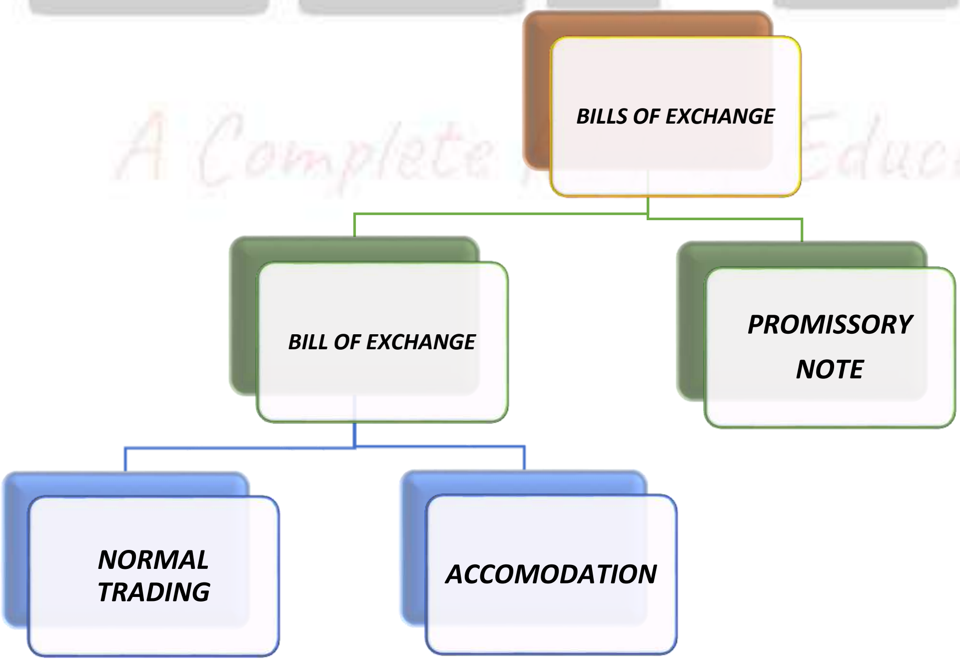
CHAPTER – 6

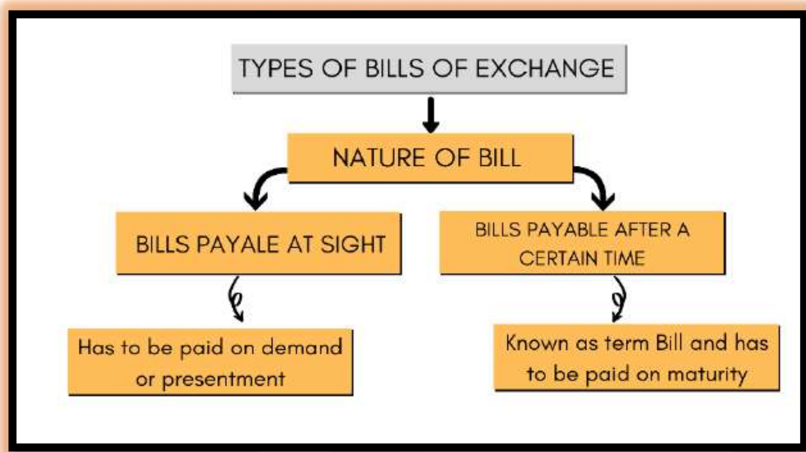
ACCOUNTING FOR SPECIAL TRANSACTIONS

Unit – 1:

Bills of Exchange and Promissory notes



Types of Bills of Exchange -



BILLS OFEXCHANGE	A Bill of Exchange has been defined as an "instrument in writing containing an unconditional order signed by the maker directing certain person to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument".
PROMISSORY NOTES	A promissory note is an instrument in writing, not being a bank note or currency note containing an unconditional undertaking signed by the maker to pay a certain sum of money only to or to the order of a certain person.
TERM OF ABILL	When a bill is drawn after sight, the term of the bill begins to run from the date of 'sighting', i.e., when the bill is accepted. When a bill is drawn after date, the term of the bill begins to run from the date of drawing the bill.

EXPIRY / DUE DATE OF A BILL	The date on which the term of the bill terminates is called as 'Expiry/Due Date of the bill'.
DAYS OF GRACE	Every instrument payable otherwise than on demand is entitled to three days of grace.
DATE OF MATURITY OF BILL	The date which comes after adding three days to the expiry/due date of a bill, is called the date of maturity
BILLATSIGHT	Bill at Sight means the instruments in which no time for payment is mentioned. A cheque is always payable on demand.
BILL AFTER DATE	Bill after date means the instrument in which time for payment is mentioned. A promissory note or bill of exchange is a time instrument when it is expressed to be payable
NOTING CHARGES	If there is dishonour, or fear of dishonour, the bill will be given to a public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But if the bill is dishonoured, they will note the fact of dishonour, with the reasons and give the bill back to their client. For this service they charge a small fee. This fee is known as noting charges.

RENEWAL OFBILL	Sometimes the acceptor is unable to pay the amount and he himself moves that he should be given extension of time and in consideration agrees to bear interest for the extended time period In such a case a new bill will be drawn and the old bill will be cancelled. If this happens entries should be passed for cancellation of the old bill.
RETIREMENT OF BILLS OF EXCHANGE & REBATE	When the acceptor has spare funds much before the maturity date of the bill of exchange accepted by him. In such circumstances he approaches the payee of the bill of exchange and asks him whether the payee is prepared to accept cash before the maturity date. In such cases the acceptor gets a certain rebate or interest or discount for premature payment.
INSOLVENCY	Insolvency of a person means that he is unable to pay his liabilities. This means that bills accepted by him will be dishonoured
ACCOMMODATION BILLS	When 2 persons simultaneously need money, the same devise can be used one accepts a bill of exchange or other does. In either case, the bill will be discounted with the bank and the proceeds divided between the two parties according to mutual agreement. The discounting charges must also be borne by the two parties in the same ratio in which the proceeds are divided. On the due date the acceptor will receive from the other party his share. The bill will then be met. When bills are used for such a purpose, they are known as accommodation bills.

BILLS OF COLLECTION	When a person receives a bill of exchange, he may decide to retain the bill till the date of maturity. But in order to ensure safety, he may send it to bank with instructions that the bill should be retained till maturity and should be realised on that date.
BILLS RECEIVABLE AND BILLS PAYABLE BOOKS	Bills receivable and bills payable books are journals to record in a chronological order the details of bills receivable and bills payable. When large number of bill transactions take place in an organization, it is convenient to maintain these books.

Question 1

Give a suitable definition of bills of Exchange

Answer:

A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument.

Question 2

Write a short note on Parties of Bill of exchange.

Answer:

(i) **Drawer**: A bill of exchange is drawn upon the buyer/debtor by the seller/creditor and the drawer is the person who makes and draws the bill. The drawer is entitled to receive money from the debtor.

(ii) **Drawee**: The person upon whom the bill of exchange is drawn is known as drawee. Bill of exchange is drawn on the drawee who is the purchaser of goods. The drawee of a bill is called the acceptor when he writes the words "accepted" and puts his signatures on it. This process is known as acceptance. After acceptance, the bill of exchange becomes a legal document. This document now binds the drawee to honour the bill on due date. This acceptance may be general or qualified. In the case of general acceptance, without stating any conditions, only signature of the accepter is required. However, in the case of qualified acceptance, name of the bank or specified place for payment is mentioned.

(iii) **Payee**: The person to whom the payment is made is known as payee. In some cases, the drawer of the bill also becomes the payee when he himself keeps the bill till the date of maturity

Question 3

Discuss the features of Bills of Exchange

Answer:

- It should be in writing.
- It is an order to make payment.
- The order of payment is unconditional.
- It should contain a certain amount to be paid.
- The date of payment should be certain.
- The amount must be payable either to a certain person or to his order or to the bearer of the bills of exchange.

- It should be paid either on the expiry of a fixed period of time or on demand.
- Bill of exchange must be signed by its maker. In certain cases, it must be stamped also.

Question 4

States the advantages of bills of Exchange.

Answer:

Advantages of Bills of Exchange:

The bills of exchange are used frequently in business as an instrument of credit due to the following reasons:

(i) **Legal Relationship**:

Issuing bills of exchange provides a framework which converts and establishes a legal relationship between seller and buyer, from creditor and debtor to drawer and drawee. In the case of any dispute between the parties, this relationship provides a conclusive proof in the court of law

(ii) **Terms and Conditions**:

Bill of exchange contains all terms and conditions of payments viz., amount of the bill, date of payment, place of payment, interest to be paid, if any. The maturity date of the bill is also known to the parties of the bill so they can make necessary arrangement for funds

(iii) **Mode of Credit**:

Bill of exchange has been defined as a negotiable instrument under the Negotiable Instruments Act, 1881. The buyer can buy the goods on credit and pay after the period of credit with the help of bill of exchange. In case of urgency, the drawer can also get the payment through discounting the bill from the bank and without waiting for the maturity period.

(iv) **Easy Transferability**:

Bill of exchange can be used for settling the debt of the creditors. Mere delivery and endorsement of the bill give a valid title to the endorsee.

(v) **Wider Acceptance**:

In case of foreign bill, wider acceptance is given to the parties through which payments can be received and made easily.

(vi) **Mutual Accommodation**:

Sometimes, bill can be issued for mutually accommodating the parties so that financial help can be given to each other.

Question 5

What are the contain shown under Bills of Exchange

Answer:

The contents of bills of exchange are as under:

(i) Date:

The date of the bill on which it is drawn should be written on the top right comer of the bill. This aspect is very important to determine the maturity date of the bill.

(ii) Term:

This is the tenure of the bill and runs from the date of the bill. This should be specified in the body of the bill. Grace period of three days should be given after the expiry of the term from the date of the bill.

(iii) Amount:

Amount of the bill should be given both in figures and words. Amount in figures should be mentioned on the top left corner of the bill and amount in words should be mentioned in the body of the bill.

(iv) Stamp:

Stamp of proper value which depends on the amount of bill shall be affixed on the bills of exchange.

(v) Parties:

There may be three parties to the bills of exchange, drawer, drawee and payee. However, in some cases drawer and payee may be the same person. All the names of the parties and their addresses should also be invariably mentioned in the bills of exchange.

(vi) For Value Received:

This aspect is most important in the sense that law does not consider those agreements which have been made without consideration. Consideration means in lieu of and in the context of bills of exchange, it means that the bill has been issued in exchange of some consideration i.e., benefit has already been received

Question 6

Write how to calculate due date of a bill

The due date of each bill is calculated as follow

Answer:

Bill of Exchange	Promissory Note
A bill contains an unconditional order to pay	A promissory note contains only a promise to pay certain sum of money
There are generally 3 parties (Drawer, Drawee and Payee) in bill of exchange	There are 2 parties (Maker and payee) in promissory note
A bill is paid by Acceptor	A promissory note is paid by maker
A bill is drawn by creditor	A promissory note is made by debtor
The drawer and payee may be same person in case of bill of exchange	In promissory note maker and payee cannot be same person
In a bill of exchange, the liability of drawer is secondary and conditional	In a promissory note the liability of a maker is primary and absolute

A bill of exchange can be accepted conditionally	A promissory note required in case of promissory note
In a bill of exchange, notice of dishonour must be given	Notice of dishonour is not required in case of promissory note
In case of dishonour, a bill of exchange must be noted and protested	Noting and protest is not required in case of dishonour of promissory note.

Question 7

Write a short note on Bills at sight

Answer:

Bill at Sight means the instruments in which no time for payment is mentioned. A cheque is always payable on demand.

A promissory note or bill of exchange is payable on demand when no time for payment is specified, or when it is expressed to be payable on demand, or at sight or on presentment.

Notes:

'At sight' and 'presentment' means on demand.

An instrument payable on demand may be presented for payment at any time. Days of grace is not to added to calculate maturity for such types of bills.

Question 8

Throw a light on the concept of Insolvency

Answer:

Insolvency of a person means that he is unable to pay his liabilities. This means that bills accepted by him will be dishonoured. Therefore, when it is known that a person has become insolvent, entry for dishonour of his acceptance must be passed. Later on, something may be received from his estate. When and if an amount is received, cash account will be debited and the personal account of the debtor will be credited. The remaining amount will be irrecoverable and, therefore, should be written off as bad debt. The students should be careful to calculate the amount actually received from an insolvent's estate and amount to be written off only after preparing his account. In the books of drawee of the bill, the amount not ultimately paid by him due to insolvency, should be credited to Deficiency Account.

Question 10

Write how to calculate due date of a bill

The due date of each bill is calculated as follow

	Due Date
When the bill is made payable on a specific date	That specific date will be the due date
When the bill is made payable at a stated number of month(s) after date.	That date on which the term of the bill shall expire will be the due date. Note: The term shall expire on that day of the month which corresponds with the day on which the bill is dated. If the month in which the period terminates has no corresponding day, the period shall be deemed to expire on the last day of such a month. For example, a bill signed on January 31st payable after 3 months will be due on April 30th.
When the bill is made payable at a stated number of days after date.	That date which comes after adding stated number of days to the date of bill, shall be the due date. Note: The date of Bill is excluded.
When the due date is a public holiday	The preceding business day will be the due date
When the due date is an emergency /	The next following day will be the date.

due unforeseen holiday.	

Question 11

What is meant by Acceptance of bills of Exchange?

Answer:

A bill of exchange is written instrument which contains an unconditional order directing a person to pay a certain amount on an agreed date. In other words, it is drawn by the creditor on her/his debtors to make a payment of a certain amount on the mentioned date. Such a bill comes into existence after the consent of both the parties. A bill cannot come into existence without the acceptance of a debtor. Hence, the debtor of the bill has to accept the terms of the bill, sign the same and make it a legal document

Question 12

What is noting charges?

Answer:

When the drawee of the bills fails to make the payment on the maturity date of the bill then the bill is said to have been dishonored. To have a legal proof of the dishonor, the bills gets noted by the notary public who is approved by centralize government. The notary public charges fees called the nothing charges for noting and protesting the bill of exchange of its dishonor.

Question13

A bill of Exchange must contain an unconditional promise to pay. Do you agree with the statements?

Answer:

According to negotiable Instrument Act, 1961. A bill of exchange is defined as an instrument writing, containing an unconditional order, signed by the maker directing a certain person to pay a certain person to pay a certain sum of money only to, or the order of a certain person or to the bearer of the instrument "

As the definition mentions the bill is an unconditional order to pay i.e., no conditions should be applicable with respect to the payment and the drawee of the bill obliged to pay the maker of the bill. This is one of the main features of a bill of exchange. All the conditions with respect to the bill, for example; the amount, the date of payment, the parties involved needs to be specified with clarity.

Question 14

Briefly explain the purpose & benefit of retiring of bills of exchange to the debtor and creditor

Answer:

Sometimes the acceptor is prepared to (retire) pay the bill before the date of maturity. In such a case the drawer may allow him a concession called rebate or discount at certain rate calculated on unexpired period of maturity of the bill. This discount is a gain to the acceptor and a loss to the drawer.

The accounting treatment on the retirement of a bill is similar to the accounting treatment when a bill is honored by the acceptor on the due date in the ordinary course. The only difference between the two relates to the fronting of rebate.

The following journal entries are recorded:

In the books of the holder

On retiring the acceptance and rebate allowed-

Cash A/c Dr.

To Rebate on bills Receivables A/c

In the books of the drawee-

Bills payable A/c Dr.

Cash A/c Dr.

To Rebate on bills A/c

Question 15

Give the meaning of rebate.

Answer:

Rebate means a discount allowed by the payee to the acceptor when the acceptor wants to pay the bill before the date of maturity

Question 16

What is meant by maturity of a bill of exchange?

Answer:

Maturity of a bill of exchange means the date on which a bill of exchange falls due for payment. A bill of exchange payable after a specified period is entitled to 3 days of grace.

Question 17

Name any two types or commonly used negotiable instruments.

Answer:

Following are die commonly used negotiable instruments:

(i) Cheque.

(ii) Bill of exchange.

(iii)Promissory notes

PRACTICAL

Question 18

On March 15, 2015 Ramesh sold goods for Rs. 8,000 to Deepak on credit. Deepak accepted a bill of exchange drawn upon him by Ramesh payable after three months. On April, 15 Ramesh endorsed the bill in favour of his creditor Poonam in full settlement of her debt of Rs. 8,250. On May 15, Poonam discounted the bill with her bank @ 12% p.a. On the due date Deepak met the bill. Record the necessary journal entries in the books of Ramesh & Deepak.

Solution:

Date	Particular	LF	Dr. Amount	Cr. Amount
	Deepak A/c Dr. To Sales A/c (Sold goods to Deepak on Credit)		8,000	 8,000
	Bills Receivable A/c Dr. To Deepak A/c (Received Deepak's acceptance for three months)		8,000	 8,000
	Poonam's A/c Dr. To Bills Receivable A/c To Discount Received A/c (Bill endorsed in favor of Poonam in full settlement of her debt of Rs. 8,250)		8,250	 8,000 250

Book of Deepak

Journal Entries

Date	Particular	LF	Dr. Amount	Cr. Amount

	Purchases A/c Dr. To Ramesh A/c (Sold goods to Deepak on Credit)		8,000	8,000
	Ramesh's A/c Dr. 8,000 To Bills payable A/c (Accepted Ramesh's draft payable after three months)		8,000	8,000
	Bills Payable A/c Dr. To bank A/c (Met the acceptance in favor of Ramesh on maturity)		8,000	8,000

Question 19

A receives three promissory notes from B, dated 1st January, 2012 for 3 months. One bill is for Rs 3,000, the second is for Rs 4,000 and the third is for Rs 5,000. The second bill is immediately endorsed in favour of C and on 4th January, 2012 the third bill is discounted with the bank for Rs 4,700. Pass the entries in A's journal assuming

(i) the bills are met on maturity and

(ii) they are dishonoured

Solution:

Date	Particular	LF	Debit (Rs.)	Credit (Rs.)
2012				
Jan. 1	Bill Receivable Account Dr. To B (There promissory notes for Rs. 3,000 Rs. 4,000 and Rs. 5,000 received from B)		12,000	12,000
Jan. 1	C's a/c Dr. To Bills Receivable Account		4,000	4,000

	The bills for Rs. 4,000 received from B. now endorsed in favour of C.			
Jan. 4	Bank a/c Dr. Discount Account Dr. To Bills Receivable Account (The bill for Rs. 5,000 discounted with the bank for Rs. 4,700 i.e. at a discount of Rs. 300)		4,700 300	 5,000
(i) April 4	On maturity, supposing the bills are met: Cash Account / Bank Dr. To Bills receivable Account Cash / cheque received in respect of the bill for Rs. 3,000 held till maturity.		3,000	 3,000
(ii) April 4	On maturity, supposing the bills are dishonoured: B Dr. To Bills receivable Account The bill for Rs. 3,000 dishonoured by B		3,000	 3,000
April 4	B Dr. To C Dishonour of B's promissory note for Rs. Rs. 4,000 Which was endorsed in favour of C		4,000	 4,000
April 4	B Dr. To Bank Dishonour of B's promissory note for Rs, 5,000 which was discounted with bank.		5,000	 5,000

Question 20

B owes C a sum of Rs 6,000. On 1st April, 2011 he gives a promissory note for the amount for 3 months to C who gets it discounted with his

bankers for Rs 5,760. On the due date the bill is dishonoured, the bank paying Rs 15 as noting charges. B then pays Rs 2,000 in cash and accepts a bill of exchange drawn on him for the balance together with Rs 100 as interest. This bill of exchange is for 2 months and on the due date the bill is again dishonoured, C paying Rs 15 for noting charges draft the journal entries to be passed in C's books.

Solution:

2011 April	1	Bills Receivable Account Dr. To B B' Promissory note received in settlement of his account		6,000	6,000
April	1	Bank Dr. Discount Account Dr. To Bills Receivable Account B is promissory note discounted		5,760 240	6,000
July	4	B Dr. To Bank The promissory note dishonoured by B the amount of the bill and the noting charges recoverable from B and payable to Bank.		6,015	6,015
July	4	Cash Account Dr. To B The amount received from B.		2,000	2,000
July	4	B Dr. To Interest Account Interest due from B for Second bill.		100	100
July	4	Bills Receivable Account Dr. To B B's acceptance for 2 months in		4,115	4,115

		settlement of amount due			
Sept.	7	B Dr. To Bills Receivable Account The dishonour by B of his acceptance		4,115	 4,115
Sept	7	B Dr. To cash Account Payment of noting charges, recoverable from B.		15	 15

Question 21

On 1st January, 2011, X drew and Y accepted a bill of exchange at three months for Rs 16,000. On 4th January, 2011, X got the bill discounted at 12% per annum and remitted half of the proceeds to Y. On 1st February, 2011, Y drew and X accepted a bill at four months for Rs 12,000. On 4th February, 2011, Y got the bill discounted at 12% per annum and remitted half of the proceeds to X. They both agreed to share the discount equally. On maturity, X met his acceptance but Y dishonoured his acceptance and X had to pay for it. X drew and Y accepted a new bill at three months for the original bill plus interest at 16% per annum for three months. On 1st July, 2011, Y became insolvent. On 21st September, 2011, a final dividend of 50 paise in a rupee was received from Y's estate.

Solution:

Dr. **Bill Receivable Account** Cr.

2011		Rs.	2011		Rs.
Jan. 1	To Y	16,000	Jan 4	By Bank	15,520
Apr. 4	To Y	16,640		By Discount	480
			July 1	By Y	16,640
		32,640			32,640

Dr. **Y** Cr.

2011		Rs.	2011		Rs.
Jan 4	To Bank	7,760	Jan. 1	By Bills Receivable A/c	16,000
	To Discount A/c	240			
Feb 1	To Bills payable A/c	12,000	Feb. 4	By Bank	5,760
April 4	To Bank	16,000	Apr. 4	By Discount A/c	240
July 1	To Interest A/c	640			
	To Bills Receivable Account	16,640		By bank	16,640
			Sept. 21	By bad debts A/c	7,320
		53,280			53,280

Question 22

Vijay sold goods to Pritam on 1st September, 2016 for 1,06,000. Pritam immediately accepted a three months bill. On due date Pritam requested that the bill be renewed for a fresh period of two months. Vijay agrees provided interest at 9% was paid immediately in cash. To this Pritam was agreeable. The second bill was met on due date. Give journal entries in the books of Vijay.

In the books of Vijay

Journal

2016				
1- Sept	Pritam To Sales Account (Sales of goods to Pritam as per invoice no.)	Dr.	1,06,000	1,06,000
	Bills Receivable Account To Pritam (3 months acceptance received from Pritam for the amount due from him)	Dr.	1,06,000	1,06,000

Dec. 4	Pritam To Bills Receivable Account (Pritam acceptance cancelled because of renewal)	Dr.	1,06,000	1,06,000
	Pritam To interest (Interest @ 9% on 1,06,000 due from Pritam for 2 months because of renewal)	Dr.	1,590	1,590
	Bills Receivable Account Cash Account To Pritam (New acceptance for 2 months for 1,06,000 and cash (for interest) received From Pritam)	Dr. Dr.	1,06,000 1,590	1,07,590
2017 Feb. 7	Cash Account TO Bills Receivable Account (Cash received against Pritam's second acceptance)	Dr.	1,06,000	1,06,000

Question 23

On 1st January 2016, Vilas draws a Bill of Exchange for 10,000 due for payment after 3 months on Eknath. Accepts to this bill of exchange. On 4th March, 2016. Eknath retires the bill of Exchange at a discount of 12% p.a. you are asked to show the journal entries in the books of Vils.

Journal entries in the books of Vils.

Date	Particulars	Debit	Credit
2016 Jan. 1	Bills Receivable A/c Dr. To Eknath A/c (Being bill of Exchange no. drawn on Eknath due for payment on 4th April 2016)	10,000	10,000

Mar. 4	Bank A/c Dr.	9,900 100	
	Interest A/c (Discount) A/c Dr.		
	To Bills Receivable A/c (Being retirement of bill of exchange due for maturity on 4th April, 2016 by Eknath 1 month before maturity, the rebate being given to him at 12% p.a.)		10,000

Question 24

Mohan sold goods to Gupta on 1st September, 2011 for 1,600. Gupta immediately accepted a three months bill. On due date Gupta requested that the bill be renewed for a fresh period of two months. Mohan agrees provided interest provided interest at 9% was paid immediately in Cash. To this Gupta was agreeable. The second bill was met on due date. Give journal entries in books of Mohan.

