EDU SERUMX COLLEGE OF COMMERCE and MANAGMENT

SYLLABUS

Class – B.Com I Year

Subject – Financial Accounting (Core)

Unit No.	Topics	Details
Unit I	**Introduction to Accounting and Indian Standards**	- History of Accounting in India
		- Definition and Objectives of Accounting
		- Basic Concepts and Principles of Double Entry System
		- Journal Entry, Ledger, Subsidiary Books, Trial Balance
		- Introduction to Indian Accounting Standards
		- Preparation of Final Accounts
Unit II	**Depreciation and Branch Accounts**	- Accounting for Depreciation (According to Accounting Standard-6)
		- Different methods of calculating depreciation (Straight Line, Reducing Balance, etc.)
		- Branch Accounts (Accounting for transactions in branch locations)
Unit III	**Royalty and Departmental Accounts**	- Royalty Accounts (Calculation and treatment of royalty payments)
		- Departmental Accounts (Allocating revenues and costs across departments)
Unit IV	**Non-Profit, Investment, and Consignment Accounts**	- Accounting for Non-Profit Organizations (Receipts and Payments, Income, and Expenditure Accounts)
		- Investment Accounts
		- Consignment Accounts (Treatment of goods on consignment, including expenses and commissions)
Unit V	**Partnership Accounts**	- Dissolution of Partnership (including insolvency of partners)
		- Amalgamation of Partnership Firms
		- Conversion of Partnership Firm into Joint Stock Company
Unit VI	**Computerized Accounting Systems**	- Introduction to Accounting Software (e.g., Tally, QuickBooks)
		- Setting up a Company and Configuring Software Features
		- Creating Accounting Ledgers and Groups
		- Stock Management (Creating Stock Items and Groups)
		- Voucher Entries (Recording transactions)
		- Generating Reports (Cash Book, Ledger Accounts, Trial Balance, Profit and Loss Account, Balance Sheet)

UNIT-1

Fundamental Principles of Financial Accounting

Financial accounting is the process of recording, classifying, summarizing, and interpreting financial transactions of a business. The American Institute of Certified Public Accountants (AICPA) defines accounting as:
"The art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events that are, at least in part, of a financial nature, and interpreting the results thereof."

Key Characteristics of Accounting:

1. **Science and Art**: Accounting is both a science and an art. As a science, it follows a systematic process, with rules, concepts, and principles. As an art, it applies this knowledge to real-life business situations.
2. **Financial Transactions**: It deals with transactions and events that are financial in nature.
3. **Monetary Terms**: All transactions are recorded in terms of money.
4. **Systematic and Accurate**: Accounting maintains accurate, complete, and organized records of all financial transactions.
5. **Analysis**: It helps in analyzing the financial outcomes of these transactions.

Objectives of Accounting:

1. **To Maintain a Systematic Record**: Accounting keeps a systematic record of all financial transactions, forming the foundation for creating financial statements.
2. **To Ascertain Business Performance**: By preparing an income statement, accounting helps determine whether a business is making a profit or incurring a loss during a specific period.
3. **To Protect Business Property**: Accounting provides insight into the business's assets and liabilities, ensuring resources are managed effectively.
4. **To Facilitate Financial Reporting**: Through accounting, businesses can report their financial position, including liquidity and solvency, using tools like cash flow statements.
5. **To Aid Decision-Making**: Accounting helps business owners and managers make informed decisions by providing accurate financial information.

Accounting as a Science and Art:

- **Science**: Accounting is considered a science because it involves systematic knowledge and principles. It uses standardized concepts like accounting equations and rules for debits and credits.
- **Art**: Accounting is also an art because it applies scientific principles to the real world, helping businesses keep track of their financial activities and manage their operations.

Bookkeeping:

Bookkeeping is the process of systematically recording financial transactions. It starts with identifying business transactions that are supported by financial documents. For example, when a business sells goods for cash, the transaction will increase cash and reduce inventory. The goal of bookkeeping is to maintain accurate and organized records of all such transactions.

DIFFERENCE BETWEEN BOOK-KEEPING AND ACCOUNTING

S.No	Basis of Difference	Book-Keeping	Accounting
1	**Transaction**	Trading transactions are recorded in primary books.	Accounting transactions are recorded and analyzed.
2	**Posting**	Entries are posted in the ledger from journal and subsidiary books.	Entries are posted, checked, and verified in the ledger.
3	**Total and Balance**	Includes totaling of journal entries.	Includes preparation of trial balance and final accounts.
4	**Objects**	The objective is to write all trading transactions in a systematic manner.	The objective is to analyze and summarize transactions.
5	**Adjustments and Rectification of Errors**	Not included in book-keeping.	Includes entries for adjustments and rectification of errors.
6	**Scope**	Narrow scope. Does not involve preparing final accounts.	Wide scope. Includes preparation of final accounts.
7	**Final Accounts**	Not prepared.	Final accounts are prepared as a necessary part of accounting.

Accounting Concepts:

1. **Business Entity Concept**: This concept treats a business as separate from its owner. The business has its own financial records. For example, if the owner invests ₹50,000 into the business, it's considered a liability for the business, not part of the owner's personal wealth.
2. **Going Concern Concept**: This assumes that a business will continue to operate in the future. Assets are recorded at their cost, not their current market value, because the business is expected to keep functioning for a long time.
3. **Dual Aspect Concept**: Every transaction has two parts: one is a benefit received (debit) and the other is a benefit given (credit). This is the basis of the **Double Entry System**. For example, when purchasing furniture, cash is paid or a liability is created.
4. **Historical Cost Concept**: This states that assets should be recorded at their original cost, not their market value, since the business is expected to continue operating and not liquidate.
5. **Money Measurement Concept**: Only transactions that can be measured in monetary terms are recorded in accounting. Non-monetary events, like internal conflicts or employee morale, are not included in financial records.
6. **Realization Concept**: Revenue is only recognized when a sale actually happens, not before. This helps prevent businesses from inflating their profits by counting sales that haven't been completed.
7. **Accrual Concept**: Transactions are recorded when they occur, even if cash hasn't been received or paid yet. For example, income earned but not yet received is still recorded as revenue.
8. **Matching Concept**: Expenses should be matched with the revenues they help generate. For instance, if expenses are incurred to earn revenue in a particular period, those expenses are reported in the same period.
9. **Accounting Period Concept**: A business's financial life is divided into time periods (such as months, quarters, or years). At the end of each period, a financial report (like the income statement) is prepared to show how the business has performed.
10. **Verifiable Objective Concept**: This concept says that all accounting information should be based on verifiable evidence, like receipts or invoices. This ensures that transactions are accurate and not influenced by personal opinions.

Accounting Conventions:

Accounting conventions are long-standing customs or practices followed by accountants while preparing financial statements. These conventions ensure that accounting practices are consistent and reliable.

1. **Convention of Conservatism**:
   This means accountants should avoid showing profits that are expected in the future. Instead, they should account for all possible losses that may occur. For example, inventory is valued at the lower of cost or market price, and provisions for bad debts are made before calculating profits. The idea is to be cautious and not overstate financial results.

2. **Convention of Consistency**:
   This convention says that accounting methods should stay the same over time. For instance, if a business has been using a particular method to calculate depreciation, it should continue to use that method unless it is absolutely necessary to change it. If changes do occur, they must be clearly stated, so comparisons of financial statements over time or between different businesses remain meaningful.
3. **Convention of Material Disclosure**:
   This convention requires businesses to disclose important information in their financial statements. For example, the value of assets should be shown, along with the method used to value them. Accountants should focus on material information (important details) and not clutter statements with unnecessary or insignificant facts.

Basic Accounting Terms:

1. **Business Transactions**:
   A business transaction is any economic event that affects the financial position of the business. These transactions are recorded in the accounting books. Not every activity is recorded—only those that have a financial impact and are supported by documentary evidence. For example, buying or selling goods, receiving income, or paying expenses are business transactions. They can be cash transactions (when money changes hands immediately) or credit transactions (when payment is made later).

   Key features of business transactions:

   - They must be financial in nature (involving money or assets).
   - They must have supporting documents (like receipts, invoices, etc.).
2. **Assets**:
   Assets are the valuable things owned by a business. They are resources that the business can use to generate income. Assets are recorded in the books at their monetary value. For example, land, machinery, buildings, and cash are all assets. These resources are purchased or acquired by the business, usually at a specific cost.

Classification of Assets:

1. **Tangible Assets**:
   These are physical assets that you can touch or see. For example, buildings, machinery, equipment, and vehicles. These are used by the business for a long time to produce goods or services.
2. **Intangible Assets**:
   These are assets that do not have a physical presence, but still hold value. Examples include patents, trademarks, copyrights, and goodwill. Even though they can't be touched, they are valuable to the business.

3. **Fictitious Assets**:
   These are not real assets, but are expenses or losses that the business needs to account for. Examples include preliminary expenses, deferred revenue, or discount on the issue of shares. They do not have any physical form but are written off over time.
4. **Current Assets**:
   These are assets that the business expects to convert into cash or use up within one year. Examples include cash, inventory (like goods to be sold), and accounts receivable (money owed by customers). They are used to run day-to-day operations.
5. **Fixed Assets**:
   These are long-term assets that are used in the business for a long time (usually more than a year) and are not intended to be sold. Examples include land, buildings, and machinery. These assets help the business in its ongoing operations.
6. **Liquid Assets**:
   These are assets that can easily be converted into cash. Examples include cash itself, marketable securities, and short-term investments. They are the most readily available resources for the business.

3. **Capital**
   It is that part of wealth used for further production and includes both current and fixed assets. Cash in hand, cash at bank, buildings, plant, and furniture are examples of capital in business. Capital does not necessarily need to be in cash; it can also be in kind. Capital is classified into **fixed capital** and **working capital**:

- **Fixed Capital**: The amount invested in acquiring fixed assets, such as plant and machinery, vehicles, furniture, and buildings, is called fixed capital. This money is blocked in fixed assets and is not available for day-to-day operations.
- **Floating Capital**: Assets purchased for sale, such as stock and investments, are known as floating capital.
- **Working Capital**: The capital available for the daily functioning of the business is known as working capital. This includes funds for purchasing goods and paying expenses. Working capital is calculated as:
  Working Capital = Current Assets - Current Liabilities.
  Current assets include cash, bills receivable, debtors, stock, etc., while current liabilities include creditors, bills payable, and short-term loans.

4. **Equity or Liability**
   Liabilities are obligations or debts that the business must pay in the future, either in money or goods. They represent claims against the assets of the business from proprietors and creditors. Liabilities can be classified as:

- **Liabilities to Owners (Owner's Equity)**
- **Liabilities to Creditors**: These include creditors for goods, expenses, loans, etc.

5. **Financial Statement**
   these are statements prepared at the end of the accounting year to assess the income and asset status of the business. Financial statements include:

- **Income Statement** (Profit and Loss Account)
- **Position Statement** (Balance Sheet)

6. **Accounting Equation**
   The accounting equation reflects the relationship between assets, liabilities, and capital. It is expressed as:
   Assets = Liabilities + Capital
7. **Goods**
   Goods are the articles purchased for sale, processing, or use in the manufacturing of other goods. For example, furniture for a furniture business is considered goods, but for a stationery business, it is an asset.
8. **Purchases**
   Purchases refer to the acquisition of goods either for resale or for manufacturing. These can be made for cash or credit, and may be local or imported. In accounting, purchases only refer to goods bought for sale, not for assets.
9. **Sales**
   Sales refer to the exchange of goods for money or credit. This includes both cash and credit sales. It is essential to maintain accurate records of sales, as profit or loss depends on the total sales.
10. **Purchases Return or Return Outward**
    this refers to the goods returned by the business to the seller. It can happen due to issues like defective goods, excessive supply, or violation of order terms. It is deducted from total purchases.
11. **Sales Return or Return Inward**
    Sales return occurs when customers return goods previously sold. Like purchases return, it is deducted from total sales to calculate net sales.
12. **Stock**
    Stock refers to the goods available for sale. It can be classified as:

- **Opening Stock**: The value of goods at the beginning of the accounting period.
- **Closing Stock**: The value of goods at the end of the accounting period.
  Stock can also be classified as:
- **Raw Material**: Goods for manufacturing.
- **Work in Progress**: Partly finished goods.
- **Finished Goods**: Goods ready for sale.

13. **Revenue**
    Revenue refers to the income received from the sale of goods or services. It should be a regular part of the business operations. Unlike income, which includes expenses, revenue is the total amount received from business transactions.
14. **Expenses**
    Expenses are the costs incurred in the process of generating revenue, such as raw material costs, wages, rent, and advertising. Expenses are essential for producing goods or providing services.

