A/c (Being 1 <sup>st</sup> Installment received)	Dr	40,000	40,000
31-12-2001	Interest A/c To Profit & Loss A/c (Being Interest Transferred)	Dr	5,433	5,433
31-12-2002	Interest Suspense A/c To Interest A/c (Being Interest Suspense A/c Transferred)	Dr	2,717	2,717
31-12-2000	Bank A/c To Malleesh A/c (Being 1 <sup>st</sup> Installment received)	Dr	40,000	40,000
31-12-2000	Interest A/c	Dr	2,717	

	To Profit & Loss A/c (Being Interest Transferred)			2,717
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### **Summing Up:-**

1. Under Hire Purchase system trader delivers an asset to consumer on the payment of a part price of the product. The consumer agrees to pay the balance in installments. He becomes the owner of the product only after he pays the last installment. If he fails to pay even one installment, the trader can claim back the asset and the amount already paid become (will be) hire on using asset.
2. People of moderate income can enjoy valuable article. They will be compelled to save they can get after sales service. Trade will have increased sales and profit. The system helps people set up independent business and promote industrial development.
3. The system encourages recklessness on the part of consumers. The price will be higher. There is a risk of losing the product. Trader has to maintain expensive Organisation.

### **Exercises :**

1. On 1-1-2002 Rajsekhar purchased a plant from Rama Krishna on hire purchase system. The hire purchase price of the plant was Rs.120000/- and cash price is Rs.1,11,696/-.Rajsekhar paid Rs.30,000/- cash down and the balance in 3 equal Installments of Rs.30,000/- each at the every year ending. Interest was charged @5% P.A. and depreciation @ 10% on straight-line method.  
Show the Journal entries and ledger accounts in both of the books.
2. Khalid printing press bought a printing machine from saleem & Co., on 1-1-2001 on hire purchase system. The cash price of the machine was Rs.55,875/- and the payment was to be made as follows.  
Rs.15000/- was to be paid on the signing of the agreement and the balance in three installments of Rs.15000/- each at the end of each year. The company is charges 5% interest P.A. Khalid printing press depreciated the machine @ 10% on diminishing balance method.  
Prepare the Journal entries and necessary accounts in the books of Khalid printing press.
3. A color T.V is purchased on hire purchase system from Tirumala Electronics and the payment made as follows.

Cash price of the color T.V	Rs.	11,175
Cash down Payment		3,000
Balance in 3Equal Installments		3,000 each

Rate of Interest

5% P.A

Write the Journal entries and ledger A/c in Tirumala Electronics.

4. MUQTADAR Purchased a Motor cycle for Rs.60,000/- from Bajaj Co, Payment to be made Rs.15000/- down and three installments of Rs.18000/- each at the end of each year. Interest charged by bajaj co., @ 10% P.A. and depreciation charged at 20% on written down value.  
Prepare ledger accounts in Muqtadar Books.
5. Sesodia bought a machine from vijay kumar under hire purchase system the cash price of the machine was Rs.30,100/- Payment has to be made as follows.
- |                         |                          |
|-------------------------|--------------------------|
| On signing of agreement | Rs.6000/-                |
| Each Installment        | 10,000/- for three years |
- ascertain the interest and write Journal entries in vijay kumar books.
6. Mohan & Sons bought an auto from Subba rao & Co., on hire purchase system on 1-1-2002. He paid 24000 as cash down and balance in four installments @ 24000/- each at the every year ending. The seller charges 5% interest on the due balances.
- The cash price of the Auto is Rs.1,09,200/- The buyer charges 10% depreciation on fixed method
- Prepare journal entries and ledger accounts in Mohan & son's Books.
7. On 1-1-2000 Jahangeer purchased a Mini Van from Basharat Transport on Hire purchase system. The cash price of the vehicle is Rs.100000/-. He paid Rs.20,000/- as cash down at the time of agreement and the balance on every 31th Dec for four years Rs. 20,000+ 6% interest.
- The purchaser depreciate the vehicle @ 10% on diminishing balance method.  
Prepare journal entries in basharot Transport Books.  
**Note:** Hire purchase Installment will be 20000 + 6% interest.
8. Shiv Kumar bought a machine from Rajendra Prasad for Rs.16000/- on hire purchase system. He paid Rs. 5000/- cash down and the balance in 3 equal installments of Rs 5000/- each at the every year ending.  
Charge 10% depreciation on asset prepare journal entries in shivkumar Books.
9. On 1<sup>st</sup> Jan 2002 Tata Rao Purchased a type machine from sheshagiri & sons on hire purchase system on the following conditions.