2011			Dr.	Cr.
Sept. 1	Gupta To Sales Account (Sales of goods to Gupta as per Invoice No.)	Dr.	1,600	1,600
	Bills Receivable Account To Gupta (3 months acceptance received from Gupta for the amount due from him)			
Dec. 4	Gupta To Bills Receivable Account (Gupta's acceptance cancelled because of renewal)	Dr.	1,600	1,600
	Gupta To interest (Interest @ 9% on 1,600 due from Gupta for 2 months because of renewal)	Dr.	24	24

	Bills Receivable Account Cash Account To Gupta [New acceptance for 2 Months for 1,600 and Cash (for interest) received from Gupta]	Dr.	1,600 24	1,624
2012 Feb. 7	Cash Account To Bills Receivable Account (Cash Received against Gupta's Second acceptance)	Dr.	1,600	1,600

Question 25

On 1st January,2011, A sells goods for 10,000 to B and draws a bill at three months for the amount. B accepts it and returns it to A. on 1st March, 2011, B retires his acceptance under rebate of 12% per annum. Record these transactions in the journals of A.

Date 2011	Particulars		Dr.	Cr.
Jan 1	B's account To Sales account (Being the goods sold to B on credit)	Dr.	10,000	10,000
	Bills receivable account To B's account (Being the acceptance of bill received)	Dr.	10,000	10,000
March 1	Bank account Rebate on bills account To Bills receivable account (Being retirement of bill by B one month before maturity the rebate being given to him at 12% p.a)	Dr. Dr.	9,900 100	10,000

Question 26

On Jan 01, 2015 Rao sold goods Rs. 10,000 to Reddy. Half of the payment was made immediately and for the remaining half Rao drew a bill of exchange upon Reddy Payable after 30 days. Reddy accepted the bill and returned it to Rao. On the due date Rao presented the bill to Reddy and received the payment.

Journalise the above transactions in the books of Rao and prepare of Rao's account in the books of Reddy.

Solution:

Books of Rao Journal Entries

Date	Particulars		Dr.	Cr.
2015 Jan 1	Reddy A/c To Sales A/c (Being goods sold to Reddy)	Dr.	10,000	10,000
Jan 1	Cash A/c To Reddy A/c (Being cash paid by reddy)	Dr.	5,000	5,000
Jan 1	Bills Receivable A/c To Reddy A/c (Being Bill of Exchange drawn on Reddy for 30 days and duty accepted by him and returned)	Dr.	5,000	5,000
Feb 3	Cash A/c To Bills Receivable A/c (Being Bill of Exchange matured and acceptance duty met on maturity date)	Dr.	5,000	5,000

Books of Reddy

Rao's account

Dr. **Cr.**

Date	Particulars	J.f	Amount	Date	Particulars	J.f	Amount
2015 Jan 01	To Cash A/c		5,000	2015 Jan 1	By Purchase A/c		10,000
Jan 01	To Bills Payable A/c		5,000				
			10,000				10,000

Question 27

On Jan 01, 2015, Shankar purchased goods from Parvati for ₹ 8,000 and immediately drew a promissory note in favour of Parvati payable after 3 months. On the date of maturity of the promissory note, the Government of India declared a holiday under the Negotiable Instruments Act 1881. Since, Parvati was unaware about the provision of the law regarding the date of maturity of the bill, she handed over the bill to her lawer, who duly presented the bill and received the payment. The amount of the bill was handed over by the lawer to Parvati immediately. Record the necessary Journal entries in the books of Parvati and Shankar.

Books of Parvati

Journal Entries

Date	Particulars	L.F	Dr.	Cr.
2015 Jan 1	Shankar A/c Dr. To Sales A/c (Being goods sold to Shankar)		8,000	8,000
Jan 1	Bills Receivable A/c Dr. To Shankar A/c (Being Promissory note received from Shankar for 3 months)		8,000	8,000

Apr 5	Bank A/c Dr. To Bills Receivable A/c (Being Promissory note matured and duty met on maturity date)		8,000	 8,000

Question 28

Vishal sold goods for ₹ 7,000 to Manju on Jan 05, 2015 and drew upon her a bill of exchange payable after 2 months. Manju accepted Vishal's draft and handed over the same to Vishal after acceptance. Vishal immediately discounted the bill with his bank @12 p.a. On the due date Manju met her acceptance. Journalise the above transactions in the books of Vishal and Manju

Solution:

Working Notes: -

Discount from Bank (for 2 months)	$7,000 \times \frac{12}{100} \times \frac{2}{12}$
=	140
Cash Deposited by Bank	7,000 – 140
=	6,860

Books of Vishal

Journal

Date	Particulars	L.F	Dr.	Cr.
2015 Jan 05	Manju A/c Dr. To Sales A/c (Being goods sold to Manju)		7,000	 7,000

Jan 05	Bills Receivable A/c Dr. To Manju A/c (Being Bill of exchange duly accepted and returned and returned by Manju)		7,000	 7,000
Jan 05	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being Bill of Exchange matured and duly met on maturity date)		6,860 140	 7,000

Question 29

On Jan 01, 2015 Arun sold goods for Rs. 30,000 to Sunil. 50% of the payment was made immediately by Sunil on Which Arun allowed a cash discount of 2%. For the balance Sunil drew a promissory note in favour of Arun payable after 20 days. Since, the date of maturity of bill was a public holiday, Arun presented the bill on a day, as per the provisions of Negotiable Instrument Act which was met by Sunil. State the date on which the bill was presented by Arun for payment and journalise the above transactions in the books of Arun and Sunil

Solution:

If the date of maturity of the bill is a business day, then the maturity date would be Jan 01, 2015 + 20 days + 3 days of grace

However, if this day falls on a public holiday as a described in the Negotiable Instruments Act, 1881, then the maturity date would be the Preceding day. Hence it would be 24 Jan, 2015

Working Notes:

Cash Discount provided to Sunil	$15,000 \times \frac{6}{100} \times \frac{2}{100}$
=	300
Cash Paid by Sunil	15,000 - 300

=	14,700

Date	Particulars	LF	Dr.	Cr.
2015 Jan 1	Sunil A/c Dr. To Sales A/c (Being goods sold to Sunil)		30,000	 30,000
Jan 1	Cash A/c Discount A/c To Sunil A/c (Being 50% of the payment received from Sunil with 2% discount)		14,700 300	 15,000
Jan 1	Bills Receivable A/c To Sunil A/c (Being Promissory note received from Sunil)		15,000	 15,000
Jan 24	Cash A/c To Bills Receivable Account A/c (Being the promissory note matured and duly paid by Sunil on the date of maturity)		15,000	 15,000

Books of Sunil

Journal

Date	Particulars	LF	Dr.	Cr.
2015 Jan 1	Purchase A/c Dr. To Arun A/c (Being goods Purchased from Arun)		30,000	 30,000
Jan 1	Arun A/c Dr. To Cash A/c To Discount A/c (Being 50% of the payment paid to Arun with 2% discount received)		15,000	 14,700 300
Jan 1	Arun A/c Dr. To Bills Payable A/c (Being promissory note issued to Arun)		15,000	 15,000

Jan 24	Bills Payable A/c Dr. To Cash A/c (Being the promissory note matured and duly paid to Sunil on the date of maturity)		15,000	 15,000

Question 30

Darshan sold goods for Rs. 40,000 to Varun on 8.1.2015 and drew upon him a bill of exchange payable after two months. Varun accepted the bill and returned the same to Darshan. On the due date the bill was met by Varun. Record the necessary Journal entries in the books of Darshan and Varun in the following circumstances.

When the bill was retained by Darshan till the date of its maturity.

When Darshan immediately discounted the bill @ 6% p.a. with his bank.

Solution:

Case – 1: When the bill was retained by Darshan till the date of its maturity:

Books of Darshan

Journal

Date	Particulars	LF	Dr.	Cr.
2015 Jan 8	 Varun A/c Dr. To Sales A/c (Being goods sold to Varun)		40,000	 40,000
Jan 8	Bill Receivable A/c Dr. To Varun A/c Dr. (Being Bill of Exchange duly accepted and returned by Varun)		40,000 40,000	

Mar 11	Cash A/c Dr. To Bills Receivable A/c (Being the bill duly matured and paid on the date of maturity)		40,000	40,000

Books of Varun

Journal

Date	Particulars	LF	Dr.	Cr.
2015 Jan 8	Purchase A/c Dr. To Varun A/c (Being goods purchased from Darshan)		40,000	40,000
Jan 8	Varun A/c Dr. To Bills Payable A/c (Being Bill of Exchange duly accepted and returned to Darshan)		40,000	40,000
Mar 11	Bills Payable A/c Dr. To Cash A/c (Being the Bill of Exchange matured and duly cleared on date of maturity)		40,000	40,000

Case 2: When Darshan immediately discounted the bill @ 6% p.a with his bank:

Working Notes:

Discount from Bank (for 2 months)	$\mathbf{40,000 \times \frac{6}{100} \times \frac{2}{12}}$
=	400
Cash Deposited by Bank	40,000 – 400
=	14,700

Books of Darshan

Journal

Date	Particulars	LF	Dr.	Cr.
2015 Jan 8	Varun A/c To Sales a/c (Being goods sold to Varun)		40,000	40,000
Jan 8	Bills Receivable A/c To Varun A/c (Being Bill of Exchange duly accepted and returned by Varun)		40,000	40,000
Jan 8	Bank A/c Discount A/c To Bills Receivable A/c (Being the Bill of Exchange discounted from Bank)		39,600 400	40,000

Books of Varun

Journal

Date	Particulars	LF	Dr.	Cr.
2015 Jan 8	Purchase A/c To Varun A/c (Being goods purchased from Darshan)		40,000	40,000
Jan 8	Varun A/c To Bills Payable A/c (Being Bill of Exchange daily accepted and returned to Darshan)		40,000	40,000
Mar 11	Bills Payable A/c To Bank A/c (Being the Bill of Exchange matured and duly cleared on date of maturity)		40,000	40,000

Question 31

R owed 1,000 to S. On 1stOctober,2011, R accepted a bill drawn by S for the amount at 3 months. S got the bill discounted with his bank for

900 on 3rd October 2011. Before the due date, R approached S for renewal of the bill. S agreed on the conditions that ` 500 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, R should accept a new bill at three months. These arrangements were carried out. But afterwards, R became insolvent and 40% of the amount could be recovered from his estate. Pass journal entries (with narration) in the books of S.

Particulars	LF		Dr.	Cr.
Bills Receivable A/c To R (Being a 3 month's bill drawn on R for the amount due)		Dr.	1,000	 1,000
Bank A/c Discount A/c To Bills Receivable A/c (Being the bill discounted)		Dr.	900 100	 1,000
R To Bank A/c (Being the bill cancelled up due to R's inability to pay it)		Dr.	1,000	 1,000
R To interest A/c (Being the interest due on 500@ 12% for 3 months		Dr.	15	 15
Bank A/c To R (Being the receipt of a portion of the amount due on the bill together with		Dr.	515	 515
Bills Receivable A/c To R (Being the new bill drawn for the balance)		Dr.	500	 500
R To Bills Receivable A/c (Being the dishonour of the bill due to R's insolvency)		Dr.	200 300	 500

Bank A/c Bad debts A/c To R (Being the receipt of 40% of the amount due on the bill from R's estate)		Dr.		

Question 32

Anil draws a bill for `9,000 on Sanjay on 5th April, 2011 for 3 months, which Sanjay returns it to Anil after accepting the same. Anil gets it discounted with the bank for ` 8,820 on 8th April, 2011 and remits one-third amount to Sanjay. On the due date Anil fails to remit the amount due to Sanjay, but he accepts a bill for ` 12,600 for three months, which Sanjay discounts it for ` 12,330 and remits ` 2,220 to Anil. Before the maturity of the renewed bill Anil becomes insolvent and only 50% was realized from his estate on 15th October, 2011.

Pass necessary Journal entries for the above transactions in the books of Anil.

Solution:

Date 2011	Particulars		Dr.	Cr.
April 5	Bills receivable account To Sanjay's account (Being acceptance received from Sanjay for mutual accommodation)	Dr.	9,000	 9,000
April 5	Bank account Discount account To Bills receivable account (Being bill discounted with bank)	Dr. Dr.	8,820 180	 9,000
April 5	Sanjay's account To Bank account (Being one – third proceeds of the bill sent to Sanjay)	Dr.	3,000	 2,940 60

July 8	Sanjay's account To Bills payable account (Being Acceptance given)	Dr.	12,600	 12,600
July 8	Sanjay's account To Bills payable account (Being Acceptance given)	Dr.	2,220 180	 2,400
Oct 11	Bills payable account To Sanjay's account (Being bill dishonoured due to insolvency)	Dr.	12,600	 12,600
Oct 15	Sanjay's account (6,000 + 2,400) To Bank account To Deficiency account (Being insolvent, only 50% amount paid to Sanjay)	Dr.	8,400	 4,200 4,200

Question 33

Ravi sold goods for Rs.40,000 to Sudarshan on Feb 13, 2015. He drew four bills of exchange upon Sudarshan. The first bill was for Rs.5,000 payable after one month. The second bill was for Rs.10,000 payable after 40 days; the third bill was for Rs.12,000 payable after three months and fourth bill was for the balance amount payable after 19 days. Sudarshan accepted all the bills and returned the same to Ravi. Ravi discounted the first bill with his bank at 6% p.a. He endorsed the second bill to his creditor Mustaq for the full settlement of a debt of Rs.10,200. The third bill was kept by Ravi with him till the date of maturity. Five days before the maturity of the fourth bill, Ravi sent the bill to his bank for collection. All the four bills were dishonoured by Sudarshan on maturity. Sudarshan settled Ravi's claim in cash three days after the dishonour of each bill along with interest @ 12% p.a. for the terms of the bills. You are requested to record the necessary journal entries in the books to Ravi, for the above transaction.

Solution:

Date	Particulars		Dr.	Cr.
2015 Feb 13	Sudarshan A/c Dr. To Sales A/c (Being goods sold to Ravi on credit)		40,000	40,000
Feb 13	Bills Receivable A/c Dr. To Ravi A/c (Being four Bills of exchange worth each of Rs. 5,000, Rs. 10,000, Rs. 12,000 and Rs. 13,000 drawn upon Ravi duly accepted by him and returned)		40,000	40,000
Feb 13	Bank A/c Discount A/c To Bills Receivable A/c (Being Bill of Exchange worth of Rs. 5,000 discounted with the bank @ 6% p.a for one month)		4,975 25	5,000
Feb 13	Mushtaq A/c To Bills Receivable A/c To Discount Received A/c (Being bill of Exchange worth of Rs. 10,200 endorsed in favour of Mushtaq to settle an amount of Rs. 10,200		10,200	10,000 200
Mar 2	Bills sent for collection A/c To Bills Receivable A/c (Being Bill of Exchange for Rs. 13,000 due for maturity in 5 days, sent to bank for collection)		13,000	13,000
Mar 7	Sudarshan A/c To Interest A/c (Being interest on dishonoured Bill of Exchange worth Rs. 13,000 @ 12% p.a for 19 days)		81	81

Mar 10	Cash A/c To Sudarshan A/c (Being Cash paid by Sudarshan in lieu of the dishonoured Bill of Exchange Worth of Rs. 13,000 + interest)		13,081	13,081
Mar 16	Sudarshan A/c To Bank A/c (Being Bill of Exchange worth of Rs. 5,000 dishonoured)		5,000	5,000
Mar 16	Sudarshan A/c To Interest A/c (Being Interest on dishonoured Bill of Exchange Worth Rs. 5,000 @ 12 % p.a for one month)		50	50
Mar 19	Cash A/c To Sudarshan A/c (Being cash paid by Sudarshan in lieu of the dishonoured Bill of Exchange worth of Rs. 5,000 + interest)		5,050	5,050
Mar 28	Sudarshan A/c Discount received A/c To Mushtaq A/c (Being Bill of Exchange worth of Rs. 10,000 dishonoured, the liability of the debtor and creditor are restored)		10,000 200	10,200
Mar 28	Sudarshan A/c To interest A/c (Being interest on dishonoured Bill of Exchange worth Rs. 10,000 @12 p.a for 40 days)		132	132
Apr 01	Cash A/c To Sudarshan A/c (Being cash paid by Sudarshan in lieu of the dishonoured Bill of Exchange worth Rs. 10,000 + interest)		10,132	10,132

May 16	Sudarshan A/c To **Bill** Receivable A/c (Being Bill of Exchange worth of Rs. 12,000 dishonoured, the liability of the debtor is restored)		12,000	12,000
May 16	Sudarshan A/c To interest A/c (Being interest on dishonoured Bill of Exchange worth of Rs. 12,000 @12 p.a for 3 months)		360	360
Apr 01	Cash A/c To interest A/c (Being cash paid by Sudarshan in lieu of the dishonoured Bill of Exchange worth Rs. 12,000 + interest)		12,360	12,360

Discount with Bank (for one month)	$\mathbf{5,000 \times \frac{6}{100} \times \frac{1}{12}}$
=	25
Cash Deposited by Bank	5,000- 25
=	4,975

Interest on dishonoured bill worth of Rs. 13,000	$\mathbf{13,000 \times \frac{12}{100} \times \frac{19}{365}}$
=	81
Interest on dishonoured bill worth of Rs. 5,000	$5,000 \times \frac{12}{100} \times \frac{1}{12}$
=	50
Interest on dishonoured bill worth of Rs. 10,000	$10,000 \times \frac{12}{100} \times \frac{40}{365}$
=	132

Interest on dishonoured bill worth of Rs. 12,000	$10{,}000 \times \frac{12}{100} \times \frac{3}{12}$
=	360

Question 34

On 1st July, 2016 Gorge drew a bill for `1,80,000 for 3 month son Harry for mutual accommodation. Harry accepted the bill of exchange. Gorge had purchased goods worth `1,81,000 from Jack on the same date. Gorge endorsed Harry's acceptance to Jack in full settlement. On 1st September, 2016, Jack purchased goods worth `1,90,000 from Harry. Jack endorsed the bill of exchange received from Gorge to Harry and paid ` 9,000 in full settlement of the amount due to Harry. On 1st October, 2016, Harry purchased goods worth `2,00,000 from Gorge. Harry paid the amount due to Gorge by cheque. Give the necessary Journal Entries in the books of Harry.

Solution:

Date	Particulars		Dr.	Cr.
1.7.2016	Gorge's account To Bills payable account (Acceptance of bill drawn by George)	Dr.	1,80,000	 1,80,000
1.9.2016	Jack's account To sales account (Sales made to jack)	Dr.	1,90,000	 1,90,000
1.9.2016	Bills receivable account Bank account Discount account To Jack's account (Acceptance received from Jack's endorsement of bill received from George for 1,80,000 and 9,000 received in full settlement of the amount due	Dr. Dr. Dr.	1,80,000 9,000 1,000	 1,90,000
1.9.2016	Bills payable account To Bills receivable account	Dr.	1,80,000	 1,80,000

	(Own acceptance received from Jack's endorsement, cancelled)			
1.10.2016	Purchase account To Gorge's account (Purchases made from gorge)	Dr.	2,00,000	2,00,000
	Gorge's account To Bank account (Amount paid to gorge after adjusting 1,80,000 for accommodation extended to him)	Dr.	20,000	20,000

Question 35

Ritesh and Naina were in need of funds temporarily. On August 01 2015 Ritesh drew upon Naina a bill for ₹ 12,000 for 4 months. Naina Accepted the bill and returned to Ritesh. Ritesh discounted the Bill @ 8% p.a. Half amount of the discounted bill remitted to Naina. On due date, Ritesh sent the required sum to Naina, who met the bill. Journalise the transaction in the books of both the parties.

Solution:

Date	Particulars	L.F	Dr.	Cr.
2015 Aug 01	Bills Receivable A/c Dr. To Naina A/c (Being bill drawn against Naina and duly accepted and returned by him, to accommodate self)		12,000	12,000

Aug 01	Bank A/c Dr. Discount Charges A/c Dr. To Bills Receivable A/c (Being bill discounted with the bank)		11,680 320	 12,000
Aug 01	Naina A/c Dr. To Bank a/c To Discount Charges a/c (Being half of the discounted amount remitted to Naina)		6,000	 5,840 160
Dec 04	Naina A/c Dr. To Bank A/c (Being the rest of the amount transferred to Naina so that she can meet the bill)		6,000	 6,000

Working Notes: -

Discount from Bank (for 4 month)	$12,000 \times \frac{8}{100} \times \frac{4}{12}$
=	320
Cash Deposited by Bank	12,000 - 320
=	11,680
Discount Charges shares with Naina	$320 \times \frac{1}{2}$
=	160

Question 36

An owed B Rs. 8,000. He gave a bill for the same on 1st August,2011 payable after 4 months at the Bank of India, Chandni Chowk, Delhi. Immediately after receiving the bill of endorsed, its C in payment of his debt. On 1st September, C discounted the bill the at 12% p.a. The bill is met on due date. Pass the journal entries in the books of A, B and C.

Solution:

Book of A

Journal

Date	Particulars	L.F	Dr.	Cr.
2011 Aug 01	B A/c Dr. To Bills Payable A/c (Being drawn by B was accepted)		8,000	8,000
Dec. 04	Bills Payable A/c Dr. To Bank A/c (Being Payment made to meet the bill on its maturity)		8,000	8,000

Book of B

Journal

Date	Particulars	L.F	Dr.	Cr.
2013 Aug 1	Bills Receivable A/c Dr. To A A/c (Being A's acceptance was received)		8,000	8,000
Aug 1	C A/c Dr. To Bills Receivable A/c (Being A's acceptance endorsed in favour of C)		8,000	8,000

Book of C

Journal

Date	Particulars	L.F	Dr.	Cr.
2011 Aug 1	Bills Receivable A/c To B A/c (Being bills receivable was received from B)		8,000	 8,000
Aug 1	Bank A/c Discount Charges A/c (8000*12%*3/12) To Bills Receivable A/c (Being		7,760 240	 8,000

Question 37

On 20thmarch,2013, Naresh sold goods to Kailash to the value of Rs.1,250, taking a bill of 3 months for the amount. On maturity, the bill was dishonoured. Rs.10of noting charges. On 1stJuly, Kailash cleared his account by paying Rs. 1,260. Make the entries in the books of both the parties to record the above transaction.

Solution:

Book of Naresh

Journal

Date 2013	Particulars	L.F	Dr.	Cr.
Mar 20	Kailash A/c Dr. To Sales A/c (Being goods sold to Kailash)		1,250	 1,250
Mar 20	Bills Receivable A/c Dr. To Kailash A/c (Being Kailash's acceptance was received)		1,250	1,250
Jun 23	Kailash A/c Dr. Bills Receivable A/c To Cash A/c		1,250 10	 1,260

Jun 1	Cash A/c Dr. To Kailash A/c (Being received cash from Kailash)		1,260	 1,260

Book of Kailash

Journal

Date 2013	Particulars	L.F	Dr.	Cr.
Mar 20	Purchase A/c To Naresh A/c (Being goods were bought from Naresh)		1,250	 1,250
Mar 20	Naresh A/c To Bills payable A/c (Being bill drawn by Naresh was accepted)		1,250	 1,250
Jun 23	Bills Payable A/c Noting Charges, A/c To Naresh A/c (Being bill payable was dishonoured)		1,250 10	 1,260
Jun 1	Naresh A/c To Cash A/c (Being paid cash to Naresh)		1,260	 1,260

Question 38

A Bill Receivable for Rs.100, which has been discounted at Rs.95, is dishonoured and the bank paid Rs.2 as noting charges.