15. **Expenditure**
    Expenditure refers to the cost spent to acquire assets, which will benefit the business in the long term. It increases the firm's ability to generate future profits.
16. **Losses**
    Losses are unplanned expenses or burdens that reduce business profits, such as loss of goods due to accidents or theft. Losses can be normal (e.g., spoilage during transit) or abnormal (e.g., fire or flood).
17. **Profit**
    Profit is the excess of revenue over expenses. It is calculated as:
    Profit = Revenue - Expenses
    Profit represents the gain from regular business activities.
18. **Income**
    Income is the increase in the net worth of the business due to business or other activities. It includes profit but is a broader term referring to any positive change in wealth over time.
19. **Gain**
    a gain refers to the increase in net worth due to changes in the form or place of goods or assets held for a long period. Gains can be capital or revenue in nature.
20. **Debtors**
    Debtors are individuals or businesses that owe money to the company for goods sold on credit. For example, if goods worth Rs. 20,000 are sold to a customer and payment is due, the customer is a debtor until the payment is made.
21. **Creditors**
    Creditors are individuals or businesses to whom the company owes money for goods purchased on credit. Creditors include both goods creditors and expense creditors (e.g., for unpaid rent or wages).
22. **Receivables**
    Receivables refer to money the business expects to receive from debtors. This includes both bills receivable and outstanding payments.
23. **Payables**
    Payables refer to money the business needs to pay to creditors. This includes both bills payable and outstanding debts.
24. **Proprietor**
    The proprietor is the individual or group of individuals who own and run the business. They bear the risk and invest capital into the business. The proprietor is entitled to profits but also bears any losses.
25. **Drawings**
    Drawings refer to the withdrawal of goods or money by the proprietor for personal use. This includes using business assets for personal needs, like taking goods for personal use or using a business vehicle for private purposes.
26. **Solvent**
    A solvent business is one that can meet its liabilities with its assets. A solvent firm is financially sound and has enough resources to pay off its debts.

27. **Insolvent**
    An insolvent business is one that cannot meet its liabilities due to a lack of sufficient assets. Insolvency can only be declared by the court if the business is unable to pay creditors.
28. **Vouchers**
    Vouchers are documents that provide evidence of business transactions. These include receipts, invoices, or bills and are used for verifying and recording transactions in accounting.
29. **Accounting Year**
    The accounting year is the 12-month period during which a business prepares its financial statements. The year can run from January to December, or follow any other 12-month cycle as chosen by the business, except in the case of companies, which must follow a financial year from April 1st to March 31st

Accounting Systems in Financial Accounting

Financial Accounting has several main systems:

1. **Cash System**: In this method, only cash transactions are recorded in accounts. Any credit transactions are noted separately and only entered into the Cash Book when they are paid or received. This method is often used by small businesses, professionals, or non-profit organizations where cash transactions are the primary mode of operation.
2. **Mahajani System**: One of the oldest accounting methods in India, using "Bahis" (ledgers) for recording transactions in regional languages. It follows specific principles and is seen as scientific in its own way.
3. **Single Entry System**: Only some transactions are recorded, often just cash book and personal accounts. It’s incomplete and generally used infrequently due to its lack of comprehensiveness.
4. **Double Entry System**: In this system, each transaction affects two accounts – one debited and the other credited – to ensure that the totals remain balanced. This scientific method, widely used in modern businesses, originated in Italy in the 15th century.

Double Entry System Concept

The double entry system, the most popular method, is based on the idea that each transaction has two sides: when something is received, something else is given in return. Each transaction has a debit and a credit entry, ensuring that the debits equal the credits.

Evolution of Double Entry System: It began in Italy in the 15th century and was first documented by mathematician Luca Pacioli in 1494. He described this method of accounting, which was later translated into English and adapted by various scholars.

Stages of Double Entry:

1. Recording transactions in the journal.
2. Classifying them in the ledger and preparing a trial balance.
3. Closing the books and preparing final accounts.

Types of Accounts in Double Entry System

1. **Personal Accounts**:
   - **Natural Personal Account**: Accounts for real individuals (e.g., Shyam's Account).
   - **Artificial Personal Account**: Accounts for entities treated as individuals (e.g., company or institution accounts).
   - **Representative Personal Account**: Represents groups, like outstanding rent accounts for a landlord or unpaid salary accounts for employees.
2. **Real Accounts**:
   - **Intangible Accounts**: Non-physical assets, like goodwill or patents.
   - **Tangible Accounts**: Physical items, like furniture or buildings.
3. **Nominal Accounts**: Related to income, gains, expenses, or losses, such as rent or salary accounts.

Merits of Double Entry System

- **Comprehensive Record**: Every transaction is documented in detail.
- **Information on Business Position**: Shows capital, assets, and liabilities.
- **Checks Accuracy**: Trial balance helps detect arithmetic errors.
- **Fraud Prevention**: Easier to spot and prevent fraud with double entries.
- **Profit and Loss Insights**: The profit and loss account helps assess earnings.
- **Economic Health**: The balance sheet reflects financial status.
- **Comparison Over Time**: Results can be compared to previous years for analysis.

Demerits of Double Entry System

- **Complex Rules**: Learning and applying debit and credit rules can be challenging.
- **Potential Errors**: Mistakes may still occur despite its scientific nature.
- **Requires Expertise**: Proper knowledge and training are needed.
- **Costly for Small Businesses**: It can be expensive and complicated for smaller operations.

Capital and Revenue Classification

1. **Capital Expenditure**: Spending on assets that provide long-term benefits, like buildings or machinery.
2. **Revenue Expenditure**: Daily operational expenses, like rent, salaries, or utilities, providing short-term benefits.
3. **Deferred Revenue Expenditure**: Short-term benefits over a few years, such as advertising or research costs.

Capital Receipts vs. Revenue Receipts:

- **Capital Receipts**: Include sale of fixed assets, capital contributions, and loans.
- **Revenue Receipts**: Earnings from normal business activities, like sales or service revenue.

Rules of Double Entry System:

- **Personal Accounts**: Debit the receiver, credit the giver.
- **Real Accounts**: Debit what comes in, credit what goes out.
- **Nominal Accounts**: Debit expenses and losses, credit incomes and gains.

Journal in Accounting

A **journal** is the basic book in accounting where every transaction is first recorded in chronological order. This book, known as the "book of original entry," is essential for all businesses, big or small, as it helps in tracking all financial activities from the beginning.

- **Journalizing**: The process of recording transactions in the journal is called journalizing.

Format of a Journal Entry:

Date	Particulars	L/F	Debit Amount	Credit Amount
2009	Jul-25		A/c Dr	To A/c
	Description			

Compound Journal Entry: When multiple transactions of a similar type occur on the same day and share a common debit or credit, they can be combined into a single entry, called a compound journal entry. This avoids creating separate entries for each transaction.

Example of a Compound Entry:

Postage A/c Dr
Stationery A/c Dr
Cartage A/c Dr
To Cash A/c

Discounts in Accounting

1. **Trade Discount**: This is given at the time of buying or selling goods, usually to promote sales. For example, a manufacturer might give a discount to a wholesaler, or a wholesaler to a retailer. Trade discounts are deducted from the invoice price and are not recorded in the books.
2. **Cash Discount**: This discount is given to encourage timely payment and applies to the amount due. It's recorded in the books because it is based on actual cash transactions:
    - **Cash Discount Allowed**: If given to a customer, it's considered a loss and is recorded as a debit.
    - **Cash Discount Received**: If received from a supplier, it's considered a gain and is recorded as a credit.

DISTINCTIONS BETWEEN TRADE DISCOUNT AND CASH DISCOUNT

S.No.	Trade Discount	Cash Discount
1	Allowed at the time of making purchases or sales.	Allowed at the time of making payments or receipts of cash.
2	Calculated as a percentage on the invoice price of goods purchased or sold.	Calculated as a percentage on amounts due to creditors or from debtors.
3	Not shown in the books of accounts. Only the net amount of purchase or sale is recorded.	Shown in the books: discount allowed as a debit entry and discount received as a credit entry.
4	Given to promote more sales or purchases.	Given to encourage timely payments.

Ledger in Accounting

A **ledger** is the main book in accounting where transactions from subsidiary books are organized and classified into individual accounts. It's an essential part of the double-entry system, giving a clear picture of each account's status over a specific period.

Characteristics of a Ledger:

1. **Main Book**: The ledger is considered the principal book of accounts.
2. **Index**: The first few pages of the ledger are left for an index, making it easy to locate accounts.
3. **Separate Pages**: Each account has its own page or pages, known as a folio.
4. **Double Entry**: Every transaction has a debit and credit entry.
5. **Final Entry**: The ledger is the last step in daily accounting.
6. **Account Classification**: Unlike the journal, which records a mix of accounts, the ledger organizes them into separate categories.

Advantages of a Ledger:

1. **Knowledge of Account Balances**: It shows the balance of each account.
2. **Income and Expenditure Details**: The ledger provides a clear view of income and expenses, helping track business performance.

Difference between journal and Ledger

S. No.	Basis of Difference	Journal	Ledger
1	Nature of Book	Book of first or original entry	Book of final entry
2	Record Type	Chronological record of transactions	Analytical record of accounts
3	Legal Weight	Strong legal evidence as a source entry	Lesser legal weight, as it is based on the journal
4	Data Classification Unit	Classified by individual transactions	Classified by individual accounts
5	Recording Process	The process is called "journaling"	The process is called "posting"
6	Transaction Location	Transactions for an account are recorded at different dates and places	All transactions for an account are in one place

Performa of Ledger Account

Name of Account

Dr.		Cr.
Date	Particular	J.F.
---	---	---
To ...		

Posting

Posting is the process of transferring the debit and credit amounts from the journal entries into the ledger accounts. This allows each account to have an organized record of all transactions.

Procedure for Posting

1. **Open Separate Accounts**: Each transaction affects two accounts. Separate accounts (personal, real, or nominal) are opened in the ledger for each transaction.
2. **Post to the Relevant Side**: The debit side of the journal entry is posted to the debit side of the corresponding ledger account, and the credit side to the credit side of the related ledger account.
3. **Use "To" and "By"**: When posting, use “To” on the debit side and “By” on the credit side in each account.

Ledger Posting of Opening Journal Entry

In the ledger, assets and liabilities are recorded as "To Balance b/d" (debit) for assets and "By Balance b/d" (credit) for liabilities. All other entries are posted as usual.

Balancing of Ledger Accounts

1. **Asset, Liability, and Capital Accounts**: At the end of the accounting period, the closing balances are carried forward to the next period as "By Balance c/d" (for closing balance). These balances show what the business continues with in the new period.
2. **Nominal Accounts (Expenses and Revenues)**: These are not carried forward to the next period. Instead, they are closed by transferring their balances to the Profit and Loss account, as they only relate to the current period's income and expenses.

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Cash Book

Meaning of Cash Book: A **Cash Book** is a record where all transactions involving cash receipts and payments are recorded. It tracks all cash-related activities as soon as they happen.

- It acts as both a **journal** and a **ledger** for cash transactions.
- It has two sides:
  - **Debit side**: All cash receipts.
  - **Credit side**: All cash payments.

Features of Cash Book:

1. Only cash transactions are recorded.
2. It serves as both a **journal** and **ledger** for cash transactions.
3. Cash receipts are recorded on the **debit side**, and cash payments are recorded on the **credit side**.
4. It only records cash transactions.
5. All cash transactions are entered in chronological order.

Types of Cash Book

1. **Single Column Cash Book**
   - This is the simplest form of cash book. It records only **cash receipts** and **cash payments**.
   - It has one column on both the debit and credit sides to record cash transactions.

Dr. Single						Column Cash Book Cr.	
Date	Particulars	L.F.	Amount Rs	Date	Particulars	L.F.	Amount Rs

2. **Double Column Cash Book**
   - It records **cash receipts** and **cash payments**, just like the single column cash book, but also includes a **bank column** to record transactions related to the bank account.
   - It has two additional columns: one for **cash** and one for **bank** on both the debit and credit sides.

(Dr side)						(Cr side)					
Date	**Particulars**	**L/F**	**Discount Allowed**	**Cash (Dr)**	**Bank (Dr)**	**Date**	**Particulars**	**L/F**	**Discount Received**	**Cash (Cr)**	**Bank (Cr)**

3. **Triple Column Cash Book**
    - This is a more detailed cash book that includes **cash**, **bank**, and **discount** columns.
    - It records cash receipts and payments, bank transactions, and any **cash discounts** given or received.
    - It is useful for businesses that deal frequently with discounts.

Date	Particulars	L.F.	Discount (Rs)	Cash (Rs)	Bank (Rs)

4. **Petty Cash Book**
    - This type of cash book is used to record small, day-to-day expenses (like office supplies, postage, etc.) that don't warrant a detailed entry in the regular cash book.

Advantages of a Petty Cash Book

1. **Saves Time**: By recording minor expenses in the petty cash book, the chief cashier's time is saved.
2. **Less Work for Posting**:
    - Only a few expense categories need separate accounts.
    - Monthly totals for each expense type can be posted together, simplifying ledger entries

3. **Fewer Mistakes**: The chief cashier regularly checks the petty cash book, reducing the chance of errors.
4. **Controls Small Expenses**: The petty cashier is only allowed to spend up to a set amount, keeping expenses within budget.
5. **Prevents Fraud**: Any potential misuse is limited to the petty cash balance, reducing the risk of larger fraud.
6. **Specialization**: By having separate books for main and petty cash, each book handles specific types of cash entries efficiently.

Posting of Petty Cash Book in Ledger

1. **As Part of the Journal/Double Entry System**: Entries in the petty cash book follow double-entry principles and are part of the main accounting system.
2. **As a Memorandum Book**: Alternatively, it can serve as a record-keeping book, providing details on petty expenses without affecting the double-entry system directly.