1. Cash down payment Rs.2920
2. Each Installment at the every year ending Rs.4000/- for 3 years.  
The cash price of the machine was Rs.14,920 and hire purchase price is 13600/-

The buyer charges 10% depreciation on the machine on straight line method.

**10.** Write the Meaning and advantages of hire purchase system.

**Short Questions :-**

- a. What is hire purchase system.
- b. Write few characteristics of hire purchase system
- c. Define hire purchase system
- d. Write two disadvantages of Hire purchase system.

**Glossary :**

Hire Purchase system : under this system the trader sale/ hand over the article / Asset to the buyer on live and sell the goods as per mutual agreement.

## IV - INSTALLMENT PURCHASE SYSTEM

1. Meaning
2. Difference between hire purchase & Installment system
3. Account Procedure
4. Summing up
5. Exercises
6. Glossary

**Meaning :** Under the Installment system the buyer purchases the article / Asset from the seller under an agreement to make payment its price in installments at stated intervals. The possession and ownership passers from the seller to buyer immediately on entering the agreement. If the buyer makes any default in the payment of any installment, the seller has no right to re possess the goods / Asset, but can file a suit in the court of law for recovery of price only.

### **Difference between Hire prices & Installment system:-**

Thus goods sold under installment system cease to be property of the seller.

Distinction between hire purchase system and installment purchase system.

The following are the main points of distinction between the two systems.

Sl.No	Hire Purchase System	Installment System
1	It is an agreement of hiring	1. It is an agreement of sale
2	Ownership remains with seller until the payment of last installment	2. Ownership passes from the seller to the buyer immediately on entering the agreement.
3	Goods / Asset can be returned if the buyer does not want to pay the balance of installments	3. Goods / Asset cannot be returned unless some default on part of seller.
4	The buyer cannot re-sale, destroy, transfer or pledge the asset.	4. The buyer can do anything.
5	If the buyer makes any default, the seller can repossess the article / Asset	5. If the buyer makes any default, the seller can sue in the court for balance of installments.

### **Accounting Procedure :-**

The accounting procedure is same as in hire purchase system.

### **Illustration :**

On 1<sup>st</sup> Jan 2002 Ramachari bought a machine from Ramana & Co., for Rs. 1,56,900/- and paid cash down Rs.45,000/-.Balance in 3 equal installments of Rs.45,000/- at every year ending. The installment amount includes 10% interest. The buyer depreciate the machine @ 10% on straight line method.

Prepare Journal entries and ledger accounts in both of the books.

### **Solution:-**

#### **Analytical Table**

Date	Installment / Cash down	Interest	Principal	Balance due
1-1-2000	45,000	-	-	1,11,900 (1,56,900 – 45,000)
31-12-2000	45,000	11,190	33,810	78,090 (1,11,900 – 33,810)
31-12-2001	45,000	7,809	37,191	40,899
31-12-2002	45,000	4,101	40,899	-
Total	1,80,000	23,100		

#### **Journal entries in the Books of Ramana Chari (Buyer)**

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)
1-1-2000	Machinery A/c Dr Interest Suspense A/c Dr To Ramana & Co A/c (Being Machine bought under Installment system)		1,56,900 23,100	1,80,000
1-1-2000	Raman & Co A/c Dr To Bank A/c (Being cash down paid to vendor)		45,000	45,000
31-12-2000	Interest A/c Dr To Interest Suspense A/c (Being interest falling due)		11,190	11,190