Give the Journal entries to record the above in the books of

i. the Drawer

ii. the Drawee

iii. the Bank

Book of Drawer

Journal

Date	Particulars	L.F	Dr.	Cr.
	Bill Receivable A/c Dr. To Drawee A/c (Being acceptance was received from Drawee)		100	100
	Bank A/c Dr. Discount Charges A/c To Bills Receivable A/c (Being bill discounted with Bank)		95 5	100
	Drawee A/c Dr. To Bank A/c (Being bill which discounted with bank now dishonoured and bank paid Rs. 2 month the bill)		102	102

Book of Drawee

Journal

Date	Particulars	L.F	Dr.	Cr.
	Drawer A/c To Bill payable A/c (Being bill made by drawer was accepted)		100	100

	Bill Payable A/c Noting Charges, A/c To Drawer A/c (Being bill Payable dishonoured)		100 2	 102

Books of Drawer's Bank

Journal

Date	Particulars	L.F	Dr.	Cr.
	Bills Receivable A/c To Drawer A/c To Discount A/c (Being bill receivable discounted)		100	 100
	Drawer A/c To Bills Receivable A/c To Cash A/c (Being bill dishonoured and noting charges paid of Rs. 2)		102	 100 2

MAY 2019

Question 1
In case the due date of a bill falls after the date of closing the accounts, the interest from the date of closing to such due date is known as Red – Ink interest.

Answer:
True: Interest from the date of closing of the account to the due date in written in red ink in the appropriate side of current account. This is known as red-Ink Interest / Negative interest

1. **On 1ST January 2018, Akshay draws two bills of exchange for RS.16,000 and RS.25,000. The bill of exchange for RS. 18000 is for two months while the bill of exchange for 25,000 is for three months. These bills are accepted by: Vishal. On 4 March, 2018, Vishal requests Akshay to renew the first bill with interest@ 15%-p. a. for a period of two months. Akshay agreed to this proposal. On 25 March, 2018, Vishal retires the acceptance for t 25,000, the interest rebate i.e., discount being 250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.**

Show the Journal Entries (with narrations) in the books of Akshay.

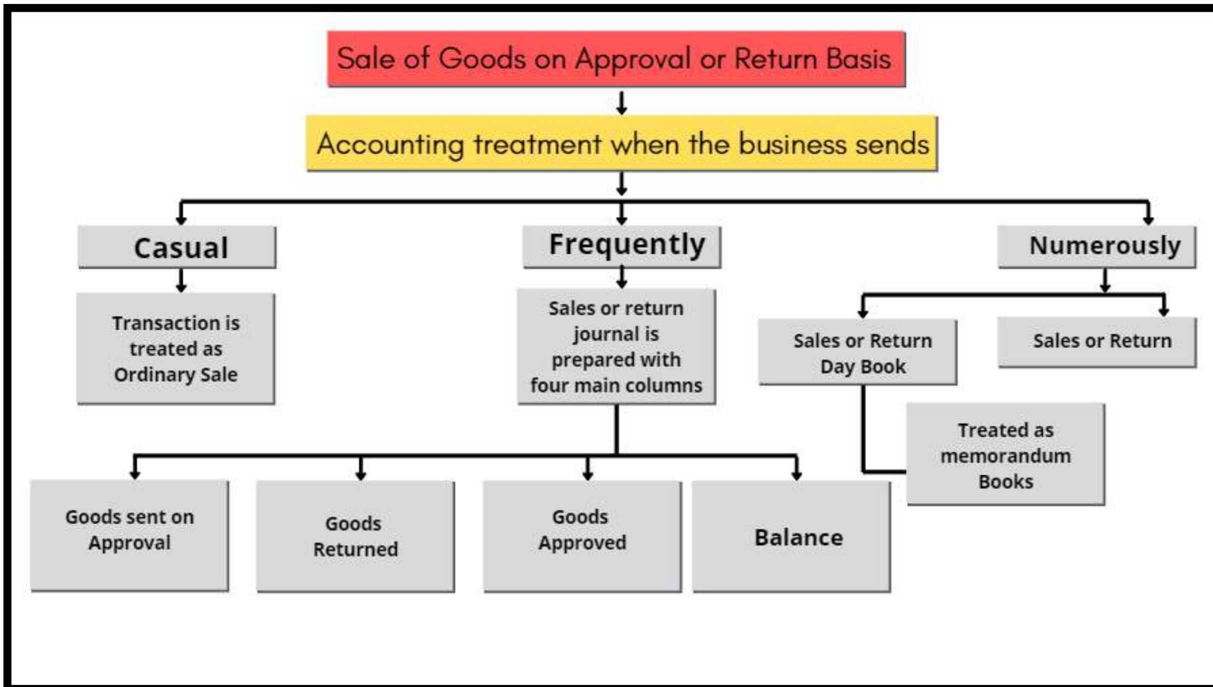
Solution:

Date	Particulars	LF	Debit	Credit
2018 Jan 1	Bills Receivable A/c Dr. (1) Bills Receivable Dr. To Vishal's A/c (2) (Being Bill drawn)		16,000 25,000	 41,000
March 4	Vishal's Dr. To Bills Receivable A/c (Being Bills Cancelled)		16,000	 16,000
March 4	Vishal's Dr. To interest A/c (Being interest charged from Vishal) (3)		400 16,400	400 16,400
	Bills Receivable A/c Dr. To Vishal's A/c (Being New Bill drawn with interest) Dr.		24,750 250	 25000

March 7	Bank A/c Dr. Rebate on Bills A/c To Bills Receivable (2) Dr. (Being Second Bill paid by Vishal's)		8,200 8,200	 16,400

Unit 2:

Sale of Goods on Approval or Return



Accounting Records	Accounting entries depend on the fact whether the business sends goods on sale or return basis (i) casually; (ii) frequently; and (iii) numerously.
When the business sends Goods Casually on Sale or Return Basis	When the transactions are few, the seller on sending the goods, treats them as an ordinary sale. If the goods are accepted or not returned or the business receives no intimation within the specified time limit, no extra entry is required to be passed because the entry for sale becomes the usual entry after the expiry of the specified period
When the business Sends Goods Frequently on sale or return Basis	When a business sends goods on sale or return on a frequent basis, an immediate sale does not take place. Only when the customer signifies his intention to purchase the goods or takes some action whereby it is indicated that he has decided to purchase the goods, the property in the goods passes to the buyer.
WHEN THE BUSINESS SENDS GOODS NUMEROUSLY ON SALE OR RETURN	When transactions are numerous, a business maintains the following books: (a) Sale or Return Day Book; and (b) Sale or Return Ledger. 'Ledger' contains the accounts of the customers and the 'Sale or Return 'Total account.

Question 1

What are the features of sale of goods on approval or return basis? Explain in brief.

Answer:

Features of sale of goods on approval or return basis:

(i) There is a change in the possession of goods from one person to another.

(ii) It does not involve transfer of ownership of goods. The ownership is passed only when the retailer gives his approval or if the goods are not returned within that specified period.

(iii) The retailer (customer) does not incur any liability when the goods are merely sent to him

Question 2

What do mean by Goods sent Casually?

Answer:

When the goods are sent casually i.e. when there are a few transactions, the goods sent on approval or return basis are treated as ordinary sales by the seller. If within the specified time limit the goods are accepted or are not returned then no entry needs to be passed. We will treat them as sold for which we have already passed an entry before. If the goods are rejected or returned or no intimation is received within the specified time limit, the entry to reverse the sales is passed.

Question 3

What do you mean by goods sent on approval or return basis?

Answer:

A transaction (usually involving goods) in which the buyer is permitted to use goods for a period, and then return them if they do not meet the buyer's needs or expectation, even though the goods are not defective.

Question 4

When sales take place in case of sent on approval or return basis.

Answer:

The sale will take place or the property in the goods pass to the buyer:

• When he signifies his approval or acceptance to the seller;

• When he does some act adopting the transaction;

• If he does not signify his approval or acceptance to the seller but retains the goods without giving notice of rejection, on the expiry of the specified time (if a time has been fixed) or on the expiry of a reasonable time.

Question 5

State the reason Whether the statements are correct or not Separate sets of books are maintained in case of Goods sent Numerously

Answer:

The said statement is true because When goods are sent numerously on sale on approval or return basis, then it is advisable to keep a separate set of books. For this purpose Sale or Return Day Book and Sale or Return Ledger are maintained. However, both these books are Memorandum Books.

Question 6

When 'sale or return basis's transactions are numerous, what books are maintained by the business entity.

Answer:

When transactions are numerous, a business maintains the following books: (a) Sale or Return Day Book; and (b) Sale or Return Ledger. 'Ledger' contains the accounts of the customers and the 'Saleor Return' Total account. 'Day Book's the primary book which records all transactions, and from there these are entered in the 'Sale or Return' Total account. It is important to remember that both are Memorandum Books, i.e., these records are not a part of rule books accounts.

Question 7

On goods sale on Approval or return basis accounting is to be done on which basis.

Answer:

Accounting entries depend on the fact whether the business sends goods on sale or approval basis

(i) casually;

(ii) frequently; and

(iii) numerously.

PRACTICAL

Question 8

S. Ltd. sends out its goods to dealers on Sale or Return basis. All such transactions are, however, treated as actual sales and are passed through the Day Book. Just before the end of the accounting year on 31.12.2011, 200 such goods have been sent to a dealer at ` 250 each (cost ` 200 each) on sale or return and debited to his account. Of these goods, on 31.12.2011, 50 were returned and 70 were sold, for the other goods date of return has not yet expired. Pass necessary adjustment entries on 31.12.2011.

Journal Entries

Date	Particulars	LF	Dr.	Cr.

2011 Dec. 31	Return Inwards A/c (250 X 50) Dr. To Trade receivable A/c (Being the adjustment for 50 units of goods returned by customers to whom goods were sent on sale or return basis)		12,500	 12,500
Dec. 31	Sales A/c (250 X 80) Dr. To Trade receivable A/c (Being the cancellation of original entry for sale in respect of 80 units of goods not yet returned or approved by customers)		20,000	 20,000
Dec. 31	Inventories with Customers on Sale or Return A Dr. To Trading A/c (Being the cost of goods Sent to customers on sale or return basis not yet approved, adjusted)		16,000	 16,000

Question 9

E Ltd. sends out its accounting machines costing ` 200 each to their customers on Sales or Return basis. All such transactions are, however, treated like actual sales and are passed through the Day Book. Just before the end of the financial year, i.e., on December 24, 2011, 300 such accounting machines were sent out at an invoice price of ` 280 each, out of which only 90 accounting machines are accepted by the customers ` 250 each and as to the rest no report is forthcoming. Show the Journal Entries in the books of the company for the purpose of preparing Final Accounts for the year ended December 31, 2011.

In the books of E ltd

Journal

Date	Particulars	LF	Dr.	Cr.
2011 Dec. 31	Sales A/c (30X90) To Trade receivable A/c (Being the adj. for reduction in the selling price of 90 accounting machines @ 30 each)		2,700	2,700
Dec. 31	Sales A/c (280 X 210) To Sundry Debtor A/c (Being the cancellation of original entry for sale in respect of 210 accounting machines sent to Customers not yet returned or approved)		58,800	58,800
	Inventories with Customers on Sale or Returned A/c To Trading A/c (Being the cost of 210 accounting machines @ 200, each adjusted against Trading Account)		42,000	42,000

Question 10

Clay Company sends out its gas containers to dealers on Sale or Return basis. All such transactions are, however, treated as actual sales and are passed through the Day Book. Just before the end of the financial year, 100 gas containers, which cost them ` 900 each have been sent to the dealer on 'sale or return basis and have been debited to his account at `1,200 each. Out of this only 20 gas containers are sold at `1,500 each.

You are required to pass necessary adjustment entries for the purpose of Profit and Loss Account and Balance Sheet.

Solution:

In the Books of clay Company

Journal

Date	Particulars	LF	Dr.	Cr.
	Trade receivable A/c Dr. To Sales A/c . (Being the adjustment for excess price of 20 gas r. containers @ 300 each)		6,000	6,000
	Sales A/c Dr. To Trade receivable A/c (Being the cancellation of original entry for sale in respect of 80 gas containers @ 1,200 each)		96,000	96,000
	Inventories with Customers on Sale or return A/c Dr. To Trading A/c (Being the adjustment for cost of 80 gas container lying with customers awaiting approval)		72,000	72,000

Question 11

On 31st December, 2011 goods sold at a sale price of ` 3,000 were lying with customer, Ritu to whom these goods were sold on 'Saleor return basis and recorded as actual sales. Since no consent has been received from Ritu, you are required to pass adjustment entries

presuming goods were sent on approval at a profit of cost plus 20%. Present market price is 10% less than the cost price.

Solution:

Journal Entries

Date	Particulars	Dr.	Cr.
2011 31st Dec.	Sales A/c To Ritu's A/c (Being Cancellation of entry for sale of goods, not yet approved)	3,000	3,000
	Inventories with customers A/c Dr. (Refer W.N) To Trading A/c (Being inventories with Customers recorded at market place)	2,250	2,250

Working Note:

Calculation of Cost and market price of Inventories with customer

Sale price of goods sent on approval	3,000
Less: Profit (3,000 x 20/120)	500
Cost of goods	2,500

Market price = 2,500 – (2,500 X 10%) = 2,250

Question 12

M/s Bajaj Electronics supplied goods on Sale or return basis, the particulars of Which are under:

2005		Rs.	2005	
March 10	Roy & Co.	3,700	March 14	Returned
15	Sen & Co.	5,200	March 27	Retained
20	Mitter & Co.	2,400	March 27	Goods worth Rs. 1,000 returned
27	Sen & Co.	3,500		No intimation 31-3-2005
28	Mitter & Co.	1,800		-do-

Books of Bajaj Electronics are closed on 31st March every year. Exhibit the entries as they would appear in the books of Bajaj Electronics viz. the Goods Sent on Sale or Return Day Book, Goods on Sale or Return Sold and Returned Day Book. Also show how the Goods on Sale or Return Total Account would appear.

Solution:

Bajaj Electronics

Goods sent on Sale or Return Day Book

Date	Particulars	Sales of return LF	Amount
2005			Rs.
March 10	Roy & Co.		3,700
15	Sen & Co.		5,200
20	Mitter & Co.		2,400
27	Sen & Co.		3,500
28	Mitter & Co.		1,800
			16,600

2005					
March 14	Roy & Co.				3,700
17	Sen & Co.			5,200	
25	Mitter & Co.			1,400	1,000
				6,600	4,700

Dr. Goods on sale or return Total Account

2005 Mar 31	To Sundries (Sales) To Sundries (Returns) To Balance c/d	Rs. 6,600 4,700 5,300	2005 Mar 31	By Sundries goods Sent on sale or return	Rs. 16,600
		16,600			16,600
			Apr 1	By Balance b/d	5,300

Question 13

A Departmental Store has credited certain items of Sales on Approval aggregating Rs 15,000 to Sales Account. Of these, goods to the value of Rs 4,000 have been returned and taken into stock at cost Rs 2,000 though the record of return was omitted in the accounts. And in respect of another parcel of Rs 3,000 (cost being Rs 1,500) the period of approval did not expire on the closing date.

Solution:

Journal Entries

	Particulars	Dr.	Cr.
	Sales Account Dr. To Customers Account (Being return of goods by customers sent out on approval Basis and included in sales)	Rs. 4,000	 4,000

	Sales Account Dr. To Sale or Return Account (Being goods sent out on approval basis included in sale but not Yet approved)	3,000	 3,000
	Stock on Sale or Return Account Dr. To Trading Account (Being cost of goods lying with customers, included In stock)	1,500	 1,500

Question 14

M/s Kamath Textiles supplied goods on Sale on approval or return basis to its customers. The transactions for the month of March 2018 are as under:

Date	Customers Name	Amount	Remarks
5 Mar	A Ltd.	10,000	Accepted on 16 March
9 Mar	B Ltd.	16,000	Returned goods worth Rs. 6,000 on 13 March
11 Mar	STR Ltd.	11,000	No intimation till 31 March
15 Mar	XYZ Ltd.	25,000	Accepted goods worth Rs. 20,000 on 20 March, balance returned
20 Mar	KM Ltd.	30,000	No intimation till 31 March
25 Mar	CBZ Ltd.	8,000	Returned on 30 March
30 Mar	P Ltd.	12,000	No intimation till 31 March

Goods have to be returned within 15 days else they will be treated as sales. Prepare the Sale or Return Day Book and Sale or Return Total A/c.

Solution:

In the books of M/s Kamath Textiles

Sale or Return Day Book

Date	Customer's Name	L.F	Amount	Date	Sold	Returned
5 Mar	A Ltd.		10,000	16 Mar	10,000	-
9 Mar	B Ltd.		16,000	13 Mar	10,000	6,000
11 Mar	STR Ltd.		11,000	26 Mar	11,000	-
15 Mar	XYZ Ltd.		25,000	20 Mar	20,000	5,000
20 Mar	KM Ltd.		30,000	-	-	-
25 Mar	CBZ Ltd.		8,000	30 Mar	-	8,000
30 Mar	P Ltd.		12,000	-	-	-
			1,12,000	-	51,000	19,000

Date	Particulars	Amount	Date	Particulars	Amount
31 Mar	To Returns	19,000	31 Mar	By Goods sent on sale or return	1,12,000
	To Sales	51,000			
	To Balance c/d	42,000			
		1,12,000			1,12,000

Question 15

GE Electronics sends goods on sale on approval or return basis to its customers. The following are the transactions for 2017:

Jan 31	Sent goods to A on sale on approval or return basis at cost plus 25%	1,00,000
Feb 25	Goods approved by the customer	30,000
Mar 5	Goods returned by the customer	20,000
Mar 31	Goods lying with the customer for approval	50,000

Pass the necessary journal entries for the year ending 31st March 2017.

Solution:

In the books of GE Electronics

Date	Particulars	Amount (Dr.)	Amount (Cr.)
31 Jan	A's A/c To Sales A/c (Being goods sent on return or approval basis recorded at invoice price)	1,00,000	1,00,000
5 Mar	Sales Return A/c To A's A/c (Being goods recorded as sales now reversed)	20,000	20,000
31 Mar	Sales A/c To A's A/c (Being entry for sales made earlier reversed at invoice price)	50,000	50,000
31 Mar	Goods sent Approval or return Basis A/c To Trading A/c (Being goods sent on approval or return basis recorded as closing stock at cost price)	40,000	40,000

Calculation of cost price of goods = (50,000 X 100) / 125 = 40,000

Past Examination Questions

MAY 2018

Attempt the Following –

Question 1

Mr. Badhri sends goods to his customers on Sale or Return. The following transactions took place during the month of December 2017.

- **December 2nd - sent goods to customers on sale or return basis a cost plus 25% - 80,000**
- **December 10th – Goods returned by customers – 35,000**
- **December 17th – Received letters from customers for approval – 35,000**
- **December 23rd – Goods with customers awaiting approval – 15,0000**

Mr. Badhri records sale or return transactions as ordinary sales. You are required to pass the necessary journal Entries in the books of Mr. Badhri assuming that the accounting year closes on 31st Dec. 2017

Solution:

Date	Particulars	LF	Dr.	Cr.
2017 Dec 2	Debtor's a/c Dr. To Sales A/c (Being the goods sent to customer on sale or return basis)		80,000	80,000
Dec 10	Sales Return A/c Dr. TO Debtors A/c (Being the goods returned by customers)		35,000	35,000
Dec 17	No Entry		15,000	15,000
Dec 23	Sales a/c To Debtor's a/c (Being the cancellation of original entry of sale)		12,000	12,000

NOVEMBER 2018

Question 2

Attempt the following:

Mr. Ganesh sends out goods on approval to few customers & includes the same in the Sales Account. On 31.03.2018, the Trade receivables balance stood at rs 75,000 which included Rs. 6,500 sent on approval against which no intimation was received during the year These goods were sent out at 30% over and above cost price & were sent to-

1) **Mr. Aditya Rs. 3,900 and Mr. Bakkiram Rs. 2,600**
2) **Mr. Aditya sent intimation of acceptance on 25 April, 2018**
3) **Mr. Bakkiram returned the goods on 15th April, 2018**

Make the adjustment entries and show how these items will ap the Balance Sheet as on 31stMarch, 2018. Show also the entry made during April, 2018. Value of closing 31stMarch Inventories as March, 2018 was Rs. 50,000

Solution:

Journal Entries as 31.3.2018

(a) Cancellation of sale

Sales A/c Dr. 6,500
To debtor's A/c
6,500
(Being sale of unapproved goods cancelled)

(b) Inclusion in stock

Stock with Customer A/c Dr. 5,000
To Trading A/c
5,0000
(Being goods included in stock at cost price
[6,500 X 100/130])

NOVEMBER 2019

Question 3

A firm sends goods on 'Sale or Return bases. Customers have the choice of

returning the goods within a month. During May 2018, the following are the details of goods sent:

Date (May)	2	8	12	18	20	27
Customers	P	B	Q	D	E	R
Value (Rs.)	17,000	22,000	25,000	5,500	2,000	28,000

Within the stipulated time P and Q returned the goods and B, D and E signified that they have accepted the goods.
Show in the books of the firm, the sale or return Account and customer – Q for sale or Return Account as on 15th Hune 2018.
[5 marks]

Solution:

Sale or Return A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
2018 Jun. 15	To Returns To Sales To Balance c/d	42,000 29,500 28,000	2018 Jun. 15	By Sundries as per Sale or Return Day Book	99,500
		99,500			99,500

Date	Particulars	Rs.	Date	Particulars	Rs.
2018 May 12	To Sale or Return A/c	25,000	2018 Jun 15	By Sale or Return A/c	25,000
		25,000			25,000

Unit 3

Consignment

Consignment Account	**To consign means to send. In Accounting, the term "consignment account" relates to accounts dealing with a situation where one person (or firm) sends goods to another person (or firm) on the basis that the goods will be sold on behalf of and at the risk of the former**
Normal Loss	**If some loss is unavoidable, it would be spread over the entire consignment while valuing inventories. The total cost-plus expenses incurred should be divided by the quantity available after the normal loss to ascertain the cost per unit.**
Abnormal Loss	**If any accidental or unnecessary loss occurs, the proper thing to do is to find out the cost of the goods thus lost and then to credit the Consignment Account and debit the Profit and Loss Account**

Commission	The term commission simply denotes ordinary commission. it is based on fixed percentage of the gross sales proceeds made by the consignee To increse the sal;e and to encourage the consignee to make credit sales, the consignor prvides and additional commission generally known as del-credre Commission It is an extra commission allowed by the consigner to the consignee to promote sales at higher price then specified or to encourage the consignee to put hard work in introducing new product in the market
Return of Goods from the consignee	Consigned goods can be returned by the consignee because of many reasons like poor quality or not up to the specimen or destroyed in transit etc. Expenses incurred by the consignee to send those goods back to the consignor
Account sales	An account sale is the periodical summary statement sent by the consignee to the consignor.

True and False Statement: -

Question 1

Overriding commission is granted to an agent in case of exceeding targets.

Answer:

False: Over- Riding Commission is paid over and above the ordinary commission. It is generally calculated on the surplus sale proceeds. Realised as a result of setting the product price over and above the minimum sale price fixed by the consignor.

Question 2

The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

Answer:

False: The additional commission to the consignee who agrees to bear the on account of bad debt, is called Del Creder Commission

Question 3

If the consignee is not authorised to get the del Creder commission then he is liable for all losses on account of non-recovery of debts.

Answer:

False: He is not liable for any such loss if he is not authorised to get del Creder commission.

Question 4

Consignee has no right in the profit on goods sent on consignment.

Answer:

True: Consignee is· an agent so he only earns commission for the service rendered.

Question 5

Loss of stock is said to be normal loss when such loss is not due inherent characteristics of the commodities.

Answer:

False: Normal loss is the loss, which arises due to inherent characteristics of the goods.

Question 6

What is meant by Consignment?

Answer:

Consignment is dispatched of goods by one person (or firm) to other person (or firm) on the basis that goods will be sold by the latter on behalf of and at the risk of the former in consideration of commission. The person sending the goods is called the 'Consignor' and the person to whom the goods are sent is called the 'Consignee'. The legal relation between the consignor and the consignee is that of principal and agent. Consignor remains the owner of the goods until the goods are sold by the consignee to the final customer

Question 7

State the name of parties in Consignment business.