Imprest vs. Non-Imprest System of Petty Cash Book

- **Imprest** (or **Float**) is the amount of money given to the petty cashier by the main cashier to cover minor expenses for a set period.
- Petty cash books can be managed using either the **imprest system** or the **non-imprest system**.

Features of the Imprest System of Petty Cash

1. **Estimated Amount**: The chief cashier calculates the expected petty expenses for a set period.
2. **Advance Given**: The chief cashier provides this estimated amount to the petty cashier at the start of the period.
3. **Expense Reporting**: At the end of the period, the petty cashier submits the petty cash book with all receipts and vouchers to the chief cashier.
4. **Review by Chief Cashier**: The chief cashier reviews the petty cash book to ensure all expenses are accurate and legitimate.
5. **Replenishment**: The chief cashier reimburses the petty cashier with the amount spent, so the petty cashier's cash is restored to the initial balance.
6. **Consistent Balance**: The petty cashier begins each new period with the same fixed amount of petty cash, creating consistency in managing minor expenses.

Subsidiary Books and Their Preparation

Subsidiary books are specialized journals used to record specific types of transactions separately, helping in managing records efficiently. Here is a breakdown of commonly used subsidiary books:

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1. Purchase Day Book

- **Purpose**: Records only **credit purchases of goods** (not cash purchases).
- Format

Date	Particulars (Supplier's Name)	Invoice No.	L.F.	Amount (Rs)	Net Amount (Rs)

- **Posting**: Each supplier's account is credited in the ledger with "By Purchases A/C." The monthly total is debited to Purchases A/C in the ledger with "To Sundries as per Purchases Book."

2. Sales Book

- **Purpose**: Records only **credit sales of goods** (not cash sales or asset sales).
- Format

Date	Particulars (Customer's Name)	Invoice No.	L.F.	Amount (Rs)	Net Amount (Rs)

- **Posting**: Each customer's account is debited with "To Sales A/C." The total for the period is credited to Sales A/C in the ledger with "By Sundries as per Sales Book."

3. Purchase Returns (Returns Outward) Book

- **Purpose**: Records **goods returned to suppliers**.
- **Format:**

Date	Particulars (Supplier's Name)	Debit Note No.	L.F.	Amount (Rs)

- **Posting**: Each supplier's account is debited with the amount returned, referencing "By Purchases Return A/C."

4. Sales Returns (Returns Inward) Book

- **Purpose**: Records **goods returned by customers**.
- **Format:**

Date	Particulars (Customer's Name)	Credit Note No.	L.F.	Amount (Rs)

- **Posting**: Each customer's account is credited with "By Sales Return A/C." The total is debited to Sales Returns A/C with "To Sundries as per Sales Returns Book."

5. Bills Receivable Book

- **Purpose**: Records **bills received by the firm** for future payments.
- **Format**:

Date Received	Drawer	Acceptor	Where Payable	Date of Bill	Term	Due Date	L.F.	Amount (Rs)	Remark

- **Posting**: Credit the personal account of the drawer. Total of the book is debited to Bills Receivable A/C.

6. Bills Payable Book

- **Purpose**: Records **bills payable accepted by the firm**.
- **Format**:

Date Accepted	To Whom Given	Payee	Where Payable	Date of Bill	Term	Due Date	L.F.	Amount (Rs)	Remark

- **Posting**: Debit the payee's account. Total of the book is credited to Bills Payable A/C in the ledger.

Trial Balance

A **Trial Balance** is a list of all ledger accounts, showing their balances. The debit balances go in one column and the credit balances in another. Its main purpose is to check that the total debits match the total credits, ensuring that the books are arithmetically correct under the double-entry system.

Main Characteristics of a Trial Balance

1. **Statement Form**: It's a statement in table form, with columns for debit and credit balances.
2. **Ledger Balances**: Shows the closing balances of all accounts from the ledger.
3. **Not an Account**: It's a summary, not an account itself.
4. **Prepared Anytime**: Can be prepared any time the accounts are balanced.
5. **Summary of Balances**: Lists all ledger balances in one place.

6. **Checks Accuracy**: Matches debit and credit totals to confirm entries are correct.
7. **Assists Final Accounts**: Helps in creating the Trading Account, Profit & Loss Account, and Balance Sheet.

Objectives of Preparing a Trial Balance

1. **Check Arithmetic Accuracy**: Equal debits and credits indicate correct calculations.
2. **Detect Errors**: Shows errors in adding or recording entries in books.
3. **Verify Ledger Postings**: Helps find mistakes in posting from subsidiary records.
4. **Identify Balancing Errors**: Finds mistakes in balancing ledger accounts.
5. **Verify Debtors & Creditors**: Confirms correctness of these schedules.

Limitations of a Trial Balance

- **Not Absolute Proof**: Errors can still exist even if the trial balance matches.
- **Errors Not Detected by Trial Balance**:
  - **Omission Errors**: When an entry is missing entirely.
  - **Commission Errors**: Wrong account, but correct side.
  - **Errors in Subsidiary Books**: Incorrect amount in subsidiary books.
  - **Compensating Errors**: Mistakes that cancel each other out.
  - **Principle Errors**: Misclassifying expenses or incomes, like capital vs. revenue.

Methods of Preparing a Trial Balance

1. Total Method**: Lists the total debits and credits of each account from the ledger.**

Title of Accounts	L.F.	Debit Total (Rs.)	Credit Total (Rs.)
		Total	**Total**

2. **Balance Method**: Lists only the final debit or credit balance of each account.

Title of Accounts	L.F.	Debit Balance (Rs.)	Credit Balance (Rs.)
		Total	**Total**

3. **Total cum Balance Method**: Combines both total and balance methods, showing debis, credits, and the balance of each account.

Title of Accounts	L.F.	Debit Total (Rs.)	Credit Total (Rs.)	Debit Balance (Rs.)	Credit Balance (Rs.)
		Total	**Total**	**Total**	**Total**

Accounting Standards

Accounting is often called the "language of business" because it communicates a company's financial performance and position to various interested parties (like investors, creditors, and management). This communication is done through financial statements, which should present a "true and fair" view of the company's financial results and situation.

To ensure consistency and clarity in financial statements, companies needed a set of standard accounting rules. Without these, different companies might use different methods, making it hard to compare financial information across businesses.

Thus, accounting standards were developed to:

- Set consistent guidelines for preparing financial statements.
- Reduce confusion caused by varying accounting methods.
- Allow some flexibility to consider a company's specific situation and changes in the economic environment, legal requirements, and technological advancements.

Since accounting standards impact all stakeholders, they are established through a social decision-making process to ensure acceptance by everyone affected.

Accounting Standards by ICAI

In India, the Institute of Chartered Accountants of India (ICAI) has issued various accounting standards that companies are required to follow, with each standard effective from a specific date.

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Standard	Title	Effective Date
AS-1	Disclosure of Accounting Policies	01-04-1991
AS-2	Valuation of Inventories (Revised)	01-04-1991
AS-3	Cash Flow Statement (Revised)	01-06-1991
AS-4	Contingencies and Events Occurring After the Balance Sheet Date	01-04-1995
AS-5	Net Profit or Loss for the Period, Prior Period Items, and Changes in Accounting Policies	01-04-1996
AS-6	Depreciation Accounting	01-04-1995
AS-7	Accounting for Construction Contracts	01-04-1991
AS-8	Accounting for Research and Development	01-04-1991
AS-9	Revenue Recognition	01-04-1991
AS-10	Accounting for Fixed Assets	01-04-1991
AS-11	Accounting for the Effects of Changes in Foreign Exchange Rates	01-04-1995
AS-12	Accounting for Government Grants	01-04-1994
AS-13	Accounting for Investments	01-04-1995
AS-14	Accounting for Amalgamation	01-04-1995
AS-15	Accounting for Retirement Benefits in the Financial Statements of Employers	01-04-1995
AS-16	Borrowing Costs	01-04-2000
AS-17	Segment Reporting	01-04-2001
AS-18	Related Party Disclosures	01-04-2001
AS-19	Leases	01-04-2001
AS-20	Earnings per Share	01-04-2001
AS-21	Consolidated Financial Statements	01-04-2001
AS-22	Accounting for Taxes on Income	01-04-2002
AS-23	Accounting for Investments in Associates in Consolidated Financial Statements	01-04-2002
AS-24	Discontinuing Operations	01-04-2002
AS-25	Interim Financial Reporting	01-04-2002
AS-26	Intangible Assets	01-04-2003
AS-27	Financial Reporting of Interests in Joint Ventures	01-04-2002
AS-28	Impairment of Assets	01-04-2004
AS-29	Provisions, Contingent Liabilities, and Contingent Assets	01-04-2004

Final Accounts

The main goal of every business is to make a profit, and to know this, a business owner needs to determine the profit or loss made in a year. Knowing profit or loss is essential for paying income tax, distributing dividends, understanding financial health, and planning for the future.

At the year-end, a *trial balance* is created using all ledger balances, and from this, final accounts are prepared.

Steps in Preparing Final Accounts

1. **Recording Transactions** in the Journal or subsidiary books (like cash book, purchase book, etc.).
2. **Posting** entries from the Journal or subsidiary books into the Ledger.
3. **Preparing a Trial Balance** from all ledger accounts.
4. **Creating Final Accounts** using the Trial Balance and additional information.

Final accounts show the profit or loss for the period and the financial position at the end of the period. The final accounts include:

- **Manufacturing Account**
- **Trading and Profit & Loss Account**
- **Balance Sheet**

Important Points for Final Accounts Preparation

1. **Debit Items in the Trial Balance**
    - *Expenses or Assets* are usually shown on the debit side.
    - **Revenue Expenses** (used within the year, like wages and carriage inwards) go in the Trading Account or Profit & Loss Account.
        - Direct expenses (like wages, carriage, and freight) go to the Trading Account.
        - Indirect expenses (like salaries and rent) go to the Profit & Loss Account.
    - **Capital Expenditure** (long-term benefit, like building and machinery) are considered assets and appear on the Balance Sheet's asset side.
2. **Credit Items in the Trial Balance**
    - *Incomes, Gains, or Liabilities* appear on the credit side.
    - **Capital Receipts** (one-time or long-term funds) are liabilities and appear on the Balance Sheet's liability side.
    - **Revenue Receipts** (recurring income) are either:
        - **Direct Income** (from main business activities, like sales) and credited to the Trading Account.
        - **Indirect Income** (not directly from the main business, like rent or interest received) and credited to the Profit & Loss Account.

Trading Account

Trading Account is prepare to calculate gross profit. It can be prepared separately or combined with profit and loss account. Normally it is prepared jointly with profit and loss account. It is the first part of profit and loss account.

Trading Account A/c
For the Year ending…………………..

Debit Side (Expenses)	Rs.	Credit Side (Incomes)	Rs.
To Opening Stock		By Sales	
To Purchases		Less: Returns Inward	
Less: Returns Outward		By Goods Sent on Consignment	
To Wages		By Closing Stock	
To Carriage		By Gross Loss c/d (Balancing Figure)	
To Fuel			
To Motive Power			
To Octroi			
To Import Duty			
To Clearing Charges			
To Dock Charges			
To Stores Consumed			
To Royalty based on Production			
To Manufacturing Expenses			
To Gross Profit c/d (Balancing Figure)			

Profit and Loss Account

Profit and loss accounts are prepared to ascertain net profit or loss. This is the second stage of ascertaining trading results. Gross Profit calculated as per trading account is credited to Profit and loss account then all the indirect expenses are debited and all the indirect incomes are credited. The excess of credits side over debit side is called net Profit and vice versa. The format of P & L account is as under:

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Profit and Loss A/c
(For the year ending)

Debit Side (Expenses)	Rs.	Credit Side (Incomes)	Rs.
To Gross Loss		By Gross Profit	
To Office Salaries & Wages		By Discount Received	
To Office Rent, Rates, and Taxes		By Bad Debts Recovered	
To Office Printing and Stationery		By Income from Investment	
To Office Lighting		By Commission Received	
To Insurance Premium		By Interest on Deposits	
To Repairs & Maintenance		By Profit on Sale of Fixed Assets	
To Postage & Telegram		By Apprenticeship Premium	
To Legal Expenses		By Interest on Drawings	
To Trade Expenses		By Net Loss (Transferred to Capital Account)	
To Audit Fees			
To Telephone Expenses			
To General Expenses			
To Bank Charges			
To Discount Allowed			
To Interest on Capital			
To Interest on Loan			
To Discount or Rebate on Bills of Exchange			
To Carriage Outward			
To Freight Outward			
To Bad Debts			
To Entertainment Expenses			
To Travelling Expenses			
To Cost of Samples			
To Catalogue Expenses			
To Salesmen's Salaries			
To Sales Expenses and Commission			
To Advertising Expenses			
To Depreciation on Fixed Assets			
To Loss on Sale of Fixed Assets			
To Net Profit (Transferred to Capital Account)			

Balance Sheet
As on 31 March ………………

Liabilities	Rs.	Assets	Rs.
Capital		**Fixed Assets:**	
		Patent	
Long-Term Liabilities:		Goodwill	
Debentures		Land and Building	
Bank Loan		Plant & Machinery	
		Furniture and Fixtures	
Current Liabilities:			
Advance Income		**Current Assets:**	
Outstanding Expenses		Short-Term Investment	
Bank Overdraft		Prepaid Expenses	
Bills Payable		Accrued Income	
Creditors		Debtors	
Unearned Income		Closing Stock	
		Bank Balance	
		Cash Balance	

Closing Entries

At the end of the year, after preparing the trial balance, a list of items that haven't been recorded yet is made, called the *adjustment list*. Adjustment entries are made for these items, and then closing entries are recorded.