31-12-2000	Raman & Co A/c To Bank A/c (Being 1 <sup>st</sup> Installment paid)	Dr	45,000	45,000
31-12-2000	Depreciation A/c To Machine A/c (Being depreciation charged on Asset)	Dr	15,690	15,690
31-12-2000	Profit & Loss A/c To Interest A/c To Depreciation A/c (Being Interest & Depreciation Transferred to Profit & Loss A/c)	Dr	26,880	11,190 15,690
31-12-2001	Interest A/c To Interest Suspense A/c (Being interest due in 2 <sup>nd</sup> Installment)	Dr	7,809	7,809
31-12-2000	Raman & Co A/c To Bank A/c (Being 2 <sup>nd</sup> Installment paid)	Dr	45,000	45,000
31-12-2000	Depreciation A/c To Machine A/c (Being depreciation charged)	Dr	15,690	15,690
31-12-2000	Profit & Loss A/c To Interest A/c To Depreciation A/c (Being Interest & Depreciation Transferred)	Dr	23,499	7,809 15,690
31-12-2002	Interest A/c To Interest Suspense A/c (Being interest due in 3 <sup>rd</sup> Installment)	Dr	4,101	4,101
31-12-2002	Raman & Co A/c To Bank A/c (Being the final Installment paid)	Dr	45,000	45,000
31-12-2002	Depreciation A/c	Dr	15,690	

	To Machine A/c (Being depreciation charged on Asset)			15,690
31-12-2002	Profit & Loss A/c Dr To Interest A/c To Depreciation A/c (Being Interest & Depreciation Transferred to Profit & Loss A/c)		19,791	4,101 15,690

### Machine A/c

Dr

Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1-1-2000	To Ramana & Co	1,56,900	31-12-2000	By Depreciation A/c	15,690
			31-12-2000	By Balance C/d	1,41,210
<b>Total</b>		1,56,000	<b>Total</b>		1,56,000
1-1-2001	To Balance B/d	1,41,210	31-12-2001	By Depreciation A/c	15,690
			31-12-2001	By Balance C/d	1,25,520
<b>Total</b>		1,41,210	<b>Total</b>		1,41,210
1-1-2002	To Balance B/d	1,25,520	31-12-2002	By Depreciation A/c	15,690
			31-12-2002	By Balance C/d	1,09,830
<b>Total</b>		1,25,520	<b>Total</b>		1,25,520
1-1-2003	To Balance B/d	1,09,830			

### Interest Suspense A/c

Dr

Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1-1-2001	To Ramana A/c	23,100	31-12- 2000	By Interest A/c	11,190
			31-12- 2000	By Balance C/d	11,910
<b>Total</b>		23,100	<b>Total</b>		23,100
1-1-2001	To Balance B/d	11,910	31-12- 2001	By Interest	7,809
			31-12- 2001	By Balance C/d	4,101
<b>Total</b>		11,910	<b>Total</b>		11,410
1-1-2002	To Balance B/d	4,101	31-12- 2002	By Interest	4,101

### Ramana & Co. A/c

Dr

Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1-1-2000	To Bank	45,000	1-1- 2000	By Machinery A/c	1,56,900
31-12-2000	To Bank	45,000		By Interest Suspense A/c	23,100
31-12-2000	To Balance C/d	90,000	1-1- 2000		
<b>Total</b>		1,80,000	<b>Total</b>		1,80,000
31-12-2001	To Bank	45,000	1-1- 2001	By Balance B/d	90,000
31-12-2001	To Balance C/d	45,000			
<b>Total</b>		90,000	<b>Total</b>		90,000
31-12-2002	To Bank	45,000	1-1- 2002	By Balance B/d	45,000

### Interest A/c

Dr

Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31-12-2000	To Interest Suspense A/c	11,190	31-12- 2000	By Profit & Loss A/c	11,190
31-12- 20001	To Interest Suspense A/c	7,809	31-12- 2001	By Profit & Loss A/c	7,809
31-12-2002	To Interest Suspense A/c	4,101	31-12- 2002	By Profit & Loss A/c	4,101

### Journal entries in the Books of Ramana (Seller)

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)
1-1-2000	Rama Chari A/c Dr To Sales A/c To Interest Suspense A/c (Being sale of machine on Installment System and interest calculated)		1,80,000	1,56,900 23,100
1-12000	Bank A/c Dr To Rama chari A/c (Being cash received on delivery of the machine)		45,000	45,000
31-12-2000	Interest Suspense A/c Dr To Interest A/c (Being Interest due)		11,190	11,190
31-12-2000	Bank A/c Dr To Rama Chari A/c (Being 1 <sup>st</sup> Installment received)		45,000	45,000
31-12-2000	Interest A/c Dr To Profit & Loss A/c (Being interest transferred)		11,190	11,190
31-12-2001	Interest Suspense A/c Dr To Interest A/c (Being Interest due)		7,809	7,809