Answer:

Consignor: The person who is sending the goods (principal)

Consignee: The person who receives the goods and sends them on commission basis.

Question 8

What Is the Accounting Treatment for Normal Loss?

Answer:

The cost of normal loss is considered as part of the cost of production in which it occurs. If normal loss units have any realisable scrap value, the process account is credited by that amount. If there is no abnormal gain, then there is no necessity to maintain a separate account for normal loss.

Question 9

How to Calculate Value of Unsold Stock?

Answer:

Value of unsold stock= Cost Price of Closing Stock+ Proportionate non-Recurring Expenses.

Question 10

Explain The Three Accounts Maintained by Consignor?

Answer:

- Consignment Account: It is a nominal account. It is in fact a Special Trading and Profit and Loss Account. The balance, in this account, represents either profit or loss on consignment which is finally transferred to General Profit and Loss Account.
- Consignee's Personal Account: It is a personal account. It is mainly prepared to ascertain the amount due from the consignee.
- Goods Sent on Consignment Account: it is a real account

Question 11

What do you mean by valuation of unsold stock in accounting for consignment of goods?

Answer:

The stock lying in the hands of consignee at the end of accounting year is valued at cost or market price whichever is less. The cost of unsold stock or closing stock should be valued at cost to the consignor plus proportional non- recurring expenses incurred by the consignor and consignee.

Question 12

What Is Abnormal Gain?

Answer:

If the actual loss of a process is less than that of expected loss then the difference between the two will be treated as abnormal gain.

Question 13

Why is consignment not a sale?

Answer:

Following are the reasons that explain why consignment is not a sale: –

- **Ownership**: Ownership of goods need to be transferred from seller to buyer in case of sale, but ownership of goods remains with the consignor, till the goods are sold by the consignee.
- **Risk**: In case of a consignment, normally, risk remains with the consignor in the event of goods being lost or destroyed.
- **Relationship**: The relation between a seller and a buyer will be of debtor and creditor in case where goods are sold on credit basis. On the other hand, the relationship between a consignor and a consignee is that of principal and agent.
- **Goods Return**: Usually, the sold goods cannot be returned back; however, if there is any manufacturing defect or any other technical fault, seller is obliged to take them back. On the other hand, consignee may return the unsold stock of goods to consignor anytime.

Question 14

What Is an Invoice?

Answer:

An invoice is a commercial document that itemizes a transaction between a buyer and a seller. An invoice will usually include the quantity of purchase, price of goods and / or services, date, parties involved, unique invoice number and tax information.

Question 15

What Is the Valuation of Unsold Consignment?

Answer:

Valuation of unsold stock will be done like a closing stock of a Trading concern and should be valued at the cost or the market price whichever is low.

This stock will be valued at:

- Proportionate cost price and

- Proportionate direct expenses.

Here, proportionate direct expenses mean — all expenses incurred by the consignor and the expenses of consignee, which are incurred by him till the goods reach the warehouse.

Question16

What Is the Accounting Treatment for Abnormal Gain?

Answer:

The value of abnormal gain is transferred to the debit side of the relevant process and ultimately closed by crediting it to the costing Profit and Loss account.

Question 17

Briefly Explain the following:

Account Sales.

Answer:

An account sale is the periodical summary statement sent by the consignee to the consignor. It contains details regarding – sales made, expenses incurred on behalf of the consignor, commission earned, unsold inventories left with the consignee, advance payment or security deposited with the consignor and the extent to which it has been adjusted, if balance payment due or remitted. It is a summary statement and is different from Sales Account.

Question 18

Different Commission paid under consignment to consignee

Answer:

Commission is the remuneration paid by the consignor to the consignee for the services rendered to the former for selling the consigned goods. Three types of commission can be provided by the consignor to the consignee, as per the agreement.

Types Of Commission

1. **Ordinary Commission/Simple Commission**

The commission charged by the consignee on the gross sale proceeds is known as ordinary or simple commission. It is calculated at fixed percentage of total sales. Commission = Gross sales X Fixed rate percent of commission

2. **Del-Creder**

This type of commission is an additional commission for an endeavour of magnifying sales in the form of credit. It is calculated at a certain predetermined rate of gross sales.

3. **Special/Extra/Over-riding Commission**

In normal practice, if a consignee sells the goods at the price higher than the normal selling price, he will entitle a commission for excess amount realized over the normal selling price. The commission provided on the excess amount realized over the normal selling price is known as special commission.

Question 19

Distinctions Consignment & Sale

Answer:

S. No	Consignment	Sale
1.	Ownership of the goods rests with the consignor till the time they are sold by the consignee, no matter the goods are transferred to the consignee.	The ownership of the goods transfers with the transfer of goods from the seller to the buyer.

2.	The consignee can return the unsold goods to the consignor.	Goods sold are the property of the buyer and can be returned only if the seller agrees.
3.	Consignor bears the loss of goods held with the consignee.	It is the buyer who will bear the loss if any, after the transfer of goods.
4.	The relationship between the consignor and the consignee is that of a principal and agent	The relationship between the seller and the buyer is that of a creditor and a debtor.
5.	Expenses done by the consignee to receive the goods and to keep it safely are borne by the consignor unless there is any other agreement.	Expenses incurred by the buyer are to be borne by the buyer itself after the transfer of goods.

Question 20

Distinction Between Commission and Discount

Answer:

Commission	Discount
Commission may be defined as remuneration of an employee or agent relating to services performed in connection with sales, purchases, collections or other types of business transactions and is usually based on a percentage of the amounts involved. Commission earned is accounted for as an income in the books of accounts, and commission allowed or paid is accounted for as an expense in the	The term discount refers to any reduction or rebate allowed and is used to express one of the following situations: An allowance given for the settlement of a debt before it is due i.e. cash discount. An allowance given to the whole sellers or bulk buyers on the list price or retail price, known as trade discount. A trade discount is not shown in the books of account separately and it is shown by way of deduction from cost

books of the party availing such facility or service.	of purchases.

Question 21

Distinctions between normal and abnormal loss.

Answer:

Normal loss	Abnormal loss
Normal loss occurs due to inherent nature of the goods being shipped e.g., leakage, evaporation, loss of perishable goods etc.	Abnormal loss occurs mainly because of unforeseen events e.g., accident or natural calamity etc.
Normal loss is not accounted for immediately and is loaded on the remaining goods. It gets accounted for as cost of remaining goods as and when they are sold. As normal loss is added to cost of remaining goods, it impact gross profit	Abnormal loss is accounted for immediately in profit and loss account.
Insurance companies generally do not cover normal loss as it is expected to be incurred on each consignment or storage of goods	Abnormal loss does not impact gross profit. Insurance is generally available for abnormal losses.
Normal loss is almost certain however it may vary from time to time.	Abnormal loss is because of unforeseen events and is not certain.

PARTICLE

Question 22

Mr. A of Assam sent on 18th February, 2004 a Consignment of 1000 DVD players to B of Bengal costing of 100 each.

Expenses of 1,500 were met by the consignor. B spent 3,000, for Insurance and selling expenses were 20 per DVD player. B sold oh 15th March, 2004, 600 DVD Players @ 160 per DVD Player Id again on 20th May, 2004, 300 DVD Players @ 170.

B is entitled to a commission of t 25 per DVD Player sold plus 1/4 of e amount by which the gross sale proceeds less total commission thereon ceded a sum calculated @ 125 per DVD Player sold. B sent the mount due to A on 30th June, 2004

You are requested to show the consignment account in books of A

Solution:

Consignment Account

In the books of A

B's account

Date	Particulars	Amount	Date	Particulars	Amount
	To Goods on Consignment	1,00,000		By B's Account (sales) (600*160)	96,000
	To Cash A/c {exp}	1500		By B's account (Sales) (300*170)	51,000
	To B's account {clearance charges}	3000		By Consignment stock (W.N.I)	10,450
	To B's account {Selling expenses} (900 *20)	18000			
	To B's A/c Commission (W.N.I)	24,900			
	To Profit & Loss A/c	10,050			

		1,57,450			**1,57,450**

Working Notes.

Computation of total commission:

Let total commission paid / payable X.

X=900 X Rs. 25 + ¾ [(Rs. 96,000 + Rs. 51,000) – X – (900 X Rs. 125)]

X=t22,500 + ¾ [Rs. 1,47,000 – x – Rs. 1,12,500)

X = Rs. 22,500 + ¼ [(Rs. 34,500 – X] 4X = t90,000 + 34,500 – X

4X + X = 90,000 + 34,500

5X = Rs. 1,24,500

X = Rs. 24,900

Question 23

Exe sent on 1st July,2016 to Wye goods costing ` 50,000 and spent ` 1,000 on packing etc. On 3rd July,2016, Wye received the goods and sent his acceptance to Exe for ` 30,000 payable at 3 months. Wye spent ` 2,000 on freight and cartage, ` 500 on go down rent and ` 300 on insurance. On 31st December,2016 he sent his Account Sales (along with the amount due to Exe) showing that 4/5 of the goods had been sold for ` 55,000. Wye is entitled to a commission of 10%. One of the customers turned insolvent and could not pay ` 600 due from him. Show the necessary journal entries in the books of consignor. Also prepare ledger accounts.

Solution:

Journal Entries in the books of Consignor

1/7/2016	Open Consignment Account and debit it with the cost of goods and credit it with "Goods sent on Consignment Account"			

	Consignment to Wye A/c To Goods Sent on Consignment A/c	Dr.	50,000	50,000
1/7/2016	For the expenses incurred by the consignor, debit Consignment Account and credit cash or Bank, as the case may be.	Dr.	1,000	1,000
3/7/2016	If the consignee sends an advance, debit Cash (or Bank) Bills Receivable and credit the consignee's personal account Bills Receivable A/c To Wye (Note: Wye's account has appeared only now, in the previous two entries his account did not figure since he is not personally involved)	Dr.	30,000	30,000
6/10/2016	Wye's acceptance will mature on 6/10/2016 Assuming it was met, the entry will be: Bank A/c To Bills Receivable A/c (Note: If such bill is discounted by consignor with the bank before maturity, pass usual entry for discounting a bill. The discount on bills may either be treated as consignment expenses and charged to Consignment A/c or it may be treated as general financial charges and charged to Profit & Loss Account)	Dr.	30,000	30,000
31/12/2016	On receipt of Account sale (a) For sales made by the consignee debit his personal account and credit Consignment Account Wye To Consignment to Wye A/c	Dr.	55,000	55,000

31/12/2016	(b)For expenses incurred by the consignee as well as bad debts suffered by him on behalf of the consignor, debit consignment Account and credit consignee account Consignment to Wye A/c (2,000 + 500 + 300 + 600) To Wye	Dr.	3,400	3,400
31/12/016	(c) For commission due to the consignee debit Consignment Account and credit the consignee. Consignment to Wye A/c (10% on 55,000) To Wye		5,500	5,500
	(d) For the remittance that may accompany the Account Sales, debit Bank and credit the consignee. Bank A/c To Wye	Dr.	16,100	16,100
31/12/2016	For the goods that may remain unsold debit the consignment Stock Account and credit Consignment Account. Inventories on Consignment A/c To Consignment to Wye A/c Note (i) Cost of inventories 1/5 of Cost to consignor 10,000 1/5 of expense incurred by the consignor 200 1/5 of freight (direct exp. of Consignee) 400 10,600 (ii) Inventories on Consignment Account is an asset; it will be shown in the balance sheet of the consignor and next year it will be transferred to the debit of the consignment Account.	Dr.	10,600	10,600

31/12/2016	At this stage the consignment Account will reveal Profit or loss (See the account given below). The profit or loss will be transferred to the profit or loss will be transferred to the profit and loss Account of the consignor by debit to the Consignment Account Consignment to Wye A/c TO Profit and Loss A/c	Dr .	5,700	5,700
31/12/2016	The Goods sent on consignment Account should be closed by transfer to the trading Account debit the former and credit the latter: Goods sent on Consignment Account To Trading Account	Dr .	50,000	50,000

Ledgers

Consignment to Wye Account

2016	Particulars		2016	Particulars	
1 - Jul	To Goods sent on Consignment A/c		Dec. 31	By Wye – sale proceeds	55,000
1-Jul Dec. 31	TO Bank (expenses) To Wye – expenses & bad debt	50,000 1,000	Dec. 31	By Inventories on Consignment Account	10,600
Dec. 31 Dec. 31	To Wye – commission To P&L Account – transfer of profit	3,400 5,500 5,700			
		65,600			65,600

Goods sent on consignment account

2016	Particulars		2016	Particulars	
Dec. 31	To Trading A/c	50,000	July 1	By Consignment to	50,000

				Wye A/c	

Inventories on Consignment account

2016	Particulars		2016	Particulars	
Dec.31	To Consignment to Wye A/c	10,600	Dec. 31	By Balance c/d	10,600
2017 Jan 1	To Balance b/d	10,600			

Wye's account

2016			2016		
Dec. 31	To Consignment		3-Jul	By Bills Receivable	
	Wye A/c	55,000		Account	30,000
				By Consignment To Wye A/c	3,400
				By Expense & bad debt Commission	5,500
				By Bank (Balance received)	16,100
		55,000			55,000

Question 24

A of Surat consigns goods to B of Jaipur to be sold at or above invoice price. B is entitled to get a commission of 8% on sales at invoice price plus 25% of any surplus price realized. B accepted a bill of exchange drawn by A amounting to 50% of the invoice price.

In the year 2013 goods consigned by A were invoiced at Rs. 2,50,000. These goods cost to A Rs. 2,00,000 (including freight). Sales made by B during the year amounted to Rs. 2,35,000. At the end of the year goods unsold with B represented an invoice value of Rs. 60,000.

During the year, A had received from B Rs. 40,000 by bank drafts, certain remittances being in transit on 31st Dec. 2013. Prepare consignment account in the books of A along with B's Account.

Solution:

Books of A

Consignment a/c

Particulars	Amount	Particulars	Amount
Goods Sent Consignment	2,50,000	Goods sent on Consignment	50000
TO B's A/c Commission (190000 X 8 /100) +(45000 X 25/100)	26450	- B's A/c (Sales) - Consignment Stock A/c	235000 60000
Stock Reserve A/c (50000 / 250000) X 60000	12000		
Profit & Loss A/c	56550		
	345000		345000

B's Account

Particulars	Amount	Particulars	Amount
To Consignment A/c	235000	By Bank (advance) By Bank (Remittance) By Consignment A/c (Commission)	125000 40000 26450 43550
	235000	By Remittance in Transit	235000

Question 25

A of Agra consigned 100 units of commodity to D of Delhi. The good were invoiced at Rs 150 per unit so as to yield a profit 50% on cost. An incurred Rs 1000 on freight and Insurance. D incurred Rs500 on freight and Rs 800 on rent. Before December 31,1988 He sold 50 units for cash at Rs 160 per unit and 20 units on credit for Rs 175 per unit. he Retained his commission at 5% and 1% del credre on all sales and

remitted the balance on December 31,1988. D noticed that 10 units were damaged on account of bad packing and could not sell them only for Rs 80 per unit. A debtor for Rs1000 to whom goods were Sold on credit became insolvent and only 50 paise in a rupee could be recovered. Prepare Necessary ledger accounts in the books of A and D.

Solution:

Particulars	Rupees	Particulars	Rupees
To Goods sent on Consignment A (100 X 150) – Invoice Price	15000	By Goods Sent on Consignment A/c (Load)	5000
To Cash – Freight & insure.	1000	By D's A/c (Sales) (50 X 160) + (20 X 175)	11500
To D's A/c		By Stock on Consignment A/c	4100
- Freight	500		
- Rent	800		
- Commission	690		
To Stock Reserve A/c[3]	1000		
To Profit & Loss A/c	1610		
	20600		20600

D's A/c

Particulars	Rupees	Particulars	Rupees
To Consignment A/c	11500	By Consignment A/c	
		-Freight	500
		-Rent	800
		-Commission	690
		By Bank A/c	9510
	11500		11500

Books of D

A's A/c

Particulars	Rupees	Particulars	Rupees
To Cash A/c -Freight -Rent -Commission To Bank A/c	 500 800 690 9510	By Cash A/c (Sales) By Consignment Debtors A/c	8000 3500
	11500		11500

Consignment Debtors A/c

Particulars	Rupees	Particulars	Rupees
A's A/c	3500	By Cash A/c By Bad Debts A/c	3000 500
	3500		3500

Commission A/c

Particulars	Rupees	Particulars	Rupees
To P & L A/c	690	By A's A/c	690
	690		690

Bad Debts A/c

Particulars	Rupees	Particulars	Rupees
To Consignment Debtors A/c	500	By P & L A/c	500
	500		500

Notes:

1. Load is 50% on cost price which comes to 1/3 on Invoice price.
   It is explained below:
   Add Profit 50% of cost price = Rs. 50
   Invoice Price = Rs. 100 + Rs. 50 = Rs. 150
   Ratio of Profit to invoice price = 50/150 = 1/3
   Load on per unit = Rs. 150 X 1/3 = Rs. 50

2. Closing Stock
   While calculating the value of closing Stock, proportionate share of non – recurring expenses of both consigner and consignee will be added to the cost of the goods. Rent of premises being a recurring expense will not be taken into account.
   Cost of 20 units (Rs. 15000 + Rs. 1000 = Rs. 500) X 20/100
   = Rs. 3300
   Cost of 10 units @ Rs. 80 (this being its realisable value
   = Rs. 800
   Total =Rs. 4100

3. Stock Reserve @ Rs. 50 on 20 units (50 x 20) = Rs. 1000
   (No stock reserve is required on damaged goods as their realisable value is less then cost price.)

4. Commission
   Ordinary Commission @ 5% on total sales of Rs. 11500
   = Rs. 575
   Del credre @ 1% on total sales of Rs. 11500
   = Rs. 115
   Total
   = Rs. 690

5. Since D is getting Del – Credre Commission, he will bear the loss on account of bad debt

Question 26

Shri Mehta of Mumbai consigns 1,000 cases of goods costing ` 1,000 each to Shri Sundaram of Chennai. Shri Mehta pays the following expenses in connection with consignment:

Carriage	10,000
Freight	30,000

Loading charges 10,000

Shri Sundaram sells 700 cases at `1,400 per case and incurs the following expenses:

Clearing charges 8,500

Warehousing and storage 17,000

Packing and selling expenses 6,000

It is found that 50 cases have been lost in transit and 100 cases are still in transit.

Shri Sundaram is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Sundaram's Account in the books of Shri Mehta.

Solution:

In the books of Shri Mehta Consignment to Sundaram of Chennai Account

Particulars		Particulars		
To Goods sent on Consignment	10,00,000	By Sundaram (Sales) By Loss in Transit 50 cases@ 1,050		9,80,000 52,500
To Bank (Expenses) To Sundaram (Expenses) To Sundaram (Commission)	50,000 31,500 98,000	By Consignment Inventories in hand 150 @ 1,060 ach in transit 100 @ 1,050 each	1,59,000 1,05,000	2,64,000
To Profit on Consignment to Profit & Loss A/c	1,17,000			
	12,96,500			12,96,500

Sundaram's Account

Particulars	Amount	Particulars	Amount

To Consignment to Chennai A/c	9,80,000	By consignment A/c (Expense) By Consignment A/c (Commission) By Balance c/d	31,500 98,000 8,50,500
	9,80,000		9,80,000

Working Notes:

Consignor's expenses on 1,000 cases amounts to `50,000; it comes to `50 per case. The cost of cases lost will be computed at `1,050 per case. Sundaram has incurred ` 8,500 on clearing 850 cases, i.e., `10 per case; while valuing closing inventories with the agent `10 per case has been added to cases in hand with the agent.

It has been assumed that balance of `8,50,500 is not yet paid.

Question 27

M of Mathura consigned 5,000 kg. of oil costing 20 per kg. to S of Surat. M paid Rs 25,000 as Freight and Insurance. 125 kg. of oil was destroyed in transit. The insurance claim was settled at 2,250 and was paid directly to the consignor. S took delivery of consignment and accepted 6 bills drawn upon him by M for 50,000. S reported as follow: 3,750 kg. of oil was sold at 30 per kg.

His expenses were - G9down rent 10,000; Wages 1,000; Printing and Stationery 5,000.

125 kg. of oil was lost due to leakage, which is quite normal.

S is entitled to a commission of 5% on the sales effected. S· paid the mount due in respect of the consignment. Show the Consignment Account, · Account of S Account in the books of M.

Solution:

Dr. Consignment A/c Cr.

Particulars	Amount	Particulars	Amount
To Goods sent to Consignee (5,000 X 20) To Bank (Freight & insurance) To S A/c	1,00,000 25,000 10,000	By s A/c (Sales) (3,750 Kg X f30) By Cash Ale (Insurance paid) By Abnormal Loss Ale By Stock on Consignment By P & L ale (loss)	 1,12,500 2,250 875 25,658 5,342
Go down Rent Wages Printing & Stationary Commission (1,12,500 X 5%)	1,000 5,000 5,625		
	1,46,625		1,46,625

Question 28

Vandana Traders of Delhi purchased 10,000 pieces of Sarees @ `100 per Saree. Out of these Sarees, 6,000 Sarees were sent on consignment to Vastralaya of Jabalpur at the selling price of ` 120 per Saree. The consignors paid ` 3,000 for packaging and freight.

Vastralaya sold 5,000 Sarees at ` 125 per Saree and incurred ` 1,000 for selling expenses and remitted ` 5,00,000 to Delhi on account. They are entitled to a commission of 5% on total sales plus a further 20% commission on any surplus price realised over ` 120 per Saree.

3,000 Sarees were sold at ` 110 per Saree. Owing to fall in market price, the value of the inventories of Sarees in hand is to be reducedby10%.

Prepare the Consignment Account and Trading Account in the books of Vandana Traders and their account in the books of the agents Messrs Vastralaya of Jabalpur.

Solution:

Vandana Traders, Delhi Consignment Account

To Goods sent on Consignment	7,20,000	By Vastralaya (Sales)	6,25,000
To Bank (expenses)	3,000	By Goods Sent on Consignment (Loading)	1,20,000
To Vastralaya - Expenses	1,000		
Commission	36,250	By Inventories out on Consignment	1,08,450
To Inventories Reserve	18,000		
To Net Profit	75,200		
	8,53,450		8,53,450

Trading and Profit & Loss Account for the period ending

To Purchases 10,00,000 Less: Goods on Consignment (6,00,000) To By Gross Profit	4,00,000 20,000	By Sales By Closing Inventories	3,30,000 90,000
	4,20,000		
To Net Profit	95,200	By Gross Profit By Profit on Consignment	4,20,000 20,000 75,200
	95,200		95,200

Vastralaya, Jabalpur Vandana Traders (Delhi) Account

To Bank (Expenses)	1,000	By Bank / Trade receivables	6,25,000
To commission	36,250		
To Bank	5,00,000		
To Balance c/d	87,750		
	6,25,000		6,25,000

Working Notes:

(1)	Commission payable 5% on 6,25,000	31,250
	20% on 25,000	5,000
(2)	The closing Inventories will be	36,250
	1,000 Sarees @ 120 = 1,000	1,20,000
	Add: Proportionate expenses 3,000 6,000	500
		1,20,500
	Less: 10% reduction due to fall in market price	12,050
	Consignment Inventories (at loaded amount)	1,08,450
	Loading (20 X 1,000) – 10% Of (20 X 1,000) 20,000 – 2,000 =	18,000

It is better to transfer profit on consignment to profit and loss account instead of trading account.

Question 29

Vijay & co of Kolhapur consigned 2000 bicycles on July 18,1988 to Chaudhari of madras for

Sale on the following conditions:

i. cycle may be sold at invoice price or above
ii. Chaudhary is entitled to a commission of 7 1/2% on invoice price of goods sold and 20% On any excess over the invoice price.
iii. The cost of each cycle was Rs 300 & it was invoiced at cost plus 33 1/3% at cost. Vijay & Co. Incurred Rs 20000 on freight and insurance.
iv. Chaudhari received the consignment on July 24 & accepted a 3 months bill drawn on him by Vijay & co for Rs 200000.
v. Chaudhari paid Rs 8000 as unloading and cartage.
vi. Chaudhari also paid Rs 5000 as insurance and rent for the go down. They sold 1600 cycles at Rs 500 each

Give ledger accounts as they would appear in the books of Vijay & Chaudhari.