Purpose of Closing Entries
closing entries are used to close all accounts related to *goods, expenses,* and *incomes* that appear in the *Trading Account* and *Profit & Loss Account*.

Steps for Closing Entries

1. **For Opening Stock, Purchases, Sales Returns, and Direct Expenses:**
    - Transfer these to the Trading Account by writing "To Trading Account" in each of these accounts.

    Entry:

    Trading A/c Dr.
    To Opening Stock A/c
    To Purchases A/c
    To Sales Return A/c
    To Wages A/c
    To Carriage Inward A/c

2. **For Sales and Purchase Returns:**
    - Transfer sales and purchase returns to the Trading Account.

    Entry:

    Sales A/c Dr.
    Purchase Return A/c Dr.
    To Trading A/c

3. **For Gross Profit or Gross Loss:**
    - (a) If there is a gross profit:

      Trading A/c Dr.
      To Profit & Loss A/c

    - (b) If there is a gross loss:

      Profit & Loss A/c Dr.
      To Trading A/c

4. **For Indirect Expenses:**
    - Transfer indirect expenses to the Profit & Loss Account.

    Entry:

    Profit & Loss A/c Dr.
    To Salaries A/c
    To Commission A/c
    To Discount Allowed A/c
    To Advertisement A/c

5. **For Indirect Incomes and Gains:**
   - Transfer indirect incomes and gains to the Profit & Loss Account.

   Entry:

   Interest Earned A/c Dr.
   Discount Received A/c Dr.
   Commission Received A/c Dr.
   Dividend A/c Dr.
     To Profit & Loss A/c

6. **For Net Profit or Net Loss:**
   - (a) If there is a net profit, transfer it to the Capital Account:

     Profit & Loss A/c Dr.
       To Capital A/c

   - (b) If there is a net loss, transfer it to the Capital Account:

     Capital A/c Dr.
       To Profit & Loss A/c

Adjustments at a glance

S.No.	Adjustments	Entry	Effect on Trading & Profit & Loss Account	Effect on Balance Sheet
1	Closing Stock	Closing Stock A/c Dr.	Credited to Trading A/c	Shown on Assets side
		To Trading A/c		
2	If Closing Stock is given in Trial Balance	-	-	Shown on Assets side
	(i) Outstanding Expenses	Expenses A/c Dr.	Added to concerned expense on debit side	Shown on Liabilities side
	(Expenses unpaid)	To Outstanding Expenses A/c		
	(ii) Outstanding Expenses (if from last year)	O/S Expenses A/c Dr.	Deducted from concerned expense on debit side	-
3	Prepaid Expenses	Prepaid Expenses A/c Dr.	Deducted from concerned expense on debit side	Shown on Assets side
	(Expenses paid in advance)	To Expenses A/c		

4	Accrued Income (earned but not received)	Accrued Income A/c Dr.	Added to income on credit side of P & L A/c	Shown on Assets side
5	Unearned Income (received in advance)	Income A/c Dr.	Deducted from concerned income on credit side	Shown on Liabilities side
		To Unearned Income A/c		
6	Depreciation	Depreciation A/c Dr.	Shown on debit side of P & L A/c	Deducted from concerned asset on Assets side
		To Asset A/c		
7	Interest on Capital/Loan	Interest on Capital/Loan A/c Dr.	Shown on debit side of P & L A/c	Added to Capital/Loan on Liabilities side
		To Capital/Loan A/c		
8	Interest on Drawings	Drawings A/c Dr.	Shown on credit side of P & L A/c	Deducted from Capital on Liabilities side
		To Interest on Drawings A/c		
9	Credit Purchases (not recorded)	Purchases A/c Dr.	Added to purchases on debit side of Trading A/c	Added to Creditors on Liabilities side
		To Creditors A/c		
10	Credit Purchases Return (not recorded)	Creditors A/c Dr.	Deducted from purchases on debit side	Deducted from Creditors on Liabilities side
		To Purchases Return A/c		
11	Credit Sales (not recorded)	Debtors A/c Dr.	Added to sales on credit side of Trading A/c	Added to Debtors on Assets side
		To Sales A/c		
12	Credit Sales Returns (not recorded)	Sales Return A/c Dr.	Deducted from sales on credit side of Trading A/c	Deducted from Debtors on Assets side
		To Debtors A/c		
13	Goods Given as Charity/Free Samples	Charity/Advertisement A/c Dr.	Deducted from purchases or credited to Trading A/c	-

		To Purchases/Trading A/c	Shown on debit side of P & L A/c	
14	Goods Drawn by Owner	Drawings A/c Dr.	Deducted from purchases or credited to Trading A/c	Deducted from Capital on Liabilities side
		To Purchases/Trading A/c		
15	Goods Stolen/Damaged by Fire	Insurance Co. A/c Dr.	Deducted from purchases or credited to Trading A/c	Shown on Assets side as Insurance Co.
	(e.g., Rs. 10,000 stolen; claim Rs. 6,000)	P & L A/c Dr.	Rs. 4,000 debited to P & L A/c	
		To Purchases/Trading A/c		
16	Goods in Transit (if already in purchases)	Goods in Transit A/c Dr.	Credited to Trading A/c	Shown on Assets side
		To Trading A/c		
17	Goods Sold on Approval	Sales A/c Dr.	Rs. 600 deducted from sales on Trading A/c	Rs. 600 deducted from Debtors on Assets side
	(e.g., sold for Rs. 600; cost Rs. 500)	To Customer A/c	Rs. 500 shown on credit side of Trading A/c	Shown on Assets side
		Stock on Approval A/c Dr.		
		To Trading A/c		
18	Purchase of Asset (if recorded as purchase)	Asset A/c Dr.	Deducted from purchases on debit side of Trading A/c	Shown on Assets side
		To Purchases A/c		
19	Over/Under Valuation of Stock	Capital A/c Dr./Trading A/c Dr.	Difference added/deducted in capital or Trading A/c	Added/deducted on Liabilities side or Stock side
20	Personal Use of Business Assets	Drawings A/c Dr.	Liabilities: deducted from Capital	Assets: deducted from Car
	(e.g., Rs. 2000 in car expenses)	To Car Expenses A/c		
		To Car Depreciation A/c		

21	Cheque/Bill Received from Debtors	Bank/Bill Receivable A/c Dr.	-	Deducted from Debtors; added to Bank/B/R
		To Debtors A/c		
22	Dishonour of Cheque/Bill	Debtors A/c Dr.	-	Added to Debtors; deducted from Bank
		To Bank/Bill Receivable A/c		
23	Dishonour of Discounted Bill	Debtors A/c Dr.	-	Added to Debtors; deducted from Bank or Creditors
		To Bank/Creditors A/c		
24	Discounted Bill (Due Next Year)	-	-	Shown as Contingent Liability
25	Deposit from Debtor (wrongly deducted)	Debtors A/c Dr.	-	Added to Debtors and Creditors
		To Deposit from Debtors A/c		
26	Settlement with Creditors	Creditors A/c Dr.	Shown in P & L if Discount	Shown in Liabilities and Assets side
	(e.g., Creditor Rs. 400 settled at Rs. 320)	To Bank A/c, To Discount A/c		

UNIT – 2

Depreciation Accounting

In accounting, the principle of going concern assumes that a business will operate indefinitely. Assets in this framework are categorized as fixed or current. Fixed assets benefit the business over multiple periods, so their cost is allocated gradually. This portioned cost, known as depreciation, reflects the asset's usage and its contribution to generating revenue over time.

Meaning of Depreciation

Depreciation is the decline in an asset's value due to usage, time, obsolescence, or other factors. It represents a gradual, permanent reduction in the asset's utility and value.

Definition

According to Spicer & Pegler, "Depreciation is the measure of the exhaustion of the effective life of an asset from any cause during a given period." It's an ongoing decrease in the asset's worth, reflecting its wear and tear, obsolescence, or other depreciative factors, and it's recorded as an expense to reflect the asset's diminished value over time.

Characteristics of Depreciation

1. **Applicability**: Depreciation applies to fixed assets (except land).
2. **Basis**: Calculated on book value, not market value.
3. **Permanence**: Once charged, it permanently reduces the asset's value.
4. **Continuity**: Depreciation is charged every period, not as a one-off.
5. **Gradual Reduction**: It reduces asset value steadily over time.
6. **Cost Allocation**: It allocates asset cost over its useful life.

Causes of Depreciation

1. **Wear and Tear**: Constant use wears down the asset.
2. **Time Expiry**: Some assets lose value with time (e.g., leasehold properties).
3. **Obsolescence**: Newer technology can make older assets obsolete.
4. **Depletion**: Natural resources like oil and minerals decrease with extraction.
5. **Accidents**: Damage reduces the asset's worth.
6. **Market Decline**: Permanent drops in market value impact asset valuation.
7. **Economic Environment**: Changing demands or technology can lower value.

Importance of Depreciation

1. **True Profit/Loss**: Including depreciation ensures accurate profit/loss.
2. **Financial Accuracy**: Assets shown at real values.
3. **Asset Replacement**: Allows funds for future asset replacement.
4. **Production Cost**: Accurate production costs need depreciation.
5. **Capital Preservation**: Prevents capital withdrawal disguised as profit.
6. **Tax Accuracy**: Avoids excessive income tax due to inflated profits.
7. **Dividend Integrity**: Ensures dividends aren't paid from capital.
8. **Worker Relations**: Proper profit calculation avoids wage demands based on inflated figures.

Factors Affecting Depreciation

1. **Total Cost**: The asset's purchase price and setup costs.
2. **Useful Life**: Estimated operational lifespan of the asset.
3. **Scrap Value**: Estimated residual value after its useful life ends.

Depreciation and Related Terms

- **Depletion**: Reduction of natural resource assets like mines.
- **Obsolescence**: Loss in utility due to becoming outdate.
- **Amortization**: Allocation of cost for intangible assets (patents, copyrights).
- **Fluctuation**: Changes in current asset values, which may increase or decrease.

Calculation Methods

1. **Fixed Instalment Method**: Also known as the original cost method, it involves charging a consistent, fixed depreciation amount each year.
    - **Formula (No Residual Value)**:
      Depreciation per year=Original cost of assetEstimated useful life in years\text{Depreciation per year} = \frac{\text{Original cost of asset}}{\text{Estimated useful life in years}}Depreciation per year=Estimated useful life in yearsOriginal cost of asset
    - **Formula (With Residual Value)**:
      Depreciation per year=Original cost - Residual valueEstimated useful life\text{Depreciation per year} = \frac{\text{Original cost - Residual value}}{\text{Estimated useful life}}Depreciation per year=Estimated useful lifeOriginal cost - Residual value
2. **Diminishing Balance Method**: Also known as reducing balance or written down value method, depreciation is charged on the asset's decreasing book value, creating a progressively lower depreciation expense each year.
    - Suitable for assets with increasing repair costs over time, like machinery.

Difference between Fixed Instalment and Reducing Balance Method

Basis of Difference	Fixed Instalment Method	Reducing Balance Method
Calculation of Depreciation	Depreciation is calculated on the original cost.	Depreciation is calculated on the remaining balance or opening book value of the asset.
Variation in Depreciation Amount	Amount of annual depreciation remains the same.	Amount of annual depreciation decreases over time.
Balance at the End of Life	Asset balance is either zero or equal to its scrap value at the end of life.	Asset balance can never be zero.
Rate of Depreciation	Rate of depreciation is usually low.	Rate of depreciation is typically high.
Burden on Profit & Loss	Burden of repairs and depreciation is not equitable over time.	Total cost burden of running the asset is more equitable.
Applicability	Suitable for assets with lower value and shorter life.	Suitable for assets that lose utility gradually and incur higher repair costs over time.
Validity	Not approved by income tax laws.	Approved by tax laws, and a tax rebate is available.
Practicability	Same depreciation is charged even when asset value decreases significantly.	Depreciation decreases as asset utility reduces.