31-12-2001	Bank A/c To Rama Chari A/c (Being 2 <sup>nd</sup> Installment received)	Dr		45,000	45,000
31-12-2001	Interest A/c To Profit & Loss A/c (Being interest transferred)	Dr		7,809	7,809
31-12-2002	Interest Suspense A/c To Interest A/c (Being Interest due on 3 <sup>rd</sup> Installment)	Dr		4,101	4,101
31-12-2002	Bank A/c To Rama Chari A/c (Being final Installment received)	Dr		45,000	45,000
31-12-2002	Interest A/c To Profit & Loss A/c (Being interest transferred)	Dr		4,101	4,101

### Rama Chari A/c

Dr

Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1-12-2000	To Sales	1,56,900	1-1-2000	By Bank	45,000
	To Interest Suspense A/c	23,100	31-12-2000	By Bank	45,000
			31-12-2000	By Balance C/d	90,000
<b>Total</b>		1,80,00	<b>Total</b>		1,80,000
1-1-2001	To Balance B/d	90,000	31-12-2001	By Bank	45,000
			31-12-2001	By Balance C/d	45,000
<b>Total</b>		90,000	<b>Total</b>		90,000
1-1-2002	To Balance B/d	45,000	31-12-2002	By Bank	45,000

### Interest Suspense A/c

Dr

Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31-12-2000	To Interest A/c	11,190	1-1-2000	By Rama Chari A/c	23,100
31-12-2000	To Balance C/d	11,190			
<b>Total</b>		23,100	<b>Total</b>		23,100
31-12-2001	To Interest A/c	7,809	1-1-2001	By Balance B/d	11,190
31-12-2001	To Balance C/d	4,101			
<b>Total</b>		11,910	<b>Total</b>		11,190
31-12-2002	To Interest A/c	4,101	1-1-2002	By Balance B/d	4,101

### Interest A/c

Dr

Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31-12-2000	To Profit & Loss A/c	11,190	31-12- 2000	By Interest Suspense A/c	11,190
31-12-2001	To Profit & Loss A/c	7,809	31-12- 2001	By Interest Suspense A/c	7,809
31-12-2002	To Profit & Loss A/c	4,101	31-12- 2002	By Interest Suspense A/c	4,101

### Exercises:-

- Raj Sekahar Industries Purchases a Machine from Madhava & Co., on Installment System on 1<sup>st</sup> Jan 2002 Paying cash Rs.10,000/- at the time of agreement and agreeing to pay the balance in 3 Equal Installment of Rs. 10,000/- on the every 31<sup>st</sup> Dec. The cash price of the Machine is Rs.37, 250/- and the Madhava & Co charges interest 5 % P.A. The Rajsekhar Industries write off 10% value of the asset. Depreciation on fixed balance method. Journalise the entries and Ledger accounts in both of the books.
- Brahmachari & Co., bought a Laptop on Installment system from Shashagiri Electronics on 1<sup>st</sup> Jan 2001 by paying Rs.18, 000/- as cash down and the balance in 4 Equal Installments of Rs.18,000/- each at the every year ending. The cash price of the Laptop is Rs.81, 900/-. The seller charges 5 % Interest

on the Asset. The buyer depreciate the asset @ 10% on diminishing balance method.

Journalise the entries in both the books.

3. Tip Top Drycleaners purchased a washing machine from Bajaj Electronics. The cash price of the washing machine was Rs.10, 2000/-. They paid Rs. 3,000/- cash down and the balance in 3 Equal Installments of Rs.3,000/- each at the every Year ending  
Tip Top Co., depreciate the machinery @ 10% on fixed balance method.

Prepare Ledger accounts in both of the books.