Solution:

Books of Chaudhari

Vijay & Co. A/c

Date	Particulars	Rupees	Date	Particulars	Rupees
24/7/88	To Bills payable A/c To Cash A/c - Unloading and cartage - Insurance and Rent To P & L A/c Commission To Balance c/f	200000 8000 5000 80000 507000	24/7/88	By Cash A/c - Sales	800000
		800000			800000

Books of Vijay

Consignment A/c

Date	Particulars	Rupees	Date	Particulars	Rupees
18/7/88	To Goods Section Consignment A/c (2000 X 400) – Invoice price To Cash – Freight and insurance To Chaudhari A/c - Unloading and cartage - Insurance and Rent - Commission To Stock reserve	800000 20000 8000 5000 80000 40000	18/7/88 18/7/88	By Goods Sent on Consignment A/c (Load) By Chaudhary A/c (Sales) (1600 X 500) By Stock on Consignment A/c (400 X 400)	2,00,000 800000 160000

	A/c To Profit & Loss A/c	207000			
		1160000			1160000

Chaudhari A/c

Date	Particulars	Rupees	Date	Particulars	Rupees
	To Consignment A/c (Sales 1600 X 500)	800000	24/7/88 24/7/88	By Bills Receivable A/c (Bill of Exchange recd.) By Consignment A/c - Unloading and cartage - Insurance and Rent By Commission A/c By Balance c/f	2000000 8000 5000 80000 507000
		800000			800000

Question 30

Modi textiles, Delhi consigned to Vinod Enterprises, Calcutta, 100 cotton bails. The invoice price of each bail was Rs.1500 which includes 20% profit on invoice price. The consignor paid Rs.2500 for insurance and Rs.4000 for carriage and freight. The consignee received cotton bails and sold 75 bails for cash and realised Rs.112500. He incurred Rs.1800 on go down rent and was allowed 10%

Solution:

Notes:

1. Load on Consignment @ 20% on invoice (150000 X 20/1000=Rs. 30000
2. Cost of Stock on Consignment at invoice price.
   Cost price of 20 undamaged units (150000 + 2500 – 4000) X20/100 = Rs. 31300
3. Value of Stock Reserve
   Load on 20 units (1500 X 20/100) X 20 = Rs. 6000

4. While calculating stock Reserve load on 5 damaged units is not considered because it is already including in stock at less than its cost price.

Books of Modi Textile – Consignment A/c

Particulars	Rupees	Particulars	Rupees
To Goods sent on Consignment A/c (1500 X 100) – Invoice price	150000	By Goods sent on Consignment A/c (Load)	30,000
To Cash		By Vinod Enter price. (Sales)	112500
- Insurance	2500	By Stock on Consignment A/c	35212
- Carriage and freight	4000		
To Vinod Enter price A/c			
- Go down Rent	1800		
- Commission	11250		
To Stock Reserve A/c	6000		
To Profit & Loss A/c	2162		
	177712		177712

Question 31

X of Delhi purchased 10,000 metres of cloth for `2,00,000 of which 5,000 metres were sent on consignment to Y of Agra at the selling price of `30 per metre. X paid ` 5,000 for freight and `500 for packing etc.

Y sold 4,000 metres at ` 40 per metre and incurred ` 2,000 for selling expenses. Y is entitled to a commission of 5% on total sales proceeds plus a further 20% on any surplus price realised over ` 30 per metre. 3,000 metres were sold at Delhi at `30 per metre less `3,000 for expenses and commission. Owing to fall in market price, the inventories of cloth in hand is to be reduced by 10%.

Prepare the Consignment Account and Trading and Profit & Loss Account in books of X

Solution:

Particulars	Amount	Particulars	Amount
To Goods Sent on Consignment Account To Bank account: Freight &Packaging etc. To Y's account: Selling expenses Commission (W.N.1) To inventories Reserve (W.N.3) To Profit	1,50,000 5,500 2,000 16,000 10,000 55,490	By Y's account (Sales) By Goods sent on consignment (Cancellation of loading) By Inventories on Consignment (W.N.2)	1,60,000 50,000 28,990
	2,38,990		2,38,990

Particulars	Amount	Particulars		Amount
To Purchases To Gross profit c/d	2,00,000 26,000	By Sales By Goods sent on Consignment By Inventories in hand cost Less:10%	 40,000 4,000	90,000 1,00,000 36,000
	2,26,000			2,26,000
TO Expenses and commission	3,000	By Gross profit b/d		26,000
To Net profit	78,490	By Consignment A/c (Profit on consignment)		55,490
	81,490			81,490

Working notes:

i. **Calculation of commission payable to Y**: Total sale proceeds of Y	1,60,000
Surplus proceeds realised over `30 per metre [4,000 x `(40-30)]	40,000

Commission: 5% of total sale proceeds (5% of `1,60,000)	8,000
20% of surplus (20% of `40,000)	8,000
	16,000
ii. Inventories on Consignment:	‘
Cost of consignment Inventories (1000 metres @ `30)	30,000
Add: Expenses of consignor (5,500X1/5)	1,100
	31,100
Less: Reduction of 10% in cost due to fall in market price (20,000+1,100) x 10%	2,110
	28,990
iii. Loading (`10 x 1,000 metres)	10,000

Queston32

Punjab Cycle Co. of Ludhiana consigned 100 tricycles to Kanpur Cycle Co. of Kanpur costing Rs 1,500 each, invoiced at Rs 2,000 each. The consignor paid freight Rs 10,000 and insurance in transit Rs 1,500. During transit, 10 tricycles were totally damaged. Kanpur Cycle Co. took delivery of remaining tricycles and paid Rs 1,530 for octroi duty. Kanpur Cycle Co. sent a bank draft to Punjab Cycle Co. for Rs 50,000 as advance and later on sent an account sale showing that 80 tricycles had been sold @ Rs 2,200 each. Expenses incurred by Kanpur Cycle Co. on go down rent were Rs 2,000. Kanpur Cycle Co. is entitled to a commission of 5% on invoice price and 25% on any surplus of sale price over invoice price. Insurance claim was settled at Rs 14,000. Prepare consignment account, consignee's account and accidental loss account in the books of the consignor.

Solution:

In Punjab Cycle Co's Ledger
Consignment Account

Dr. **Cr.**

To Goods Sent on Consignment Account	2,00,000	By Kanpur Cycle Co. Sales	1,76,000
To Bank - Freight 10,000 - Insurance in transit 1,500	11,500	By Accidental loss Account	16,150
		By Goods Sent on Consignment Account – Loading	50,000
		By Consignment Stock	21,320
To Kanpur Cycle Co. - Octroi duty 1,530 - Go down rent 2,000 - Commission 12,000	15,530		
To Consignment Stock Reserve account	5,000		
To Profit and loss Account - Transfer of profit	31,440		
	2,63,470		2,63,470

Kanpur Cycle Co.

To Consignment Account – Sales	1,76,000	By Bank – Bank draft as advance	50,000
		By Consignment Account Expenses and commission	15,530
		By Balance c/d	1,10,470
	1,76,000		1,76,000
To Balance b/d	1,10,470		

Accidental Loss Account

To Consignment account - Damage of goods in transit	16,150	By Bank Amount received From insurance co.	14,000
		By Profit and loss Account -	2,150

		Transfer	
	16,150		16,150

Working Notes:

(i) Cost of goods damaged in transit:

Initial Cost, 10 X Rs. 1,500 15,000

Add: Proportionate Share of freight and insurance in transit

Rs. (10,000 + 1,500) X 10/100 1,150

16,150

(ii) Commission on Sales:

Sale proceeds of 80 tricycles = 80 X Rs. 2,200 1,76,000

Less: Invoice price of 80 tricycles = 80 X Rs. 2,000 1,60,000

Surplus of sale price over invoice price 16,000

Commission: 5% of Rs. 1,60,000 the invoice price of goods Sold 8,000

Add: 25% of Rs. 16,000, the surplus 4,000

(iii) Stock with consignee: 12,000

Invoice price of 10 tricycles, 10X Rs. 2,000 20,000

Add: Proportionate share of freight and insurance in transit,

Rs 11,500 X 10/100 1,150

Add: Proportionate share of octroi duty, Rs. 1,530 X 10/90 170

21,320

(iv) Loading on goods sent on consignment = Rs. 500 X 100 = Rs. 50,000

(v) Consignment stock reserve required:

Excess of invoice price per cost price

For 1 tricycle = Rs. 2,000 – Rs. 1,500

There are 10 tricycles in stock

Hence, stock reserve required = 10 X Rs. 500 = Rs. 5,000

Question 33

A Co. Ltd., manufacturers and dealers in edible oil, consigned to their Bangalore agent, 250 crates of oil (each crate containing 12 one-kilo sachets) in March, 2012. The consignment was sent at 20% over the cost price of Rs 120 per kilo. A bill was drawn on the agent for 80% of the value of the consignment which was met on presentation. Expenses incurred by the company by way of freight and insurance came to Rs 12,000. The agent received the consignment by lorry and sold in March 2012, 225 crates @ Rs 180 per kilo. He found that 125 sachets had got damaged in transit—the manufacturer accepted this as a normal loss— and these were sold to consumers at Rs 80 per sachet. The insurance company settled the loss claim for Rs 2,500. Agent incurred expenses of Rs 5,000 on his own account (unconnected with the liability under the agreement) and Rs 3,000 on consignor's account. He is entitled to a commission of 5% on sales effected. By 15th April, 2012, the agent remitted the balance due to him to the company. Draw the accounts in the book of A Co. Ltd., to record the above transactions.

Solution:

Consignment Account

To goods sent on Consignment Rs. 144 X 250 X 12	4,32,000	By Bangalore Agent - Sale of normal goods Rs. 180 X 225 X 12	4,86,000

To Bank - Freight and insurance	12,000	By Bangalore Agent - Sale of damaged satchets Rs. 80 X 125	10,000
To Bangalore agent - Expenses 3,000 - Commission On total sales of Rs. 4,96,000 @ 5% 24,800	27,800	By Bank - Claim from Insurance company	2,500
To Consignment Stock Reserve - Rs. 24 X 175	4,200	By Goods sent on Consignment - Loading Rs. 24 X 250 X 12	72,000
To Profit & Loss Account - Transfer of profit on consignment	1,20,400	By Consignment Stock [Working Note (ii)}	25,900
	5,96,400		5,96,400

Goods sent on Consignment Account

To Consignment Account - Loading	72,000	By Consignment account - Invoice price of goods sent	4,32,000
To Trading Account - Transfer	3,60,000		
	4,32,000		4,32,000

Bangalore Agent

To Consignment Account - Sale of normal goods	4,86,000	By Bank / Bills Receivable Account - Advance, 80% of 4,32,000	3,45,600
To Consignment A/c - Sale of damaged satchets	10,000	By Consignment Account Expenses 3,000 - Commission 24,800	27,800

		By Bank – Remittance	1,22,600
	4,96,000		4,96,000

Working Notes:

(i) Invoice price of 1 Kg. of oil = Rs. 120 X 120/100 = Rs. 144

(ii) Valuation of closing stock:

Invoice price of 1. Kg of oil 144

Add: Expenses per Kg. Rs. 12,000 ÷ 3,000 4

Total 148

Closing stock = Rs. 148 X (3,000 – 2,500 – 125) = Rs. 2590

Question 34

In the Sales Ledger of Disposal Goods Co., the following account appears:

2012 Jan. 10	To Goods sent On Consignment A/c		12,000	2012 Mar 5	By Bank			5,000
				31	By Balance c/d			7,720
Jan. 12	To Expenses		720					
			12,720					12,720
2012 Apr. 1	To Balance b/d		7,720					

Upon inquiry, you find that the debit to Sunderam of Rs 12,000 represented goods costing Rs 10,000 delivered to him on the understanding that he will try to dispose of them in his own market, or others-wise return them. For his services, he is to be allowed a commission of 10 per cent on all sales effected, out of which he is to defray expenses that he may incur.

On 31st March, 2012, when Disposal Goods Co. make up their annual accounts, it transpires that Sundaram has sold half the goods at the prices at which they were invoiced to him, but is doubtful about his ability to dispose of the remainder. He, therefore, proposes to offer his customers a special trade discount of 20 per cent and to waive any further sales commission. To this Disposal Goods Co. agreed. Sunderam was not able to recover Rs 200 of sales ex-consignment.

(1) Show the necessary corrective entries in the firm's journal.

(2) Set out Sundaram's account as it will appear when the journal entries have been posted, and

(3) State clearly the resultant profit or loss on the matter.

Solution:

It is obvious that the relationship between Disposal Goods Co. and Sunderam is that of principal and agent. Hence, Sunderam should not have been debited with the goods sent to him, nor is the debit regarding expenses proper. If the accounts had been prepared properly, they would have appeared as follows:

Consignment Account

2012 Jan 10	To Goods sent on Consignment A/c To Bank (expenses)	10,000 720	2012 Mar 31	By Sunderam (Sales) By Consignment Stock A/c By Profit & Loss A/c - loss	6,000 4,800 720
Mar 31	To Sunderam (Commission & bad debt)	800			
		11,520			11,520

Sunderam

2012 Mar 31	To Consignment A/c (Sales)	6,000	2012 Mar 5 31	By Bank By Consignment a/c (Commission & bad debt) By Balance c/d	5,000 800 200
		6,000			6,000
2010 April	To Balance b/d	200			

Comparing the accounts as they should have been and as they have been made, the following correcting entries are required:

2012 March	31	Consignment Account Dr. Goods sent on Consignment Account Dr. To Sunderam Correction of the mistake by which Sunderam was wrongly debited with Rs. 12,000 and goods sent on consignment wrongly credited with Rs. 12000 (instead of Rs. 10,000)		10,000 2,000	 12,000
		Consignment Account Dr. To Sunderam The wrong debit to Sunderam in respect of consignment expenses now transferred to the right account consignment A/c		720	 720
		Sunderam Dr. To Consignment Account The entry regarding sales by Sunderam ex – consignment previously omitted, now made		6,000	 6,000

		Consignment Account Dr. To Sunderam The entry regarding commission earned by Sunderam previously omitted, now made		600	 600

Sunderam's Account will appear as follows after the entries have been posted.

Sunderam

2012 Mar. 31	To Balance b/d To Consignment Account - Sales	7,720 6,000	2012 Mar. 31	By Consignment Account By Goods sent on Consignment A/c By Consignment A/c By Consignment Account - Commission 600 - Bad Debts 200 By Balance c/d	10,000 2,000 720 800 200
		13,720			13,720
2012 April	To Balance b/d	200			

<u>**Question 35**</u>

C. Ltd. of Mumbai consigned 100 diesel engines to Zahir of Dacca on 1st April, 2011 on the following terms:

(i) Zahir to get 12½ % commission of the sale price up to Rs 12,500 per engine; for engines sold at above this price, Zahir was to share the profit equally with C. Ltd.— for the purpose the Bangladesh Taka was to be considered as worth 90 paise.

(ii) Zahir was to meet all expenses after the engines reached Dacca and was to guarantee all debts.

(iii) C. Ltd. was to guarantee trouble-free performance for one year—any expenses in this regard borne by Zahir were to be immediately reimbursed to him.

Further, C. Ltd. was to post an engineer at Dacca for the purpose. The cost of each diesel engine to C. Ltd. was Rs 9,000; C. Ltd., paid Rs 1,000 on freight per engine and packing and 1% ECGC Commission (on the basis of Rs 12,500 per engine) which covered 75% of the loss that may arise because of the failure of the foreign buyer/agent to remit the amount due. C. Ltd. considered Rs 1,000 as a fair estimate for maintenance during the warranty period—Rs 400 for the first six months and Rs 600 for remaining period.

Zahir reported a sale of 80 engines (average date 1st Oct. 2011). Of these, 50 had been sold at Taka 15,000 and 30 Taka 13,000; of the latter he had not been able to recover the amount in respect of 10 engines, he had spent Taka 35,000 on maintenance for which reimbursement had been made by C. Ltd. when the Taka was worth 87 paise. Zahir had remitted Taka 10,00,000 when the value was 88 paise. The monthly cost of the engineer posted at Dacca was Rs 4,000 starting from 1st November, 2011.

Prepare the engineer Account in the Books of C. Ltd., reconning exchange loss or profit separately on the basis of 90 paise to a Taka.

Solution:

Books of C. LTD

Consignment to Dacca Account

To Goods Sent on			By Zahir (Sale proceeds)	10,26,000
Consignment			By Stock with Agent	2,00,000
Account	9,00,000		By Profit & Loss Account –	
To Bank – freight			transfer of loss on	33,700
- ECGC Commission	1,00,000		Consignment	
To Zahir: Commission &	12,500			
share of profit Maintenance				
Taka 35,000 at 90 P				
To Bank (Cost of engineer at	1,28,250			
Dacca)	31,500			
To Provision for	20,000			
Maintenance	48,500			
To Exchange Loss	18,950			
	12,59,700			12,59,700

Working Notes:

(1) ECGC Commission: 1% on Rs. 12,50,000 12,500

(2) Commission and share of profit to Zahir

Commission on 30 engines at 12.5% at Rs. 3,51,000 43,875

Profit: Sale price per engine

Less: Cost per engine

(Including ECGC Commission)

Profit

50% Share to zahir

Profit on 50 engines = 50 X Rs. 1,687.50 84,375

1,28,250

(3) Provision for maintenance:

First six months – 80 engines at Rs. 400 32,000

Less: Amount Spent Taka 35,000 at 90.P		31,500	
			500
Later six months at Rs. 600 per engine		48,000	
		48,500	
(4) Calculation of exchange loss:		9,00,000	
10,00,000 Taka at 90P		8,80,000	
Less: Received at 88 P		20,000	
Less: Amount payable for maintenance	31,500		
Less: Actually Paid	30,450	1,050	
Exchange loss		18,950	

Past Examination Question

MAY 2018

Question 1

Shri Ganpath of Nagpur consigns 500 cases of goods costing ` 1,500 each to Rawat of Jaipur. Shri Ganpath pays the following expenses in connection with the consignment:

Particulars	
Carriage	15,000
Freight	45,000
Loading Charges	15,000

Shri Rawat sells 350 cases at ` 2,100 per case and incurs the following expenses:

Clearing charges 18,000

Warehousing and Storage charges 25,000
Packing and selling expenses 7,000

It is found that 50 cases were lost in transit and another 50 cases were in transit. Shri Rawat is entitled to a commission of 10% on gross sales. Draw up the Consignment Account and Rawat's Account in the books of Shri Ganpath

Solution:

In the books of Shri Ganpath Consignment to Rawat of Jaipur Account

Particulars		Particulars	
To Goods sent on Consignment	7,50,000	By Rawat (Sales)	7,35,000
To Bank (Expenses 15,000 + 45,000 + 15,000)	75,000	By Goods lost in Transit 50 cases @ 1,650 each	82,500
To Rawat (Expenses 18,00 + 25,000 + 7,000)	50,000	By Consignment Inventories: In hand 50@ 1,695 each	84,750
To Rawat (Commission)	73,500	By Consignment In transit 50 @ 1,650 each	82,500
To Profit on Consignments / f to Profit & Loss A/c	36,250		
	9,84,750		9,84,750

Considered as abnormal loss.
The goods in transit (50 cases) have not yet been cleared. Hence the proportionate clearing charges on those goods have not been included in their value.

Rawat's Account

Particulars		Particulars	
To Consignment to Jaipur A/c	7,35,000	By Consignment A/c (Expenses)	50,000
		By Consignment A/c (Commission)	73,500

		By Balance c/d	6,11,500
	7,35,000		7,35,000

Working Notes:

Consignor's expenses on 500 cases amounts to ` 75,000; it comes to ` 150 per case. The cost of cases lost will be computed at ` 1,650 per case.

Rawat has incurred ` 18,000 on clearing 400 cases, i.e., ` 45 per case; while valuing closing inventories with the agent ` 45 per case has been added to cases in hand with the agent. It has been assumed that balance of ` 6,11,500 is not yet paid

NOVEMBER 2018

Question 2

Raj of Gwalior consigned 15,000 kgs. of Ghee at rs 30 per kg. to his agent Siraj at Delhi. He spent 5 per kg. as freight and insurance for sending the Ghee at Delhi. On the way 100 kgs. of Ghee was lost due to the leakage (which is to be treated as normal loss) and 400 kgs. of Ghee was destroyed in transit. Rs 9,000 was paid to consignor directly by the Insurance company as Insurance claim. Siraj sold 7,500 kgs. At rs 60 per kg. He spent rs 33,000 on advertisement and recurring Expenses

You are required to calculate:

1. The amount of abnormal loss

2. Value of Stock at the end

3. Prepare Consignment Accounts Showing Profit & loss on consignment if Siraj is entitled to 5% commission on Sales.

Solution:

Consignment Account

To Goods sent on consignment A/c (15,000 kg x 30)	4,50,000	By Consignee's A/c Sales (7,500 Kg x' 60)		4,50,000
To Cash A/c [Expenses 15,000 Kg x 5]	75,000	By Abnormal Loss A/c (Insurance) Add: Abnormal		

To Commission A/c	185690	Loss (WN) (Profit and loss Account) By Consignment Stock A/c	9,000 5,000	14,000 2,46,690
	7,10,690			7,10,690

Working Notes:

1. Abnormal Loss:

Cost of goods lost: 400 Kg	
Total cost (400 X 30)	12,000
Add: expenses incurred by the consignor @ per Kg	2,000
Gross Amount of abnormal loss	14,000
Less: Insurance claim	(9,000)
Net abnormal loss	5,000

	Quantity (Kgs)	Amount (')
Total Cost (15,000 kg X 30)	15,000.	4,50,000 75,000
Add: Expenses incurred by the Less: Value of Abnormal Loss – 400 KGs	400 14,600 100	14,000 5,11,000
Less: Normal Loss	14,500	5,11,000
Less: Quantity of ghee sold	7,500	
Quantity of Closing Stock Value of 7,000 Kgs – (5,11,000 / 14,500)	7,000	2,46,690

MAY 2019

Question 3

State the Answer Weather True or false.

- **In case of consignment sale, ownership. of goods will be transfer to consignee at the time of receiving the goods.**

Answer:

False: - Ownership of goods always remains with the consigner till the goods are sold by consignee to the third party.

Nov 2019

Question 4

Anand of Bangalore consigned to Raj of pune, goods to be sold at invoice price which represents 125% of cost. Raj is entitled to a commission of 10% on sales at invoice price and 25% of any excess realized over invoice price. The expenses on freight and insurance incurred by Anand were ₹ 12,000. The account sales received by Anand shows that Raj has affected sales amounting to 1,20,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 9,600. 10% of consignment goods of the value of ₹ 15,000 were destroyed in fire at the Pune good own and the insurance company paid ₹ 12,000 net of salvage. Raj remitted the balance in favour of Anand.

You are required to prepare Consignment Account and the account of Raj in the books of Anand along with the necessary calculations. [10 marks]

Solution:

In the books of Anand

Consignment A/c

Particulars	Rs.	Particulars	Rs.
To Goods Sent on Consignment (W.N.1)	1,50,000	By Goods Sent on Consignment (Loading) (Rs. 1,50,000 X 25/125)	30,000
To Bank – Expenses	12,000		
To Raj – Selling Expenses	9,600	By Raj – Sales	1,20,000
To Raj-Commission (W.N.2)	13,125	By Abnormal Loss (W.N.3) (Insurance claim)	13,200
To Stock Reserve (W.N.4)	4,500	By Abnormal Loss (W.N.3) (Profit & Loss A/c)	24,300

		By Profit& Loss A/c – Loss trf.	1,725
	1,89,225		1,89,225

Raj's A/c

Particulars	Rs.	Particulars	Rs.
To Consignment A/c Sales	1,20,000	By Consignment A/c – Selling Expenses	9,600
		By Consignment A/c - Commission	13,125
		By Bank A/c	97,275
	1,20,000		1,20,000

Working Notes:

W.N.1 – Calculation of Goods Sent on Consignment

Particulars	Rs.
Abnormal Loss	15,000
This represents 10% Of the total consignment	
Total Goods Sent on Consignment (Rs. 15,000 ÷ 10%)	1,50,000

W.N.2 – Calculation of Commission

Particulars	Rs.