Journal Entries in Case of Depreciation

Basic Journal Entries

1. **On Asset Purchase:**

   Asset A/c Dr
   To Cash/Bank

2. **On Depreciation Charged:**

   Depreciation A/c Dr
   To Asset A/c

3. **On Transfer of Depreciation to Profit & Loss (P&L) Account:**

   P&L A/c Dr
   To Depreciation A/c

4. **On Sale of Asset (Profit):**

   Cash/Bank A/c Dr
   To P&L A/c
   To Asset A/c

5. **On Sale of Asset (Loss):**

   Cash/Bank A/c Dr
   P&L A/c Dr
   To Asset A/c

Journal Entries with Provision for Depreciation

1. **For Providing Depreciation:**

   Depreciation A/c Dr
   To Provision for Depreciation A/c

2. **For Transfer to P&L Account:**

   P&L A/c Dr
   To Depreciation A/c

3. **On Sale of Asset (with Provision):**
   - a) **Provision for Depreciation:**

     Provision for Depreciation A/c Dr
     To Asset A/c

   - b) **Profit or Loss on Sale:**
     - If Profit:

       Asset A/c Dr
       To P&L A/c

     - If Loss:

       P&L A/c Dr
       To Asset A/c

Methods of Depreciation Explained

1. **Fixed Installment (Straight-Line) Method**: Depreciation is a fixed amount each year, calculated based on the original cost and estimated useful life.
2. **Diminishing Balance (Reducing Balance) Method**: Depreciation is charged on the reducing balance, resulting in a higher charge initially, decreasing over time.
3. **Annuity Method**: Treats the asset as an investment. Interest on the asset cost is added to depreciation, reflecting the total economic cost.
4. **Depreciation Fund Method**: Invests the depreciation amount in securities annually, and these funds are later used to replace the asset.
5. **Depreciation Repairs & Renewals Fund Method**: Allocates equal amounts for depreciation and repair costs over the asset's life.
6. **Insurance Policy Method**: Uses an insurance policy to fund future asset replacement, with annual premiums paid.
7. **Revaluation Method**: Revalues the asset each year, treating the reduction in value as depreciation.
8. **Sum-of-the-Years-Digits Method**: Calculates depreciation using a fraction based on the asset's remaining life.
9. **Machine Hour Rate Method**: Depreciation is based on machine hours used, suitable for machinery with a defined usage rate.
10. **Depletion Method**: Used for natural resources, where depreciation is based on units extracted.

Branch Account

A **Branch Account** is an account that records financial transactions between a branch and its Head Office (H.O.). It helps the H.O. monitor the performance and financial status of each branch.

Types of Branches

1. **Dependent Branches**: These branches don't keep full records on their own; instead, the H.O. prepares their accounts. They maintain minimal records like a cash book, sales book, and stock book.

   Types:

   - **Branches Making Cash Sales Only**
   - **Branches Making Cash and Credit Sales**
   - **Branches Receiving Goods at Sale Price**
2. **Independent Branches**: These branches maintain their own complete set of accounts, including journals and ledgers, and only send summarized reports to the H.O.

Branch Accounting Methods

1. **Stock and Debtors Method**: This method is suitable when branches handle both cash and credit sales and operate on a larger scale. Here, the H.O. opens several accounts to handle transactions for each branch, reducing error risk due to high transaction volume.

   Accounts typically maintained:

   - **Branch Stock Account**
   - **Goods Sent to Branch Account**
   - **Branch Debtors Account**
   - **Branch Expenses Account**
   - **Branch Profit & Loss Account**
   - **Branch Stock Reserve Account** (if goods are sent at invoice price)
   - **Branch Adjustment Account**
2. **Simple System (Debtors System)**: Used for small branches with limited operations. Only one Branch Account is kept at the H.O.:
   - **Credit Balance** = Profit
   - **Debit Balance** = Loss
3. **Wholesale Branch Method**: When the H.O. sends goods to wholesale branches and sells to consumers at a fixed value. This is useful for tracking performance at wholesale prices.
4. **Multiple Account Method**: Used when the branch is large, this method opens various accounts (like stock, debtors, and expenses) for accurate tracking. This is often combined with the **Stock and Debtors Method** for large operations.

Converting a Branch's Trial Balance for H.O.

When a branch's trial balance is converted to the H.O.'s currency or format, follow these steps:

1. **Fixed Assets**: Convert at the rate when the asset was purchased (or opening rate if not specified).
2. **Fixed Liabilities**: Convert at the rate when the liability arose (or opening rate).
3. **Current Assets and Liabilities**: Convert at the closing rate.
4. **Opening and Closing Stock**: Use the opening rate for opening stock and the closing rate for closing stock.
5. **Depreciation**: Convert at the rate used for the asset it relates to.
6. **Provision for Bad Debts**: Convert at the closing rate.
7. **Revenue Items**: Use the average rate.
8. **Exchange Suspense Account**: Any balance difference due to conversion is recorded in this account, which is shown in the balance sheet as an asset or liability.

Preparing Joint Balance Sheet

Since a branch is part of the H.O., its assets and liabilities must be included in the H.O.'s balance sheet. To incorporate the branch's trial balance into the H.O.'s books:

- Combine all debit and credit balances from the branch's trial balance into one entry in the H.O.'s books:

```
All debit items in branch trial balance      Dr
    To Branch Account
```

This summarizes the branch's financial position in the H.O.'s overall financial records.

Example of Branch Account in Head Office Books

Debits:

- Opening Stock
- Opening Petty Cash
- Opening Assets
- Goods Supplied to Branch
- Cash Expenses
- Closing Liabilities

Credits:

- Opening Liabilities
- Cash Received
- Goods Returned by Branch
- Closing Assets (like Stock, Petty Cash)
- General Profit (if profitable) or Loss (if at a loss)

Chart for Branch Liabilities, Assets, Profit, and Loss Entries

Transaction	Account	Dr./Cr.	Entry
For Liabilities of Branch	Branch a/c	Dr.	To Branch Liabilities a/c
			(Being Branch Liabilities incorporated)
For Assets of Branch	Branch Assets a/c	Dr.	To Branch a/c
			(Being Branch assets incorporated)

Third Method: When Profit or Loss, Assets, and Liabilities are Given

1. for Profit

Account	**Dr./Cr.**	**Entry**
Branch a/c	Dr.	To General P. & L. a/c
		(Being the Branch Profit incorporated)

2. for Loss

Account	**Dr./Cr.**	**Entry**
General P. & L. a/c	Dr.	To Branch a/c
		(Being Branch loss incorporated)

3. for Assets

Account	**Dr./Cr.**	**Entry**
Branch Assets a/c	Dr.	To Branch a/c
		(Being Branch assets incorporated)

4. for Liabilities

Account	**Dr./Cr.**	**Entry**
Branch a/c	Dr.	To Branch Liabilities a/c
		(Being Branch Liabilities incorporated)

Second Method: For Trading and Profit & Loss Entries

1. Debit Side Items of Trading a/c

Account	**Dr./Cr.**	**Entry**
Branch Trading a/c	Dr.	To Branch a/c
		(Being the Branch Opening Stock, Purchases, Sales Returns, Wages etc. incorporated)

2. Credit Side Items of Trading a/c

Account	Dr./Cr.	Entry
Branch a/c	Dr.	To Branch Trading a/c
		(Being the Branch Sales, Purchases Returns, Closing Stock etc. incorporated)

3. To Close the Trading a/c of the Branch

- **In case of Gross Profit**

Account	Dr./Cr.	Entry
Branch Trading a/c	Dr.	To Branch Profit & Loss a/c
		(Being the Branch Gross Profit incorporated)

- **In case of Gross Loss**

Account	Dr./Cr.	Entry
Branch Profit & Loss a/c	Dr.	To Branch Trading a/c
		(Being the Branch Gross Loss incorporated)

4. Debit Side Items of Branch Profit & Loss a/c

Account	Dr./Cr.	Entry
Branch Profit & Loss a/c	Dr.	To Branch a/c
		(Being all the expenses & losses of Branch incorporated)

Sample Branch Accounts Table

Account	Dr./Cr.	Entry
Branch B/R a/c	Dr./Cr.	To Bal. b/d
		To B. Debtors a/c
		By B. Cash a/c
		By Bal. c/d
Branch Debtors a/c	Dr./Cr.	To Bal. b/d
		To B. Stock a/c (credit sales)
		By B. Cash a/c
		By B. B/R a/c
		By B. Stock a/c (S/R)
		By B/P & L a/c (BD, Dis. etc.)
		By Bal. c/d
Branch Cash a/c	Dr./Cr.	To Bal. b/d
		To B. Stock a/c (cash sales)
		To B. Debtors a/c (cash on B/R)
		To Bank a/c (cheque for rent, salary)
		To Bank a/c (cheque for petty exp.)
		By Bank a/c (cash sales)
		By Bank a/c (cash on B/R)
		By Bank a/c (cash from debtors)
		By B/P & L a/c (rent, salary incurred)
		By Bal. c/d
Goods Sent to Branch a/c	Dr./Cr.	To B. Stock a/c (ret. to H.O.)
		To B. Stock Res. (net loading)
		To General Trading a/c (B.P.) (C.P.)

Unit-3

Royalty Accounts

Meaning of Royalty
Royalty is the payment made by one person to another for using a specific right or privilege. It is typically a regular payment made to the owner of some privilege, allowing the user to benefit from it.

Definition of Royalty
"Royalty refers to the amount paid by one person to another in exchange for granting specific rights by the former to the latter."

Difference Between Royalty and Rent

1. **Use**
   - **Rent**: Received from the use of tangible assets like buildings or factories.
   - **Royalty**: Received from the use of both tangible and intangible assets like patents or copyrights.
2. **Basis of Payment**
   - **Rent**: Payment is based on time (e.g., monthly, yearly).
   - **Royalty**: Payment is based on usage (e.g., per unit produced or per sale).

Types of Royalties

1. **Mining Royalty**
2. **Brick-Making Royalty**
3. **Oil-Well Royalty**
4. **Patent Royalty**
5. **Copyright Royalty**
6. **Royalties for machines, secret instruments, and technical knowledge**

Important Terms Related to Royalty

1. **Landlord (Lessor)**
   - The owner of the property who grants the right to use the property and receives royalty payments.
2. **Lessee**
   - The person who receives the right to use the property and pays royalty to the landlord.

3. **Minimum Rent**
    - The minimum payment guaranteed to the landlord regardless of the level of production or sales. If production or sales are low, the lessee must still pay the minimum rent. If royalties are higher than the minimum rent, only the royalty amount is paid.
4. **Short-Working**
    - When minimum rent exceeds the royalty, the difference is called short-working.
    - **Formula**: Short-working = Minimum Rent - Royalty
5. **Recouping (or Recovering) Short-Working**
    - When royalty falls below the minimum rent, the lessee can make up the short-working in future years when royalties exceed the minimum rent, as per the agreement with the landlord. This can be done within a specific period or without a time limit.

CALCULATION OR ANALYSIS TABLE

Year	Output or Sale	Actual Royalty	Minimum Rent	Short Working (4 - 3)	Surplus (3 - 4 if positive)	Recoup	Lapse	Payment (3 + 5 - 7)
1								
2								
3								
4								
5								

In this chart:

- **Year**: Represents each year of operation.
- **Output or Sale**: The production or sales volume for the year.
- **Actual Royalty**: The royalty calculated based on the output or sales.
- **Minimum Rent**: The fixed minimum rent amount that must be paid.
- **Short Working**: Calculated as Minimum Rent - Actual Royalty (if Minimum Rent is greater than Actual Royalty).
- **Surplus**: If the Actual Royalty is greater than the Minimum Rent, the difference is recorded here.
- **Recoup**: Amount of short-working from previous years recovered from any surplus.
- **Lapse**: Any short-working that cannot be recouped within the stipulated time and thus lapses.
- **Payment**: Calculated as Actual Royalty + Short Working - Recoup, showing the total payment made for the year.

ACCOUNTING FOR ROYALTY
Journal Entries

Transaction	In the Books of Lessee	In the Books of Lessor
(1) For royalty and short working	**Royalty (Payable) A/c Dr.**	**Lessee A/c Dr.**
	Short Working (Recoupable) A/c Dr.	To Royalty (Receivable) A/c
	To Lessor	To Short Working (Allowable)
	[Being amount payable]	[Being amount receivable]
(2) For short working recouped	**Lessor Dr.**	**Short Working A/c Dr.**
	To Short Working A/c	To Lessee
	[Being short working recouped]	[Being short working allowed to recoup]
(3) For payment	**Lessor Dr.**	**Bank A/c Dr.**
	To Bank A/c	To Lessee
	[Being payment made]	[Being payment received]
(4) For transfer of royalty to accounts	**Manufacturing A/c / P&L A/c Dr.**	**Royalty A/c Dr.**
	To Royalty A/c	To P&L A/c
	[Being transfer of royalty]	[Being transfer of royalty]
(5) For recoupable short working	**P&L A/c Dr.**	**Short Working A/c Dr.**
	To Short Working A/c	To P&L A/c
	[Being recoupable short working]	[Being recoupable short working]

SUB-LEASE

If the lessee again leases out to other person some part of assets taken by him on lease, it is called ‘sublease’. The other person is called sub-lease. Suppose A has given 500 acres of land to B on lease and B has given 100 acres of land (out of 500 acres) to C on lease, then A is called main lessor, B is called main lessee as well as sub-lessor and C is called sub-lessee. There will be two separate agreements, the first one is between A and B and second one is between B and C. A will receive the royalty on the total production of A and B, while B will receive the royalty on the production by Conley. Two analyses Table will be prepared accordingly.