4. From the following information prepare Journal entries in both of the books.

- |                    |        |   |
|--------------------|--------|---|
| 1. Buyer           | —————> | Liberty Tailors   |
| 2. Seller          | —————> | Usha & Co., Dt.of Sale 1-1-2001                                   |
| 3. Goods Purchased | —————> | Electronic sewing Machine   |
| 4. Cash Price      | —————> | Rs.18,625/-   |
| 5. Interest Rate   | —————> | 5%  |
| 6. Installments    | —————> | Cash down 5,000/- balance in 3 Equal<br>Installments of Rs.5000/- |
| 7. Depreciation    | —————> | 10% Fixed Installment Method.                                     |

5. On 1<sup>st</sup> Jan 2002 Laxminarayana acquired furniture on Installment system from Lords furniture, agreeing to pay cash down Rs.1,600/- and the balance is 3 Equal Installments of Rs.1,600/- each at the every year ending. The cash price of the furniture was Rs.6,020 and an interest of 5% P.A. chargable. Prepare Journal entries in the books of Lords furniture.

6. Write the difference between Hire Purchase system and Installment System.

### **Short Questions:-**

1. What is Installment System
2. What is the important difference between Hire Purchase and Installment System.

### **Glossary:-**

**Installment System:-** The buyer becomes owner of the goods at the time of agreement, and pay's the balance in agreed installments with interest.

## V-DEPARTMENTAL ACCOUNTS

1. Meaning
2. Advantages.
3. Objects to prepare Departmental Accounts.
4. Basis for Allocation of Expenses.
5. Inter departmental transfers.
6. Treatment of Expenses, which cannot be allocated.
7. Departmental Trading and profit & Loss etc.
8. Summing up.
9. Exercises.
10. Glossary.

**Meaning :** A departmental store is a large retail establishment having in the same building number of departments each of which confines its activities to sell one particular product. It has been defined as that type of retail Organisation which deals in a wide variety of merchandise grouped into well-defined departments under central control. For example one department deals in clothe, another in provisions and stationary and so on. In other words, departmental stores provides a large variety of goods from pin to plane under one roof.

**Advantages :** The following are the advantages of departmental stores.

1. **Universal Provider** :- It provides all goods required by customers. They can purchase all their goods at one place.
2. **Provides Service & Amenities** :- It Provided may services and amenities like delivery reading room, recreation facilities to children etc.,
3. **Economy in purchasing** :- Departmental stores purchase heavy quantity goods from the manufactures so they can offer goods at lower prices to the customers.
4. **Control Location** :- A departmental store can attract a large number of customers as it is centrally located.
5. **Service of experts** :- A departmental, store can employ experts to handle purchasing, advertising etc., when they involved customers will get quality products.
6. **Advertisement** :- The departments are arranged in such a way that one advertises the other. When once a customer enters the stores for purchasing a product he will be induced and tempted by arrangements to go round the other departments and other requirement here itself.
7. **Huge turnover** :- Since departmental store turnover is large, it can spend huge amount on advertisement.
8. **No bad debts** :- All the sales are made on cash basis, there is no risk of bad debts.

### **Objects to prepare departmental Accounts:-**

- a) To know the comparison of results of a particular department with previous years and also with the other department of the same concern.
- b) To help the concern to expand and maximize the profits.
- c) To offer commission to the departmental managers on the basis of the profits of the respective departments.

### **Accounting Procedure :**

Departmental Trading and profit & loss o/c prepared in columnar form to know the gross profit & net profit of different departments. There is no problem in ascertaining the figures of opening stock, closing stock, Purchases sales and direct expenses can be maintained.

The Problem arises only in direct expenses which are common for the concern as a whole and may be related to sales distribution, administration finance, and till these distributed among the departments on some suitable basis, the net profit of different departments cannot be ascertained. The following method may be adopted for this purpose.

<b>Sl.No</b>	<b>Expenditure item</b>	<b>Basis for allocation</b>
1	Commission on sales, Bad debts, Discount allowed, advertising, sales tax, Carriage on sales etc.,	Sales
2	Rent, Rates, Taxes, Depreciation on building, Insurance on Building, Reports lease, etc.,	Space Occupied
3	Depreciation on plant, machinery furniture etc.,	On their value
4	Insurance Premium	On Insured value
5	Lighting & Heating	On light Points
6	Welfare expenses – Break fast, Lunch and entertainment expenses	On departmental working Employees
7	Supervision & Packing Expenses	Departmental Production

### **Treatment of Expenses which cannot be allocated:-**

Interest on capital, Interest on Debenture, bank charges, Income tax, Office expenses, General manager salary may not be apportioned. It may be debited to general or combined profit and loss account.