Invoice Value of 100% goods	1,50,000
Invoice Value of 75% goods	1,12,500
Simple Commission (10% on Invoice Price)	11,250
Add: Over – riding Commission {25% X Rs. 1,20,000 – Rs. 1,12,50)}	1,875
Total Commission	13,125

W.N.3 – Calculation of Abnormal Loss

Particulars	Rs.
Invoice value of Abnormal Loss (10%)	15,000
Cost of Abnormal Loss (Rs. 15,000 X 100/125)	12,000
Add: Proportionate Direct Expenses (10% x ₹ 12,000)	1,200
Total cost of Abnormal Loss	13,200
Less: Insurance Claim Net Abnormal Loss	12,000
	1,200

W.N.4 – Calculation of Closing Stock

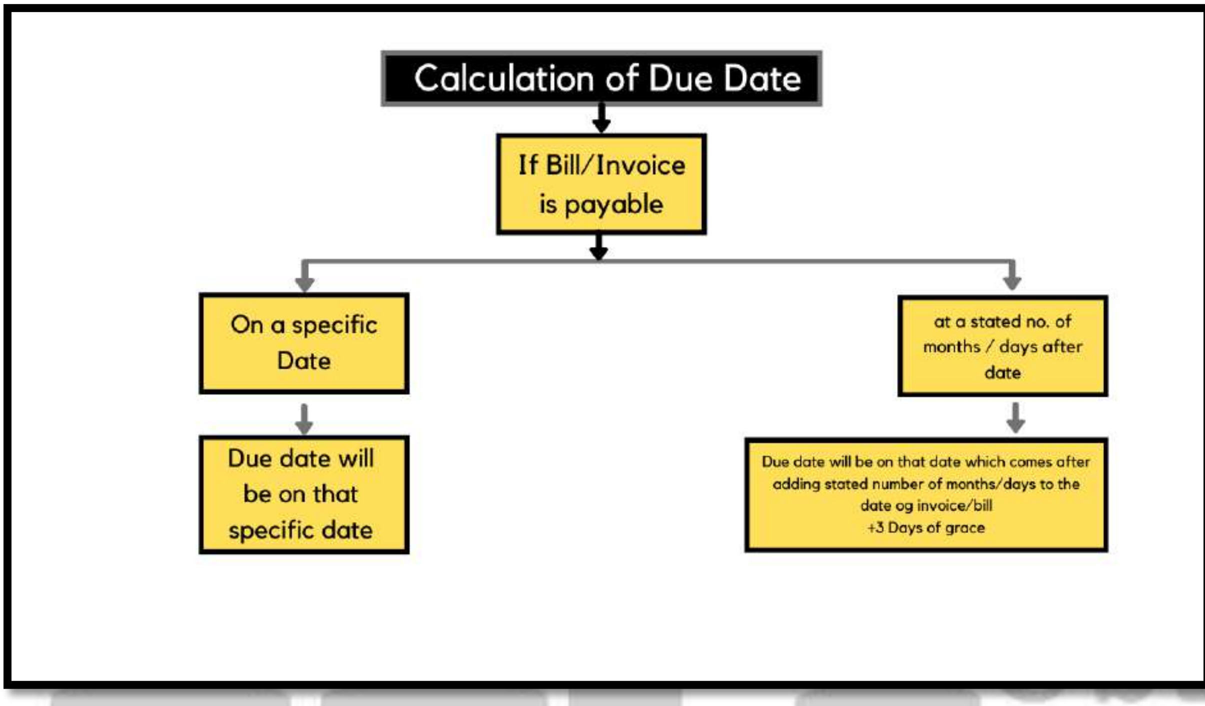
Particulars	Rs.
Invoice Value of 100% Goods	1,50,000
Invoice value of 15% Goods	22,500
Cost of 15% Goods (Rs. 22,500 X 100 / 125)	18,000
Add: Proportionate Direct Expenses (15% X Rs. 12,000)	1,800
Total cost of Closing Stock	19,800
Add: Stock Reserve (Profit) (Rs. 22,500 – Rs. 18,000)	4,500
Invoice Value of Closing Stock	24,300

Unit 6

Average Due Date

Average due date	It is the mean or equated date on which a single total payment may be made in lieu of different payments on different dates without any loss to either party
formula for calculating average due date	Base date ± Difference in products Difference in amounts
CONCEPT OF DUE DATE (DATE OFMATURITY)	
Calculation of Due Date after Taking into Consideration Days of Grace	A Bill of exchange or promissory note matures on the date on which it falls due.
Calculating Due Date of Bill or Note Payable Few Months after Date or Sight	When the bill is made payable at a stated number of months after date or after sight or after certain events, then the period stated shall be held to terminate on the date of the month which corresponds with the day on which the instrument is dated.
Calculation of Due Date when the Maturity Day is a Holiday	When the day on which a promissory note or bill of exchange is at maturity is a public holiday, the instrument shall be deemed to be due on the preceding business day
TYPES OF PROBLEMS	Case 1: Learn calculation of average due date where one Party is involved Case 2: Learn calculation of average due date where inter transactions between 2 Parties are involved Case 3: Learn calculation of average due date where amount is repaid in Instalments

Case 4: Learn Calculation of average due date for determining interest on drawings.



Question 1

Define Average Due Date. List out the various instances when Average Due Date can be used.

Answer:

In business enterprises, a large number of receipts and payments by and from a single party may occur at different points of time. To simplify the calculation of interest involved for such transactions, the idea of average due date has been developed. Average Due Date is a break-even date on which the net amount payable can be settled without causing loss of interest either to the borrower or the lender. Few instances where average due date can be used: Calculation of interest on drawings made by the proprietors or partners of a business firm at several points of time. Settlement of accounts between a principal and an agent. Settlement of contra accounts, that is , A and B sell goods to each other on different dates.

Question 2

E owes to F the following amounts:

5,000due on 10th March,2011

18,000dueon2nd April,2011

60,000 due on 30th April, 2011

2,000 due on 10th June, 2011

He desires to make the full payment on 30th June, 2011 with interest at 10% per annum after the average due date. Find out the average due date and the amount of interest.

Solution:

Calculation of Average Due Date

Taking 10th March, 2011 as the base date.

Due Date	Amount	No. of days from the base datei.e.10th March,2011	Product
2011			
10th March	5,000	0	0
2nd April	18,000	23	4,14,000
30th April	60,000	51	30,60,000
10th June	2,000	92	1,84,000
	85,000		36,58,000

Average due date = Base date + $\frac{\text{Total of product}}{\text{Sum of amount}}$

$= 10^{th}$ March + $\frac{36,58,000}{85,000}$

$= 10^{th}$ March + 43 days = 22^{nd} April, 2011

Interest amount: Interest can be calculated on 85,000 after 22^{nd} April, 2011 to 30^{th} June, 2011 at 10% p.a i.e., interest on 85,000 for 69 days at 10%

= 85,000 X 10/100 X 69/365 = 1,607 (approx.)

Question 3

Calculate average due date from the following information's

Date of bill	Term	Amount
1^{st} March, 2011	2 months	4,000
10^{th} March 2011	3 months	3,000
5^{th} April, 2011	2 months	2,000
20^{th} April, 2011	1 months	3,750
10^{th} May, 2011	2 months	5,000

Solution:

Calculation of Average Due date (Taking 4^{th}May, 2011 as the base date)

Date of Bill	Term	Due date	Amount	No. of days from the base date i.e., May 4,2011	Product
2011		2011			
1^{st} March	2 months	4^{th} May	4,000	0	0
10^{th} March	3 months	13^{th} June	3,000	40	1,20,000
5^{th} April	2 months	8^{th} June	2,000	35	70,000
20^{th} April	1 months	23^{rd} May	3,750	19	71,250
10^{th} May	2 months	13^{th} July	5,000	70	3,50,000
			17,750		6,11,250

Average due Date = Base date + $\frac{Total\ of\ product}{Sum\ of\ amount}$ = 1770

Question 4

'A' lent t 25,000 to 'B' on 1 st January, 2011. The amount is repayable in 5 half-yearly instalments commencing from1st January, 2012.Calculate the average due date and interest @ 10% per annum

Answer:

Calculation of sum of periods from the date of each transaction: 1st payment is made after 12 months from the date of loan. 2nd payment is made after18 months from the date of loan. Repayment is made after 24 months from the date of loan. 4th payment is made after 30 months from the date of loan. 5th payment is made after 36 months from the date of loan. Sum of the months=120

Average due date =

Date of loan + $\frac{\text{Sum of months from 1st January 2011 to the date of each installment}}{\text{no.of insallment}}$

= 1stJanuary, 2011 + 24 months

= 1stJanuary, 2013

Interest = 25,000 X 10/100 X 2years

= 5,000

Question 5

Calculate average due date from the following information:

Date of bill	Term	Amount
16thAugust, 2010	3 months	3,000
20thOctober, 2010	60 days	2,500
14thDecember, 2010	2 months	2,000

24thJanuary, 2011	60 days	1,000
06thMarch, 2011	2 months	1,500

Solution:

Calculation of Average Due Date (Taking November 19,2010 as the base date)

Date of bill	Term	Due date (including 3 grace days)	Amount	No. of days from the base date	Product (no. of days x amount)
16th August 2010	3 months	Nov 19, 2010	3,000	0	0
20th October, 2010	60 days	Dec. 22, 2010	2,500	33	82,500
14th December 2010	2 months	Feb. 17 2011	2,000	90	1,80,000
24th January 2011	60 days	March 28, 2011	1,000	129	1,29,000
06th March, 2011	2 months	May 09, 2011	1,500	171	2,56,500
			10,000		6,48,000

Average due date = Base date + $\frac{\text{Total of product}}{\text{Sum of amount}}$

= November 19, 2010 + 6,48,000 / 10,000

= November 19, 2010 + 65 days = January 23, 2011

Question 6

A trader allows his customers, credit for one week only beyond which he charges interest @ 12% per annum. Anil, a customer buys goods as follows:

Date of Sale / Purchase	Amount
January 2, 2012	6,000
January 28, 2012	5,500

February 17, 2012	7,000
March 3, 2012	4,700

Anil settles his account on 31st March 2012. Calculate the amount of interest payable by Anil using average due date method.

Solution:

Let us assume 9thJanuary, 2012 to be the base date:

Date of Sale	Due date of payment	Amount	No. of days from 9th January, 2012	Product
Jan 2. Jan 28	Jan 9 Feb. 4	6,000 5,500	0 26	0 1,43,000
Feb. 17	Feb. 24	7,000	46	3,22,000
March 3	March 10	4,700	61	2,86,700
		23,200		7,51,700

Average due date = Base date + $\frac{\text{Total of Product}}{\text{.Sum of amount}}$

33 days from 9thJanuary, 2012 = 11th February, 2012

Thus, average due date = 11thFebruary, 2012

No. of days after 11thFebruary, 2012 to 31st March, 2012 = 49 days

Interest payable by Anil on 23,200 for 49 days @ 12% per annum = 372.72

Question 7

From the following details find out the average due date:

Date of Bill	Amount	Usance of Bill
29th January 2012	5,000	Month
20th March, 2012	4,000	Months
12th July, 2012	7,000	Month

10^{th} August, 2012	6,000	Months

Solution:

Calculation of Average Due date

(Taking 3^{rd}March, 2012 as base date)

Date of Bill	Term	Due date	Amount	No. of days base date i.e. 3^{rd} March, 2012	Product
29^{th} January 20^{th} March	1 Month 2 months	3^{rd} March 23^{rd} May	5,000 4,000	0 81	0 3,24,000
12^{th} July	1 month	14 Aug	7,000	164	11,48,000
10^{th} August	2 months	13^{th} Oct.	6,000	224	13,44,000
			22,000		28,16,000

Note: Bill dated 29^{th} January, 2012 has the maturity period of one month and since 2012 is a leap year 29^{th} February, 2012 shall be the maturity date and due date would be 3^{rd} March, 2012 (after adding 3 days of grace)

$$\text{Average due date} = \text{Base date} + \frac{\text{Total of product}}{\text{Sum of amount}}$$

3 march, 2012 + 128 days = 9 July, 2012

Question 8

A and B are partners in a firm and share profits and losses equally. A has withdrawn the following sum during the half year ending 30^{th} June 2012:

Date	Amount
January 15	5,000
February 10	4,000
April 5	8,000
May 20	10,000

June 18	9,000

Interest on drawings is charged @ 10% per annum. Find out the average due date and calculate the interest on drawings to be charged on 30th June 2012.

Solution:

Calculation of Average due date

(Base Date 15th Jan, 2012)

Date	Amount	No. of days from base date	Product
January 15	5,000	0	0
February 10	4,000	26	1,04,000
April 5	8,000	81	6,48,000
May 20	10,000	126	12,60,000
June 18	9,000	155	13,95,000
	36,000		34,07,000

Average due date = Base date + $\frac{\text{Total of product}}{\text{Sum of amount}}$

15 Jan + 95 days = 19 April, 2012

Number of days after19th April,2012 to 30th June,2012=72days Interest on drawings after 19th April to 30th June @10%: Hence, interest on drawings 708 will be charged from Aon 30thJune, 2012.

Question 9

Mr. Black accepted the following bills drawn by Mr. White:

	Period	Amount
09-03-2011	4 months	4,000

16-03-2011	3 months	5,000
07-04-2011	5 months	6,000
18-05-2011	3 months	5,000

He wants to pay all the bills on a single date. Interest chargeable is @ 18% p.a. and Mr. Black wants to earn f 150 on account of interest payment. Find out the date on which he has to affect the payment to earn interest off 150. Base date to be taken shall be the earliest due date.

Solution:

Calculation of Average Due Date taking base date as 19.06.2011

Date of Bill	Period	Maturity date	No. of days from the base date	Amount	Products
9.3.2011	4 months	12.7.2011	23	4,000	92,000
16.3.2011	3 months	19.6.2011	0	5,000	0
7.4.2011	5 months	10.9.2011	83	6,000	4,98,000
18.5.2015	3 months	21.8.2011	63	5,000	3,15,000
				20,000	9,05,000

Average due date = Base date + $\frac{\text{Total of product}}{\text{sum of amount}}$

= 19.06.2011 + 46 days = 4 August, 2011

Computation of date of payment to earn interest off 150

Interest per day = [20,000 X (18/100)] / 365 days

= 3,600 /365 = 10 per day (approx.)

To earn interest of 150, the payment should be made 15 days (150 /10 per day) earlier to the due date. Accordingly, the date of payment would be:
Date of payment to earn interest of 150 =4thAugust, 2011-15 days =20th July, 2011

Question 10

Towes to K the following amounts: f 1,000 due on 15thMarch, 2012 f1 2,000 due on 5thApril, 2012

F30,000 due on 25th April, 2012 f20,000 due on 11th June, 2012

He desires to make the full payment on 30thJune, 2012 along with interest @10% per annum after the average due date. Find out the average due date and the amount of interest. Amount of interest may be rounded off to the nearest rupee.

Solution:

Calculation of Average Due Date taking 15thMarch, 2012 as the base date

Due date	Amount	No. of days from the base date 15th March 20120	Product
15th March, 2012	7,000	0	0
5th April, 2012	12,000	21	2,52,000
25th April, 2012	30,000	41	12,30,000
11th June 2012	20,000	88	17,60,000
	69,000		32,42,000

Average due date = Base date + $\frac{\text{Total of product}}{\text{Sum of amount}}$

15 march, 2012 + 47 days = 1 may, 2012

Interest amount: Interest can be calculated on t69,000 after 1stMay, 2012 to 30thJune, 2012 at 10% p.a i.e., interest on t69,000 for 60 days at 10% p.a. =t 69,000 x 10/100 x 60/366 = t 1,131 (approx.)

Note: Alternatively, interest can be calculated on the basis of 365 days instead of 366 days. In such a case, interest amount will bet 1,134 (approx.) instead of 1,131.

Question 11

The following transactions took place between Thick and Thin. They desire to settle their account on average due date.

Purchases by Thick from Thin	(r)
9th July, 2013	7,200
14th August, 2013	12,200
Sales by Thick to Thin	(r)
15th July, 2013	18,000
31st August, 2013	16,500

Calculate Average Due date and the amount to be paid or received by Thick.

Solution:

Calculation of Average Due date

Computation of products for Thick's payment

(Taking 9.7.13 as base date)

Due date	Amount	No. of days from base date to due date	Product
9.7.13	7,200	0	0
14.8.13	12,200	36	4,39,200
	19,400		4,39,200

Computation of products for thin's payment (Base date = 9.7.13)

Due date	Amount	No. of days from base date to due date	Product
15.7.13	18,000	6	1,08,000
31.8.13	16,500	53	8,74,500
	34,500		9,82,500

Excess of Thin's products over Thick [9,82,500-4,39,200] = 543300

Excess of Thin's amounts over Thick [34,500-19,400] = 15100

Hence, the date of settlement of the balance amount is 36 days after 9th July, i.e., 14th August. Thus, on 14th August, 2013, Thin has to pay 15,100to Thick.

Question 12

Mr. A has lent Rs. 5,000 to B on 1st Jan 2002. Loan is repayable in 5 half – yearly instalments commencing from 1st Jan. 2003 Interest is charged at 12%. Calculate Average Due date.

Solution:

Instalments	Due Dates	Months since Jan 1st 2002
1st	Jan 1 2003	12 months
2nd	July 1 2003	18 months
3rd	Jan 1 2004	24 months
4th	July 1 2004	30 months
5th	Jan. 1 2005	36 months
		120 months

Question 13

Rs. 15,000 on 1st January 2000 is repayable as below:

Rs. 1,000 on 1st January 2001

Rs. 3,000 on 1st January 003

Rs. 5,000 on 1st January 2004

Rs. 6,000 on 1st January 2005

Determine the average due date for selling al, the above instalments by single payment and compute interest at 6% p.a

Solution:

Instalments	Due Dates	No. of months from 1.1.2000	Products
1st Jan 2001	1,000	12 months	12,000
1st Jan 2003	3,000	36 months	1,08,000
1st Jan 2004	5,000	48 months	2,40,000
1st Jan 2005	6,000	60 months	3,60,000
	15,000		7,20,000

Average Due date = 1st Jan 2000 + 7,20,000 / 15,000

= 1st Jan 2000 + 48 months

= 1st Jan 2000 + 4 years

= 1st January 2004

Interest for four years = $\frac{15{,}000 \times 4 \times 6}{100}$ = Rs. 3,600

Question 14

Mr. Kapoor had the following Bills Receivable and Bills payable against Mr. Ramanathan.

Calculate the Average Due Date when the payment can be made or received without any loss of internet to either party.

Bills Receivable			Bills Payable		
Date	Amount	Tenure (months)	Date	Amount	Tenure (months)
1.5.2005	2,000	4	10.5.2005	1,000	2
12.6.2005	1,500	2	29.5.2005	3,000	4
15.6.2005	3,000	3	6.6.2005	2,000	2
7.7.2005	1,000	2	17.6.2005	1,500	3
10.7.2005	2,500	1	30.6.2005	500	1

Gazetted Holidays intervening in the period:

15th Aug. 2005

2nd October 2005

18th September 2005 (Emergency Holiday)

Solution:

Calculation of Average Due Date

Bills Receivable					Bills Payable				
Date	Due date	Amount	No. of Days (From July 13)	Product	Date	Due Date	Amount	No. of days (from July 13)	Product
1.5.2005	4.9.2005	2,000	53	1,06,000	10.5.2005	13.7.2005	1,000	0	2,40,000
12.6.2005	14.8.2005	1,500	32	48,000	29.5.2005	1.10.2005	3,000	80	54,000
15.6.2005	19.9.2005	3,000	68	2,04,000	6.6.2005	9.8.2005	2,000	27	1,03,500
7.7.2005	10.9.2005	1,000	59	59,000	17.6.2005	20.9.2005	1,500	69	10,000
10.7.2005	13.8.2005	2,500	31	77,500	30.6.2005	2.8.2005	500	20	
		10,000		4,94,500			8,000		4,07,500

$$\text{No. of Days} = \frac{\text{Difference in products}}{\text{Difference in Amounts}} = \frac{4{,}94{,}500 - 4{,}07{,}500}{10{,}000 - 8{,}000} = \frac{87{,}000}{2{,}000} = 44 \text{ days}$$

Average Due Date = Starting Date + No. of Days

= 13th July 2005 + 44 days = 26th August 2005

Question 15

(1) X owes Y Rs. 670 on 1st January 2011. The following further transactions take place between X and Y.

January 16	**X buys goods**	**Rs. 700**
February 2	**X buys goods**	**Rs. 550**
March 5	**X buys goods**	**Rs. 400**

X pays the whole amount on 31st March, together with interest at 18 per cent per annum. The interest, calculated by the average due date average due date method, will be Rs. 75-51 ascertained as follows:

Solution:

Due Date	Amount	Number of days from Jan 1	Product
January 1 January 16 February 2 March 5	670 700 550 400	0 15 2 63	0 10,500 17,600 25,200
	2,320		53,500

Dividing 53,000 by 2,320 one gets 23 days, which from January 1 is January 24, which is the average due date. Interest, therefore, is to be calculated on Rs. 2,320 for 66 days – from January 24 to March 31 – at the rate of 18 per cent.

Solution:

The interest comes to Rs. 2,320 X 66 X 18 / 365 X 100 or Rs. 75.51

Question 16

Anand purchased goods from Amirtha, the average due date for payment in cash is 10.08.2015 and the total amount due is Rs. 67,500. How much amount should be paid by Anand to Amirtha. If total payment is made on following dates and interest is to be considered at the rate of 12% p.a.

(i) On average due date
(ii) On 25th August, 2015
(iii) On 30th July, 2015

Solution:

A	B	C	D = B ± c

	Principal Amount	Interest from Average Due Date to Actual date of Payment	Total amount to be paid
(i) Payment on average due date			
	Rs. 67,500	Rs. $67{,}500 \times \frac{12}{100} \times \frac{0}{365} = 0$	Rs. 67,500
(ii) Payment on 25th Aug. 2015			
	Rs. 67,500	Rs. $67{,}500 \times \frac{12}{100} \times \frac{15}{365} = 333$ Interest to be charged for period of 15 days from 10.8.2015 to 25th Aug. 2015	Rs. 67,833
(iii) Payment on 30th July, 2015			
	Rs. 67,500	Rs. $67{,}500 \times \frac{12}{100} \times \frac{(11)}{365} = (244)$ Rebate has been allowed for unexpired credit period of 11 days from 30.7.2015 to 10.8.2015	Rs. 67,256

Question 17

Kishan lal has made the following sales to Babulal. He allows a credit period of 10 days beyond which he charges interest @12% per annum.

Date of Sales	Amount
26.05.14	12.000
18.07.14	18.000
02.08.14	16,500
28.08.14	9,500
09.09.14	15,500
17.09.14	13,500

2Babulal wants to settle his accounts on 30-9-2014. Calculate the interest payable by him using Average Due date (ADD). If Babulal wants to save interest of Rs. 588, how many days before 30.9.2014

does he have to make payment? Also find the payment date in this case.

Solution:

Calculation of Average Due date (Taking 05th June as the base date)

Date of sales	Due date	Amount	Number of days from Jun 5	Product
26.05.2014	05.06.2014	12,000	0	0
18.07.2014	28.07.2014	18,000	53	9,54,000
02.08.2014	12.08.2014	16,500	68	11,22,000
28.8.2014	07.09.2014	9,500	94	8,93,000
09.09.2014	19.09.2014	15,500	106	16,43,000
17.09.2014	27.09.2014	13,500	114	1539,000
		85,000		61,51,000

Average due date = 5.6.14 + $\frac{61,51,000}{85,000}$

= 5.6.14 + 72 days (app.) = 16.08.2014

Interest if settlement is done on 30.9.14

Past Examination Question

MAY 2018

Question 1

Mr. Alok owes Mr. Chirag 650 on 1st January 2018. From January to march, the following further transactions took place between Alok & Chirag.