Department Accounts

Large organizations often split their activities into different departments, each focusing on specific tasks or functions. Keeping department-wise accounts helps in understanding which department is profitable and which is not. Here's how it works:

1. **Methods of Departmental Accounting**:
    - **Unit-wise Method**: Each department is treated as a separate unit with its own set of books, and final accounts are prepared individually at the year-end.
    - **Columnar Method**: All departments are recorded in one main set of books, with separate columns for each department, and one column for the total.
2. **Departmental Profit & Loss Account**: Like a regular profit and loss account, but with columns for each department's revenues and expenses. This shows each department's individual profit/loss and the total business profit/loss.
3. **Balance Sheet**: Only one overall balance sheet is prepared for the entire business.
4. **Allocating Department Expenses**:
    - **Direct Expenses**: Expenses that can be traced directly to a department go to that department.
    - **Indirect Expenses**: These are shared based on a fair basis (e.g., space used by each department).
5. **Inter-Departmental Transfers**: Sometimes, one department may transfer goods or services to another. These transfers are treated like regular sales and purchases:
    - **At Cost Price**: No adjustment is needed.
    - **At Selling Price**: Adjustments are needed for unrealized profit in the stock.
6. **Journal Entries for Unrealized Profit**:
    - At year-end, an entry adjusts for unrealized profit to avoid overstating profits:
        - **Debit General Profit & Loss A/c**
        - **Credit Reserve/Provision for Unrealized Profit or Stock Reserve**
7. **Stock Reserve Formula**:
    - If profit is based on **Selling Price**: \text{Stock Reserve} = \text{Profit %} \times \frac{\text{Stock Value}}{100}
    - If profit is based on **Cost Price**: \text{Stock Reserve} = \text{Profit %} \times \frac{\text{Stock Value}}{100 + \text{Profit %}}

Accounting Standards

Accounting standards are guidelines issued by accounting bodies to ensure consistency, transparency, and reliability in financial statements. They help businesses present their finances in a standardized way.

1. **Definition**:
    - Accounting standards are policies issued by accounting experts, guiding how to measure, treat, and disclose financial transactions.
2. **Objectives and Benefits**:
    - **Standardization of Accounting**: Makes financial information consistent and easy to understand.
    - **Removing Complexity**: Simplifies complex accounting tasks.
    - **Uniform Financial Statements**: Ensures statements look similar across different companies.
    - **Harmonization of Policies**: Aligns accounting policies to a common standard.
    - **Following Principles**: Helps companies stick to standard accounting principles.
3. **Need for Accounting Standards**:
    - They provide a logical framework for accounting, support globalization, ensure uniform practices, and prevent ambiguity in financial reporting.
4. **Key Features**:
    - **Logical and Clear**: Standards offer clear explanations.
    - **Practical**: Easy to apply in real situations.
    - **Uniformity**: Provides a similar approach for all companies.
    - **Transparency**: Ensures financial data is clear and accurate.
5. **Advantages**:
    - Promotes consistency in financial reporting, helps prevent scandals, supports global business needs, and aligns with international finance practices.
6. **Nature of Standards**:
    - They are policy documents that explain procedures, allow flexibility, inspire trust, set limits, and promote transparency.

UNIT - 4

Introduction to Dissolution of Partnership and Its Accounting

When a partnership dissolves, the process of closing the books of accounts is crucial. This involves understanding how to manage the partnership's assets and liabilities, especially when a partner becomes insolvent or when the business comes to an end.

Circumstances Leading to Dissolution of Partnership:

A partnership can dissolve under the following situations:

1. **Expiry of the term**: If the partnership was formed for a specific period, it ends after that period.
2. **Completion of venture**: When the purpose for which the partnership was formed is completed, the partnership may dissolve.
3. **Death of a partner**: The death of a partner can result in the dissolution of the firm unless stated otherwise in the agreement.
4. **Insolvency of a partner**: If a partner becomes insolvent, the partnership may be dissolved unless the remaining partners decide to continue.

Even if there is a death or insolvency of a partner, the business can continue under a new partnership agreement.

Consequences of Dissolution:

Upon dissolution:

- **Assets of the firm** (including goodwill) are sold.
- **Liabilities** are paid first (debts to outsiders and loans from partners).
- **Capital contributions** by partners are repaid.
- **Surplus** (if any) is shared among the partners according to their profit-sharing ratio.
- **Deficiency** (if the assets are insufficient) is borne by the partners in their profit-sharing ratio.

Insolvency of a Partner:

When a partner's capital account shows a debit balance (meaning they owe money to the firm), and they become insolvent:

- **The solvent partners** bear the loss in proportion to their capital.
- This is based on the **Garner vs. Murray** rule, which means the solvent partners will pay for the insolvency loss in the ratio of their capital contributions, not in the profit-sharing ratio.

Loss Arising from Insolvency of a Partner:

If a partner cannot repay their share of losses due to insolvency:

- The remaining **solvent partners** must cover the loss.
- If the insolvency of all partners occurs, creditors may not be fully paid from the assets of the firm. Any unpaid amounts are distributed among the solvent partners in their capital ratio.

Methods to Handle Payments (Piecemeal Payments):

When the assets are sold in small installments, the firm needs to decide how to distribute the payments. Two methods can be used:

1. **Maximum Loss Method**:
   - Each payment is treated as if it's the final one, and partners' accounts are adjusted accordingly.
   - It assumes that all remaining assets are worthless after each installment.
2. **Highest Relative Capital Method**:
   - This method prioritizes paying the partner with the largest capital first.
   - Partners' capital is compared with their profit-sharing ratio to determine who should be paid first.

Summary of Key Points:

- **Dissolution** occurs when a partnership ends due to expiry, completion, death, or insolvency.
- **Assets** are sold, and **liabilities** are paid.
- If a partner is **insolvent**, the loss is borne by the remaining partners.
- The **capital ratio** method or **maximum loss method** determines how assets are distributed among partners.

UNIT - 5

Dissolution of Partnership Firm with Insolvency

When a partnership firm is dissolved, it involves closing the business, realizing its assets, and paying off liabilities. The dissolution process can happen for various reasons, and it can also involve the insolvency of one or more partners. Here's a simplified explanation:

Types of Dissolution:

1. **Without Court Intervention:**
   - **Dissolution by Agreement**: Partners agree to dissolve the firm.
   - **Compulsory Dissolution**: The firm dissolves due to some legal reason.
   - **Dissolution on Contingency**: Happens under certain conditions.
   - **Dissolution by Notice**: One partner gives notice to dissolve the firm.
2. **By Court:**
   - If a partner is **insane**, permanently incapable, or has **misconduct**, or **breaches an agreement**, the court may dissolve the firm.

Steps in the Dissolution Process:

1. **Prepare the Balance Sheet**: List the firm's assets and liabilities on the date of dissolution.
2. **Realize Non-Cash Assets**: Convert assets into cash and pay off liabilities. Prepare a **Realization Account** to calculate profits or losses.
3. **Pay Advances (Loans)**: Pay any amounts due to partners for advances or loans.
4. **Distribute Available Cash**: After paying off debts and advances, divide the remaining cash among the partners.

Accounts Used in the Dissolution Process:

1. **Realization Account**: This account is used to track the sale of assets and payment of liabilities. The following steps are involved:
   - **Transfer of Assets and Liabilities**:
     - Assets (except cash and fictitious assets) are transferred to the debit side of the Realization Account at their book values.
     - Liabilities (including loans from partners) are transferred to the credit side of the Realization Account.
2. **Disposal of Assets**:
   - When assets are sold for cash, the entry is:
     - **Cash/Bank Account Dr.**
     - **To Realization Account**

- If assets are taken over by a partner, the entry is:
  - **Partner's Capital Account Dr.**
  - **To Realization Account**

3. **Dissolution Expenses**:
   - If paid in cash:
     - **Realization Account Dr.**
     - **To Cash/Bank Account**
   - If a partner pays the expenses:
     - **Realization Account Dr.**
     - **To Partner's Capital Account**
4. **Payment of Liabilities**:
   - When external liabilities are paid in cash:
     - **Realization Account Dr.**
     - **To Cash/Bank Account**
   - If a partner takes over the liability:
     - **Realization Account Dr.**
     - **To Partner's Capital Account**
5. **Profit or Loss on Realization**:
   - If there is a **profit** on realization:
     - **Realization Account Dr.**
     - **To Partners' Capital Accounts** (distributed as per their profit-sharing ratio)
   - If there is a **loss** on realization:
     - **Partners' Capital Accounts Dr.**
     - **To Realization Account** (distributed as per their profit-sharing ratio)

Partner's Loan Account:

- The loan account of partners is transferred to the credit side of the Realization Account. Payments made towards these loans are recorded on the debit side of the Realization Account or can be shown directly in the Cash Account.

Partner's Capital Account:

- All profits or losses from the Realization Account, along with any reserve or undivided profits, are adjusted in the partners' capital accounts. Any remaining balance (surplus or deficit) is then paid or brought in by the partners:
  - **Surplus Withdrawn** (if a partner has a credit balance):
    - **Cash/Bank Account Dr.**
    - **To Partner's Capital Account**
  - **Deficiency Brought In** (if a partner has a debit balance):
    - **Partner's Capital Account Dr.**
    - **To Cash/Bank Account**

Cash Account:

- The Cash Account keeps track of all cash transactions, such as cash received from asset sales, any deficiencies brought in by partners, and payments made for liabilities and dissolution expenses. Both sides of the Cash Account should match, which helps ensure accuracy in the dissolution process.

Key Points to Remember:

- **Intangible assets** (like goodwill, patents) are usually not realizable in dissolution unless specified.
- **Fixed assets** (like property, machinery) are assumed to be realized at their book values unless stated otherwise.

Format of Accounts
Realisation A/c

Particulars	Amount	Particulars	Amount
To Land and Building A/c		By Creditors A/c	
To Plant Machinery A/c		By B/P A/c	
To Furniture A/c		By Bad Debts Reserve A/c	
To Investment A/c		By Bank Loan A/c	
To Stock A/c		By Bank Overdraft A/c	
To Debtors A/c		By Loan A/c	
To B/R A/c		By Cash A/c (Assets Realised)	
To Cash A/c (Payment of Liabilities)		By Capital A/c (Assets Taken)	
To Capital A/c (Liabilities Taken by Partners)		By Capital A/cs (Loss)	
To Cash A/c (Realisation Expenses)			
To Capital A/cs (Profit)			

Partner's Capital A/cs

Particulars	Partner's Capital A/cs	Particulars	Partner's Capital A/cs
To Balance b/d		By Balance b/d	
To Current A/c		By Current A/c	
To P & L A/c (Loss)		By P & L A/c (Profit)	
To Realisation A/c (Assets taken)		By General Reserve A/c	
To Realisation A/c (Loss)		By Realisation A/c (Liabilities Taken)	
To Cash A/c (Surplus) (Bal. fig.)		By Realisation A/c (Profit)	
		By Cash A/c (Deficiency) (Bal. fig.)	

Cash A/c

Particulars	Cash A/c	Particulars	Cash A/c
To Balance b/d (Cash in hand)		By Realisation A/c (Payment of Liab.)	
To Bank A/c (Cash at bank)		By Realisation A/c (Exp.)	
To Realisation A/c (Assets Realised)		By Capital A/c (Surplus Refund)	
To Capital A/c (Deficiency brought)			

Insolvency of Partners

What is Insolvency of a Partner?

- When a partner has a **debit balance** (negative balance) in their capital account after all adjustments, they must bring in cash to cover the deficiency.
- If the partner cannot pay this amount, they are considered **insolvent**.
- The **solvent partners** (those who are not insolvent) must share the loss due to insolvency in a certain way, often based on the partnership deed or agreement.

Garner v/s Murray Case (1904)

- In this famous case, it was ruled that when a partner is insolvent:
    1. The solvent partners must cover the insolvency loss.
    2. The loss due to insolvency is shared by the solvent partners **in proportion to their last agreed capital**.
- This means the solvent partners will bear the insolvency loss in relation to the capital they had before the dissolution.

Note: The partner with a **debit balance** does not contribute to the loss due to insolvency.

Piecemeal Distribution of Cash

In practice, assets are realized and liabilities paid off gradually, not all at once. The available cash is used in the following order:

1. **Payment of Realization Expenses**.
2. **Payment of Liabilities** (first to secured creditors, then to unsecured creditors).
3. **Payment of Partners' Loans** (if any).
4. **Payment to Partners' Capital Accounts**.

Methods of Distributing Cash Among Partners

1. **Proportionate or Surplus Capital Method**:
    - Partners who have contributed more than their share of capital (surplus capital) are paid first.
    - Steps:
        1. Calculate adjusted capital.
        2. Divide the adjusted capital by profit-sharing ratio.
        3. Pay partners with surplus capital first.
2. **Maximum Loss Method**:
    - Assumes every installment is a final realization.
    - Loss is calculated based on the assumption that remaining assets are worthless.
    - Loss is distributed among partners in their profit-sharing ratio.
    - After distributing the loss, cash is distributed to the partners based on their positive capital balances.

Amalgamation of Partnership Firms

- **Amalgamation** happens when two or more businesses decide to combine, usually to reduce competition or expand.
- On amalgamation, the old firms dissolve and a new partnership is formed.

Accounting for Amalgamation:

1. **In the Books of the Old Firms**:
   - Assets and liabilities are transferred to a **Realisation Account**.
   - Any profit or loss from revaluation is distributed among the partners based on their profit-sharing ratio.
   - Goodwill is also raised and distributed to partners' capital accounts.
2. **In the Books of the New Firm**:
   - Only the assets and liabilities taken over by the new firm are recorded.
   - New capital accounts for the partners are set up based on the agreed values.