## **INTER DEPARTMENTAL TRANSFERS :**

Some times services or goods exchanges among departments should be separately recorded and shown in the departmental accounts, by debiting the receiving department and crediting the services provided department.

### **Summing up :**

A departmental stores in a large retail business concern dealing in a large variety of goods. It is called Universal Provider.

It Provides all the goods required by the customer. It provides various services and amenities. It secure the advantage of large scale buying it enjoys economy in advertising, prices are fixed and bad debts are eliminated.

### **Illustration :-**

The following information relating to big Bayaar as on 31-12-2005. you are require to prepare trading and profit & loss account.

<b>Particulars</b>	<b>Cloth Dept</b>	<b>Readymade Dept</b>	<b>Childress Dept</b>
Opening Stock	4000	45000	85000
Closing Stock	3500	40000	75000
Purchases	217000	78000	145000
Sales	404000	155000	363000
Purchase returns	2000	3000	5000
Sales return	4000	5000	13000
Wages	60000	25000	20000

### **Internal Transfers**

Cloth dept to Readymade Dept – 1500

To Childress Dept - 6000

Readymade Dept } to Childress dept – 5000

Stationary	=	1200	} Allocate equally among all depts. Equally.
Postage	=	600	
General Expenses	=	36,000	
Insurance	=	1800	
Depreciation	=	4800	

Allocate the following expenses on specific basis.

Salaries Rs.54000, Bad debts 3,6000, Advertising Expenses Rs.18,000

Rent and Rates Rs.64000/- It is allocated on the basis of space occupied by each dept, cloth dept : 4; Readymade Dept : 3; Children Dept : 1

Trading, Profit & Loss account of Bayaar as on 31-12-2005

Dr

Cr

Particulars	Cloth Dept	Ready made Dept	Children Dept	Total	Particulars	Cloth Dept	Readymade Dept	Children Dept	Total
To Opening Stock	40,000	45,000	85,000	1,70,000	By Sales (after returns)	4,00,000	1,50,000	3,50,000	9,00,000
To Purchases	2,15,000	75,000	1,40,000	4,30,000	By Inter Departmental Transfers (1500+6000)	7,500	5,000	-	12,500
To Wages	60,000	25,000	20,000	1,05,000	By Closing Stock	35,000	40,000	75,000	1,50,000
To Inter Departments Transfers	-	1,500	11,000	12,500					
To Gross Profit	1,27,500	48,500	1,69,000	3,45,000					
<b>Total</b>	<b>4,42,000</b>	<b>1,95,000</b>	<b>4,25,000</b>	<b>10,62,000</b>	<b>Total</b>	<b>4,42,000</b>	<b>1,95,000</b>	<b>4,25,000</b>	<b>10,62,500</b>
To Stationery	400	400	400	1,200	By Gross Profit	1,27,500	48,500	1,69,000	3,45,000
To Postage	200	200	200	600					
To General Expenses	12,000	12,000	12,000	36,000					
To Insurance	600	600	600	1,800					
To Depreciation	1,600	1,600	1,600	4,800					
To Salaries	24,000	9,000	21,000	4,000					
To Bad Debts	16,000	6,000	14,000	36,000					
To Advertising Expenses	8,000	3,000	7,000	18,000					
To Rent & Rates	32,000	24,000	8,000	4,000	By Net Loss		8,300		
To Net Profit	32,700	-	1,04,200	1,28,600					
<b>Total</b>	<b>1,27,500</b>	<b>56,800</b>	<b>1,69,000</b>	<b>3,45,000</b>	<b>Total</b>	<b>1,27,500</b>	<b>56,800</b>	<b>1,69,000</b>	<b>3,45,000</b>

Salaries, Bad debts, Advertisement allocated on the basis of Net sales.

Rs.