January 15	**Alok buys goods**	**Rs. 1200**
February 10	**Alok buys goods**	**Rs. 850**
March 7	**Alok receives Cash loan**	**Rs. 1500**

Alok pays the whole amount on 31st March, 2018 together with interest @ 6% per annum. Calculate the interest by average due date method.

Solution:

Due Date 2018	Amount	No. of days from Jan 1	Product (Rs.)
Jan. 1 Jan. 15 Feb. 10 March 7	650 1,200 850 1,500	0 14 40 65	0 16,800 34,000 97,500
	4,200		1,48,300

Average Due date = Base date + $\frac{\text{Sum of product}}{\text{Sum of Amount}}$

= 1.1.18 + $\frac{1,48,300}{4,200}$

= 1.1.18 + 35 days

= 5.2.18

Interest therefore will be calculated on Rs. 4,200 from 5.2.18 to 31.3.18 i.e., for 54 days.

Interest = $4,200 \times \frac{6}{100} \times \frac{54}{365}$

= Rs. 37.28 i.e., Rs. 37 (approx.)

NOVEMBER 2018

Question 2

Karan purchased goods from Arjun, the average due date for payment in cash is 10.08.2018 and the total amount due is t 1,75,800. How much amount should be paid by Karan to Arjun, if total payment is made on following. Dates and interest is to be considered at the rate of 15% p.a. following. Dates and interest is to be considered at the rate of 15% p.a

- **On average due date**
- **On 28th August, 2018**
- **On 29th July, 2018**

Solution:

Date	Due Date	Amount	No. of days	Product
18 April	18 May	12,000	_	Nil
15 May	15 June	14,000	28	3,92,000
16 June	16 July	16,000	59	9,44,000
		42,000		13,36,000

(i) If payment is made on ADD, hen no party hains or loses the interest
Hence, Payment to be made is Rs. 1,75,800

(ii) Payment on 28.08.2018 i.e. after the ADD, Karan will have to pay interest for 18 days.

$1,75,800 \times \frac{15}{100} \times \frac{18}{365} = 1300.44$

(iii) Payment on 29.7.2018 i.e. before ADD
Karan will get a rebate of interest for 12 days

$1,75,800 \times \frac{15}{100} \times \frac{12}{365}$ = Rs. 866.96

Total payment = Rs. 1,75,800 – 866.96
Rs. 1,74,933.04

MAY 2019

Question 3

Attempt any one of the following two sub-parts i.e either (i) or (ii)

(i) Two traders Yogesh and Yusuf buy goods from one another, each allowing the others, one month's credit. At the end of 3 months the accounts rendered are as follows:

	Goods sold by Yogesh to Yusuf		Goods sold
April 18	12,000	April 23	10,600
May 15	14,000	May 21	10,000
June 16	16,000		

Question 4

Calculate the date upon which the balance should be paid so that no interest

is due either to Yogesh or Yusuf.

Solution:

Competition of Average due date Yogesh to Yusuf

Yusuf to Yogesh

23/April 24/April	23 May 24	10,600 10,000	5 37	53,000 3,70,000
		20,600		4,23,000

Average = 18^{th} May + $\frac{13,36,000-4,23,000}{42,000-20,600}$

= 18^{th} May + 21400

= 18^{th} May + 43 days

= 30/ June

Nov 2019

Question 5

Attempt the following:

The following amounts are due to X by Y.Y wants to pay on 10^{th} July 2019. Interest rate of 9% p.a is taken into consideration.

Due date	Rs.
10^{th} January	750
26^{th} January (Republic Day)	1,200
23^{rd} March	3,300
18^{th} August (Sunday)	4,100

Determine average due date and the amount to be paid on 10^{th} July 2019. Assume 10^{th} January as base date. [5 marks]

Solution:

Calculation of Average Due Date (Taking 10th January as Base Date)

Due Date (Normal)	Due Date (Actual)	No. of Days From 10th January	Amount	Product
10th January	10th January	0	750	0
26th January	25th January	15	1,200	18,000
23rd March	23rd March	72	3,300	2,37,600
18th August	17th August	219	4,100	8,97,900
			9,350	11,53,500

Average Due Date = Base Date + Days Equal to $\frac{\text{Sum of Products}}{\text{Sum of Amounts}}$

= 10th January + $\frac{11,59,500}{9,350}$

= 10th January + 123.37 days

= 14th may

If the payment is to be made on 10th July, interest will be charged from 14th May to 10th July i.e for 17 +30 + 10 = 57 days

Interest = $9,350 \times \frac{9}{100} \times \frac{57}{365} = 131.41$

Total amount to be paid on 10th July = Rs. 9,350 + Rs. 131.41 = Rs. 9,481. 4

Unit 7:

Account Current

Meaning- When interest calculation becomes an integral part of the account. The account maintained is called "Account Current".

Ways of Preparing Account Current - There are three ways of preparing an Account Current:

(i) With the help of interest tables
(ii) By means of products
(iii) By means of products of balances.

Some examples where it is maintained are:

* Frequent transactions between two parties.
* Goods sent on consignment
* Frequent transactions between a banker and his customers
* In case of Joint venture when no separate set of books is maintained for joint venture

Question 1

What is an Account Current? Explain Briefly

Answer:

Account Current: Account current is a statement in the debit and credit form i.e., in the ledger form recording the transactions between the two parties in a chronological order or time sequence order. It is the copy of the accounts appearing in the books of sender with an additional column for interest. It is sent by one party to another usually by the agent to his principal or by the banker to his client.

Question 2

What are the Characteristics of Account Current?

Answer:

a. It is an ordinary form of ledger account.

b. The transactions are arranged in a sequential manner.

c. There is an additional column of interest on each side of the account.

d. It is the copy of accounts of one party in the books of another party.

e. Any of the two parties can prepare this account.

f. The interest columns are purely on the memorandum basis and are not a part of double entry

Question 3

What are various methods of accounting in an account current?

Answer:

There are three ways of preparing an Account Current:

a. Interest Tables method
b. The Method of Products
c. The Method of product of balances.

Question 4

Write short note on Red-ink interest.

Answer:

In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest. This Red Ink interest is treated as negative interest. In actual practice, however the product of such bill [value of bill X (due date-closing date) is written in ordinary ink in the opposite side on which the bill is entered]. It means interest from future date from date of account current i.e., present date. In earlier periods, it was written in red ink; hence it got the name of red ink interest. It implies that rebate will be allowed on interest paid/ received, if settlement of future due transaction is done on account current date

Practical Question

Question 1

On 1st January 2011 Sun's account in Puri's ledger showed a debit balance of Rs. 2,500. The following transactions took place between Puri and Suri during the quarter ended 31st March 2011:

2011		Rs.
Jan 11	Puri sold goods to Suri	3,000
Jan 24	Puri received a promissory note from Suri at 3 months date	2,500
Feb 01	Suri sold goods to Puri	5,000
Feb 04	Puri Sold goods to Suri	4,100
Feb 07	Suri returned goods to puri	500
March 01	Suri Sold goods to puri	2,800
Mar 18	Puri sold good to Suri	4,600
Mar 23	Suri sold goods to Puri	2,000

Solution:

In the books of Puri

Suri in Account Current with Puri

(Interest to 31st march, 2011 @ 10% p.a)

Date	Particulars	Due date	Amount	Days	Products	Date	Particulars	Due date	Amount	Days	Products
2011 Jan 1	To Balance b/d	Jan1	2,500	90	2,25,000	Jan 24	By B/R	Apr 27	2,500	(27)	(67,500)
Jan 11	To Sales	Jan 11	3,000	79	2,37,000	Feb 1	By Purchases	Feb 1	5,000	58	2,90,000
Feb 4	To Sales	Feb 4	4,100	55	2,25,500	Feb 7	By Sales Returns	Feb 7	500	52	26,000
Mar 18	To Sales	Mar 18	4,600	13	59,800	Mar 1	By Purchase	Mar 1	2,800	30	84,000
Mar 31	To Interest		109			Mar 23	By Purchases	Mar 23	2,000	8	16,000
						Mar 31	By Balance of products				3,98,800
						Mar 31	By Bank		1,509		
	Total		14,309		7,47,300				14,309		7,47,300

Calculation of interest:

$$\text{Interest} = \frac{3,98,800}{365} \times \frac{10}{100} = \text{Rs. } 109$$

Question 2

Roshan has a current account with partnership firm. It has debit balance of Rs. 75,000 as on 01-07-2012. He has farther deposited the following amounts:

Date	Amount
14 – 07 – 2012	1,38,000
18-08-2012	22,000

He withdrew the following amounts:

Date	Amount
29 – 07 – 2012	97,000
09 – 09 - 2012	11,000

Show Roshan's A/c in the ledger of the firm. Interest is to be calculated are 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2012 by means of product of balance method.

Solution:

Roshan's Current Account with Partnership firm (as on 30.9.2012)

1Date	Particulars	Dr.	Cr.	Balance	Dr. or Cr.	Days	Dr. Product	Cr. Product
01.07.12	To Bal b/d	75,000		75,000	Dr	13	9,75,000	
14.07.12	By Cash A/c		1,38,000	63,000	Cr.	15		9,45,000
29.07.12	To Self	97,000		34,000	Dr.	20	6,80,000	
18.08.12	By Cash A/c		22,000	12,000	Dr.	22	2,64,000	
09.09.12	To Self	11,000		23,000	Dr	22	5,06,000	
30.09.12	To Interest A/c	457		23,457	Dr.			
30.09.12	By Bal. c/d		23,457					
			1,83,457	1,83,457			24,25,000	9,45,000

Interest Calculation:

On Rs. 24,25,000 X 10 % X 1/365 = Rs. 664

On Rs. 9,45,000 X 8% X 1/365 = Rs. 207

Net interest to be debited = Rs. 457

Question 3

From the following particulars prepare an account current, as sent by Mr. Ram to Mr. Siva as on 31st October 2014 by means of product method charging interest @ 5% p.a.

2014	Particulars	Rs.
1st July	Balance due from Siva	750
15th August	Sold goods to Siva	1250
20th August	Goods returned by Siva	200
22nd September	Siva paid by cheque	800
15th October	Received cash from Siva	500

Solution:

Shiva Account Current with Ram as on 31st Oct, 2014

Dr. **Cr.**

		Rs.	Days	Product			Rs.	Days	Product
01.07.14	To Bal b/d	750	123	98,250	20.08.14	By Sales Return	200	72	14,400
15.8.14	To Sales	1,250		96,250	22.09.14	By Bank	800	39	31,200
31.10.14	To interest	18.48	77		15.10.14	By Cash	500	16	8,000
						By Balance Of Products			1,34,900
					31.10.14	By Bal. c/d	518.48		
		2018.48		1,88,500			2018.48		1,88,500

Question 4

From the following prepare an account Current as sent by A to B on 30thJune, 2016 by means of products method charging interest @ 6% p.a:

2016		
Jan. 1	Balance due from B	600
Jan.11	Sold goods to B	520
Jan. 18	B returns Goods	125
Feb 11	B Paid by cheque	400

Feb 14	B accepted a bill drawn by A for one month	300
Apr. 29	Goods sold to B	615
May 15	Received cash from B	700

Solution:

B in Account Current with A

For the period ending on 30th June, 2016

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
Jan 1	To Balance b/d	600	182	1,09,20	Jan. 18	By Sales Return	125	164	20,500
Jan 11	To Sales A/c	520	171	0	Feb. 11	By Bank A/c	400	140	56,000
Apr. 29	To Sales A/c	615	62	88,920	Feb. 14	By B/R/A (due date March 17)	300	105	31,500
June 30	To Interest A/c	15.75		38,130	May 15	By Cash A/c	700	46	32,200
					June 30	By Balance of products	225.75		
						By Balance c/d			96,050

Calculation of Interest:

Interest = $\frac{96,050}{366}\frac{6}{100}$ = 15.75

Question 5

From the following Prepare Account Current.

2015		
September 16	Goods sold to Shyam	200 due 1st Oct
October 1	Cash received from Shyam	90
October 21	Good purchased from Shyam	500 due 1st Dec.
November 1	Paid to Shyam	330

December 1	Paid to Shyam	330
December 5	Goods purchased from	500 due 1st Jan
December 10	Goods purchased from Shyam	200 due 1st Jan.
2016		
January 1	Paid to Shyam	600
January 9	Goods sold to Shyam	20 due 1st Feb.

The account is to be prepared up to 1st February. Calculate interest @ 6% per annum. (1 year = 365 days)

Solution:

Shyam Account Current with Nath Brothers

(Interest to 1st February, 2016 @ 6% p.a)

Date	Particulars	Due date	Amount	Days	Interest	Date 2015	Particulars	Due date	Amount	Days	Interest
Sept. 16	To Sales A/c	1st Oct.	200	123	4.04	Oct. 1	By Cash A/c	1st Oct.	90	123	1.82
Nov. 1	To Cash A/c	1st Nov.	330	92	5	Oct. 21	By purchase A/c	1st Dec.	500	62	5.1
Dec. 1	To Cash A/c	1st Dec	330	62	3.36	Dec. 5	By Purchase A/c	1st Jan.	500	31	2.55
2016 Jan. 1	To Cash A/c	1st Jan	600	31	3.06	Dec. 10	By Purchase A/c	1st Jan.	200	31	1.02
Jan. 9	To Sales A/c	1st Feb	20			2016 Feb. 1	By Balance of interest		194.9		
Feb. 1	To Interest		4.97			Feb. 1	By Balance c/d		7		4.97
			1,484.97		15,46				1,484.97		15.46

MAY 2018

Question 1

From the following prepare an account current, as sent by Avinash to Bhuvanesh on 31st March, 2018 by means of products method charging interest @ 5% per annum:

Date	Particulars	Amount
2018 January	Balance due from Bhuvanesh	1,800
January 10	Sold goods to Bhuvanesh	1,500
January 15	Bhuvanesh returned goods	650
February 12	Bhuvanesh Paid by cheque	1,000
February 20	Bhuvanesh accepted a bill drawn by Avinash for one months	1,500
March 11	Sold goods to Bhuvanesh	720
March 14	Received Cash from Bhuvanesh	800

Solution:

Bhuvanesh in Account Current with Avinash
For the period ending on 31st March 2018

	Particular	Amount	Day	Product	Date	Particular	Amount	Day	Product
2018					2018				
Jan.1	To Balance	1,800	90	1,62,000	Jan. 15	By Sales return	650	75	48,750
Jan 10.	To Sales A/c	1,500	80	1,20,000	Feb. 12	By Bank A/c	1,000	47	47,000
March 11.	To Sales A/c	720	20	14,400	Feb. 20	By B/r A/c (due)	1,500	8	12,000
March 31	To interest A/c	24							
					Mar 14	By Cash A/c	800	17	13,600
					Mar 31	By Balance	94		1,75,050
		4,044		2,96,400			4,044		2,96,400

Calculation of interest

Interest = (1,75,050 X 5%) / 365 = 24
Opening day considered in Calculation of no. of days.

Nov 2018

Question 2

From the following particulars prepare an account current, as sent by Mr. AB to Mr. XY as on 31st October, 2018 by means of product method charging interest @ 5% p.a

Date	Particulars	(‘)
1st July	Balance due from XY	1,500
20th August	Sold goods to Xy	2,500
28th August	Goods returned by Xy	400
25th September	XY paid by cheque	1,600
20th October	Received cash from XY	1,000

Solution:

XY in Account with AB as on 31st Oct , 2018

		(‘)	Days	Product			(‘)	Days	Product
01.07.18	To Bal. b/d	1,500	123	1,84,500	28.08.18	By Sale	400	64	25,600
20.8.18	To	2,500	72	1,80,000	25.09.18	By bank	1,600	36	57,600
					20.10.18	By Cash	1,000	11	11,000
31.10.18	To	37			20.10.18	By Balance			2,70,300
					31.10.18	By Bal.	1,037		
		4,037		3,64,500			4,037		3,64,500

Interest = 270300 * 5/100 * 1/365 = 37 (approx.)

Nov 2019

Question 3

Ramesh has a Current Account with Partnership firm. He had a debit balance of Rs. 85,000 as on 01-07-2018. He has further deposited the following

amounts:

Date	Amount (Rs.)
14–07-2018	1,23,000
18-08-2018	21,000

He withdrew the following amounts:

Date	Amount (Rs.)
14–07-2018	1,23,000
18-08-2018	21,000

Show Ramesh's A/c in the books of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2018 by means of product of balances method [5 marks]
Ramesh's Current A/c with a Partnership Firm as on 30thSeptember, 2018:
Solution:

Date	Particulars	Dr.	Cr.	Dr. or Cr.	Balance	Days	Dr. Product	Cr. Product
2018 July 1	To Balance b/d	85,000		Dr.	85,000	13	11,05,000	
July 14	By Cash A/c	92,000	1,23,000	Cr. Dr. Dr.	38,000 54,000 33,000	15 20 22	10,80,000 7,26,000 9,79,000	5,70,00
July 29	To self	11,500		Dr. Dr.	44,500 45,441	22		
Aug. 18	By Cash A/c		21,000					
Sept. 9	To self		45,441					
Sept. 30	To interest A/c	941						

Sept. 30	By Balance c/d							
Oct. 1	To Balance b/d							
		1,89,441	1,89,441				38,90,000	5,70,000

Interest Calculation

Particulars	Rs.
On Rs. 38,90,000 @10% for 1day {(10% of Rs. 38,90,000) ÷365}	1,066
On Rs. 5,70,000 @8% for 1day {(8% of Rs. 5,70,000) ÷ 365}	125
Net Interest to be debited (Rs. 1,066 – Rs. 125)	941

DEC 2020

Question 4

A Limited is sending goods costing Rs. 50.000 to B Limited on consignment basis. The accountant of A Limited is of the opinion that these goods should be sent under a sale invoice.

Answer:

False: Consignor sends consignee Performa Invoice and not sale Invoice.

Question 5

a) Maya consigned 400 boxes of shaving brushes, each box containing 100 shavings brushes. Cost price of each box was Rs. 3,000. Maya spent Rs. 500 per box cartage, freight, insurance and forwarding charges. One box was lost on the way and maya lodged claim with insurance company and could get Rs. 2,700 as claim on average basis. Consignee took delivery of the rest of the boxes and spent Rs. 1,99,500 as non- recurring expenses and Rs. 1,12,500 as recurring expenses He sold 370 boxes at the rate of Rs. 65 per shaving brush. He was entitled to 2% commission on sales plus 1% del-credere commission.

You are required to prepare consignment Account.

Solution:

In the books of Maya

Consignment A/C

Particular	Amt.	Particular	Amt.
To goods sent on Consignment (400 boxes @ Rs 30000)	1200000	By abnormal loss (NOTE -1)	800
TO cash Cartage, freight etc. (400 boxes @ RS 500)	200000	By insurance claim	2700
To Consignment A/C	384150		
Non – recurring exp 199500 Recurring exp 112500 Normal commission 48100 (2%of 2405000) Del – credit comm. 24050	740350	By Consignee A/C Sales – (370 box @ 65 per brush)	2405000
(1%of 2405000)	2524500	By consignment Stock (note -2)	116000
To profit /loss A/C			

			2524500

Working

Note: 1 calculation of Abnormal Loss

Cost of 1 box (1× 3000) = 3000

Add: - consignor Exp ($\frac{200000}{400}$ × 1) $\frac{500}{3500}$

Less: - Insurance claim 2700

Abnormal loss 800

Note: 2 Calculation of consignment stock

(A) Consignment stock in units

Total boxes sent 400

(-) Abnormal Loss (1)

(-) Sold (370)

Unsold Boxes 29

(a) Cost of unsold boxes

Cost of unsold Boxes (29 × 3000) = 87000

Add Consignor Exp ($\frac{200000}{400}$ × 29) 14500

Add Consignor Exp ($\frac{199500}{399}$ × 29) 14500

Total 116000

- Sales = 370 box @ 65 × 100 pieces = 2405000

Question 6

From the following particulars prepare an account current as sent by Mr. Raju to Mr. Sunil as on 31st October 2020 by means of product method

charging interest @ 12% p.a.

2020	Particulars	Amount (Rs.)
1st July	Balance due from Sunil	840
15th August	Sold goods to Sunil	1,310
20th August	Goods returned by Sunil	240
22nd September	Sunil paid by cheque	830
15th October	Received cash from Sunil	560

Solution:

In the books of Mr. Raju.

Mr. Sunil in account current with Mr. Raju

(Interest to 31- oct – 2020 @ 12% p.a.)

(1)

Date 2020	Particular	Due Date	Amt	Days	Product
1 July	To Bal b/d	1 July	840	123	103320
15 August	To Sales	15 Aug	1310	77	100870
31 Oct	To Interest		47.86		
	* Interest = $145580 \times \frac{12}{100} \times \frac{1}{365}$ = 47.86		2197.86		204190

(2)

Date 2020	Particular	Due Date	Amt	Days	Product

20 August	By sales return	20 August	240	72	17280
22 Sept	By Bank	22 Sept	830	39	32370
15 Oct	By cash	15 Oct	560	16	8960
31 Oct.	By Bal. of Product				145580
31 Oct	By bal. c/d				
			2197.86		204190

OR

I. Rakesh had the following bills receivable and bills payable against Mukesh.

Date	Bill Receivable	Tenure	Date	Bill Payable	Tenure
1st June	3,400	3 Months	29th May	2,500	2 Month
5th June	2,900	3 Months	3rd June	3,400	3 Month
9th June	5,800	1 Months	9th June	5,700	1 Month
12th June	1,700	2 Months			
20th June	1,900	3 Months			

15th August was a public holiday However, 6th September was also declared a sudden holiday.
Calculate the average due date, when the payment can be received or made without any loss of interest to either party.

Solution:

Calculation of Avg. Due Date
Payment by Mukesh to Rakesh.

Date	Due Date	Amount	Day	Product

1 – June	4 – sept	3400	54	183600
5 – June	8- sept	2900	58	168200
9 – June	12- July	5800	0	0
12 – June	14- Aug	1700	33	56100
20 - June	23 – sept	1900	73	138700
		15700		546600

Payment by Rakesh to Mukesh

Date	Due Date	Amount	Days	Product
29- May	1-Aug	2500	20	50000
3 - June	7- Sep	3400	57	193800
9 - June	12- July	5700	0	0
		11600		243800

Avg. Due Date = base date + $\frac{\text{Diff of product}}{\text{diff of total .}}$

= 12 July + $\frac{546600-243800}{15700-11600}$

= 12 July + $\frac{302800}{4100}$

= July + 74 Days

= 24 September

JAN 2021

Question 7

There are two ways of preparing an account current (CHAPTER 6)

Answer:

False: There are three ways of preparing an account current with the help of a a) Interest table b) By means of products c) By means of products of balances.

Question 8

a. A product Limited of Kolkata has given the following particulars regarding tea sent on consignment sent on consignment to C stores of Mumbai:

	Cost price	Selling price	Qty consigned
5 Kg. Tin	Rs. 100 each	Rs. 150 each	1,000 Tin
10 Kg. Tin	Rs. 180 each	Rs. 250 each	1,000 Tin

I. The consignment was booked of freight ``To Pay" basis. The freight was charged @ 5% of selling value.
II. C Store sold 500, 5 Kg. Tin and 800, 10 Kg Tins It paid insurance of Rs. 10,000 and store charges of Rs. 20,000
III. C Stores is entities to a fixed commission @ 10% on sales
IV. During transit 50 quantity of 5 Kg. Tin and 20 quantity of 10 Kg. Tin got damaged and the transporter paid Rs. 5,000 as damage charge

Prepare the consignment Account in the books of A Product Limited.

Solution:

Books of A products ltd, Ledger
Mumbai Consignment A/c

Dr. Cr.