Conversion of a Partnership Firm into a Joint Stock Company

- Sometimes, partnership firms **convert into a company** to enjoy benefits like limited liability and more members.
- **Purchase consideration** is the amount the company pays to the partnership firm for its business. This can be calculated by:
  1. **Lump Sum Method**: The total purchase price is given directly.
  2. **Net Payment Method**: The total payment made by the company is the purchase price.
  3. **Net Assets Method**: The purchase price is calculated by subtracting liabilities from assets.

Accounting Treatment for Conversion into a Company

1. **In the Books of the Vendor Firm**:
   - Transfer assets and liabilities to the **Realisation Account**.
   - Record the purchase consideration due from the company.
   - On receiving payment, distribute it to the partners.
2. **In the Books of the Purchasing Company**:
   - Record the purchase of assets and liabilities.
   - Distribute shares or cash to the partners of the firm.

Key Points to Remember:

- In case of insolvency, the loss is shared among the solvent partners, based on their capital contributions.
- The dissolution process may involve **piecemeal distribution**, where assets and liabilities are realized and settled gradually.
- Amalgamation and conversion of firms require careful accounting treatment to reflect the transfer of assets and liabilities accurately.

What is an LLP?

An LLP is a partnership registered under the *LLP Act, 2008*. The key feature of an LLP is that it limits the liability of its partners to the amount they have invested in the business. This means personal assets of the partners are protected in case the business faces financial troubles.

Features of LLP:

1. **Separate Legal Entity**: An LLP is a separate entity from its partners, meaning it can own property, sign contracts, and incur debts in its own name.
2. **Limited Liability**: Partners are not personally responsible for the business's debts beyond their investment in the LLP.
3. **Perpetual Succession**: The LLP continues to exist even if a partner leaves or passes away, unlike traditional partnerships that dissolve under such circumstances.
4. **Easy Formation**: To form an LLP, at least two people must agree to run a business. The formation process is similar to that of a company.
5. **No Maximum Limit on Partners**: There must be at least two partners, but there is no upper limit on the number of partners.
6. **Designated Partners**: At least two partners must be designated, and one of them must be a resident of India. These partners are responsible for managing the business and complying with legal requirements.
7. **Not for Charitable Activities**: LLPs are formed with the goal of making a profit, so charitable organizations cannot be registered as LLPs.

Nature of LLP:

- **Body Corporate**: Unlike traditional partnerships, an LLP is an incorporated body and cannot remain unregistered.
- **Different from Traditional Partnerships**: LLPs follow different rules than partnerships under the *Partnership Act, 1932*, and can have both natural and artificial persons (like companies) as partners.
- **Partner Requirements**: A partner in an LLP can be a person or a company, but individuals must not be insolvent or mentally disqualified to be a partner.
- **Designated Partner's Role**: Designated partners manage the business and ensure compliance with regulations. If this role is not filled, all partners will be considered designated.

Advantages of LLP:

1. **Limited Liability**: Partners' liability is limited to the amount they invest in the LLP.
2. **Separate Identity**: It is treated as a separate legal entity, like a company, which boosts credibility.
3. **Continuity**: The LLP continues even if a partner leaves or dies.
4. **Capital and Resources**: No limit on the number of partners, which can lead to more capital and resources for the business.

5. **Ease of Transfer of Interest**: Partners can transfer their share in the business easily.
6. **Mandatory Registration**: Unlike traditional partnerships, an LLP must be registered, giving it legal status.
7. **Audits and Records**: LLPs are required to maintain accurate financial records and get their accounts audited, making the business more trustworthy.
8. **Global and Corporate Partners**: Foreigners and other companies can be partners, expanding opportunities for international business.

Why Choose LLP?

LLPs are especially useful for businesses that want the flexibility of a partnership but with the protection of limited liability, like a company. This makes it a popular choice for small to medium-sized businesses that seek growth and stability without the complex regulations of a corporation.

Distinction between LLP and general or traditional partnership

S. No.	Basis of Difference	Limited Liability Partnership (LLP)	General Partnership
1	**Act**	LLP Act, 2008 applies.	Partnership Act, 1932 applies.
2	**Body Corporate**	It is a body corporate with a separate legal existence, perpetual succession, and common seal.	Not a body corporate, no separate legal identity.
3	**Change in Partners**	No effect on the LLP's existence if there is a change in partners.	Change in mutual relation of partners ends the old partnership and creates a new one.
4	**Number of Partners**	Minimum 2, no maximum limit.	Minimum 2, maximum 20 (10 for banking business).
5	**Compulsory Registration**	Registration is compulsory.	Registration is optional; partnership can exist without it.
6	**Incorporation Document**	Incorporation document is important for registration.	Partnership deed is important, can be oral or written.
7	**Partner as an Agent**	Partners are agents of the LLP but not of each other.	Partners are agents of the firm and each other.
8	**Designated Partner**	At least two designated partners, one of whom must be a resident of India.	No provision for designated partners.
9	**Artificial Person as Partner**	Artificial persons (e.g., companies, corporations) can be partners.	Only natural persons can be partners.
10	**Suffix to Name**	"LLP" must be added as a suffix to the name of the LLP.	No statutory requirement to add a suffix.

Comparison between LLP and a Company

Similarities

Both LLPs (Limited Liability Partnerships) and companies share the following similarities:

1. **Separate Existence**: Both are separate legal entities from their members.
2. **Unlimited Members**: Both can have an unlimited number of members.
3. **Indian and Foreign Members**: Both can have members from India and abroad.
4. **Body Corporate**: Both are considered bodies corporate with legal recognition.
5. **Legal Capacity**: Both can sue and be sued in their own name.
6. **Legal Formation**: Both are created through a legal process.
7. **Legal Formalities**: Both have to follow legal formalities during incorporation and operation.
8. **Artificial Persons**: Both are artificial persons, meaning they have legal rights but cannot be citizens of India.
9. **Perpetual Succession**: Both have continuous existence, unaffected by the death or departure of members.
10. **Ownership of Assets**: Both can acquire or own assets in their names.
11. **Identification Numbers**: Designated partners (in LLPs) and directors (in companies) must obtain identification numbers.
12. **Minimum Members**: Both require at least two members to start.

Registered Office of an LLP

- **Compulsory Requirement**: Every LLP must have a registered office for communication and notices.
- **Communication Delivery**: Documents and messages are sent to the registered office and received there.
- **Serving Documents**: Documents can be served on an LLP by post or any prescribed manner at its registered office.
- **Change of Office**: An LLP can change its registered office, but it must notify the Registrar.

Whistle Blowers (Section 31)

- **Whistleblower Definition**: A whistleblower is someone (partner or employee) who provides information about wrongdoing in an LLP during an investigation.
- **Waiver or Reduction of Penalty**: The court may reduce or waive penalties if the whistleblower's information is helpful in the investigation or leads to a conviction.
- **Protection for Whistleblowers**: Whistleblowers cannot be punished, demoted, or discriminated against for providing information.

Winding Up and Dissolution of LLP

1. **Modes of Winding Up**:
    - Winding up may happen voluntarily or through the Tribunal.
    - After winding up, the LLP may be dissolved.
2. **Reasons for Tribunal-Ordered Winding Up**:
    - If the LLP decides to wind up voluntarily.
    - If the number of partners falls below two for more than six months.
    - If the LLP cannot pay its debts.
    - If the LLP acts against the interests of India, its security, or public order.
    - If the LLP defaults in filing required documents (Statement of Accounts and Solvency) for five consecutive years.
    - If the Tribunal deems it just and equitable to wind up the LLP.
3. **Rules for Winding Up**: The Central Government may create rules for the winding up and dissolution process of LLPs.

Unit – 6

Accounts of Non-Profit Organizations and Professionals

Non-profit organizations, unlike businesses, aim to serve society, benefit members, or promote social causes instead of earning profits. Examples include clubs, schools, trade unions, consumer cooperatives, political associations, and hospitals.

Why Non-Profit Organizations Need Accounts

1. **Information**: For stakeholders to understand the organization's finances.
2. **Balancing Expenditure**: Ensures they don't overspend.
3. **Calculating Surplus or Deficit**: To see if they have extra funds or a shortfall.
4. **Understanding Financial Position**: Shows the overall financial health.
5. **Tracking Assets**: To know what the organization owns.
6. **Calculating Tax**: If required, helps in preparing tax returns.

Final Accounts in Non-Profit Organizations

Non-profits prepare three main types of accounts:

1. **Receipts and Payments Account**: A summary of all cash received and paid, similar to a cash book.
2. **Income and Expenditure Account**: Shows actual income earned and expenses incurred to calculate surplus or deficit.
3. **Balance Sheet**: Shows the organization's assets, liabilities, and capital funds.

Difference between receipts & payments account and cash book –

S.No.	Basis of Difference	Receipts & Payments Account	Cash Book
1	**Datewise**	Receipts and payments are not recorded datewise.	Receipts and payments are recorded datewise.
2	**Fixed Date**	Prepared on a fixed date once a year.	Transactions are recorded continuously throughout the year.
3	**Base**	Cash book is the basis for preparing the receipts & payments account.	Prepared based on individual cash transactions.
4	**Form**	A brief summary of cash book transactions.	A detailed record of all cash transactions.
5	**Items**	Receipts and payments are analyzed item-wise and then recorded.	Each transaction is recorded separately in detail.
6	**Nature**	Considered a memorandum book.	Considered a main and essential book of accounts.

Key Points for Non-Profit Accounts

1. **Life Membership Fees**: Fees paid in a lump sum for lifetime membership. This is treated as capital and shown on the liability side of the balance sheet.
2. **Entrance Fees**: Charged only once when a member joins. As it's not a recurring income, it's treated as capital and shown on the liability side of the balance sheet.
3. **Endowment Fund**: Large donations made for religious or social purposes, or in the form of valuable assets. It's capital in nature and is shown in the balance sheet.
4. **Donations**:
   - **Specific Donation**: Given for a particular purpose (e.g., building or library fund), treated as capital and shown on the balance sheet's liability side.
   - **General Donation**: Not specified for any purpose. If it's a large amount, it's treated as capital; if it's a small amount, it's treated as revenue and added to the income & expenditure account.
5. **Legacy**: Rarely received donation, typically from a will or bequest. Usually treated as capital and added to the balance sheet. If the amount is small, it can be credited to the income & expenditure account.
6. **Income or Expenses from Specific Funds**: Non-profits may create funds for specific purposes (e.g., match fund, charity fund). Income from these funds is added to the fund in the balance sheet, and related expenses are deducted from the same fund.
7. **Subscription**: This is the main income source for non-profits, such as membership fees. It's treated as revenue and credited to the income & expenditure account.
8. **Sale of Old Assets**: Money received from selling old assets is entered in the receipts and payments account. Any profit or loss from the sale is adjusted in the income & expenditure account.
9. **Sale of Sports Equipment**: Common in clubs; sales are recorded accordingly.
10. **Sale of Old Newspapers**: This is treated as regular income and credited to the income & expenditure account.
11. **Subsidies from Government or Other Institutions**: Any subsidy is usually credited to the income & expenditure account. If it's a one-time capital grant, it goes to the liability side of the balance sheet.

Difference between receipts & payments account and income & expenditure account

S.No.	Basis of Difference	Receipt & Payment A/c	Income & Expenditure A/c
1	**Nature**	A cash account of a non-trading concern.	Similar to a profit & loss account for a non-trading concern.
2	**Account Type**	It is a real account.	It is a nominal account.
3	**Side**	Receipts are debited, and payments are credited.	Expenses are debited, and income is credited.
4	**Capital & Revenue**	Records both capital and revenue receipts & payments.	Records only revenue income and expenditure.
5	**Period of Income & Expenses**	Shows receipts & payments made during the year, regardless of the year they belong to.	Shows income & expenses of the current year only, regardless of receipt or payment status.
6	**Opening Balance**	Opening balance represents cash in hand at the beginning.	No opening balance at the beginning.
7	**Closing Balance**	Closing balance represents cash in hand at the end.	Closing balance shows excess of income over expenditure or vice versa.
8	**Adjustment**	No adjustments are made.	Adjustments are made for accruals and prepayments.
9	**Balance Sheet**	A balance sheet is not essential to accompany this account.	A balance sheet must accompany this account.

Investment Accounts Simplified

Meaning of Investment: Investment means putting capital to work to earn more income. This could be done through various ways, such as investing in a business, buying assets, or acquiring securities that yield interest or dividends.

Types of Investment Securities:

1. **Fixed Income Securities:** These provide a steady income, like interest on government bonds, debentures, or corporate bonds.
2. **Variable Income Securities:** These do not provide fixed income; income depends on the company's profits. Examples include equity shares where dividends are only paid if the company makes a profit.

Interest on Investments: Interest on government or private sector securities is usually paid twice a year. Interest is calculated on the face value of the securities, and the current owner at the time of interest distribution receives the interest, even if they haven't held it for the entire period. If someone sells their investment after receiving one interest payment but before the next, they sell it along with any interest accrued to date.

Cum-Interest and Ex-Interest:

- **Cum-Interest:** Price includes the accrued interest.
- **Ex-Interest:** Price excludes the accrued interest; the buyer pays the interest separately.
- **Recording:** For cum-interest, subtract the interest from the price for the investment account. For ex-interest, record the price as is in the investment account and add the interest separately in the interest account.