Total Net Profit :	Net profit of Cloth Dept	104200
	Net profit of Readymade	<u>32700</u>
		136900
	Net loss of Readymade	<u>8300</u>
		<u>128600</u>

**Exercises :**

1. They are three departments in Padmavathi Pvt. Ltd.,Co., from the following information you are required to prepare trading and profit & loss A/c of the above Co., as on 31-3-2006.

<b>Particulars</b>	<b>A</b>	<b>B</b>	<b>C</b>
Opening store	18000	12000	10000
Purchases	62000	53000	46500
Sales	122000	93000	61500
Sales returns	2000	3000	1500
Purchase returns	2000	3000	1500
Wages	27000	24000	17000
Carriage in words	1500	1000	1000

Inter departmental Transfers

1. A to B – 400 - &C – 2000
2. B to A – 1000
3. C to A – 2500

<b>Particulars</b>	<b>Amount (Rs)</b>
Carriage outwards	2700
Salaries	18000
Bed debts	1800
Discount allowed	4500
General expenses	3600
Rent & Taxes	9000

**Allocated on the space occupied A4; B= 2; C= 3**

2. A business concern has P& Q departments from the given particulars prepare departmental trading A/c for the year ended 31<sup>st</sup> mar 2006.

<b>Particulars</b>	<b>P</b>	<b>Q</b>
Opening Stock	25000	13000
Purchases	95000	75000
Carriage in wards	5000	3000
Wages	15000	10000

Sales	150000	120000
<b>Inter departmental Transfers:-</b>		
Q to P	10000	
P to Q		6000
Closing stock	35000	40000

3. From the following particulars prepare trading profit and loss A/c of a departmental store as on 31-3-2005.

Particulars	X Dept (Rs)	Y dept (Rs)	Z Dept (Rs)
Opening Stock	40,000	35,000	80,000
Closing Stock	30,000	40,000	75,000
Purchases	210,000	75,000	1,25,000
Purchase returns	5,000	2,000	5,000
Sales	4,02,000	154,000	3,60,000
Sales returns	2,000	4,000	10,000
Wage	72,000	30,000	25,000
<b>Inter Department Transfers:-</b>			
X to Y		500	
X to Z			6,000
Y to X	5,000		
Z to X	4,000		

The following Expenses should be divided equally,  
 Stationary 921, Postage 663, General Expenses- 39,627, Insurance  
 1,785. Allocate the following expenses on the basis of **Net Sales**.  
 Salaries Rs 63,882/- Bad debts Rs .19,836/-, Advertising Rs .7,290/-, Rent  
 & Taxes will be divided among departments on the basis of space  
 occupies i.e., x=4: y=2: z=3.

4. The following are the balances of Mallika & Co., for the year ended 31<sup>st</sup> Mar 2006.

Particulars	X	Y	Z
Opening Stock	75,000	48,000	40,000
Closing Stock	90,000	35,000	45,000
Purchases	2,80,000	2,70,000	1,80,000

Salaries & Wages 96,000, Advertising-4, 500, Rent – 21,600, Discount Allowed – 2,700, Discount Received – 1,600, Sundry Expenses – 24,300  
Depreciation on furniture and Fittings – 1,500.

- 1) Prepare Departmental accounts for each of the three departments in a columnar form.
- 2) The various items shall be apportioned amongst the three Depts. in the following Proportion.

Particulars	X	Y	Z
Rent	2	2	5
Salaries	1	1	1
Depreciation	1	1	1
Discount received	8	5	3

All other expenses on the basis of Sales.

5. The following are the Particulars of Sponcer Super Market as on 31-03-2005. You are required to prepare Trading & Profit & Loss account.

Particulars	A	B	C
Opening Stock 1-4-2004	30,000	35,000	15,000
Purchases	35,000	37,500	24,000
Sales	60,000	50,000	30,000
Direct Expenses	10,000	7,500	3,500

Total Indire Expenses for a period were Rs 21,000/-, Bad Debts 1,400/-, Advertising 7,000/-.

6. What is Departmental Stores! Write its advantages?.

### **Short Questions:-**

1. What is Departmental Stores?
2. How these expenses are allocated
  - a) Bad Debts, Advertisements, Discount Allowed.
  - b) Rent & Rates.

### **Glossary:-**

**Departmental Store:** It is a large retail business concern dealing in a large variety of goods. It is called Universal Provider.

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