Particulars	Amount Rs.	Particulars	Amount Rs.
To G.S.C A/c (W.N 1)	2,80,000	By Y A/c (sales) (W.N. 3)	2,75,000
To C's Stores A/c (Freight) (W.N.2)	20,000	By Bank A/c (claim received) (W.N 4)	5,000
To C's stores A/c (Expenses) (Rs. 10,000 + Rs. 20,000)	30,000	By P&L A/c (W.N 4)	4,225
To C's stores A/c (commission)(W.N 3)	27,500	By Consignment A/c (W.N 5)	83,025
To P & L A/c	9,750		
	3,67,250		3,67,250

Working note 1: Calculation of cost price of goods sent on consignment at:

Particulars	Amount Rs.
5 kgs Tins = 1000 Tins @ Rs. 100 each	1,00,000
10 kgs Tins = 1,000 Tins @ Rs. 180 each	1,80,000
Cost of Goods sent on consignment	2,80,000

Working Note 2: Calculation of selling price of Goods sent on Consignment & Freight Charges:

Particulars	Amount Rs.
5 kgs Tins = 1000 Tins @ Rs. 150 each	1,50,000
10 kgs Tins = 1,000 Tins @ Rs. 250 each	2,50,000
Selling price of goods sent on consignment	4,00,000
Freight changes Rs. 4,00,000 × 5% = Rs. 20,000	

Working Note 3: Calculation of sales made by consignee and his commission:

Particulars	Amount Rs.
5 kgs Tins = 500 Tins @ Rs, 150 each	75,000
10 kgs Tins = 800 Tins @ Rs. 250 each	2,00,000
Sales made by consignee	2,75,000
Commission payable to consignee Rs. 2,75,000 × 10% = 27,500	

Working Note 4: Calculation of abnormal Loss:

Particulars	At cost price	At selling price
5 kgs Tins = 50 Tins @ cost Rs. 100 each; 50 Tins selling price Rs. 150 each	5,000	7,500
10 kgs Tins = 20 Tins @ Cost Rs. 180 each; 20 Tins @ Rs. 250 each	3,600	5,000
Total	8,600	12,500

(+) Freight charges Rs. 12,500 × 5%	625	
	9,225	
claim received from transporter	5,000	
Net loss	4,225	

Working Note 5: Calculation of closing stock:

Particulars	At cost price	At selling price
Unsold Stock: 5 kgs = 1,000 – 50 – 500 = 450 tins Unsold tock 10 kgs Tins = 1,000 – 20 – 800 = 180 tins		
5 kgs Tins = 450 Tins @ cost Rs. 100 each; 450 Tins @ Selling Price Rs. 150 each	45,000	67,500
10 kgs Tins = 180 Tins @ Cost Rs. 180 each; 180 Tins Rs. 250 each	32,400	45,000
Total	77,400	1,12,500
(+) Freight charges Rs. 1,12,500 × 5%	5,625	
Total of consignment unsold stock	83,025	

Question 9

From the following particulars prepare an account current as sent by Mr. Amit to Mr. Piyush as on 31st December, 2020 by means of product method charging interest @ 8% p.a.

Date	Particulars	Rs.
01-09-2020	Balance due from Piyush	900
15-10-2020	Sold goods to Piyush	1,450
20-10-2020	Goods returned by Piyush	250
22-11	Piyush paid by cheque	1,200
15-12-2020	Received cash from Piyush	600

Solution:

Mr. Piyush in Account current with Mr. Amit

(Interest up to 31st December 2020@ 8% p.a.)

Date 2020	Particulars	Due date	Amt (Rs.)	Days	Product	Date 2020	Particulars	Due date	Amt. (Rs.)	Days	Product
1st sep	To bal. b/d	1ST Sep	900	122	1,09,800	20th oct	By sales returns	20th oct	250	72	18,000
15th oct	To sales	15th Oct	1,450	77	1,11,650	22nd nov	By Bank	22nd Nov	1200	39	46,800
31st dec	To interest	31st Oct	32.14			15th dec	By cash	15th dec	600	16	9,600
	(1,47,050 X 8% x 1/366)						By balance of products				1,47,050
						31st dec	By bal. c/d		332.14		
			2.382,14						2,382.14		2,21,450

JULY 2021

Question 10

State with reason, whether the following statements are true or false:

Goods sold on approval or return basis are not recorded as credit sales initially when they are sent out.

Answer:

False: They are recorded as credit sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.

Question 11

Ramesh lent ₹ 1,50,000 to Deepak on 1st January 2016 at the rate of 12% per

annum. The

loan is repayable as under:

1. **₹ 10,000 on 1st January,2017**
2. **₹ 20,000 on 1st January,2018**
3. **₹ 30,000 on 1st January,2019**
4. **₹ 40,000 on 1st January,2020**
5. **₹ 50,000 on 1st January,2021**

You are required to determine the average due to date for setting all the above instalments by a single payment and compute interest.

Answer:

Deepak. Pays interest as follows:

Interest. Paid on	Amount Rs.	No of years from 1.1.2016	Product
1. Jan.2017	10,000	1	10,000
1. Jan.2018	20,000	2	40,000
1. Jan.2019	30,000	3	90,000
1. Jan.2020	40,000	4	1,60,000
1. Jan.2021	50,000	5	2,50,000
	1,50,000		5,50,000

Average Due Date	= Date of Loan + $\frac{\textbf{Total Product}}{\textbf{Total Amount}}$
	= 1st Jan 2016 + (5,50,000/1,50,000)
	= 1st Jan 2016 + 3.67 years
	= 1st Jan 2016 + 3 years 8 month
	= 1.9.2019
	= Interest for 3 years 8 months = 1,50,000 X$\frac{12}{100}$X3.67= 66,000 (approximately)

Question 12

ABC Limited supplied goods on sale or return basis to customers. Goods are to be returned

Within 15 days from the date of dispatch, failing which it is treated as sales. The books of

ABC Limited are closed on 31st March, 2021. The particulars of the same are as under:

Date of Dispatch	Party Name	Amount	Remarks
10.03.2021	PQR	25,000	No. information till 31.03.2021
12.03.2021	DEF	15,000	Returned on 16.03.2021
15.03.2021	GHI	40,000	Goods worth ₹ 8,000 Returned on
20.03.2021	DEF	10,000	20.03.2021
25.03.2021	PQR	22,000	Goods Retained on 28.03.2021
30.03.2021	XYZ	35,000	Goods Retained on 28.03.2021
			No. information till 31.03.2021

You are required to prepare the following accounts in the books of ABC Limited:

1. **Goods on sale or return, sold and returned day books**

Goods on sales or return total account

Answer:

Goods on Sale or Return, Sold and Return Day Book

Date	Party whom	L.F	Amount (₹)	Date	Sold (₹)	Returned (₹)
10/03/21	PQR		25,000	25/03/21	25,000	
12/03/21	DEF		15,000	16/03/21	-	15,000
15/03/21	GHI		40,000	20/03/21	32,000	8,000
20/03/21	DEF		10,000	24/03/21	10,000	
25/03/21	PQR		22,000	28/03/21	22,000	
30/03/21	XYZ		35,000		-	-
			1,47,000		89,000	23,000

Dr. **Goods on sale or Return Total A/c** **Cr.**

Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)

31/03/21	To Sundries Approved		89,000	31/03/21	By Sundries Goods sent on sale or return		1,47,000
31/03/21	Returned		23,000				
31/03/21	To Balance c/d		35,000				
			1,47,000				1,47,000

Question 13

Max Chemical Works consigned 700 boxes of medicines to Raja Medical Stores at an invoice

Price of ₹ 1,68,000 which was 20% above the actual cost price and paid ₹ 14,000 for Insurance and freight. In the course of transit, 50 boxes were lost and the transporter paid ₹22,000 for the loss. The Consignee took the delivery of the remaining boxes and incurred ₹ 1,60,000 and incurred ₹ 6,000 for selling expenses. The Consignee entitled to a commission of 6% on gross sale.

Show the Consignment Account.

Answer:

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Goods sent on Consignment A/c		1,68,000	By Goods sent on Consignment A/c (Loading) (1,68,000 × 20/120)		28,000
To Bank A/c (Insurance & Freight)			By Raja Medical Stores (Sales)		1,60,000
To Raja Medical Stores A/c			By Abnormal Loss A/c (WN1)		11,000
Expenses: Carriage Selling	9,750 6,000	15,750	By Inventories on Consignment A/c (WN2)		41,250
To Raja Medical Stores A/c					
Commission		9,600			

(1,60,000 × 6%)					
To Consignment Stock Reserve (WN3)		6,000			
To General Profit & Loss A/c		26,900			
		2,40,250			2,40,250

Working Notes:

1) Computation of Abnormal Loss – 50 boxes

Particulars	Amount (₹)
Cost of 50 boxes lost in transit ((1,68,000 – 28,000) × 50/700)	10,000
Add: Proportionate expenses incurred by Consignor (14,000 × 50/700)	1,000
Total value of Abnormal Loss	11,000
Less: Amount receive from the transport	22,000
Net abnormal gain	11,000

2) Valuation of Inventories at the end

Particulars	Amount (₹)
Invoice price of the goods unsold (700 – 50 – 500) (1,68,000 × 150/700)	36,000
Add: Proportionate expenses incurred by Consignor (14,000 × 50/700)	3,000
	39,000
Add: Proportionate expenses incurred by Consignee (9,750 × 150/ (700-50))	2,250
Value of Closing inventories	41,250

3) Loading: (Excess Price)

Particular	Amount (₹)
Invoice price of 700 boxes consigned (20% above cost)	1,68,000
Less: Cost of goods consigned (1,68,000 × 100/120)	1,40,000
Loading on 700 boxes consigned	28,000
Loading on 150 boxes in stock (28,000 × 150/700) (Consignment Stock Reserve)	6,000

DEC 2021

Question 1

(a) On 12th May, 2020 A sold goods to B for 36,470 and drew upon the later two bills one for

` 16,470 at one month and the other for ` 20,000 at three months. B accepted both the bills.

On 5th June, 2020 A sent both the bills to his banker for collection on the due dates. The first bill was duly met. But due to some temporary financial difficulties, B failed to honour the second bill on the due date and the bank had to pay ` 20 as noting charges.

However, on 16th August, 2020 it was agreed between A and B that B would immediately pay ` 8,020 in cash and accept a new bill at 3 months for ` 12,480 which included interest for postponement of the part payment of the dishonoured bill. A immediately sent new acceptance to its bank for collection on the due date. On 1st October,2020 B approached A offering ` 12,240 for retirement of his acceptance A accepted the request.

You are required to pass journal entries of all the above transactions in the books of A

Answer:

Journal Entries in the books of Mr. A

2020		(`)	(`)
May,12	B's A/c Dr.	36,470	
	To Sales account		36,470
	(Being goods sold to B on credit)		
May,12	Bills receivable (No. 1) A/c Dr.	16,470	
	Bills receivable (No. 2) A/c Dr.	20,000	
	To B's A/c		36,470
	(Being drawing of bills receivable No. 1 due for maturity on 15.6.2020 and bills receivable No. 2 due for maturity on 14.8.2020)		
	OR		
	Bills receivable A/c Dr.	36,470	
	To B's A/c		36,470
	(Being acceptances received from B, one for ` 16,470 at one month and other for ` 20,000 at 3 months)		
June,5	Bills for Collection A/c Dr.	36,470	
	To Bills receivable (No.1) A/c		16,470
	To Bills receivable (No.2) A/c		20,000
	(Being both the bills sent to bank for collection)		
	OR		
	Bills for Collection A/c Dr.	36,470	
	To Bills receivables A/c		36,470
	(Being B's acceptances sent for collection on due dates)		

	June,15	Bank A/c Dr.	16,470		
		To Bills for Collection A/c		16,470	
		(Being amount received on retirement of Bills receivable No. 1)			
	Aug 14	B's A/c Dr.	20,020		
		To Bills for Collection a/c		20,000	
		To Noting Charges or Bank Charges		20	
		(Being the amount due from Mr. B on dishonour of his acceptance on presentation on the due date			
	Aug 16	B's A/c Dr.	480		
		To Interest a/c(Being interest due)		480	
	Aug 16	Bank/Cash A/c Dr.	8020		
		To B's A/c		8020	
		(Being cash received)			
	Aug 16	Bills receivable (No. 3) A/c Dr.	12480		
		To B's A/c		12480	
		(Being Bills receivable (No. 3) drawn accepted by B)			
		OR			
		Alternatively combined entry may be given for the above two entries:			
		Bank/Cash a/c Dr.	8020		
		Bills receivable a/c Dr.	12480		
		To B's A/c		20500	
		(Being cash and new acceptance at 3 months received from B)			
	Aug 16	Bills for Collection A/c Dr.	12480		
		To Bills receivable (No.3) A/c		12480	
		(Being Bills receivable (No.3) sent to bank for collection)			
		OR			
		Bills for collection A/c Dr.	12480		
		To Bills receivable A/c		12480	
		(Being new acceptance sent to bank for collection on due date)			
	Oct, 1	Bank A/c Dr.	12,240		

	Rebate A/c Dr.	240	
	To Bills for Collection (Being amount received on retirement of Bills receivable (No.3))		12,480

Alternately combined entry may be given for the first three entries of Aug,16 :

Aug,16	Bank/ Cash A/c Dr.	8,020	
	Bills Receivable (No. 3) A/c Dr.	12,480	
	To B's A/c		20,020
	To interest A/c		480
	(Being the ` 8,020 paid in cash and new bill (Bills receivable No. 3) accepted for 3 months)		

Question 2

Mr. Grow and Mr. Green had the following mutual dealings. They desired to settle their account on the average due date:

Purchases by Grow from Green:	`
6th January, 2021	*60,000*
2nd February, 2021	*28,000*
31st March, 2021	*20,000*

Sales by Grow to Green:	
6th January, 2021	*66,000*
9th March, 2021	*24,000*
20th March, 2021	*5,000*

You are asked to ascertain the average due date taking base date as 6th January 2021.

Answer:

Taking 6th January, 2021 as base date

Due date	Amount `	No. of days from the basedate i.e. 6th Jan. 2021	Product
For Grow's payments 2021			
6th January	60,000	0	0
2nd February	28,000	27	7,56,000

31st March	20,000	84	16,80,000
Total	1,08,000		24,36,000
For Green's payment			
2021			
6th January	66,000	0	0
9th March	24,000	62	14,88,000
20th March	5,000	73	3,65,000
Total	**95,000**		**18,53,000**

Excess of Grow's products over Green's = ` 24,36,000 – ` 18,53,000 = ` 5,83,000
= ` 1,08,000 – ` 95,000 = ` 13,000
Number of days from the base date to the date of settlement is `5,83,000 / `13,000 = 45 days (approx)
Hence, the date of settlement of the balance amount is 45 days after 6th January i.e. on 20th February.
On 20th February, 2021, Grow has to pay Green ` 13,000 to settle the account

Question 3

Attempt any One of the following two sub-parts i.e. either (i) or (ii):

(i) From the following details, prepare an account current, as sent by A to B on 30th June, 2021 by means of products method charging interest @ 6% p.a:

2021	Particulars	Rs.
January 1	Balance due from B	600
January 11	Sold due from B	520
January 18	B returned goods	125
February 11	B paid by cheque	400
February 14	B accepted a bill drawn by A for one month	300
April 29	Goods sold to B	615
May 15	Received cash from B	700

A, B and C are partners in a firm. On 1st April 2019 their fixed capital stood at ` 50,000, ` 25,000 and ` 25,000 respectively. As per the provision of partnership deed:

(1) C was entitled for a salary of 5,000 p.a.

(2) All the partners were entitled to interest on capital at 5% p.a.
(3) Profits and losses were to be shared in the ratio of Capitals of the partners.
Net Profit for the year ended 31st March, 2020 of ` 33,000 and 31st March,2021 of ` 45,000 was divided equally without providing for the above adjustments.
You are required to pass an adjustment journal entry to rectify the above errors. (5 Marks)

Answer:

(i) B in Account Current with A (Interest to 30th June 2021, @ 6% p.a.)

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
2021		`			2021		`		
Jan.1	To Balanceb/d	600	181	1,08,600	Jan.18	By Sales Returns	125	163	**20,375**
Jan. 11	To Sales A/c	520	170	88,400	Feb. 11	By Bank A/c	400	139	**55,600**
Apr. 29 June 30	To Sales A/c To InterestA/c	615 15.69	62	38,130	Feb. 14	By B/R A/c (due date: March 17)	300	105	**31,500**
					May 15	By Cash A/c	700	46	**32,200**
					June 30	By Balance of products			**95,455**
					"	By Balance c/d	225.69		
		1750.69		**2,35,130**			**1750.69**		**2,35,130**

Calculation of interest:

$$\text{Interest} = \frac{95455}{365} \times \frac{6}{100} = 15.69$$

(ii)

Particulars	A	B	C	Total Profit of firm
I. Amount already credited:				
Share of profit (in the ratio of1:1:1) (2019-20,2020-21)	26,000	26,000	26,000	**78,000**
II. Amount which should have been credited:C's Salary (2019-20,2020-21) Interest on Capital (2019-20,2020-21)			10,000	
Share of Profit	5,000 29,000	2,500 14,500	2,500 14,500	**58,000**
	34,000	17,000	27,000	
Net effect (I-II)	**(8,000)**	**9,000**	**(1,000)**	**-**

The necessary journal entry will be:

Particulars	Debit (`)	Credit (`)
B's Current A/c	9,000	

To A's Current A/c		8,000
To C's Current A/c		1,000
(Salary to C, Interest on capital charged and profit sharedamong partners in the ratio of capital)		

JUNE 2022

Question 1

State with reason, whether the following statements are true or false:

i. **The specific due date excludes the addition of grace days to arrive at the due date.**
ii. **Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company.**

Answer:

i. **True:** Where the due date is specifically given, then there is no need of further addition of 3 days grace to it.
ii. **False:** Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset

Question 2

M of Mumbai sent on consignment, goods valued ` 4,00,000 to A of Agra on 1st March,2020. He incurred the expenditure of `48,000 on freight and insurance. M's accounting year closes on 31st December. A was entitled to a commission of 5% on gross sales plus a del-credere commission of 3%. A took delivery of the consignment by incurring expenses of ` 12,000 for the goods consigned On 31/12/2020, A informed on phone that he had sold all the goods for ` 6,00,000 by incurring selling expenses of ` 8,000. He further informed that only ` 5,92,000 had been realized and rest was considered irrecoverable, and would be sending the cheque in a day or so for the amount due along with the accounts sale.
On 5/1/2021, M received the cheque for the amount due from A and incurred bank charges of `1,040 for collecting the cheque. The amount was credited by the bank on 9/1/2021.
Write up the consignment account finding out the profit/loss on the consignment and A's account in the books of M.

Answer:

In the books of Mr. M
Consignment to Agra Account

2020		`	2020		`
March 1	To Goods sent on consignment A/c	4,00,000	Dec. 31	By A's A/cs	6,00,000
	To Cash A/c (freight and insurance)	48,000			
Dec. 31	To A's A/c:				
	Clearance expenses 12,000				
	Selling expenses 8,000				
	Commission @ 5% on ` 6,00,000 = 30,000				
	Del-credere commission @ 3% on ` 6,00,000 = 18,000	68,000			
Dec. 31	To Provision for expenses (bankcharges)	1,040			
	To Profit and loss A/c (profit on consignment)	82,960			
		6,00,000			**6,00,000**

A's Account

2020	Particular	`	2020	Particular		`
Dec. 31	To Consignment A/c	6,00,000	Dec. 31	By Consignment A/c-		
				Clearance expenses	12,000	
				Selling expenses	8,000	
				Commission	30,000	
				Del-credere commission	18,000	**68,000**
				By Balance c/d		**5,32,000**
		6,00,000				**6,00,000**

Question 3

(a) P sends out goods on approval to few customers and includes the same in the Sales Account. On 31.3.2021, the Trade receivables balance stood at ` 3,00,000 which included ` 21,000 goods sent on approval against which no intimation was received during the year. These goods were sent out at 25% over and above cost price and were sent to Mr. A` 12,000 and Mr. B ` 9,000.

Mr. A sent intimation of acceptance on 30th April and Mr. B returned the goods on 10th April,2021.

Make the adjustment entries and show how these items will appear in the Balance Sheet on 31st March,2021. Also show the entries to be made during April,2021. Value of closing inventories as on 31st March,2021 was ` 1,80,000.

Answer:

In the Books of P
Journal Entries

Date	Particulars		L.F.	Dr`	Cr`
2021	Sales A/c	Dr.		21,000	
Mar, 31	To Trade receivables A/c*				21,000
	(Being the cancellation of original entry for sale in respect of goods lying with customers awaiting approval) *To Mr. A ` 12,000 and To Mr. B ` 9,000 can be given				
Mar,31	Inventories with Customers on Sale orReturn A/c	Dr.		16,800	
	To Trading A/c				16,800
	(Being the adjustment for cost of goodslying with customers awaiting approval)				
April,30	Trade receivables A/c or Mr. A A/c	Dr.		12,000	
	To Sales A/c				12,000
	(Being goods costing ` 9,600 sent to Mr. A on sale or return basis has been accepted by him)				

Balance Sheet of P as on 31st March, 2021 (Extracts)

Assets	`	`
Trade receivables (`3,00,000 - ` 21,000)		**2,79,000**
Inventories-in-trade	1,80,000	
Add: Inventories with customers on Sale or Return 100/125 x ` 21,000 = ` 16,800	16,800	**1,96,800**
		4,75,800

Question 4

(a) Attempt any ONE of the following two sub-parts i.e. either (i) or (ii):

(i) The following particulars are sent by Mr. A to Mr. K:

Date	Particulars	Amount (`)
15/7/2021	Balance due from Mr. K	6,000
20/8/2021	Sold goods to Mr. K	10,000
25/8/2021	Goods returned by Mr. KCheque paid by Mr. K	1,600
15/9/2021	Cash received from Mr. K	6,400
20/10/2021		4,000

Prepare an Account Current as sent by Mr. A to Mr. K as on 31st October,2021 by means of product method charging interest @ 8% per annum. Round off the amounts to the nearest rupee. (5 Marks)

(i) Mr. X gives the following particulars in respect of business carried on by him:

Particulars	Amount (`)
Capital Invested in business	9,00,000
Market rate of interest on investment	8%
Rate of risk return on capital invested in business	3%
Remuneration per annum from alternative employment ofproprietor if he was not engaged in business	36,000

The business earned profits of ` 2,40,000, ` 2,16,000 and ` 3,00,000 in the years 2018, 2019 and 2021 respectively but made a loss of ` 36,000 in the year 2020. Compute the value of Goodwill on the basis of 6 years' purchase of super profits of the business, calculated on the basis of average profit of last four years

Answer:

K in Account Current with A (Interest to 31st October 2021, @ 8% p.a.)

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
2021		`			2021		`		
15.7.21	To Balanceb/d	6,000	109	6,54,000	25.8.21	By Sales Returns	1,600	67	**1,07,200**
20.8.21	**To Sales A/c**	**10,000**	**72**	**7,20,000**	**15.9.21**	**By Bank A/c**	**6,400**	**46**	**2,94,400**
31.10.21	**To InterestA/c**	**203**	**-**	**-**	**20.10.21**	**By CashA/c**	**4,000**	**11**	**44,000**
					31.10.21	By Balance of products	-	-	**9,28,400**
						By Balance c/d	4,203	-	-
		16,203		**13,74,000**			**16,203**		**13,74,000**

Calculation of interest:

$$\textbf{Interest} = \frac{9{,}8{,}400}{365} \times \frac{8}{100} = 203$$

OR

(ii) Computation of Goodwill of Mr. X

Average maintainable profits:		`
Trading profit during	2018	2,40,000
	2019	2,16,000
	2021	3,00,000
		7,56,000
Less: Loss during	2020	(36,000)
Total		7,20,000
Average Profits (` 7,20,000 / 4)		1,80,000
Less: Remuneration for the proprietor		(36,000)
Average maintainable Profit		1,44,000
Less: Normal Profit (11% on capital employed of ` 9,00,000)		(99,000)
Super Profit		45,000
Goodwill at 6 year's purchase of Super Profit		**2,70,000**

Alternative: `

Total profit (` 2,40,000 + ` 2,16,000 + ` 3,00,000 - ` 36,000) = ` 7,20,000

Normal Profit (11% on capital employed of ` 9,00,000)	=	(99,000)
Remuneration for the proprietor	=	(36,000)
		(1,35,000)
Average Profits (` 7,20,000 / 4)		1,80,000
Super Profit		45,000
Goodwill at 6 year's purchase of Super Profit	=	2,70,000