Accounting for Investments: If a person frequently buys and sells investments, they will keep systematic records. A separate "investment ledger" is used when there are many investments, with a different account for each type.

Earnings from Investments:

1. By selling investments at a profit.
2. By earning interest or dividends.

Journal Entries for Investments:

1. **When buying an investment:**
   - Debit: Investment A/c, Interest/Dividend A/c
   - Credit: Bank A/c
2. **When selling an investment:**
   - Debit: Bank A/c
   - Credit: Investment A/c, Interest/Dividend A/c
3. **When receiving interest/dividend:**
   - Debit: Bank A/c
   - Credit: Interest/Dividend A/c
4. **At year-end, transferring interest/dividend to Profit & Loss:**
   - Debit: Interest/Dividend A/c
   - Credit: Profit & Loss A/c
5. **For profit or loss on investment sale:**
   - **For Profit:** Debit: Investment A/c, Credit: Profit & Loss A/c
   - **For Loss:** Debit: Profit & Loss A/c, Credit: Investment A/c
6. **For previous year's accrued interest at the start of the year:**
   - Debit: Interest A/c
   - Credit: Accrued Interest A/c
7. **For interest accrued at the end of the year:**
   - Debit: Accrued Interest A/c
   - Credit: Interest A/c

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Ledger

For every investment, a separate investment account is prepared as under –
Investments Account
(Interest payable on….)

1. Investments Account:

Date	Particulars	Face Value	Amount	Date	Particulars	Face Value	Amount
Closing Date	To Bank A/c (Purchases)	Rs.	Rs.	**Closing Date**	By Bank A/c (Sale)	Rs.	Rs.
	To P&L A/c (Profit on Sale)	Rs.	Rs.		By P&L A/c (Loss on Sale)	Rs.	Rs.
					By Balance c/d (Closing Balance)	Rs.	Rs.

2. Interest Account:

Date	Particulars	Amount	Date	Particulars	Amount
Op. Date	To Accrued Interest A/c (Previous Year)	Rs.	**Closing Date**	By Bank A/c (Interest Received on Sale)	Rs.
	To Bank A/c (Interest Paid on Purchase)	Rs.		By Bank A/c (Interest Received on Interest Dates)	Rs.
Closing Date	To P&L A/c (Balance Fig. Transferred)	Rs.	**Closing Date**	By Accrued Interest A/c (Current Year)	Rs.

3. Accrued Interest Account:

Date	Particulars	Amount	Date	Particulars	Amount
Opening Date	To Balance b/d (Opening Balance)	Rs.	**Opening Date**	By Interest A/c (Transferred)	Rs.
Closing Date	To Interest A/c (Transferred)	Rs.	**Closing Date**	By Balance c/d (Closing Balance)	Rs.

Explanation of Accounts:

1. **Investments Account**:
   - This account records transactions related to the purchase and sale of investments.
   - The "Bank A/c (Purchases)" entry records the cost of investments bought, while "P&L A/c (Profit on Sale)" or "P&L A/c (Loss on Sale)" accounts capture any profit or loss from the sale of investments. The balance carried forward reflects the investments still held.
2. **Interest Account**:
   - This account manages the interest transactions related to the investments.
   - "Accrued Interest A/c (Previous Year)" reflects interest from the previous period, and "Bank A/c (Interest Paid on Purchase)" shows any interest paid during the purchase. The interest earned on the sale is recorded under "Bank A/c (Interest Received on Sale)," and any remaining balance is transferred to P&L at the close.
3. **Accrued Interest Account**:
   - The opening and closing balances reflect the accrued interest that is yet to be received or paid at year-end.
   - Interest that accumulates during the period is recorded in the "Interest A/c" and carried forward as a balance to the next period. The closing balance indicates any outstanding interest to be received or paid.

Consignment Accounts in Simple Terms

Consignment is when a business owner (known as the "consignor") sends goods to an agent (known as the "consignee") to sell on their behalf. Here's an easy breakdown:

Key Roles:

- **Consignor**: The business owner who sends goods to be sold.
- **Consignee**: The agent who receives the goods and sells them.

Steps in a Consignment Transaction:

1. **Agreement**: The consignor and consignee make an agreement to handle the goods and set conditions.
2. **Shipping Goods**: The consignor sends goods to the consignee.
3. **Advance Payment**: Sometimes the consignee gives the consignor an advance or security amount.
4. **Receipt of Goods**: The consignee confirms receiving the goods.
5. **Sale of Goods**: The consignee sells the goods.
6. **Settlement**: The consignee pays the remaining amount from the sales to the consignor after deducting expenses and commission.

Important Terms in Consignment

1. **Agency**: The relationship between the consignor and consignee.
2. **Consignment**: The goods sent to the consignee to be sold.
3. **Consignor**: The owner of the goods (the sender).
4. **Consignee**: The agent who receives and sells the goods.
5. **Goods Sent on Consignment**: This is recorded as "Goods Sent on Consignment Account" in the consignor's books. The consignee does not record these goods as their own.
6. **Pro-forma Invoice**: A bill from the consignor that shows the quantity, quality, and sometimes the selling price of goods sent.
7. **Consignment Expenses**:
   - **Consignor's Expenses**: Costs for shipping, packing, insurance, etc.
   - **Consignee's Expenses**: Costs like storage, advertising, and selling expenses.
8. **Consignment Transactions**: The deals between the consignor and consignee related to the goods sent.

9. **Commission**: Payment given to the consignee for selling the goods.
10. **Account Sale**: A report sent by the consignee to the consignor listing sales, expenses, and any money due.
11. **Consignment Stock**: Goods left unsold with the consignee at the end of a period, which the consignor records in their accounts.
12. **Consignment Account**: An account prepared by the consignor to determine if there's a profit or loss on the consigned goods. The consignee doesn't create this account.

Difference between Consignment and Sale

S.No.	Basis	Consignment	Sale
1	**Relation**	The relationship is between consignor and consignee. The consignee becomes the debtor only after selling the goods.	The relationship is between buyer and seller. The buyer becomes the debtor immediately upon purchase.
2	**Remuneration**	Consignor pays the consignee a commission as remuneration.	No remuneration is involved.
3	**Profit/Loss**	Profit or loss from sold goods belongs to the consignor.	Profit or loss from resale of goods belongs to the buyer.
4	**Invoice**	A pro forma invoice is sent, as it is merely a transfer of goods' location, not ownership.	A sale invoice is sent, as ownership of goods is transferred to the buyer.
5	**Risk Transfer**	The risk remains with the consignor until goods are sold by the consignee.	The risk transfers to the buyer as soon as the sale is made.
6	**Consignment Expenses**	Expenses incurred by the consignee are reimbursed by the consignor.	Buyer incurs any expenses after purchase, which are not reimbursed by the seller.
7	**Ownership**	Ownership remains with the consignor until goods are sold by the consignee.	Ownership transfers to the buyer upon sale completion.
8	**Return of Goods**	Unsold goods can be returned to the consignor.	Unsold goods cannot be returned to the seller without their consent.
9	**Discount/Allowance**	No discount or allowance is provided on consigned goods.	Sellers may offer discounts and allowances on sold goods.
10	**Bad Debts**	Consignor bears the risk of bad debts unless del credere commission is provided.	Buyer bears the risk of bad debts as they own the goods.
11	**Account Sale**	The consignee must periodically submit an account sale and remit the balance to the consignor.	No obligation for the buyer to submit any statement after goods are sold.

Types of Commission for the Consignee

1. **General (Ordinary) Commission**:
    - This is the basic commission given to the consignee for selling goods. The more they sell, the more commission they earn.
2. **Del Credere Commission**:
    - Normally, if a buyer doesn't pay for goods bought on credit, the consignor bears the loss.
    - However, if the consignor wants the consignee to take on this risk of bad debts, they offer an extra commission called **del credere commission**.
    - This means the consignee agrees to cover any losses from buyers who don't pay, but they receive extra commission for taking on this responsibility.
3. **Overriding Commission**:
    - Usually, the consignee sells goods at the price set by the consignor (invoice price).
    - To encourage the consignee to sell goods at a price higher than the invoice price, the consignor offers an additional commission called **overriding commission**.
    - This commission is calculated on the difference between the actual selling price and the invoice price, motivating the consignee to make extra efforts to sell for a higher profit.

Difference between ordinary and del credere commission

S.No.	Basis	Ordinary Commission	Del Credere Commission
1	**Receiver**	Given to all agents.	Given to agents who agree to bear the loss from bad debts.
2	**Guarantee**	Agent guarantees only the cash sales amount.	Agent guarantees the realization of both cash and credit sales.
3	**Calculation**	Calculated on total sales, including both cash and credit sales.	Also calculated on total sales unless specified otherwise.
4	**Net Commission**	Gross and net commission are the same for the agent.	Net commission is reduced by any bad debts, which the agent covers.

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Difference between del credere and overriding commission

S.No.	Basis	Del Credere Commission	Overriding Commission
1	**Meaning**	Given to the agent for taking responsibility for bad debts.	Given to motivate the agent to sell goods at a price above the invoice price.
2	**Responsibility**	Agent is responsible for credit collection and bad debts.	Agent is not responsible for debt collection.
3	**Motivation**	No motivational aspect; it's for risk-bearing.	Given specifically to motivate the agent to achieve higher sales prices.
4	**Calculation**	Calculated on total sales (cash and credit).	Calculated on the difference between the selling price and invoice price.

In the books of Consigner
Consignment Account

Step No.	Particular	Rs.	Step No.	Particular
1	To Goods sent on consignment A/c (CP/IP)	………	4	By Consignee (Sales):
2	To Bank A/c (Consignor's expenses):	………	4.1	Cash Sales ………
	Carriage ………		4.2	Credit Sales ………
	Freight ………		5.1	By Bank A/c / Insurance Claim A/c ………
	Insurance ………		5.2	By Profit & Loss A/c (Actual Loss) ………
3	To Consignee (Expenses):	………	9	By Consignment Stock A/c (CP/IP)
	Octroi ………		10	By Goods sent on Consignment A/c (Loading)
	Carriage ………		12	By Profit & Loss A/c (Loss)
	Godown Rent ………			
	Selling expenses ………	………		
6	To Consignee (Commission)	………		
7	To Consignee (Bad debts)	………		
8	To Bills Receivable (Discount)	………		
11	To Consignment Stock-res.1 A/c (Loading)	………		
12	To Profit & Loss A/c (Profit)	………		

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Consignee

Step No.	Particular	Rs.	Step No.	Particular	Rs.
2	To Consignment A/c (Sales)	……….	1	By Cash A/c / Bank A/c / B/R A/c (Advance)	………
3	By Consignment A/c (Expenses)	………			
4	By Consignment A/c (Commission)	………			
5	By Consignment A/c (Bad Debts)	………			
6	To Balance c/d (Proportionate advance)	………	7	By Cash / Bank / B/R / Balance c/d (Bal. fig.)	………

Goods Sent on Consignment Account

Step No.	Particular	Rs.	Step No.	Particular	Rs.
2	To Consignment A/c (Loading)	……….	1	By Consignment A/c (CP/IP)	……….
3	To Trading A/c / Purchases (Cost)	……….			

In the Books of Consignee (Consignor)

Step No.	Particular	Rs.	Step No.	Particular	Rs.
1	By Cash A/c / Bank A/c / BP A/c (Advance)	……….	2	By Cash / Bank A/c (Cash Sales)	……….
3	By Cash A/c / Bank A/c (Expenses)	……….	2.2	By Consignment Debtors A/c (Credit Sales)	……….
4	By Commission A/c	……….	6	By Balance c/d	……….
5	By Consignment A/c / Bank A/c / BP A/c	……….		By Cash / Bank / BP / Balance c/d (Bal. fig.)	……….
7	By Cash / Bank / BP / Balance c/d	……….			

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Commission Account

Step No.	Particular	Rs.	Step No.	Particular	Rs.
2	To Consignment Debtors A/c (Bad Debts)	……….	1	By Consignor (Commission)	……….
3	To Cash A/c / Bank A/c (Disallowed Expenses)	……….	4	By Profit & Loss A/c (Bal. fig.)	……….

Bill Payable Account

Step No.	Particular	Rs.	Step No.	Particular	Rs.
2	To Cash A/c / Bank A/c (Payment on due date)	……….	1	By Consignor (Advance)	……….
3	To Balance c/d	……….			

Difference between normal and abnormal loss

S.No.	Base	Normal Loss	Abnormal Loss
1	**Avoidance**	This loss cannot be avoided	With due care, such losses can be avoided.
2	**Nature**	These are quite common and natural.	They are uncommon and not natural.
3	**Accounting**	These are not accounted for.	They are accounted for.
4	**Quantity of Loss**	Here the lost quantity is less and negligible.	Here the loss is considerable.
5	**Insurance**	These losses cannot be insured.	They can be insured.
6	**Reasons**	They occur due to shrinkage, seepage, sublimation, evaporation etc.	They occur due to theft, pilferage, accident, floods etc.
7	**Men or God**	They are God-made.	They may be God-made or man-made.
8	**Expectancy**	They are expected.	These are always unexpected.